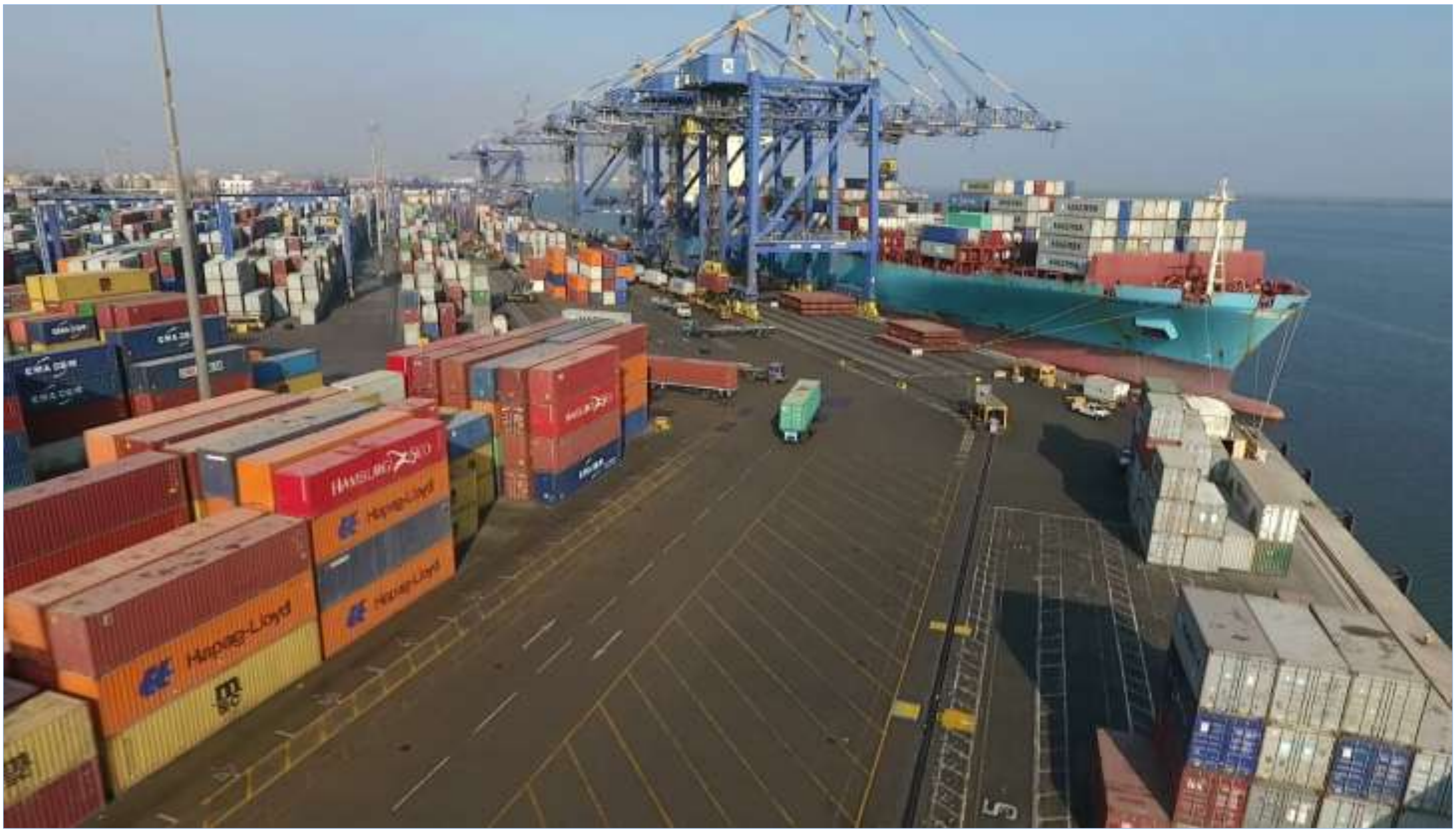
USAID
FROM THE AMERICAN PEOPLE

SDPI
Sustainable Development Policy Institute



Pakistan Quarterly Trade Bulletin

Fourth Quarter Review FY18 & STPF Issue

Volume 1, Issue 2 (April – June 2018)

Bulletin Team

Sustainable Development Policy Institute (SDPI):

- Vaqar Ahmed
- Wasif Naqvi
- Asif Javed

USAID Pakistan Regional Economic Integration Activity (PREIA):

- Ahmed Fasih

Contents

1. Message from Bulletin Team

At the time of furnishing this bulletin, Pakistan has seen a successful democratic transition with Pakistan Tehreek-e-Insaaf forming its government in the center. The manifesto of the incoming party stresses greatly on the importance of trade, particularly export competitiveness. The new Prime Minister during his initial interactions with the public also emphasized on the importance of peace and harmony in the region and that (regional) trade remains a low hanging fruit.

The new government is also set to face challenges related to the management of macro economy. While some uptick in exports has been seen during the quarter under discussion, however import bill along with a ballooning fiscal deficit have resulted in growing financing needs, depleting foreign exchange reserves, and pressures on Pakistani Rupee.

We discuss in this issue that China Pakistan Economic Corridor (CPEC) and a buoyant domestic demand have resulted in long term investors coming to Pakistan during this quarter to assess prospects in sectors such as oil and gas, construction, agriculture and food processing. However any prolonged balance of payments uncertainty could be seen as a risk and may prevent such investments from materializing.

Promoting greater fiscal and financial discipline will undoubtedly remain a key priority of the incoming government. While the former is important to tackle the growing circular debt in the energy sector and large losses of several public sector enterprises, the latter will hold the key to convincing stakeholders such as the Financial Action Task Force and any lender who may be approached to bridge the financing gap including potential multilateral sources such as the International Monetary Fund.

The second issue of Pakistan Quarterly Trade Bulletin also provides an overview of preparations towards formulation of Strategic Trade Policy Framework (STPF) 2018-23 at the Ministry of Commerce. We also solicit views from both; the public sector on how to make the policy formulation process as inclusive as possible, and the private sector on how their associations can support the Ministry towards better design and implementation of the policy. The interviews presented here also discuss binding constraints to export growth. We hope that this effort by Pakistan Regional Economic Integration Activity (PREIA) and Sustainable Development Policy Institute (SDPI) will help improve content and implementation of upcoming STPF.

