New Trade Policy: A Critical Appraisal

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By Senator Prof Khurshid Ahmad

AFTER a battered and bruised Budget it was hoped that the trade policy would be framed with greater care and sensitivity. The new policy was announced by the Commerce Minister with generous use of the hyperbolae which somewhat characterise his style. That the document is better polished is not in dispute. What, however, deserves to be examined with care is how new the "new" policy really is, and how effectively can it meet the current economic challenges facing the country?

As against the previous practice of announcing the trade policy on annual basis, the Commerce Minister has now announced the policy for a three-year period. He has stated that while the policy may be reviewed annually no basic change will be made in it during the next three years.

What is so unique about the magic figure of 3? Prima facie it has no relation to the Sixth or the forthcoming Seventh Plan horizon. There is no reason to assume that it is originally related to the next election season? In a country where most economic policies are ad hoc, this innovation cannot but be taken with a pinch of salt! If this assurance is honoured, it may unduly reduce the flexibility previously available under the annual trade policy which could be modified from year to year in response to changing economic conditions in the country and abroad.

The supposed advantage attributed by the Commerce Minister to announcement of the three-year policy, namely, that our industrialists and traders can now plan with confidence their exports and imports for the next three years, is a two-edged sword. It may also have some negative effects and importers may tend to over-import the items for which various concessions and liberlisations have been allowed in the policy in case they feel that these cannot be sustained in the long run.

Basic changes

The Commerce Minister has stated that four "fundamental" changes have been incorporated in the new trade policy. The first of these is stated to be that exports should finance our imports to the maximum extent possible. However, there is nothing new about this objective. Almost all policy documents on trade have contained this assertion.

The second "fundamental" change announced by the Commerce Minister is that the promotion of exports shall be accorded the highest priority for which purpose the production policy, the taxation structure and the availability of credit will be geared. There is again nothing new about this pronouncement as almost every government in the past sought to give a high priority to export promotion. The Sixth Plan authored by none other than the present Planning Minister also gave high priority to this objective. Yet the overall targets remained unrealised. It is also highly doubtful that the measures now announced in the policy would really bring about a "dramatic" expansion in our exports. The real constraints relate to the productive pattern and the quality of our products and not merely to lack of export incentives.

The third "fundamental" change announced by the Commerce

is open to question. Trade relations depend on a network of complimentaries and historical relations which cannot be changed overnight merely by bright ideas. Nevertheless this strategy deserves to be pursued.

The fourth "fundamental" change announced is that workers' remittances will be increasingly utilised for investment purposes rather than to finance the current trade gap. However, it deserves to be noted that no mention has been made in the whole text of the Commerce Minister's speech as to how this will be implemented. Serious flow of remittances began in 1974 and nothing has been done so far to channelise them towards investment. The new trade policy has also not offered any workable programme in this respect. Without proper planning and institutional support it appears to be an uphill task which may end up as yet another mis-adventure.

External sector

The Commerce Minister has overplayed the performance of the external sector during 1986-87 by comparing the figures of exports and imports for that year with those for 1984-85. This is because in 1984-85 exports had actually fallen and imports had increased. The more realistic base for comparison would have been the year 1985-86 in which exports and imports reflected more normal trends. Although the Minister has admitted that there was an element of luck in the performance of the external trade sector of Pakistan during 1986-87, as a result of the current textile boom and lower world prices of a number of our major imports, yet he has preferred to adopt the figures of exports and imports for that lucky year as the base for projections for the coming three years. The projections, therefore, give too rosy a picture of the prospects for the external trade sector. For instance, he has projected imports for 1988-89 at dollars six billion although this level was already reached in 1983-84 and was maintained till 1985-86. The strategy to reduce imports mentioned by him viz: that more emphasis will be given to increase domestic production of oil and gas, edible oil, sugar, fertilisers, milk and machinery since these are responsible for twothirds of our current imports, relates more to the realm of hopes and not realities.

Apart from open questions, about financial and real resource availability and overall plan priorities, this strategy, even if implemented in practice immediately, is not likely to start yielding results so quickly as to help achieve the projections of imports mentioned by him for the next few years, even if the tricky question of world prices is ignored.

The Minister hopes to reduce the trade gap with our major trading partners viz, Japan, the USA, the UK, West Germany, Kuwait and Malaysia by holding bilateral negotiations with them. This initiative is no doubt welcome but there is little hope that it would immediately yield substantial results. This is because these countries have their own political and economic compulsions while we are not politically or economically so strong as to force them to accept our terms.

