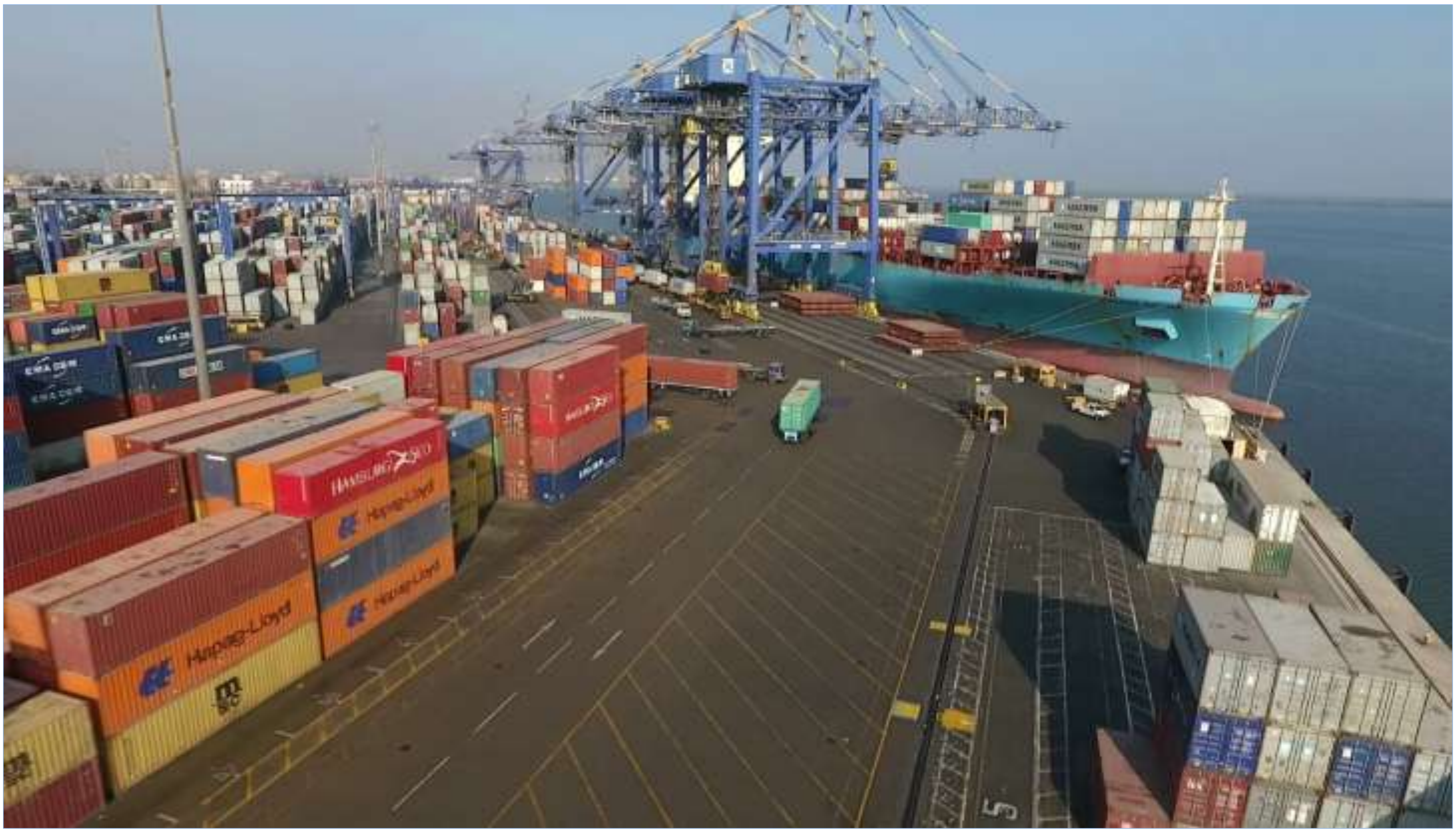

Pakistan Quarterly Trade Bulletin

Third Quarter Review FY18 & GSP Plus Issue

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1. Message from Chief of Party PREIA

Currently Pakistan is on crossroads, which we hope is of sustained economic growth. There is a lot to be optimistic about, notwithstanding the possible returns on investment from China Pakistan Economic Corridor (CPEC). However, Pakistan faces egregious risks to sustainable prosperity. With its huge and rising youth bulge, the quality of human capital stock, both in terms of health and education is an existential concern. Pakistan's ability to overcome this concern is hampered by the lack of fiscal space – accounted for considerably by the fact that one-third of Pakistan's annual budget must be earmarked for debt servicing, and another quarter for defense related expenditure.

Borrowing more every year is one way to create that additional fiscal room to spend on development. However, Pakistan's need to borrow externally also arises from its consistent current account deficit (around 4.1 % of its GDP) that itself is significantly contributed to by widening trade deficit.

Improving Pakistan's global trade performance, then, ought to be a lead priority and concern for all those monitoring Pakistan on the development crossroads. USAID funded Pakistan Regional Economic Integration Activity (PREIA) aspires to facilitate the Government of Pakistan, the civil society and the private sector in improving Pakistan's performance in global trade. To this affect, PREIA is excited to collaborate with Sustainable Development Policy Institute (SDPI) to leverage the trade data issued by the Government of Pakistan and present quarterly the story of Pakistan's performance in that fiscal quarter against the same quarter in the previous year.

We hope that picture drawn and presented through trade data analysis highlights risks, indicate policy direction and validate achievements to launch Pakistan on the road to sustainable development.

(Hussan-Bano Burki)

2. This Quarter's News in Brief

- The State Bank of Pakistan has granted Bank of China permission to establish yuan settlement and clearing mechanism. This is expected to encourage trade using Chinese and Pakistani currency.[1] This move could further expand trade and investment cooperation with China under China-Pakistan Economic Corridor (CPEC) programme and other bilateral initiatives.
- Pakistan is likely to start negotiations to enter in trade liberalisation deals with Japan, Indonesia, Vietnam, Philippines and Kenya.[2]
- Ministry of commerce finalizes national tariff policy and prepares for consultation with stakeholders. [3]
- Indonesia's state food procurement agency, Bulog is seeking to buy rice from Pakistani exporters.[4]
- In a bid to boost trade between Iran and Pakistan, the Minister for Ports and Shipping Hasil Bizenjo announced the possible launch of a ferry service between Karachi and the Iran's Chabahar.[5]
- To promote bilateral trade between Canada and Pakistan, the Canadian High Commissioner inaugurated Pakistan's chapter of Canada Pakistan Affiliated Chamber of Trade (CPACT).[6]
- China and Pakistan agreed to initiate negotiations on trade in services agreement after negotiating China Pakistan free trade agreement's phase-II.[7]
- Ministry of Commerce has finalized the draft policy framework for e-commerce.[8]
- Iran and Pakistan have also expressed the need to remove procedural hurdles in promoting bilateral trade. In a recent meeting hosted by Pakistan Iran Joint Chamber of Commerce and Industry, Iran's Minister for IC&T has invited Pakistani businesses to created linkages with Iranian Free Trade Zones.
- During a meeting between Afghan President, Mr. Ashraf Ghani and Pakistan's Prime Minister, Mr. Shahid Khaqan Abbasi, during March 2018, a working group on economic cooperation has been constituted.