(Bulletin Team)

2. This Quarter's News in Brief

- Economic and political uncertainty in the country resulted in significant pressures on the currency resulting in an open-market value of PKR 125 to USD 1 by the end of June 2018.[1]
- Exports of goods during April-June stood at USD 6.5 billion (14.3% increase over same period of FY17) as compared to imports of goods which are worth USD 15.2 billion (9.8% increase over same period of FY17). The trade deficit for the quarter increased to USD 8.7 billion as compared to USD 8.2 billion in FY17.
- Current account deficit during April-June FY18 was recorded at USD 5798 million as compared to USD 4631 million during same period in FY17 - an increase of 25%. Net foreign direct investment (FDI) fell to USD 673 million - a decrease of 27.5%.
- Remittances decreased to USD 5016 million during April-June FY18 as compared to same period of FY 17 when it was USD 5246 million, posting a decrease of 4.4%.
- The Ministry of Commerce (MoC) and National Tariff Commission (NTC) have drafted National Tariff Policy which will be a part of the next Strategic Trade Policy Framework (STPF). To enhance the competitiveness of exports, the policy suggests gradual reduction in duty on raw materials and machinery for export-oriented industries.[2]
- The State Bank of Pakistan (SBP) has allowed Bank of China to settle payments in Yuan to encourage trade using the Chinese currency. This arrangement will also ease pressure on the demand for US dollars.[3]
- The MoC confirmed that the next phase of FTA with China is being deferred until the time, concerns of business community are addressed and a consensus is developed.[4] Furthermore mandate for the next phase of negotiations will be taken from the newly elected government.
- Caretaker Commerce Minister hints that the government was looking towards starting preferential trade agreement (PTA) talks with Indonesia, Japan, Kenya, Philippines, and Vietnam.[5]
- In a recent report the directorate general of Customs Intelligence and Investigation, Islamabad has informed regarding misuse of green channel facility. Recommendations have been submitted to the relevant quarters in Federal Board of Revenue (FBR).[6]
- In a meeting between Presidents of Pakistan and Tajikistan, both sides have agreed to strengthen business relations and take annual bilateral trade to $500

[1] Uncertainty results in currency plunging to Rs125 in open-market. The Express Tribune, Islamabad. June 21, 2018.
[2] Ministry of commerce finalises national tariff policy. The Express Tribune, Islamabad. April 23, 2018
[3] SBP allows Bank of China to settle transactions in Yuan. The News, International, Islamabad, 2018-04-12.
[4] FTA with China delayed due to industry concerns. Dawn, May 4, 2018
[5] Pakistan likely to start negotiations with five countries. The Express Tribune. April 11, 2018.
[6] FBR collectors blamed for misuse of green channel. DAWN Islamabad. July, 26, 2018

million. Furthermore both sides agreed to immediately revive air links and implement the CASA-1,000 electricity supply project in an expedient manner.[7]

- The Central Bank has now put in place standardized mechanism to monitor exports under Long Term Financing Facility (LTFF) – available to fund new projects and the balancing and modernization of ongoing projects.[8]
- The World Bank Group will support economic corridor along Khyber Pass to boost the economic activity between Pakistan and Afghanistan.[9]
- Growth has been observed for registered e-commerce merchants connected through smart phones and 3G/4G services.[10]
- The Ministry of Commerce is finalizing a policy framework for the development of e-commerce.[11]
- FBR opted to prepare rules for Authorized Economic Operator (AEO) programme to eliminate the barriers in cross-border trade.[12]
- FBR officials welcomed the ongoing fencing at Afghanistan-Pakistan border as it will help in curbing the illicit trade involving items including tyres, tea and foreign cigarettes.[13]
- Pakistan and Russia are likely to lay out a roadmap for land route for better transportation connectivity.[14]
- The tax authorities of China and Pakistan can now share imports and exports data through Exchange of Data Information (EDI) system. This will also help in curbing the under invoicing which is approximately within the range of USD 4-6 billion per annum.[15]
- Prime Minister of Pakistan stated that Gwadar and Chabahar ports can complement each other in boosting the trading activities within the region and beyond.[16]
- Chinese Ambassador stated that Hazara division is likely to become center of trading activities because of CPEC project.[17]
- Federal and provincial governments in Pakistan have taken various steps for ease of doing business including trading across border, I-form and E-form which are now integrated into Web Based One Customs (WeBOC).[18]
- Government of Pakistan has constituted a trade policy advisory committee to develop strategic trade policy framework for next five years.[19]

[7] Countries to take trade to $500m. The Express Tribune, Islamabad. June 20, 2018
[8] State Bank prescribes mechanism to monitor exports. Daily Times, 2018-06-29.
[9] WB committing $ 500 m for two projects. The News, June 16, 2018
[10] E-comerce market witnesses rational growth. Business Recorder, June 19, 2018
[11] Ministry framing policy to develop e-commerce. The News, Apr 27, 2018
[12] FBR to AEO programme to boost trade. The Profit, June 9, 2018
[13] Illicit trade: Fencing at Pak-Afghan border will have positive impact: FBR, Business Recorder, May 31, 2018
[14] Trade route between Pakistan, Russia proposed. The Nation, May 23, 2018
[15] Pakistan, China begin exchange of data information. The News, May 17, 2018
[16] Gwadar, Chahbahar ports to generate enhanced economic activity, PM. The News, May 8, 2018
[17] Hazara to become hub of trade activities: Chinese envoy. Dawn, Apr 29, 2018
[18] Steps in place for ease of doing business, WB informed. The Nation, Apr 25, 2018
[19] Govt constitutes committee to evaluate trade policy's proposals. The News, Apr 5, 2018

- FBR has informed that National Single Window (NSW) system will be operational next year. The system is an online platform which will link around 40 departments for trade facilitation.[20]

[20] NSW system to be operational next year. Business Recorder, Aug 7, 2018

3. Macroeconomic Outlook

Overview of Economic Growth

While the new government has yet to provide its economic roadmap, however next year's growth target of 5.8% may see a cut given the risks and challenges arising out of a widening trade and fiscal deficits. In the case of the former, the full year's export receipts of USD 24.7 billion, Remittances amounting USD 18 billion and FDI of USD 2.8 billion was not enough to cover the import payments of USD 55.8 billion.

The current milieu has put pressure on the foreign exchange reserves. While overall year end FY18 reserves were recorded at USD 16.3 billion, however reserves held by the central bank declined to USD 9.8 billion by end-June 2018 (Table 1). This is a 39% decline in reserves held by SBP compared to the level in end-June 2017. The declining reserves have also mounted pressure on the value of Pakistani rupee. The currency's value has seen a 15% downslide during the calendar year 2018. At the time of furnishing this bulletin the value of rupee is widely oscillating between PKR 125 – 132 vis-à-vis USD.