My most serious concern relates to the relation between the trade policy and the exchange rate policy. While enunciating the new trade policy, the Commerce Minister has not said a word about the exchange rate policy to be pursued by the authorities. The export targets set for the next three years

economy by raising the debt servicing liability of private and public sector concerns in rupee terms and by screwing up the cost structure in the economy in general. The Pakistan rupee had depreciated vis-a-vis U.S. dollar by 70 per cent and vis-a-vis SDR by 46.5 per cent between Jan 7, 1982 (when the policy of "managed 'float'" was adopted) and March 31, 1987. The depreciation in the exchange rate has been particularly rapid in 1986/87. If we compare the period July-March of 1986/87 with the corresponding period of 1985/86, the depreciation in this twelve months period alone was to the extent of 17.7 per cent.

Lack of mention of exchange rate policy while announcing trade policy for the next three years shows lack of coordination between various policy-making Ministries of the Government. In fact, quite often they seem to be working at cross purposes.

The new trade policy does not contain any proposals to bring about improvement in the qualitative standards of our exports. The ratio of export of manufactured goods to total exports has gone down in recent years despite the steady depreciation in the exchange rate. There is a strong probability that one of the major factors responsible for this may have been our inability to compete quality-wise in the world markets. This aspect should have received due attention in formulating the new trade policy. Standardisation and quality control must have been given due importance if export promotion is to be successfully pursued. In the final analysis exporting performance would depend on the pattern and quality of production. If these real dimensions are ignored and if we continue to largely depend on a depreciating exchange rate to help promote exports, it will be tragic indeed.

Linkage

The proposal to promote our exports of engineering goods through provision of long-term credit to Third World countries and linking our exports of such goods with import of tea, edible oils, petroleum and POL products and other items sounds very well. However, the question arises whether a country which is itself suffering from foreign exchange shortage and is heavily dependent on foreign loans for financing investment and servicing outstanding foreign debt can afford to block $ 250 million in 1987-88 and more in future years to promote its engineering goods exports with such a dismal record of performance as only $ 22 million exports last year? Secondly, is it really feasible to conclude barter agreements for our engineering goods, which are practically unknown in foreign markets, with such economically strong countries as Kuwait and Malaysia? Yet, the Minister is confident that such steps will lead to "revolutionary" change in the exports of machinery and engineering goods!

It has been stated that one of the objectives of removing 130 items from the negative/restrictive list of imports is to reduce the incidence of smuggling. In the present foreign exchange situation when we have a sizeable trade deficit, we can ill afford to liberalise imports of items which were on the restricted list so far, presumably due to their being items of low priority. This is a very wasteful way of trying to reduce the extent of smuggling.

It is doubtful whether the general permission given for the re-export of imported items will be in the best interest of the country. It can give rise to unhealthy trends in

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of our exports. It may also draw strong criticism from our trading partners.

The policy of allowing unlimited export of vegetables of all sorts seems to be an unwise one. With prices of meat going up all the time, the prices of vegetables at least should be kept at reasonable levels. Unrestricted export of vegetables is likely to result in substantial rise in the prices which will hit the poorer sections of the society specially severely.

The import policy provides that 70 per cent of the tea imports will be made by TCP and TCP will arrange to purchase tea from those countries which are willing to purchase our goods in exchange. The major tea exporting countries are Bangladesh, India, Sri Lanka and Kenya. According to statistical annexure, table 10.9 of the Pakistan Economic Survey, 1986-87, we already have a favourable trade balance with the first three of these countries since 1985-86. One wonders how this policy will work in such a situation.

The trade policy encourages capital intensive industrialisation by increasing the monetary ceilings on import of machinery against cash foreign exchange for setting up new industries, expansion of existing ones and for BMR. The long-term consequences of this policy have been very disturbing, particularly in respect to employment generation. How long are we going to ignore these dimensions.

Milk food for infants and invalids has been put on free list. Has the Government examined if this step is not going to act against the development of local milk food industry?

Certain features of the new trade policy are to be welcomed. Permission to the private sector to export cotton and Basmati rice is a step which was long overdue but the condition that such exports must be in small packets is unreasonable. Quality control can be maintained in case of bulk exports which are more realistic.

There are also some positive improvements in trade policy in the fiscal sphere viz., linking income tax exemption to value added content of exports, refund of import duties, surcharges and import licence fee in respect of imported raw materials used for manufacture of exportable goods and encouragement for establishing trade houses.

The steps announced for accommodating new-comers and power loom factories in the textile exports subject to quota are also welcome from equity point of view. But in overall terms the new trade policy leaves me rather uneasy.