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[1] Erum Zaidi. "SBP allows Bank of China to settle transactions in yuan." The News April 12, 2018, web. May 26, 2018. < https://www.thenews.com.pk/print/303189-sbp-allows-bank-of-china-to-settle-transactions-in-yuan>

[2] Altaf, Arslan. "Pakistan likely to start negotiations with five countries." The Express Tribune April 11, 2018, web. May 27, 2018. < https://tribune.com.pk/story/1682360/2-pakistan-likely-start-negotiations-five-countries/>

[3] "Ministry of commerce finalizes national tariff policy." The Express Tribune April 23, 2018, web. May 27, 2018. <https://tribune.com.pk/story/1692594/1-ministry-commerce-finalises-national-tariff-policy/>

[4] "Indonesia to buy 50,000 tonnes rice from Pakistan." Reuters April 12, 2018, web. May 27, 2018. <https://www.dawn.com/news/1401080>

[5] [5] Shahid, Jamal. "Karachi-Chabahar ferry announced." DAWN April 13, 2018. Web. May 27, 2018. < https://www.dawn.com/news/1401282>. For a summary of issues related to Iran Pakistan trade, see Shabbir, S. and V. Ahmed (2016) Trading with Iran: Prospects for Pakistan. Vol 10 No 4, Criterion Quarterly, 2016.

[6] "Canadian High Commissioner launches CPACT Pakistan chapter." Daily Times April 17, 2018, web. May 27, 2018. < https://dailytimes.com.pk/228965/canadian-high-commissioner-launches-cpact-pakistan-chapter/>

[7] "FTA-II with China." Business Recorder March 15, 2018, web. May 27, 2018. <https://epaper.brecorder.com/2018/03/15/22-page/705096-news.html>

[8] Abbas, Ghulam. "Ministry of Commerce finalises draft of e-commerce policy." Pakistan Today April 19, 2018, web. May 27, 2018. < https://profit.pakistantoday.com.pk/2018/04/19/ministry-of-commerce-to-submit-final-draft-framework-of-e-commerce-policy/>

3. Macroeconomic Outlook

Growth and Investment Outlook

Pakistan's economy managed to build upon the growth momentum from fiscal year (FY) 2016-17 and grew by 5.8% during FY18. This was contributed by the growth in; a) commodity producing sectors i.e. agriculture (3.8%) and manufacturing (6.2%), and b) services sector which registered a provisional full year growth of 6.4% (Table 1).

Overall macroeconomic stability contributed to business confidence in the country. Investment to GDP ratio increased from 16.1% in FY17 to 16.4% in FY18 on the back of improved energy supplies, low policy rate, higher public sector development program (PSDP) spending, and expected timely completion of early harvest projects under CPEC program. Despite of expansion in most sectors of the economy and expansion in government expenditures, inflation (growth in consumer price index) was curtailed below 4% in FY18.

While the buoyant demand positively impacted the growth of large scale manufacturing sector in Pakistan, it is worth mentioning that agriculture sector also surpassed its target for FY18 which was set at 3.5%. The attractive output prices played a major signaling role along with better availability of inputs such as certified seeds, pesticides, and fertilizer. The timely provision of credit to agriculture sector also played an important role.

Table 1: General Economic Indicators

Indicator	Period	FY18	FY17
Economic growth (real GDP %)	Jul-Jun	5.8 (P)	5.4
Agriculture (% growth)	Jul-Jun	3.8(P)	2.1
Manufacturing (% growth)	Jul-Jun	6.2(P)	5.8
Services (% growth)	Jul-Jun	6.4(P)	6.5
Investment to GDP ratio	Jul-Jun	16.4 (P)	16.1
Consumer price index* (% growth)	Jul-Mar	3.8	4.2
Wholesale price index* (% growth)	Jul-Mar	2.7	3.8
Exports (fob) in USD million	Jul-Apr	20,558	18,141
Imports (fob) in USD million	Jul-Apr	45,560	38,912
Export of services (USD million)	Jul-Apr	4,314	4,699
Current account deficit (USD million)	Jul-Mar	-12,029	-7,990
Remittances (USD million)	Jul-Mar	14,608	14,104
Foreign Direct Investment (USD million)	Jul-Apr	2,238	2,185
Foreign exchange reserves (USD billion)	Period-end	17.9 (April FY18)	21.4
FBR tax revenues (PKR billion)	Jul-Jun	4,013 (BE)	3,368

Source: State Bank of Pakistan, * Pakistan Bureau of Statistics, BE: Budget Estimate & P: Provisional statistics from Economic Survey 2017-18.

Almost all sub-sectors under services also witnessed growth. Wholesale and retail trade sector registered a growth of 7.5% followed by finance, banking and insurance sector; general government services; and transport, communication and storage sub-sector. The higher targets for growth in FY19 in commodity producing sectors, booming construction activity and housing services are all expected to give a further boost to services economy in the coming days.

While external account is being discussed in detail across the following sections, however it may be worth mentioning here that rising imports in most categories kept the current account under pressure during most of FY18. To curtail non-essential imports certain measures were put in place by the government including imposition of regulatory duties.

Review of Select Economic Indicators

Foreign Direct Investment increased from USD 2.18 billion during July - April FY17 to USD 2.24 billion during the same period in FY18. In sectoral terms, highest net FDI during July-March FY18 was registered in the power sector (USD 711 million) followed by construction sector (USD 525 million) and oil & gas explorations (USD 155 million). In terms of overall share in FDI, power sector accounted for 34% followed by construction (25%), oil & gas explorations (7%), financial business (12%), food processing (5%), transport (2%) and other categories accounting for 15%.

Owing to the ongoing CPEC projects, China remained the largest contributor to FDI with 64% overall share during July – March FY18 followed by UK (10%), Malaysia (6%), USA (4%), Switzerland (3%), Netherland (3%), and other countries contributing 10%. The Overseas Investors Chamber of Commerce and Industry (OICCI) Secretary General stated that “many European investors in the auto, infrastructure and LNG import terminal sectors are to make major investment decisions for Pakistan in the near future”. [9]

While some await their regulatory approvals others may wait until the outcome of general elections in July 2018.

As per the Securities and Exchange Commission of Pakistan’s data released in March 2018, foreign investment (direct and portfolio) has been reported in 59 companies. The origin of these investments is Australia, Belgium, Canada, China, Germany, Iran, Jordan, Norway, the Philippines, Russia, Saudi Arabia, Sri Lanka, Syria, Tajikistan, Turkey, the UAE, the UK and the US.[10]

Remittances from abroad grew by 3.6 percent during the period July-March FY18. The cumulative figure touched USD 14.6 billion during this period. The largest contributors to worker’s remittances were Saudi Arabia and United Arab Emirates (UAE) with a percentage

[9] Siddiqui, Salman. “FDI reduces to $153 million ahead of elections.” The Express Tribune April 18, 2018, web. May 25, 2018. < https://tribune.com.pk/story/1688185/2-investment-pakistan-fdi-reduces-153-million-ahead-elections/>
[10] “SECP registers 1,125 new companies in March 2018.” Profit – Pakistan Today. Staff report dated April 16, 2018, web. May 25, 2018. < https://profit.pakistantoday.com.pk/2018/04/16/secp-registers-1125-new-companies-in-march-2018/>

share of 25.3% and 22.3% respectively. This was followed by United States (13.3%), United Kingdom (13.9%), European Union (3.3%) and all remaining countries contributing 21.9%. While the overall value of remittances grew this year, Saudi Arabia and other GCC countries as a whole (excluding UAE) witnessed a decline to the tune of -9.5% and -3.4% respectively.

The declining remittances from Saudi Arabia are a result of job nationalization reform currently underway to allow maximum job space to Saudi workers instead of foreign applicants. The cost of living for unskilled labour in both Saudi Arabia and UAE also increased due to recent introduction of value added tax.

In a bid to boost remittances through formal financial channels, the government has undertaken two policy measures. First Asaan Remittance Account has been introduced which guarantees secure and timely payment to the beneficiaries in Pakistan. Second, M-Wallets have been introduced to reduce the cost of remittance receipt and also to increase overall financial inclusion.