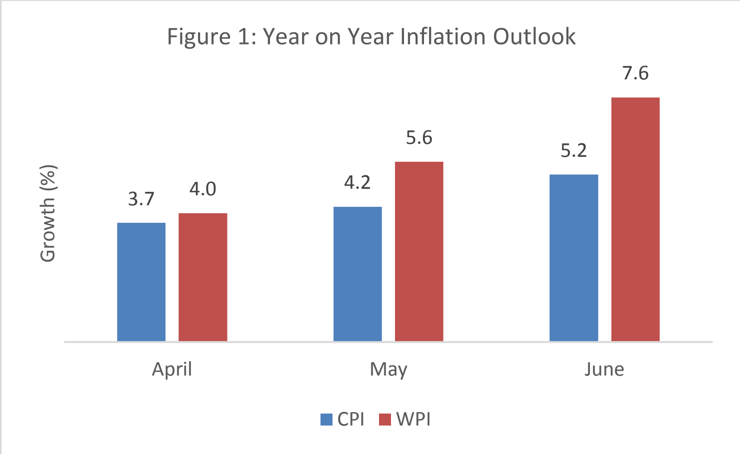
Table 1: Macroeconomic Indicators

Indicator	Period	FY18	FY17
GDP Growth (%)	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
Large Scale Manufacturing (% growth)	Jul-May	6.0(P)	5.8
Services (% growth)	Jul-Jun	6.4(P)	6.5
Investment to GDP ratio	Jul-Jun	16.4 (P)	16.1
Credit to private sector (PKR billion)	Jul-Jun	5,966	5,197
Consumer price index (% change) *	Jul-Jun	3.92	4.16
Wholesale price index (% change) *	Jul-Jun	3.47	4.04
Merchandise exports (USD million)	Jul-Jun	24,772	22,003
Merchandise imports (USD million)	Jul-Jun	55,846	48,683
Export of services (USD million)	Jul-Jun	5,205	5,555
Import of services (USD million)	Jul-Jun	10,376	9,894
Current account deficit (USD million)	Jul-Jun	17,994	12,621
Remittances (USD million)	Jul-Jun	-19,623	19351
Foreign direct investment (USD million)	Jul-Jun	2,768	2,747
Foreign exchange reserves (USD million)	Jul-Jun	16,385.7	21,403
Net reserves with SBP (USD million)	Jul-Jun	9,789	16,145
FBR tax revenues (PKR billion)	Jul-Jun	4,013 (B.E)	3,368

Source: State Bank of Pakistan, * Pakistan Bureau of Statistics, BE: budget estimate & P: Provisional estimates from Economic Survey.

While the full impact of downslide in rupee's value may be seen on the other macroeconomic indicators with a time lag, however this quarter started to see an uptick in inflation. The consumer price index increased 0.6% during June 2018 (compared to the previous month) on the back of expansionary fiscal measures seen during the period prior to general elections 2018. The other variables including expectations of further currency depreciation, higher domestic electricity and gas prices, increasing trend in oil prices abroad were also at play during this period.

We observe in Figure 1 that wholesale price index (WPI) saw much larger increase than the consumer price index (CPI), in turn reflecting a recent increase in the cost of doing business. The prices of utilities which include water, electricity, gas and fuel recorded an increase of 5.5% in June 2018.



Source: Pakistan Bureau of Statistics

The rising levels of inflation were also reflected in the growth of broad money (M2) or currency in circulation which on a year-on-year basis grew by 33% during the month of June 2018. The SBP Governor had informed at the end of the quarter that to tame the soaring aggregate demand in the economy, the central bank will continue to use both the tools available i.e. real effective exchange rate and the benchmark interest rate. However he had further noted that monetary policy measures alone may not be enough and the government may need to curtail imports through fiscal policy measures e.g. imposition of regulatory duties.[21] Going forward it is likely that the rising interest rate could slow down the private sector credit off take.[22]

In agriculture sector, the provinces faced water shortages in early part of Kharif season (April-June). This has affected sowing particularly in Balochistan, Sindh and Southern parts of Punjab. Some implications of this may be seen for rice, sugarcane, cotton, mash and maize crops. To facilitate the farming community, the Government of Punjab increased its outreach and informed farmers to make use of more efficient irrigation systems. The provincial government is offering 60% subsidy on drip and sprinkler irrigation systems. Another 80% subsidy is being provided on solar tube wells.[23]

The July-May FY18 large scale manufacturing (LSM) witnesses a growth of 6.0% compared to 5.8% percent during the same period in FY17. Major sectors that witnessed an increase in output include food, beverages and tobacco, textile, petroleum products, pharmaceuticals, non-metallic mineral items, automobiles, iron

[21] Pakistan's current account deficit peaks at $17.99b. The Express Tribune. July 20, 2018. On the macroeconomic impacts of tariffs and duties see Ahmed. V and C. O' Donoghue (2010) Tariff Reduction in a Small Open Economy. Seoul Journal of Economics vol.23 no.1/4 (2010).
[22] Growth in private sector credit slows as concerns rise. The Express Tribune, Islamabad. June 28, 2018.
[23] An assessment of public investment in agriculture may be seen in Ahmed, V. and A. Javed (2016) National Study on Agriculture Investment in Pakistan. Working Paper # 157. Sustainable Development Policy Institute.

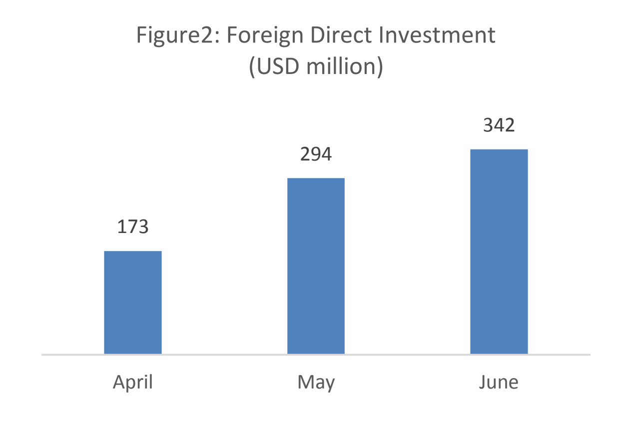
and steel, electronics, paper and board, engineering products, rubber and rubber products. Sectors which registered a decline included leather, fertilizers, and chemicals. As per the May 2018 data available from the Pakistan Bureau of Statistics, the year-on-year growth in May was recorded at 2.76% on the back of rising private consumption and buoyancy seen in the constructions sector.

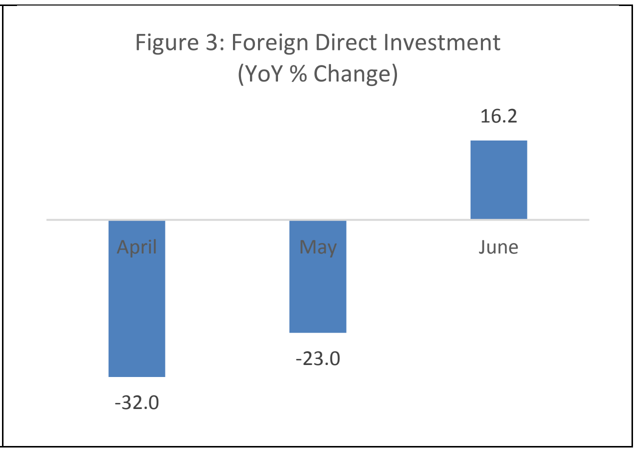
Availability of timely and economical credit will continue to determine the medium term growth prospects. The uptick in exports, apart from other variables is also being attributed to Prime Minister's Textile Package. The M3 Industrial Estate in Faisalabad is all set to see the establishment of Pakistan's first 'weaving city' on the public private partnership model. A memorandum of understanding has been signed between the Faisalabad Industrial Estate Development and Management Company (FIEDMC) and All Pakistan Cotton Power Looms Association. Under the arrangement FIEDMC will provide on lease basis, pre-fabricated sheds to the power looms entities, allowing the latter to only focus its capital on technology up-gradation. The plan also proposes to establish smaller units of weaving city on the bypasses of major and minor roads leading to Faisalabad which in turn will provide opportunities for micro and small enterprises besides also expanding job opportunities.

