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Issue Brief

CPEC and Export Performance of Pakistan

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Exports are a vital component of a country's GDP. They have a direct impact on economic growth, creation of employment and balance of payments. Pakistan has always been vulnerable to downfalls in its balance of payments which destabilises its macroeconomic outlook. The Economist Intelligence Unit has given Pakistan's 'Foreign Trade and Payments Risks' a score of 75 out of 100 (100 = riskiest). In comparison, India has a score of 50 while Bangladesh has a score of 57.[1] In 1990, Pakistan's exports were $4.9 billion against Bangladesh's $1.6 billion. In the last fiscal year, Pakistan's exports dropped by more than 12% and were recorded at $20.8 billion, whereas Bangladesh's exports grew by 10% to $34.2 billion.[2] These figures clearly indicate that Pakistan is struggling to remain competitive in terms of trading in the region.

Boosting Pakistan's exports are necessary to reduce the country's debt burden and stabilise the economy. The China-Pakistan Economic Corridor (CPEC) will reduce transportation costs and time for local businesses. This will attract investment and encourage local producers to export their products.Three-fourths of projects under the CPEC are energy related while availability of energy has already improved considerably due to the efforts of the present government. Despite the reduction in load shedding, improvements in infrastructure and reduced costs of importing oil in recent years, trade deficit has continued to rise.[3] This goes to show that Pakistan has to rely on other important contributors as well to increase its volume of exports.

Carefully directed policy measures are required to utilise CPEC for future macroeconomic stability. Despite the growth of other sectors, agriculture still has to be treated as a vital component of the country's economy. In the previous year, Food group's exports declined by 11.6% which indicates that more facilitation is required in this sector.[4] Similarly, efforts need to be extended to make the environment more conducive for starting and operating businesses. By lacking such an environment, Pakistan has also been unable to make gains from Generalized Scheme of Preferences (GSP) Plus status it received in 2014. According to World Bank's Ease of Doing Business ranking, Pakistan lies at 144 out of 190 countries.[5] The determinants of this ranking include starting a business, trading across borders, getting credit, paying taxes, getting electricity and enforcing contracts. Thus, wider policy reforms have to be initiated to expand output in the economy.

Global markets are becoming more and more competitive. Pakistan already finds itself catching up with regional rivals. Physical development and reduction in transport costs have to be complemented by reduction in production costs and trade barriers so that the share of local products in global trade increases.

Notes and References:

[1] Economist Intelligence Unit, "*One Belt One Road: An Economic Road Map.*"March, 2016

[2] "Bangladesh targets 8 percent growth in export earnings for FY 2016-17." *bdnews24*, 14 July, 2016. http://bdnews24.com/economy/2016/07/14/bangladesh-targets-8-percent-growth-in-export-earnings-for-fy-2016-17

[3] Finance Division, Government of Pakistan. *Highlights – Pakistan Economic Survey 2015-16*. Islamabad, 2016.

[4] Ibid.

[5] World Bank Group. *Economy Rankings.* Accessed: 28 December 2016, http://www.doingbusiness.org/rankings