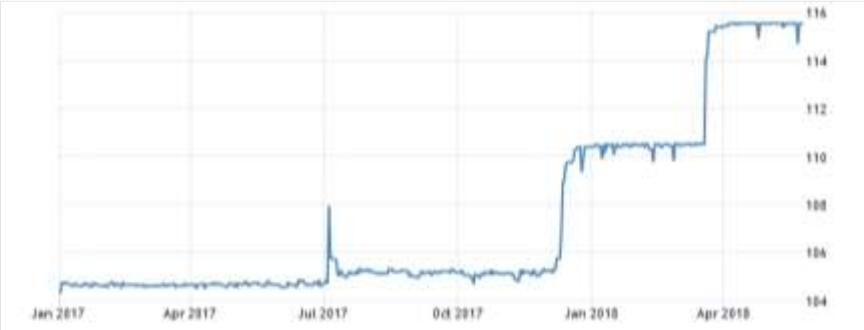
Foreign Exchange Reserves witnessed a decline of USD 4.5 billion during July-March FY18. The declining trend of reserves held by SBP was to some extent curtailed by the issuance of Eurobond and Sukuk at a total value of USD 2.5 billion. The reserves held by commercial banks saw an increase of USD 936 million during July-March FY18.

In the wake for falling overall reserves and to avoid resort to International Monetary Fund (IMF), the government in May 2018 approach China for a short term USD 1 billion loan to support the exchange rate – already facing a lot of pressure in the open market. In April the Economic Survey of Pakistan 2017-18 had also reported that “in anticipation of PKR depreciation, retail investors and general public purchased dollars from the kerbs market and deposited them in foreign currency accounts.”

The depreciation of Pakistani rupee (Figure 1) coincided with most currencies in emerging market and developed economies strengthening against US dollar. This implied that Pakistani currency depreciated against most important world currencies. During July-February FY18 nominal effective exchange rate witnessed a depreciation of 9.6% while real effective exchange rate depreciated by 9.3%. This resulted in an improvement in Pakistani rupee’s real competitiveness vis-à-vis key trading (export and import) partners. [11]

Figure 1: Inter Bank Exchange Rate (PKR to 1 USD)

[11] Government of Pakistan. Finance Division “Pakistan Economic Survey 2017-18.” Pp-127-129.



Source: Treasury Management Division of National Bank of Pakistan

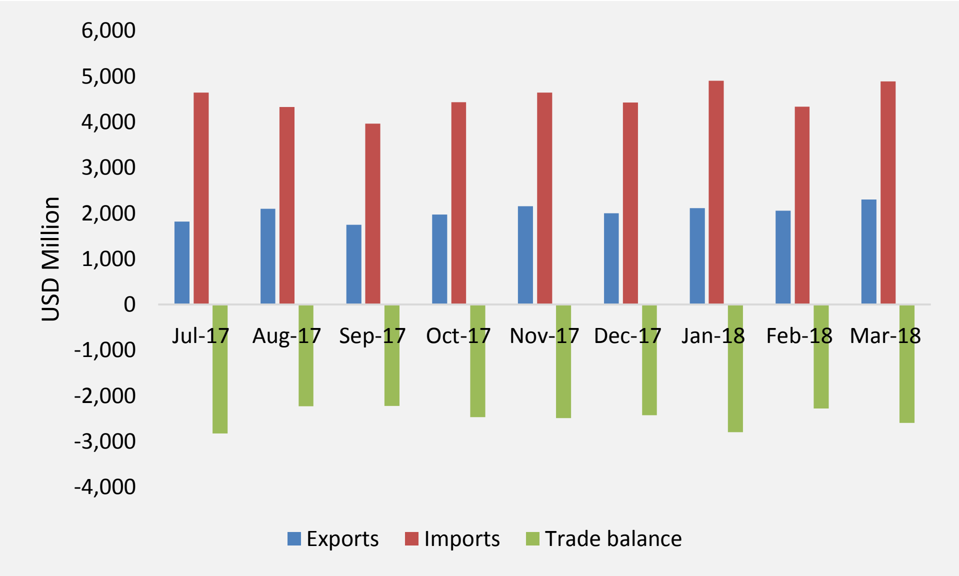
Monetary Policy statement on March 30, 2018 maintained the previous policy rate at 6%. The main reasons included moderate CPI inflation during January – February FY18, higher levels of fixed investment in to additional productive capacity and favorable trends in global demand. The private sector credit reached PKR 354 billion during Jul-Feb FY18 which was higher in comparison to FY17 at PKR 338 billion. The expected higher up take of credit also contributed to growth of broad money (M2). [12] Despite increase in the aggregate demand, inflation remained stable during January – March 2018 with average year-on-year consumer price index growth at 3.8 percent.

4. Analysis of Pakistan's Exports

The third quarter of FY18 saw an uptick in manufacturing sector's growth. This was driven by improved energy outlook and increase in credit offtake. On a year-on-year basis, the large scale manufacturing grew by 9.6 percent in January 2018, followed by 5.5 percent growth in the month of February. While growth in large scale manufacturing is leading to capacity expansion in most sub-sectors it is also anticipated to push import demand to higher levels. This among other reasons (explained under the section on analysis of imports) kept the trade deficit at record high levels (Figure 2).

Figure 2 Balance of Merchandise Trade (July – March 2018)

[12] State Bank of Pakistan. "Monetary Policy Statement." March 30, 2018, web. May 26, 2018. <
http://www.sbp.org.pk/m_policy/2018/MPS-Mar-2018-Eng.pdf>



Source: State Bank of Pakistan

Pakistan's overall export of goods (fob) during the months January – March FY18 stood at USD 6.5 billion. This is a 13.9 percent increase over the same period during FY17 (see Table 2). Top-5 destinations included USA, China, UK, Germany and Afghanistan. While the value of export to USA remained highest, the quarterly increase was the most for Afghanistan. The other four export partners also saw marginal improvements during this period (see Table 3). The increase seen for Afghanistan was a welcome sign given that the political and border related tensions had dampened the bilateral trade volumes during FY15 and FY16.

Table 2: Pakistan's Merchandise Exports (USD million)

Months	Q3FY18	Q3FY17	% Change
January	2113	1811	16.7
February	2059	1797	14.6
March	2300	2075	10.8
Total	6472	5683	13.9

Source: State Bank of Pakistan

Table 3: Top-10 Export Destinations (USD thousand)

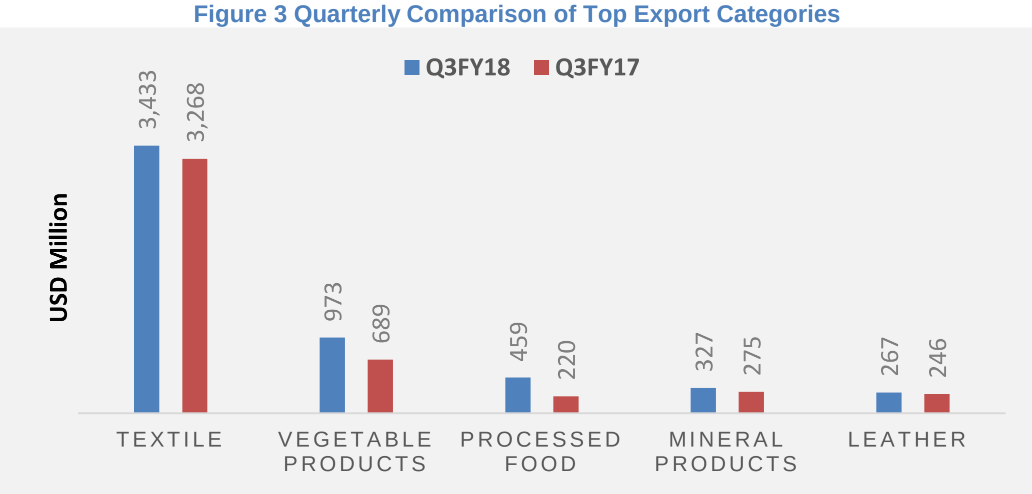
S. No	Country	Q3FY 18 (A)	Q3FY17 (B)	Delta (A-B)	% change
1	USA	940,985	918,217	22,768	2.5
2	China	505,776	490,859	14,917	3.0
3	UK	464,443	410,998	53,445	13.0
4	Afghanistan	435,752	279,223	156,529	56.1
5	Germany	347,657	310,770	36,888	11.9
6	UAE	331,244	235,299	95,945	40.8
7	Spain	245,848	214,531	31,318	14.6
8	Italy	201,627	180,892	20,735	11.5
9	Netherlands	196,628	157,016	39,612	25.2
10	Bangladesh	187,294	164,055	23,239	14.2