Review of Select Economic Indicators

Foreign Direct Investment

Net FDI witnessed an increase of 0.8 percent to $2.77 billion during FY18, compared with $2.75 billion during FY17. However, FDI inflow for the month of June was recorded at $342 million which represents a 16.2% increase over the corresponding month of FY17 (Figure 2 & 3). Net FDI during April-June FY18 decreased by 27.5% as compared to same period in FY17. Key sectors attracting net FDI were power ($885 million in FY18 compared to $700 million in FY17), construction ($707 million in FY18 compared to $466 million in FY17) and oil exploration ($195 million in FY18 compared with $146 million in FY17). Major countries contributing to FDI were China, United Kingdom, Malaysia and Hong Kong.





Source: State Bank of Pakistan

China continues to remain a major investment partner owing to the power and construction sector programmes under CPEC. China-specific FDI increased to $1.58 billion in FY18, compared with $1.21 billion in FY17.

A decline in FDI inflows was seen for the financial sector. FDI in the banking sector fell from $296 million in FY17 to $276 million in FY18. The Pakistan Stock Exchange saw an outflow of portfolio investment amounting to $241 million in FY18 compared with $513 million during FY17.

Going forward it is expected that China-specific FDI will remain on the lower side during FY19 as early harvest programme under CPEC comes to a completion. Investors from other countries are also expected to wait until the time the new government unveils its future economic roadmap.[24]

Interest by foreign investors was expressed in various sectors during this quarter. Most notable examples include a Chinese delegation which has expressed its interest in pursuing joint ventures with Pakistani counterparts in the ceramics industry. Similarly it was informed by the relevant quarters that Pakistan and Russia will sign USD 10 billion offshore pipeline project in near future.

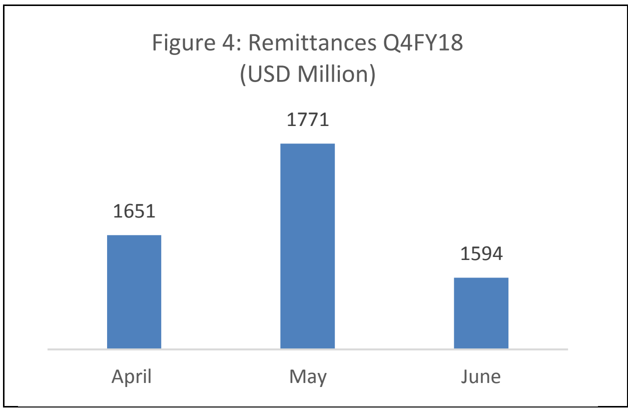
The British High Commission during this quarter unveiled plans by UK enterprises to expand their operations in Pakistan. Shell plans to set up one-hundred new fuel stations along the CPEC road network with an investment of GBP 13 million by the year 2020. Given the increased demand for fast moving consumer goods, Unilever also plans to invest GBP 86 million in expanding the manufacturing capacity at existing four units in Pakistan.[25]

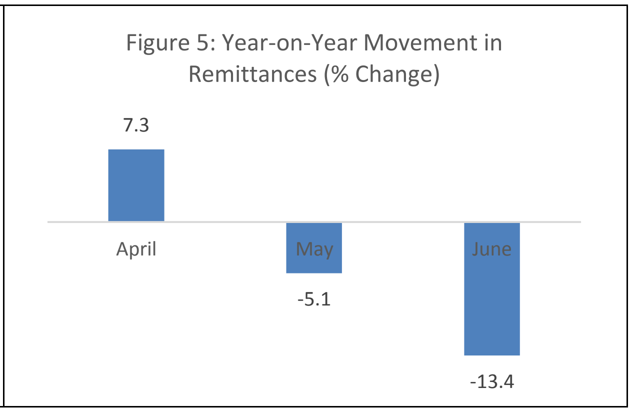
[24] Pakistan attracts meagre $2.767bln FDI in 2017-18. The News. July 18, 2018.
[25] UK firms announce Rs16.3 bn investment in Pakistan. The News. April 20, 2018.

In poultry and food processing sectors, Frisian Egg of Dutch origin plans to set up the largest egg processing plant in Pakistan with an investment of PKR 300 million. The plant is expected to be completed by December 2018.[26] In the energy sector, another Dutch enterprise, Royal Vopak has purchased a 29% share in Elengy Terminal Pakistan Limited.[27] Engro has plans to invest the proceeds in agriculture and renewable technology sectors.[28]

Remittances

At the start of the quarter a strong pick up in remittances was being expected on the back of upcoming elections and Eid festivities. However the month of June recorded $1.59 billion inflows which was 13.4% less than $1.84 billion received in the same month of FY17 (Figure 4 & 5). While analysts were of the view that downward slide in the value of rupee would attract higher foreign currency inflows, however it is now being explained that overseas Pakistanis and exporters may have held back their transfers in the expectation of a further decline in the value of PKR vis-à-vis major currencies.





Source: State Bank of Pakistan

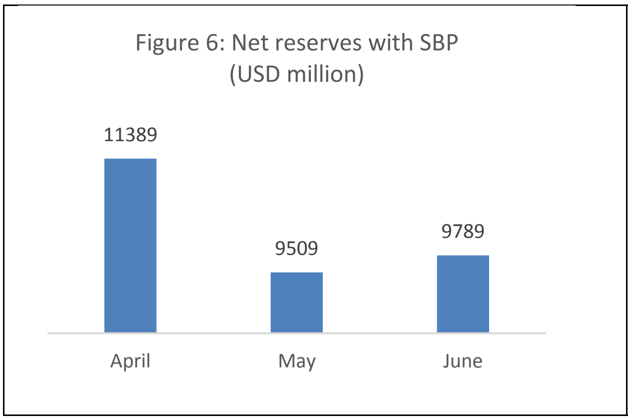
Going forward and to comply with more stringent measures agreed with the Financial Action Taskforce it is expected that past government's initiatives to lure remittances through Asaan Remittance Account and M-Wallets could come under increased scrutiny and may result in increased transactions costs. The government will need to

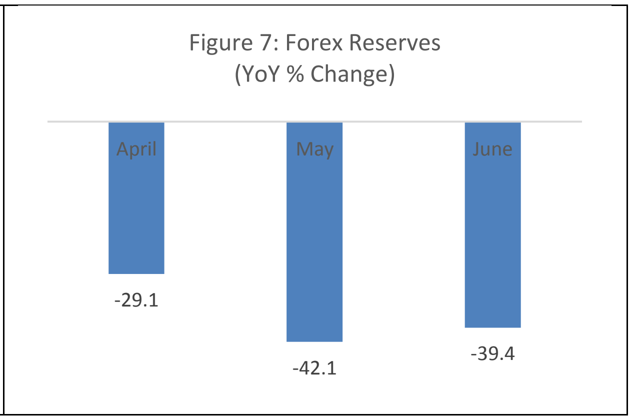
[26] Dutch firm's Rs300mln egg processing plant likely to start by year end. The News. June 7, 2018.
[27] Investors in energy sector have asked for a more certain fiscal policy regime. For a brief commentary on this subject see Khan, H. D. and V. Ahmed (2015) Fund raising for energy projects in Pakistan. Working paper # 149. Sustainable Development Policy Institute.
[28] Dutch firm takes 29% stake in Engro's Elengy Terminal for USD 38 million. The Express Tribune. July 21, 2018.