11	All others	2,634,666	2,230,029	404,637	18.1
	Total	6,491,920	5,591,889	900,031	16.1

Source: State Bank of Pakistan

Pakistan's top exports by commodity included items limited to the textile basket including clothing, cotton and apparel. This was followed by vegetable products including cereals and fruits. Processed food exports also witnessed some increase in export value largely owing to an increased demand of confectionary and beverages. Similarly, the export of mineral products particularly fuels, salts, lime and stone increased due to increased demand from China and the region. Finally, leather articles, raw hides and skins saw a marginal increase (see Figure 3).

Figure 3 Quarterly Comparison of Top Export Categories



Source: State Bank of Pakistan

Key reasons cited for an uptick in the value of exports include:

- **Improvements in energy outlook**: The five export-oriented industries were receiving uninterrupted energy supplies during Q3FY18. There are however variations across provinces regarding rates of electricity which have been a concern for Punjab-based exporters.
- **Partial release of refunds**: The export-oriented industries had found their refunds stuck with Federal Board of Revenue (FBR) since FY2014. In line with the promise made in Federal Budget 2017-18, the government directed FBR to initiate refunds. While complete processing of refunds may take time, however release of some of this amount during Q3FY18 under review has allowed additional working capital to the exporters.
- **Prime Minister's textile export package**: The Prime Minister announced a PKR 180 billion package in January to support textile sector exports. While a large part of this package was released in the coming months however this subsidy contributed to greater working capital availability. The main beneficiaries were value added textile exports including ready-made garments, knitwear, bed wear and towels.

Pakistan's exports of services during January – March FY18 were recorded at USD 1.2 billion. This is a decline of 33 percent over the same period during FY17. Major decline was observed in transportation and business services. Key reasons for this decline include:

- Reduced transit trade related services due to political and border related tensions with Afghanistan
- Stringent travel conditions imposed by Pakistan on foreign business travelers and those intending to visit Pakistan on work visas
- Reduced travel flow of pilgrims from abroad wishing to visit pilgrimage sites.

5. Analysis of Pakistan's Imports

Pakistan's overall imports of goods (fob) during the months January – March FY18 stood at USD 14.1 billion (Table 4). This is a 10.6% increase over the same period during FY17. The growth in imports slowed down in February after double digit increase in January however was again in double digits for the month of March on the back of strong private and public consumption. This quarter also saw import growth falling behind export growth which according to the government sources is a welcome sign for already falling foreign exchange reserves.

Table 4: Pakistan's Merchandise Imports (USD million)

Month	Q3FY18	Q3FY17	% Change
January	4,906	4,327	13.4
February	4,334	4,103	5.6
March	4,891	4,349	12.5
Total	14,131	12,779	10.6

Source: State Bank of Pakistan

The largest growth across all import categories was recorded under mineral products which grew by 28% during Q3FY18. The share of mineral products in overall imports also grew from almost 24% in Q3FY17 to 27.8% in Q3FY18. The second highest growth was seen in textile category whose imports grew by 15.1% during Q3FY18. The textile sector capacity was seen in expansion mode which in turn led to a 9.5% share of textile group in overall imports - higher than the share seen in Q3FY17 (9.1%). The other two leading import categories i.e. machinery and mechanical appliances, and products of chemical or allied industries saw nominal decline in their share in overall imports (see Table 5).

Table 5: Quarterly Comparison of Top Import Categories (USD thousand)

Commodity	Q3FY18 (A)	Q3FY17 (B)	Delta (A-B)	% of total imports	
				Q3 FY18	Q3 FY17
Mineral Products	3,860,789	3,006,778	854,011	27.8	23.9
Machinery and Mechanical Appliances	1,985,761	1,961,071	24,690	14.3	15.6
Products of Chemical or Allied Industries	1,412,802	1,312,677	100,125	10.2	10.4
Textiles & Textile Articles	1,321,693	1,148,400	173,293	9.5	9.1
All others	5,313,897	5,170,735	143,162	38.2	41.0

Source: State Bank of Pakistan

Major countries of origin included China UAE, Singapore and Germany. Compared with the same quarter during previous fiscal year, India became Pakistan's fifth largest supplier of imported goods. As most of these commodities were inputs for production processes (e.g. cotton, cyclic hydrocarbons, organic coloring matter, polymers, artificial staple fibers, heterocyclic compounds with nitrogen hetero-atoms, polycarboxylic acids and anhydrides, ferroalloys, odoriferous mixtures, synthetic rubber, prepared binders for foundry moulds or cores, and pneumatic tires), this development is therefore a welcome sign for supply chain integration between both countries. While the value of imports from China remained highest, the quarterly increase in percentage terms was the most for Saudi Arabia. Imports from Singapore declined during this quarter by 5 percent (Table 6).

Table 6: Origin of Pakistani Imports (USD thousand)

S.No	Country	Q3 FY18 (A)	Q3 FY17 (B)	Delta (A-B)	% change
1	China	2,825,517	2,688,378	137,139	5
2	UAE	1,333,755	1,278,298	55,457	4
3	Singapore	1,109,871	1,162,181	-52,310	-5
4	Saudi Arabia	794,944	632,815	162,129	26
5	India	625,186	558,094	67,092	12
6	USA	551,372	623,944	-72,571	-12
7	Japan	511,709	404,949	106,760	26
8	Qatar	464,490	310,737	153,753	49
9	Kuwait	334,838	304,480	30,358	10
10	Thailand	305,679	186,423	119,255	64
	All others	5,037,582	4,317,492	720,090	17
	Total	13,894,942	12,599,662	1,295,280	10

Source: State Bank of Pakistan

The imports from China were largely to meet the needs of industrial inputs (e.g. turbojets, turbo propeller, gas turbine, electric apparatus for line telephony, semiconductor devices, light-emit diodes, alloy steel products, synthetic filament yarn, electrical generating sets and rotary converters, air or vacuum pump, compressors and fans, pneumatic tires, fertilizer of nitrogen, phosphorus or potassium, oxygen-function amino-compounds). These inputs could see a decline in their final price faced by importers if Pakistan allows further concession under the revised China-Pakistan FTA. This in turn could increase the competitiveness of Pakistan's locally and export bound production.

The tapering of growth rate of imports is attributed to:

- **Imposition of regulatory duties**: FY17 saw levy of regulatory duties on several raw material, intermediate and finished goods. While Sindh High Court had temporarily suspended this levy, however during March, Supreme Court of Pakistan allowed the levy for 356 items.
- **Cash margin on imports**: State Bank of Pakistan has imposed a 100 percent cash margin on several imports including motor vehicles, cellular phones, cosmetics, personal care, electrical and home appliances, cigarettes, and jewelry.
- **Impact of currency devaluation**: As explained above, the impact of devaluation actually came after April 2018, however Pakistani currency had lost 5 percent of its value during March 2018. Importers were facing higher relative prices during March.

- **Separate tax regime for non-filers**: In a bid to increase the number of tax filers in Pakistan, Federal Budget 2017-18 brought several changes to the rules allowing foreign transactions. The new set of rules by FBR now make it difficult for non-filers to engage in import trading activity.

6. Regional Trade Update

The period January – March FY18 witnessed an increase in exports to most countries in Central & South Asia. Pakistan's total trade with South Asia stood at USD 3.7 billion for the period July – March FY18 with exports reaching USD 2.2 billion during the same period. In the case of South Asia, while the value was miniscule however in percentage terms highest increase was seen in the case of Nepal. Afghanistan was the top destination for Pakistani goods in terms of value of exports. Bangladesh, India and Sri Lanka also provided marginal increases to the overall exports (see Table 7). Pakistan's imports from the region also increased. All trading partners saw an increase except Nepal with a 53.8% decline in its exports to Pakistan.

Table 7: Pakistan's Trade with South Asia (USD thousand)

Country	Q3 FY18 (A)	Q3 FY17 (B)	Delta[13] (A-B)	Percentage change
Afghanistan				
Exports (to Afghanistan)	435752	279223	156529	56.1
Imports (from Afghanistan)	37149.5	22525.8	14623.7	64.9
Bangladesh				
Exports	187294	164055	23238.6	14.2
Imports	22422	20299	2123.5	10.5
Maldives				
Exports	1893	975	918	94.2
Imports	60	0	60	600
Nepal				
Exports	1722	343	1379	402
Imports	66	143	-77	-53.8
India				
Exports	98218	88447	9771	11
Imports	625186	558094	67092	12
Sri Lanka				
Exports	106273	70684.1	35588.9	50.3
Imports	16280	15937	343	2.2

Source: State Bank of Pakistan

Afghanistan: Pakistan's two-way trade with Afghanistan increased by 57% during Q3FY18 compared with the previous corresponding period. The trade balance was in favour of Pakistan during Q3FY18 and Q3FY17. The trade balance saw an improvement of USD 142 million in Q3FY18. Pakistan's exports to Afghanistan comprised of cereals, sugar, construction material, cement, vegetables, rice, fruits, animal and vegetable fats and oil, dairy products, medical and pharmaceutical products, and petroleum. Major imports from Afghanistan were raw cotton, fruits, iron ore, vegetables, crude minerals, hides and skins, wood, and carpets.

During a meeting between Afghan President, Mr. Ashraf Ghani and Pakistan's Prime Minister, Mr. Shahid Khaqan Abbasi, in March 2018, a working group on economic cooperation has been constituted. It is expected that timely implementation of recommendations proposed by this group can help Pakistan regain its export share in Afghanistan. Such a development can then pave way for reopening negotiations around Afghanistan Pakistan Transit Trade Agreement.[14]

[13] Represents absolute change (increase or decrease)
[14] For a summary of issues related to Afghanistan Pakistan Transit Trade, see Ahmed, V. and S. Shabbir (2016) Transit and Trade Cooperation with Afghanistan: Results from a firm-level survey from Pakistan. Working paper 153, Sustainable Development Policy Institute.

Bangladesh: Pakistan’s two-way trade with Bangladesh increased by 13.8% during Q3FY18 compared with the previous corresponding period. The trade balance was in favour of Pakistan during Q3FY18 and Q3FY17. The trade balance saw an improvement of USD 21 million in Q3FY18. Pakistan’s exports to Bangladesh comprised of cotton yarn and woven cotton fabric products. Major imports from Bangladesh were tea, woven cotton fabrics, jute, other textile fibres, and chemicals.

India: India remains Pakistan’s largest trading partner with a two-way trade standing at USD 723.4 million during Q3FY18. Pakistan’s two-way trade with India increased by 12% during Q3FY18 compared with the previous corresponding period. The trade balance was in favour of India during Q3FY18 and Q3FY17. The trade balance saw an improvement in favour of India of USD 57.3 million in Q3FY18. Pakistan’s exports to India comprised of industrial raw materials, minerals, textile and clothing, hides and skins, and vegetables. Major imports from India were cotton, cyclic hydrocarbons, organic coloring matter, polymers, artificial staple fibers, heterocyclic compounds with nitrogen hetero-atoms, polycarboxylic acids and anhydrides, ferroalloys, odoriferous mixtures, synthetic rubber, prepared binders for foundry moulds or cores, and pneumatic tires.

Sri Lanka: Pakistan’s two-way trade with Sri Lanka increased by 41.5% during Q3FY18 compared with the previous corresponding period. The trade balance was in favour of Pakistan during Q3FY18 and Q3FY17. The trade balance saw an improvement of USD 35.2 million in Q3FY18. Pakistan’s exports to Sri Lanka comprised of cotton cloth, bed wear, trousers, silk and synthetic textile and other ready-made garments, cement and pharmaceuticals. Major imports from Sri Lanka were tea, coconuts, wood charcoal, paper products, finished rubber products, and betel leaves.

In the case of Central Asia, the total trade with Pakistan touched USD 81.3 million during July – March FY18 out of which exports stood at USD 69.9 million for the same period. The largest increase (in percentage terms) in Pakistan’s exports to Central Asia was seen in the case of Tajikistan. However, Kazakhstan being one of the larger economies in the central Asian region received the largest value of Pakistani exports (see Table 8).

Table 8: Pakistan's Trade with Central Asia (USD thousand)

Country	Q3 FY18 (A)	Q3 FY17 (B)	Delta[15] (A-B)	Percentage change
Kazakhstan				
Exports (to Kazakhstan)	30342	11576	18766	162.1
Imports (from Kazakhstan)	0	2	-2	-100
Tajikistan				
Exports	4015	875	3140	358.9
Imports	3718	5017	-1299	-25.9
Uzbekistan				
Exports	1671	478	1193	249.6
Imports	478	902	-424	-47
Turkmenistan				
Exports	606	321	285	88.8
Imports	2828	3058	-230	-7.5
Kyrgyzstan				
Exports	271	201	70	34.8
Imports	0	0	0	0

Source: State Bank of Pakistan

Kazakhstan: Pakistan's two-way trade with Kazakhstan increased by 162% during Q3FY18 compared with the previous corresponding period. The trade balance was in favour of Pakistan during Q3FY18 and Q3FY17. The trade balance saw an improvement of USD 18 million in Q3FY18. No imports from Kazakhstan were recorded during Q3FY18. Pakistan's exports to Kazakhstan comprised of rice, medical equipment and medicaments. In the past Pakistan has imported from Kazakhstan metals, plastic, rubber, stone, glass, sodium dichromate, dried lentils, road tractors, fermented tea and filament yarn of polyester.

A recent report by Pakistan Business Council has estimated Pakistan's export potential to Kazakhstan at USD 182.3 million. The report cities four key areas of export opportunity which include medical appliances, medicaments for therapy, medicaments with hormones, and bandages. The potential of imports from Kazakhstan is estimated at USD 75.3 million. A large part of Pakistan's high demand of dried lentils, parts for boring or sinking machinery, and boards and cabinets for electric control can be met by Kazakhstan.[16]

Tajikistan: Pakistan's two-way trade with Tajikistan increased by 31.2% during Q3FY18 compared with the previous corresponding period. While the trade balance was in favour of Tajikistan during Q3FY17 however during Q3FY18 it turned in favour of Pakistan and stood at USD 0.2 million. Pakistan's exports to Tajikistan comprised of sugar, medical and pharmaceutical products, dairy products, rice, construction material including cement, meat and handicrafts. Major imports from Tajikistan were chemical material and products, machinery and its parts, dyeing, tanning and coloring material.