demonstrate responsible and productive use of remittance inflows.[29] Second, the business community was of the view that the outgoing government's decision of preventing non-filers from purchasing real estate valued over PKR 5 million will adversely hit the inflow of future remittances.[30]

Foreign Exchange Reserves

Total forex reserves held by the SBP and financial sector declined by 23 percent during July – June FY18. As of end-June the total reserves stood at $16.4 billion compared to $21.4 billion in FY17. There is a $5 billion decrease in SBP's foreign exchange reserves compared to the same period in FY17. Out of the total, $9.8 billion reserves were available with SBP in June FY18 (Figure 6 & 7). The decrease in reserves is mainly attributed to servicing of external debt and widening of current account deficit. Several inflows anticipated at the start of FY18 (including some proceeds under privatization or selling of state owned shares in enterprises) also did not materialize.



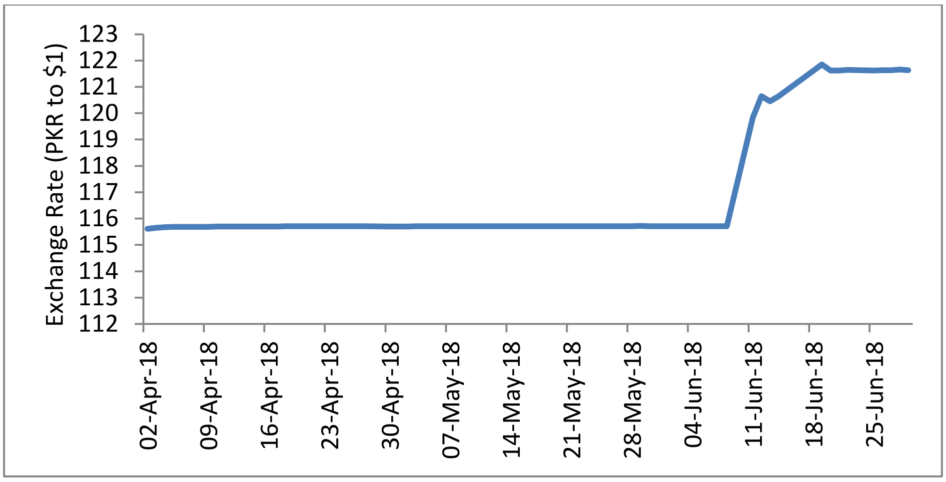


Source: State Bank of Pakistan

During the month of June 2018, once the July –June FY18 current account deficit touched $18 billion, the government borrowed $1 billion commercial loan from a Chinese bank. The volatility seen in foreign exchange reserves impacted the exchange rate which saw wide fluctuations during June 2018 (Figure 8).

[29] Remittances and Household Welfare: A case study of Pakistan. J-SAPS volume 1 issue 1.
[30] Restrictions to hit remittances flow. The Express Tribune. June 12, 2018.

Figure 8: Weighted Average Customer Exchange Rates (USD)[31]



Source: State Bank of Pakistan

Monetary Policy

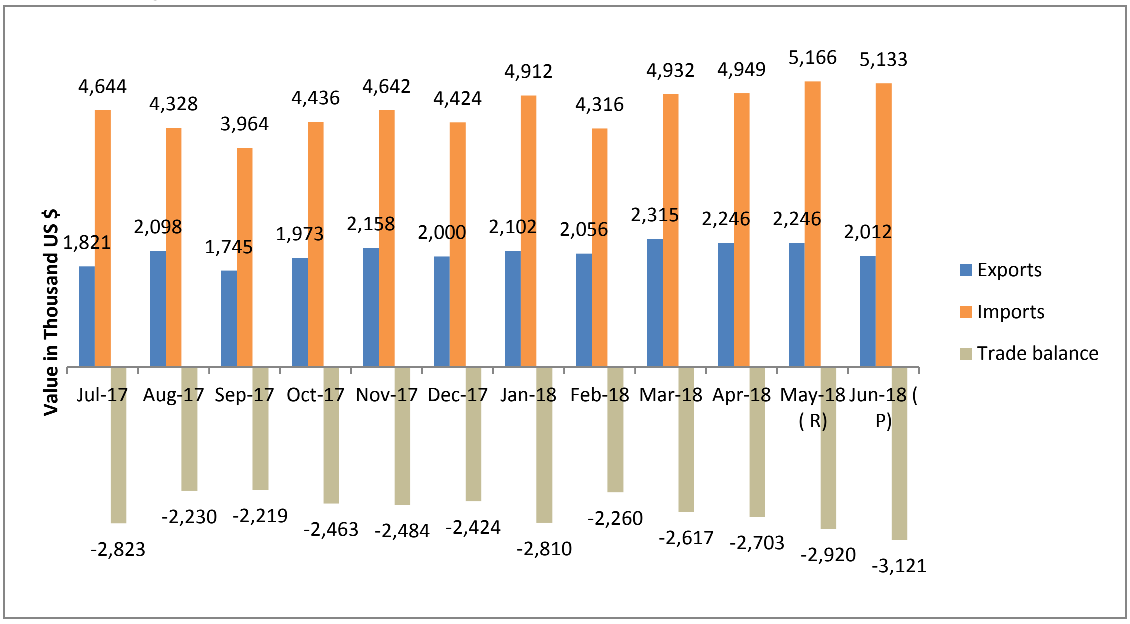
In the wake of increased aggregate demand, rising inflation and growing current account deficit, SBP in its monetary policy announcement on July 13, 2018 increased the policy rate by 100 bps to 7.5%.[32] The central bank took in to account upward volatility seen in the global oil prices and lagged pass-through (effect) of rupee depreciation. The announcement by SBP further mentioned that the central bank was expecting a higher than earlier estimated fiscal deficit.

[31] This exchange rate represents quotations by various commercial banks to their clients. The data on these quotations is maintained by SBP.
[32] SBP raises interest rate to 7.5pc. The News. July 15, 2018.

4. Analysis of Pakistan's Exports

The fourth quarter of FY18 saw an uptick in manufacturing sector's growth. This was driven by increase in credit off take, depreciating value of currency (helping short term export orders), and continued improvement in textile sector's understanding regarding utilization of GSP+ scheme. The LSM grew by 6.0% during July-May FY18. Following the pattern in the previous quarter, capacity expansion in most LSM sub-sectors is taking place, however this has increased demand for imported raw material, machinery and related services. This among other reasons (explained under the analysis on imports) has led to a record high trade deficit (Figure 9).

Figure 9: Balance of Merchandise Trade (July – June FY18)



Source: State Bank of Pakistan

Pakistan's overall export of goods (fob) during the months April-June FY18 stood at USD 6.5 billion. This is a 14.3% increase over the same period during FY17 (Table 2). Top-5 destinations included US, China, UK, Germany, Afghanistan and. While the value of export to USA remained highest at USD 1 billion, the quarterly increase was most seen for exports to Bangladesh (63%) and China (24%). The other export partners in Table-3 also saw marginal improvements during this period. The only decline during this quarter was seen in the share of exports to Afghanistan (-1.8%).