[15] Represents absolute change (increase or decrease).
[16] Pakistan Business Council. "The Central Asia Country Series: Republic of Kazakhstan 2017." Web. May 27, 2018. <https://www.pbc.org.pk/wp-content/uploads/KazakhstanReport.pdf>

Pakistan's pharmaceutical sector has been upbeat about prospects of increasing exports to Tajikistan. A key hurdle has been the arduous process of getting pharmaceutical items registered in Dushanbe which could take up to 6 months. The lack of direct transport linkages between the two countries are also posing difficulties. Until 2016 Tajikistan's Somon Air was servicing the route from Lahore – Dushanbe. However the service was stopped due to lack of commercial interest.[17]

Turkmenistan: Pakistan's two-way trade with Turkmenistan increased by 1.6% during Q3FY18 compared with the previous corresponding period. The trade balance was in favour of Turkmenistan and stood at USD 2.2 million for Q3FY18. During Q3FY17 the trade deficit with Turkmenistan was USD 2.7 million. Pakistan's exports to Turkmenistan comprised of animal or vegetable fats and oil; pyrotechnic products, matches, pyrophoric alloys and other combustible preparations; vegetable textile fibres; paper yarn and woven fabrics of paper yarn; cereals; oil seeds and oleaginous fruits; and worn clothing. Pakistan's imports from Turkmenistan were cotton, plastering materials, and plastics.

Pakistan Business Council's report has indicated that Turkmenistan has further potential to export cotton, urea and polypropylene to Pakistan. The later also has potential to increase its exports of wheat and medicament. Among the key barriers being faced by Pakistani business persons dealing with Turkmenistan are visa and travel related difficulties and high custom duties.[18]

Uzbekistan: Pakistan's two-way trade with Uzbekistan increased by 55.7% during Q3FY18 compared with the previous corresponding period. The trade balance was in favour of Pakistan during Q3FY18 and Q3FY17. The trade balance saw an improvement of USD 1.6 million in Q3FY18. Pakistan's exports to Uzbekistan comprised of vegetable textile fibers, pharmaceutical products, cutlery items, and mechanical appliances. Major imports from Uzbekistan were cotton, plastics, edible vegetables, and mechanical appliances.

It was discussed recently that a joint business council may be formed to look in to the prospects of improving trade cooperation in pharmaceuticals, agriculture, food processing, textiles, automobile, construction & building material, chemicals, oil & gas, mining, metallurgy, electrical & electronics items.[19]

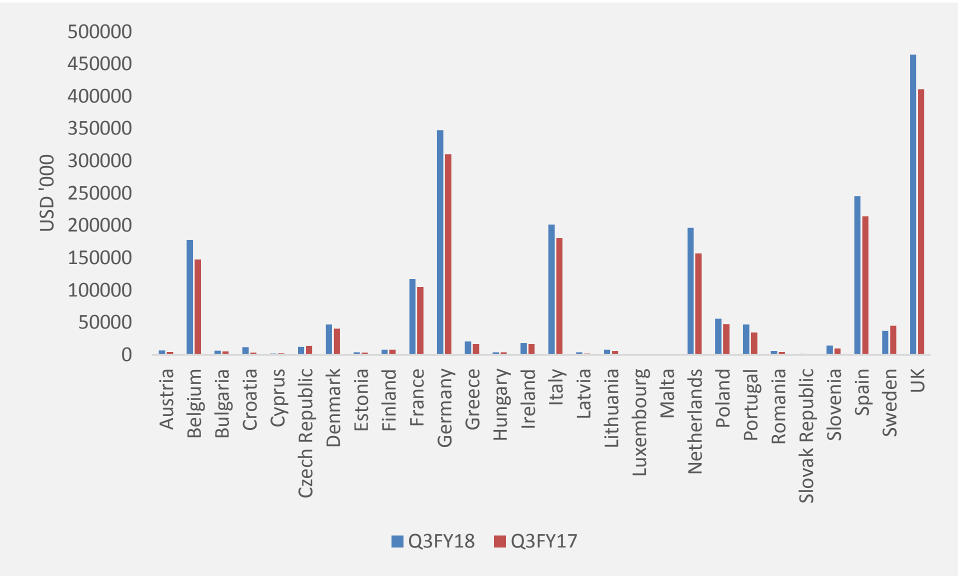
7. Special Section: Pakistan's Exports to EU

In this quarter's bulletin we provide a special GSP+ section to offer an overview of Pakistan's ongoing trade with European Union (EU) under the market access facility. The section also highlights the challenges in the way of fully exploiting GSP+ and related opportunities in the EU region.

[17] Mubarak Zeb Khan. "Exports to Tajikistan Dip on Tariff Restrictions." DAWN November 12, 2017, web. May 27, 2018. < https://www.dawn.com/news/1369933>
[18] Pakistan Business Council. "The Central Asia Country Series: Republic of Turkmenistan 2017." Web. May 27, 2018. http://www.pbc.org.pk/research/country-series-turkmenistan/
[19] Customs Today. "Uzbekistan keen to enhance trade relations with Pakistan." Web. May 27, 2018. http://www.customstoday.com.pk/uzbekistan-keen-to-enhance-trade-relations-with-pakistan/

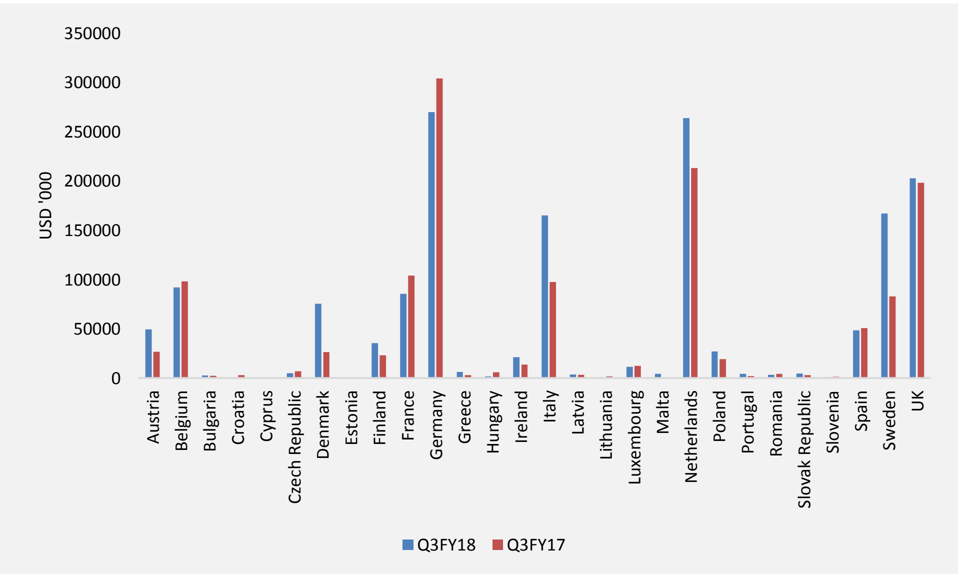
Pakistan's exports to the EU increased from USD 5.9 billion during July – April FY17 to USD 6.9 billion during the same period in FY18. To see the impact of GSP+ scheme, we exhibit in figure 4 and figure 5 how the trade patterns changed across the third quarter in 2017 and 2018. The countries where Pakistan witnessed a noticeable increase in its demand for its exports include Belgium, Denmark, France, Germany, Italy, Netherlands, Spain and UK. Incidentally the supply chains which have been promoted through GSP+ have also benefited EU which in turn witnessed an increase in its exports to Pakistan. Countries such as UK, Netherlands, Italy, Denmark and Austria witnessed increase in their exports to Pakistan.

Figure 4: Pakistan's Exports to EU (USD thousand)



Source: State Bank of Pakistan

Figure 5: Pakistan's Imports from EU (USD thousand)



Source: State Bank of Pakistan

A. Interview with Ministry of Commerce, Joint secretary (FT-III), Mr. Aamir Nazir Gondal

Mr. Aamir Nazir Gondal (JS Foreign Trade Wing-III) is responsible for market access issues with the Europe, Americas and Turkey. He has served as Commercial Counselor in South Korea from 2012-2015. He is currently heading the wing which is engaged in trade talks with EU, EFTA, Turkey, South American countries, Russian Federation and Belarus.

1. What has been the impact of GSP+ on Pakistan's exports?

On 1st January 2014, Pakistan was awarded GSP+ facility for its exports which has allowed duty free access to European Union under certain commodity groups. Since then, GSP+ has positively impacted exports from Pakistan. The Eurostat data exhibits that Pakistan's exports have increased by 47% since the award of GSP+. A sectoral analysis reveals that value added sector has recorded remarkable increase e.g in textile sector, garments and hosiery exports have gone up by 92 percent and home textile group saw an increase of 71 percent.

We see GSP+ as a mutually beneficial trade arrangement. Not only Pakistan but Europe has also gained benefits of this agreement. Our imports from EU have increased during this period. For example, only during the past 7 months (July-Jan 2017-18) of ongoing fiscal year imports from EU increased by 2.6 %. Our key imports from EU include Machinery, Mineral Fuels, and Iron & Steel etc.

2. What is the mechanism adopted by the EU to monitor progress on the implementation of UN conventions mandatory for GSP+ Scheme?

GSP scheme requires that 27 core conventions should be effectively implemented in Pakistan. But we must keep in view that all the requirements stated in agreement are also our constitutional obligations like women and labor rights. These 27 conventions are broadly categorized under four key areas: a) human rights, b) labor rights, c) environment, and d) good governance.

The Government of Pakistan has taken two significant steps to ensure the implementation of these conventions. The government constituted a treaty implementation cell and Attorney General of Pakistan was appointed as Convener. Its Secretariat is in Ministry of Commerce. As several of these conventions and their implementation falls under the domain of provincial governments (after the 18th Amendment), therefore, federation receives information from provinces and collates that information and respond to EU to demonstrate compliance.

As per the agreement between Government of Pakistan and EU, the latter will monitor Pakistan's progress on above mentioned conventions after every two years. This year the joint staff working report, by High Representative of the Union for Foreign Affairs and Security Policy was released on 19th January 2018, in which institutional and legislative steps taken by Pakistan government were appreciated.[20]

[20] European Commission 2018 "The EU Special Incentive Arrangement for Sustainable Development and Good Governance ('GSP+') assessment of Pakistan covering the period 2016 – 2017: Joint Staff Working Group Document", High Representative of the Union for Foreign Affairs and Security Policy, European Commission.

For example, the document states regarding progress on UN conventions on environmental protection and climate change: "Pakistan's efforts to implement the environmental conventions have improved. With legislative measures largely in place, Pakistan now looks towards strengthening institutions to achieve a sustained level of implementation of the conventions, especially those pertaining to environmental and climate change. There is a growing awareness with regard to effective implementation of these conventions among civil society organisations. The judiciary has been highly critical about the Houbara Bustard hunting. The collaboration between the Government, the IUCN and the WWF reflects a change in priorities with regard to biodiversity, an area which used to be largely neglected before 2014".

Similarly, this document states regarding progress on ILO labour rights conventions: "Overall, further steps have been taken by the provinces to adopt legislation and to develop procedures and guidelines to implement the ILO fundamental conventions, also in the context of devolution of labour rights from the federal to the provincial levels. While this process is still not complete, it has moved forward during the reporting period. However, implementation and enforcement of laws and regulations continue to be a problem, although some provinces have stepped up efforts to improve enforcement. Further efforts are needed to improve the labour inspection system and overall working conditions".

Implementation of the 27 conventions remains a work-in-progress. The treaty implementation cell has conducted around 17 meetings to-date. The private sector observers and union representatives are also invited in these meetings to make it more participatory. To regularly keep the EU and member countries in Europe informed, Ministry of Commerce continues to interact with national governments through Pakistani missions and embassies in different countries on the subject. We have informed partner countries in Europe that the government will continue to promote the concepts of ethical buying and fair trade.

The forthcoming Strategic Trade Policy Framework for 2018-2023, for the very first time is going to introduce the concept of right-based, fair trade in Pakistan. The new framework will make an effort to orient the businesses in Pakistan regarding importance of ethical practices and labour rights which are now part of the international standards that govern the supply chains.

3. How is Ministry of Commerce facilitating the Private Sector in improving its compliance with product standards in EU region?

The big private sector enterprises in Pakistan already have the required certifications. They are usually very careful about period reviews which take place as part of acquiring these certifications. The large business enterprises also conduct their own audits in which social compliance and ethical issues are monitored. In the case of small and medium enterprises, there is room for improvement. A meeting was held in Brussels on 'sub group on trade' during October 2017. There was a discussion regarding how SMEs can be helped through support to their associations including local Chambers of Commerce and Industries. The Government on its own also continues to ease the doing business conditions for SMEs. You may recall that our fisheries establishments were delisted from exporting to the EU on the account of failure to meet the SPS standards in 2007. Ministry of Commerce in consultation with the Marine Fisheries Department undertook a concerted effort to overcome the short comings. However, the matter got delayed because of reluctance of European Inspectors to visit Pakistan due to law and order situation in Pakistan at that time. Ministry of Commerce then helped MFD to undertake the needful and share information with the European Commission. As a result the exports to EU resumed in the summer of 2013. Likewise, many mango consignments from India and Pakistan to the EU were intercepted in 2013 because they contained fruit flies. As a consequence of that EU banned the imports from India and put Pakistan on the watch list. Ministry of Commerce acted in the timely manner and worked with Ministry of National Food Security and Research to first put in place an effective mechanism for checking the export consignments and for hot water treatment of all consignments before their exports. This brought down the number of consignments intercepted on account of failure to meet SPS standards of the EU to zero in subsequent years. So whenever required Ministry of Commerce interacts with the businesses and relevant departments from time to time to raise awareness about product standards in EU markets.

4. What will be the future of Pakistan-UK trade after Brexit is formalised in March, 2019?

We are closely monitoring the post-Brexit developments in EU and UK trade negotiations. During the coming months we are not expecting a significant impact of Brexit on Pakistan's trade. UK remains one of the largest trade partners in UK region and we expect that even after formalization of Brexit, both UK and Pakistan will continue to maintain close trade relations. We are hoping that Pakistan's market access will remain the same as currently under the GSP+ scheme. However, one can only form an opinion once the ongoing negotiations around Brexit are over. Things will be clearer once arrangement of customs union, single market and border related rules have been negotiated between EU and UK.

On the directions of the Prime Minister, a study group has been formed at the Ministry of Commerce to assess the possible implications of Brexit. The Ministry continues proactive engagement with counterparts in the UK. The UK's Minister for International Trade Mr. Grey Hands was recently hosted by Pakistan. A British Parliamentarian, Mr. Rehman Chisti has been appointed Britain's trade envoy to Pakistan. Mr. Chisti has already assured as per media reports that he will try to ensure a GSP like trade deal between both countries if not better. Mr. Sadiq Khan, current Mayor of London has also recently visited Pakistan. During the reception given by Ministry of Commerce he has also assured Government of Pakistan regarding cordial trade relations post-Brexit.

5. Are there any province-specific issues in achieving optimal gains from GSP+ scheme?

GSP+ offers opportunities for making gains on two levels. At one level it offers enhanced market access opportunity for our local industry and at another level it is helping government to strengthen systems that promote good governance and sustainable development. It is true that economically speaking direct beneficiaries of this arrangement are the manufacturers and exporters from Pakistan.[21] However, as a result of increasing realization that these trade concessions are linked with simultaneous efforts to effectively implement universally acknowledged standards pertaining to human and labour rights, climate change, narcotics control and corruption, both businesses and governments (national and provincial) are working together to adopt measures that improve working conditions for the workers and to treat them as partners in development rather as a means of production only. I think a great change in culture in this regard is happening. These issues are now directly linked with the competitiveness of our exports in all lucrative international markets.