This is attributed to seasonal change in the demand for goods exported to Afghanistan.[33]

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

Months	Q4FY18	Q4FY17	% Change
April	2,246	1,827	22.9
May	2,246	1,978	13.5
June	2,012	1,884	6.8
Total	6,504	5,689	14.3

Source: State Bank of Pakistan

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

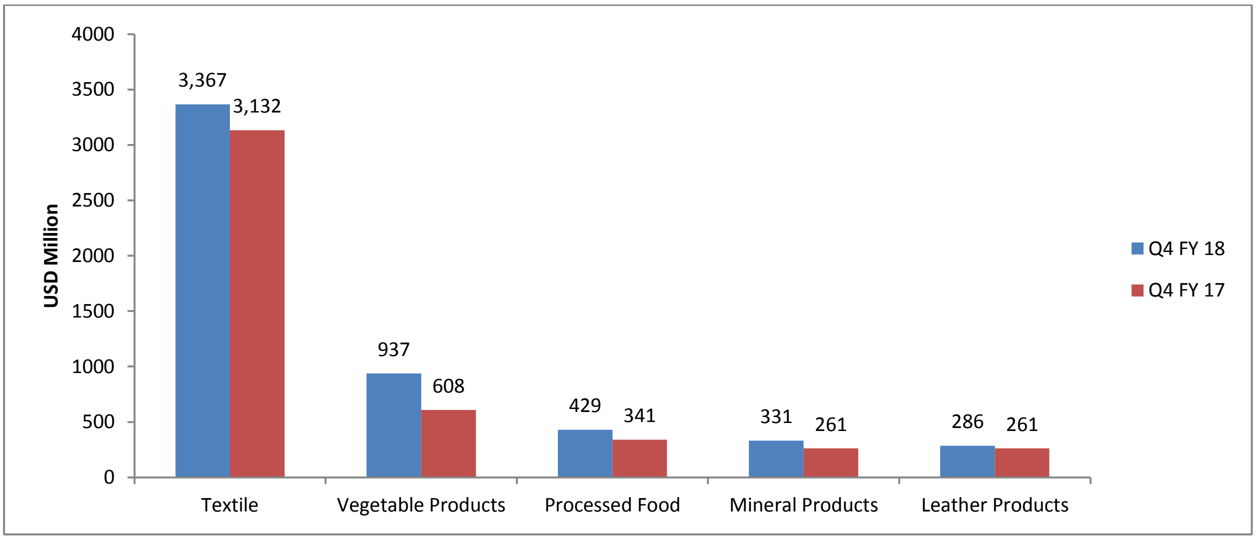
Country	Q4 FY 18 (A)	Q4 FY17 (B)	Delta (A-B)	Percentage change
USA	1,009.3	960.2	49	5.1
China	449.4	362.2	87	24.1
UK	445.0	423.4	22	5.1
Germany	340.6	324.0	17	5.1
Afghanistan	319.4	325.1	-6	-1.8
UAE	305.1	286.1	19	6.7
Spain	226.4	207.0	20	9.4
Bangladesh	217.4	133.6	84	62.8
Italy	211.7	178.6	33	18.6
Netherlands	211.3	176.9	34	19.5
All others	2,768.2	2,312.0	456.3	19.7
Total	6,504.0	5,689.0	815.0	14.3

Source: State Bank of Pakistan

Pakistan's top exports by commodity included items from textile sector including apparel and cotton. Vegetable products which include cereals and fruits also witnessed an increase. Food processing sector's exports increased on the back of higher demand for confectionary and beverages during the summer months. The mineral sector's exports most notably fuels, salts, lime and stone increased. This is attributed to increased construction activity across the region including Afghanistan and China. Finally leather articles, raw hides and skins witnessed an increase (Figure 10).

[33] For commentary on Afghanistan and Pakistan trade patterns see: Ahmed, V. and S. Shabbir (2016) Trade & Transit Cooperation with Afghanistan: Results from a firm-level survey from Pakistan. Working paper # 153. Sustainable Development Policy Institute.

Figure 10: Comparison of Top Export Categories



Source: State Bank of Pakistan

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

- **Increase in private sector credit availability**: The total credit to private sector increased from PKR 5197 billion during July-Jun FY17 to PKR 5,966 billion during the same period in FY18. A large part of this credit was used to meet the working capital needs. The loans processed for working capital during July-May FY18 stood at PKR 335 billion of which PKR 45 billion was for export financing, PKR 6 billion for import financing, while the remaining was spent on fixed investment – a sign that additional capacities are being created in the private sector.[34]

- **Improvements in energy supplies**: As also observed during the previous quarter, the five export oriented industries were receiving uninterrupted energy supplies during Q4FY18. There was however an increase in per unit electricity rates notified by NEPRA owing to the increase in generation costs and global oil prices.

- **Partial release of refunds**: The export oriented industries continued to receive some part of their refunds during Q4FY18. The complete reconciliation and processing of refunds is expected to take further time.

- **Prime Minister's textile export package**: The support of PKR 180 billion announced by the previous government was used by the textile sector as

[34] Monetary Policy Information Compendium. State Bank of Pakistan. July 2018.

working capital. The main beneficiaries are items falling under the apparel sector.

Going forward, the sectors which could see an increase in exports include: rice – where Indonesia has plans to buy 50,000 tonnes of rice from Pakistan[35]; Kinno - exports of which have already touched 370,000 tonnes[36]; sugar – witnessed highest output at 1.36 million tonnes and managed to register export receipts worth $817 million during July-Jun FY18 compared to $315 million in FY17; –fish and crustaceans exports touching $485 million, and engineering goods which have seen an increase in exports, possibility on the back of improved energy supplies, additional capacities added in the wake of CPEC and dynamism in construction sector.

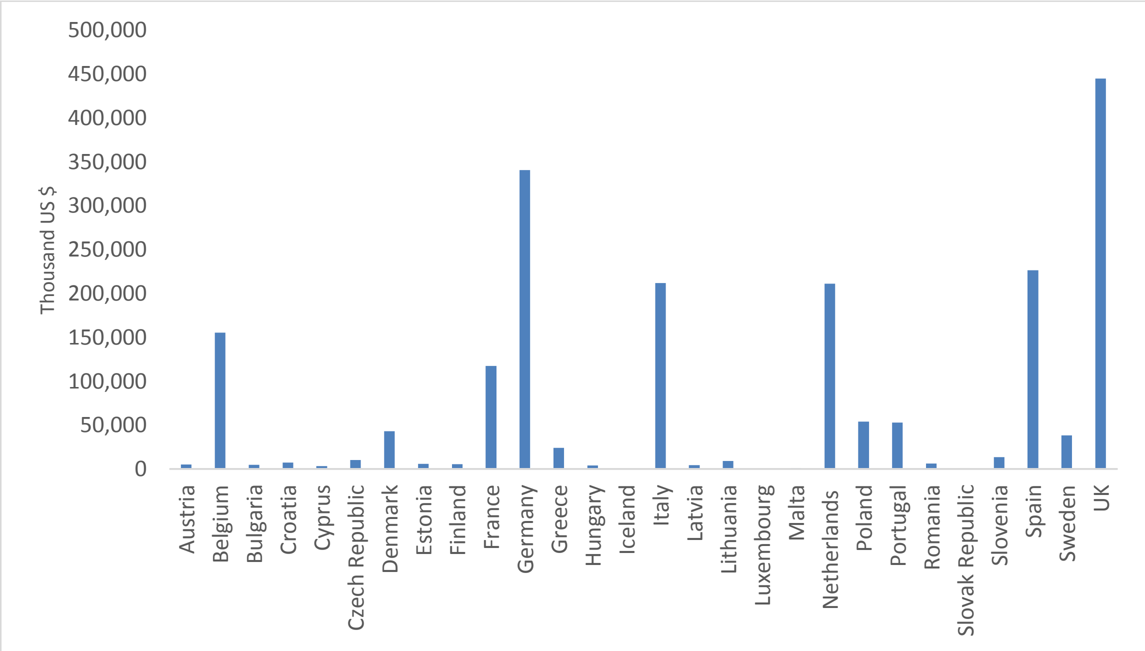
Sectors which struggled despite increased demand abroad include: halal meat – which still lacks capacity to fulfil the higher demand from Middle East market. Production losses were seen in the case of horticulture with fruits such as peach facing 40% wastage due to lack of storage facilities.[37] The traditional furniture manufacturers were also reported to be struggling in getting large orders from abroad owing to shortage of rosewood and woodworkers with required qualifications.[38]

Pakistan's exports of services for July-June FY18 were recorded at USD 5.2 billion. This is a decline of 6.3% compared to July-June FY17. A decline was observed in the export of insurance, financial, construction and legal business services. The transport services exports increased due to increased air passenger traffic towards Pakistan, road and rail transport services, postal and courier services. Due to improved security outlook in the country, export of travel services (July-May FY 18) also registered an increase of 12.3%.

The benefits to Pakistan from the EU's GSP+ scheme were also observed during Q4FY17. Despite of the uncertainties around Brexit, an increase was observed in Pakistan's exports to UK and various EU countries including Germany, Netherlands, Belgium, Italy and Spain (figure 11). Key items which have benefited during this quarter include apparel and footwear.

[35] Indonesia to buy 50,000 tonnes rice from Pakistan. DAWN. April 12, 2018.
[36] Kinno exports hit record volume at 370,000 tonnes. DAWN. June 6, 2012.
[37] 40pc of Swat peach goes to waste for lack of storage. DAWN. May 20, 2012.
[38] Furniture markets worried over shortage of rosewood. The Express Tribune. May 25, 2018.

Figure 11: Exports to European Countries Q4FY18



Source: State Bank of Pakistan

Pakistan Business Council in its recent report titled 'The Potential Impact of Brexit on Pakistan – United Kingdom Bilateral Trade' explains that UK is a major export destination for Pakistan and any changes to the terms of trade as a result of Brexit or otherwise could have significant impact on Pakistan. The report recommends that "Pakistan needs to work to ensure that post-Brexit, it continues to have market access to the UK along the lines of the current GSP+. Additionally, Pakistan will also need to develop new supporters other than France and Germany to help it keep its GSP+ status to the EU in the long-run". It is worthwhile to mention here that UK Government has decided to retain EU's "Special Incentive Arrangement for Good Governance and Sustainable Development" (also known as GSP+), hence all beneficiaries of GSP+ in the EU shall continue to have duty free access post Brexit as well.

5. Analysis of Pakistan's Imports

Pakistan's overall imports of goods (fob) during the months April-June FY18 stood at USD 15.2 billion (Table 4) - a 9.8% increase over the same period during FY17. The growth in imports slowed down in June (0.45%) after an increase seen during the months of April (20%) and May (10.8%). However the slowdown in imports in absolute terms is not significant owing to strong private 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. Some further downslide in imports is expected with a time lag. This is attributed to a more than anticipated fall in the value of rupee vis-à-vis the other major currencies, and more stringent requirement by the central bank for allowing large value imports.

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

Month	Q4FY18	Q4FY17	% Change
April	4,949	4,119	20.15
May	5,166	4,661	10.83
June	5,133	5,110	0.45
Total	15,248	13,890	9.78

Source: State Bank of Pakistan

The largest growth across all import categories was recorded under mineral products which grew by 22.4% during Q4FY18 (28% growth if compared to the previous quarter). The share of mineral products in overall imports also grew from almost 22.8% in Q4FY17 to 25.4% in Q4FY18. The second highest growth was seen in base metals and articles or base metal whose imports grew by 18.5% during Q4FY18 (Table 5).

Given the new capacities being added in various industries the demand for industrial chemicals was seen on the upside in turn leading to 11% share of chemical group in overall imports - higher than the share seen in Q3FY17 (10%). The other two leading import categories i.e. textile and textile articles, and base metals also saw an increase in their share in the overall import basket. A decline was however seen for the case of machinery and mechanical appliances whose share in imports marginally decreased from 14.6% in Q4FY17 to 14.1% in Q4FY18 (Table 5). The high shares of machinery, raw materials and intermediate inputs are reflective of buoyancy and growth in productive sectors of LSM.

Table 5: Top Import Categories (USD Million)

Commodity	Q4FY18 (A)	Q4FY17 (B)	Delta (A-B)	Share in total imports (%)	
				Q4 FY18	Q4 FY17
Mineral Products	3,872.2	3,162.3	709.8	25.4	22.8
Machinery and Mechanical Appliances	2,146.9	2,026.6	120.3	14.1	14.6
Products of Chemical or Allied Industries	1,681.4	1,432.7	248.7	11.0	10.3
Base Metals and Articles or Base Metal	1,305.0	1,101.6	203.4	8.6	7.9
Textiles and Textile Articles	1,203.0	1,083.5	119.5	7.9	7.8

Source: State Bank of Pakistan

Major countries from where imports were received during Q4FY18 include China (21% share in overall imports), UAE (10.5%), Singapore (6.7%), Saudi Arabia (5.4%) and United States (4.5%). While the value of imports from China remained highest, the quarterly change in percentage terms was higher for UAE, Saudi Arabia, and Qatar. A decline was observed in the case of Singapore and India (Table 6).