Pakistan is a very big country with a huge diversification in its culture and provinces. The level of economic development is different in each of the province. Across the board implementation is not possible. Certainly, there is a progress but it is uneven. Cities near border areas have different law and order situation whereas cities like Sheikhupura, Gujranwala have much more encouraging progress. We spent the first two years of this scheme in getting the right kind of legislation approved at the national level. Now the next two years will be focused on implementation of these legislation.

The Prime Minister himself continues to monitor the progress. He has constituted a committee to develop National approach on GSP+ with Mr. Muhammad Pervaiz Malik, honourable Minister for Commerce and Textile as its Chairman. All stakeholders were invited under that committee to brief about labor rights, human rights, trade issues, Federal Board of Revenue. Domestic and international stakeholders were involved for up to 10 months for very extensive engagements. Delegates from Pakistan including Minister for Commerce, Attorney General and other members visited Belgium, Germany and France, Spain and Italy to understand the EU's expectations and also inform regarding compliance.

A parliamentary delegation attended a meeting of parliamentary friendship group of Pakistan and EU in December. The convener of this meeting was Engr. Khurram Dastagir Khan. Other members included Dr. Fehmida Mirza (PPP), Mr. Shibli Faraz (PTI), and Siraj Muhammad Khan (PTI) who interacted with MEPs and the message was very well received and the idea of bipartisan support to GSP+ conventions was really appreciated in EU.

During the remaining period of GSP+ we will continue our focus on helping all provincial governments to understand the potential and opportunities in the EU region. TDAP is already working with business associations to improve their understanding regarding several facets of GSP+.

[21] For potential marketing opportunities see upcoming trade exhibitions in Europe exhibited in Box-1.

Box 1: Major Upcoming Trade Exhibitions in Europe

Exhibition	Period	Specialization
Int'l Trade Show for Food Processing, Minsk, Belarus	June, 2018	Food Items
Safety & Health EXPO, UK	June,2018	Healthcare
Euro Bike, Germany	September, 2018	Bicycle Products
Intermot, Cologne, Germany	September, 2018	Surgical
Automechanika Frankfurt, Germany	September, 2018	Auto parts
EXPO Protection, Paris, France	September, 2018	Leather and Protective gears
Poznan Sports Fair, Poland	October, 2018	Sports Goods
SIAL Paris, France	October, 2018	Food Items
EICMA MOTO, Milan, Italy,	November, 2018	Gloves / Auto parts
EIMA Bologna, Italy	November, 2018	Auto technology
Medica Dusseldorf, Germany	November, 2018	Surgical Instruments

Source: Trade Development Authority of Pakistan

B. Interview with Faisalabad Garments City Company, Chairman, Mr. Rehan Naseem Bharara

1. Is Pakistan taking optimal benefit of the GSP+ scheme?

Pakistan has taken advantage of GSP+ but we haven't fully exploited this yet. Pakistan has performed well in garments sub-sector and especially in towel industry. Home textile exports have increased slightly but there is room for improvement. It is important to note that to fully benefit from GSP+ the government will need to streamline tax and regulatory regime in sectors where Pakistan has been allowed a preference.

2. Do you think that GSP+ has been negotiated as per the expectations of the business community?

We feel that the real stakeholders are sometimes kept out of discussion when government negotiates such agreements with other countries. While the relevant authorities do take feedback from business associations but such an engagement is not comprehensive to look at the design and implementation of major agreements.

Having all segments of business community on board could help the government in improving the currently negotiated design of GSP+. For example, several of the tariff lines on which the government had demanded a preference, were already trading at 1-2 percent duty. The prime objective for the government should have been to negotiate preference for those products where Pakistan has excess capacity and also has the ability to scale-up capacity if required.

We are not skeptical about the capabilities of negotiating officers but I personally think that a committee needs to be formed to formulate standard operating procedures for the relevant

ministries involved in the negotiation process. Such procedures should outline in detail how inputs from the business community and relevant stakeholders can be solicited.
The experience and capability to understand specific sectors in the manufacturing sector is required across the civil service which is expected to negotiate highly technical agreements involving comprehensive discussion on all tariff lines.

3. How can the government help in increasing benefits accruing from GSP+?

While having GSP+ is certainly an advantage, but we expect complimenting policies to bring down the local cost of doing business. The business community in Faisalabad, for example, feels that a key issue is the competition over energy resources within the country. Karachi is getting gas at the rate of PKR 600 per mmbtu. Whereas Punjab is getting same amount of gas at the rate of PKR 1200. This is a difference of 100 percent which certainly does not allow a level playing field and remains a disincentive for the small and medium enterprises (SMEs). High utility rates also act as a barrier for entry for new players.

Likewise, in the power sector, during the past 3 to 4 years, Sindh's industrial areas were provided uninterrupted electricity whereas this was not the case in Punjab. Difference in electricity cost is also an issue where industries in Sindh are getting PKR 6/unit and the same unit costs PKR 13 to industries in Punjab.

4. Are there any capacity gaps in the private sector which prevent accessing gains from GSP+?

Usually capacity issues are not a significant constraints for the large businesses. They have the knowledge and networks to scale up, keeping in line with the necessary compliance conditions.

However, there is no support for the smaller players or potential enterprises who may wish to attract fresh investment and experiment with new ideas. It is encouraging to note the new industry has come up in Punjab. However, in other parts of the country including Karachi, no new investments at a large scale have been seen in sectors that may benefit from GSP+.

5. Are SMEs well aware of the product and quality standards as required by EU?

SMEs do face capacity and compliance issues and of course a key reason is the financial constraints. Government should have helped small producers by providing facilities like water treatment plants. Having weak asset endowments, they are not provided loans from private banks due to the risk of bankruptcy. Even where they are well aware of the minimum standards, they are usually not complaint due to the costs involved in achieving the standards.

Furthermore, GSP+ requires enterprises to respect the 27 conventions as per agreement between EU and Government of Pakistan. It however remains to be seen how the smaller players will understand and start respecting all of these conventions with in a time period which is now less than two years. Only government can help solve these issues. If for example it is not possible for the smaller players to afford water treatment plants, and the government also has financial constraints then other arrangements such as public private partnerships can be explored. However, such arrangements will require the relevant departments of both federal and provincial governments to work together and support the SME sector and particularly new exporters.

6. Has the government approached you or your associations in this regard?

Yes, both government and private sector have met and discussed this subject. However, we are still not clear on the roadmap for implementing the GSP+ conventions. We do not want history to repeat itself. For example, in the past trade and textile policies have been formulated and approved by the competent authorities. However, there is no evaluation how far these policies were effective. A key message for the team now formulating the next Strategic Trade Policy Framework (2018-23) will be to first brainstorm and explore how provisions of this policy will be implemented through appropriate inter-governmental coordination and consultation with private sector.

7. What other complimenting policies can help Pakistan's exports in the EU region?

First, we need to look at the taxation structure in our peer economies. The burden of taxes faced by Pakistani private sector is much higher than competitors in Bangladesh, India and other Asian economies. In Pakistan we are currently answerable to multiple tax authorities which has greatly increased our tax compliance cost. India went ahead and merged several taxes; even centralized the payment of several taxes so that time spent in dealing with the tax regime could be reduced. Pakistan now has revenue authorities in all provinces. These authorities have their own taxes and rates of these taxes vary across provinces.

In theory we are informed that exports are zero rated and firms can take refund. But taking refund from the government is cumbersome because of absence of coordination between tax collection authorities. Even with in FBR it sometimes becomes difficult to trace refund cases. Having a national tax authority in Pakistan can solve many of these issues. Towards this direction, a proposal was submitted to the Ministry of Finance and FBR. All chairpersons of the revenue boards appreciated the idea but implementation is still missing. At the end, cases which are filed for refund are deferred in view of fiscal deficit and revenue requirements of the government.