Table 6: Origin of Pakistani Imports (USD Million)

Country	Q4 FY18 (A)	Q4 FY17 (B)	Delta (A-B)	Change (%)	Share (%)
China	3,144.7	3,073.5	71.3	2.3	20.9
Dubai	1,580.1	1,535.3	44.8	2.9	10.5
Singapore	1,011.1	1,018.2	-7.1	-0.7	6.7
Saudi Arabia	812.9	622.4	190.5	30.6	5.4
USA	681.2	624.0	57.2	9.2	4.5
Qatar	567.8	392.1	175.7	44.8	3.8
India	519.0	548.1	-29.0	-5.3	3.4
Japan	473.4	425.0	48.4	11.4	3.1
Abu Dhabi	367.2	67.1	300.1	447.1	2.4
Switzerland	351.5	256.4	95.1	39.0	2.3
All other	5,739	5,328.1	410.9	7.7	36.9
Total	15,248	13,890	1,358.0	9.8	100

Source: State Bank of Pakistan

China continued to have the highest share in Pakistan's imports at 21%. This is largely attributed to the needs of industrial inputs. During the first half of FY18, the top items that arrived from China include electric apparatus, semiconductor devices, turbo propeller and gas turbine and parts, steam and other boilers, flat rolled products of alloy steel, manufactures of coal and other related industrial inputs (Table7). China's share in Pakistan could see an increase once the next phase of free trade agreement is signed. Pakistan has shown willingness to offer greater preference to Chinese intermediate goods intensively used in the five export-oriented industries. Furthermore, the central bank has been encouraging the traders to take benefit of the settlement facility where import payments can be made in Yuan. It has been reported that the surge in imports had been primarily due to 40% increase in imports of products placed either under no concession list or marginal concessional list (20% of CD).[39]

Table 7: Imports from China (July-Dec FY18)

S. No	Product	Value ('000 US$)	Concessionary Regime
1	8517-Electric Apparatus for Line Telephony, Telephone Sets	348,544	FTA
2	8541-Semiconductor Devices, Light-Emit Diodes and Parts	259,090	FTA
3	8411-Turbojets, Turbo propeller and Other Gas Turbine and Parts	238,272	FTA
4	8402-Steam & Generating Boilers	177,956	FTA
5	3105-Fertilizer of Nitrogen, Phosphorus or Potassium	137,499	FTA
6	7225-Flat-Rolled Products of other Alloy Steel,	128,089	FTA
7	2701-Coal, Briquettes and Ovoid etc. Manufactures of Coal	115,850	FTA
8	8502-Electrical Generating Sets and Rotary Converters	113,219	FTA
9	5402-Synthetic Filament Yarn Not Sewing Thread, Not Retail	107,043	FTA
10	9018-Medical, Surgical and Dental Instruments	95,655	FTA

Source: State Bank of Pakistan

Compared with Q3FY18, there is a 7.7% increase in the value of imports during Q4FY18. The quarter-on-quarter growth rate is expected to slow down after a time lag due to the regulatory duties imposed on 356 items during Q2FY18, and central bank's imposition of 100 percent cash margin requirement in the case of several imports including motor vehicles, cellular phones, cosmetics, personal care, electrical and home appliances, cigarettes, and jewellery.

The impact of falling value of Pakistani rupee against US dollar and other major currencies will also contribute in a slowdown in imports, however with a lagged effect. This can be most seen in the case of June 2018 where the growth in imports compared with June 2017 was recorded at a mere 0.45%.

[39] "Pak-China FTA", Incoming government to give mandate for next round of phase-II, Business Recorder 8th August, 2018

6. Regional Trade Update

Pakistan's total trade with South Asia stood at $1.3 billion for Q4FY18 with exports reaching $743 million during the same period. This represents an increase of 10.8% in the overall trade and 21% in exports if compared with Q4FY17. The imports from South Asian countries were recorded at $591 million for Q4FY18 which is almost the same level seen during Q4FY17.

Pakistan's exports to Bangladesh, India, Nepal, and Sri Lanka witnessed an increase while a decrease was observed for Afghanistan and Maldives. Nevertheless in value terms Afghanistan remained the largest recipient of Pakistani exports during Q4FY18. An increase was observed in imports from Afghanistan, Bangladesh, Maldives, Nepal, and Sri Lanka, while a decrease in the value was seen in the case of India. Nevertheless the value of imports from India remained the highest vis-à-vis other South Asian countries at $519 million (Table 8).

Table 8: Pakistan's Trade with South Asia ('000$)

Direction of Trade	Q4 FY18 (A)	Q4 FY17 (B)	Delta (A-B)	Percentage change
Afghanistan				
Exports (to Afghanistan)	319,392	325,132	-5,739	-1.8
Imports (from Afghanistan)	43,876	17,631	26,244	148.9
Bangladesh				
Exports	217,454	133,533	83,901	62.8
Imports	12,491	12,063	428	3.6
India				
Exports	114,831	92,853	21,979	23.7
Imports	519,048	548,080	-29,032	-5.3
Maldives				
Exports	1,319	1,911	-592	-31.0
Imports	22	17	5	33.2
Nepal				
Exports	1,523	383	1,140	297.9
Imports	301	34	267	777.8
Sri Lanka				
Exports	88,790	61,343	27,477	44.7
Imports	15,433	13,300	21,33	16.0

Source: State Bank of Pakistan

Afghanistan: Pakistan's two-way trade with Afghanistan increased by 6% during Q4FY18 compared with the same period during FY17. The trade balance remained in favour of Pakistan. While Pakistan's exports to Afghanistan declined by -1.8%, the imports from Afghanistan increased from USD 17.6 million in Q4FY17 to USD 43.9 million in Q4FY18, which is a 149% increase. Following the pattern in the previous quarter, Pakistan's exports to Afghanistan included vegetable products (including cereals), sugar and confectionary, cement and related construction material, fruits, animal and vegetable fats and oil, dairy products, medical, surgical and pharmaceutical products, and petroleum. Major imports from Afghanistan were fruits, cotton, vegetables products, minerals, hides and skins, wood, carpets, and iron ore.

The working group on economic cooperation constituted after a meeting between Afghan President, Mr. Ashraf Ghani and Pakistan's Prime Minister, Mr. Shahid Khaqan Abbasi, in March 2018 has yet to offer recommendations. Meanwhile in June 2018, Afghan government has tightened its travel rules and have denied entry to Pakistani traders who in the past were allowed to go to Afghanistan without visa. Pakistan since two years, already maintains an arrangement where Afghan traders can only enter after fulfilling visa requirements.

Bangladesh: Pakistan's two-way trade with Bangladesh increased by 58% during Q4FY18 compared with the previous corresponding period. The trade balance was in favour of Pakistan during Q4FY18 and Q4FY17. The trade balance saw an improvement of USD 83 million in Q4FY18. 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 fibers, and chemicals.

India: India remained Pakistan's largest trading partner in South Asia with a two-way trade standing at USD 634 million during Q4FY18. Pakistan's two-way trade with India increased by 1.1% during Q4FY18 compared with the previous corresponding period. The trade balance was in favour of India during Q4FY18 and Q4FY17. The trade balance saw an improvement in favour of Pakistan of USD 51 million in Q4FY18. During this quarter, Pakistan exported minerals, textile and clothing, hides and skins, and vegetable products to India while it imported 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. The import of cotton from India was not allowed during this quarter on the demand of local producers.

Sri Lanka: Pakistan's two-way trade with Sri Lanka increased by 39.6% during Q4FY18 compared with the previous corresponding period. The trade balance was in favour of Pakistan during Q4FY18 and Q4FY17. The trade balance saw an improvement of $25 million in Q4FY18. Pakistan mainly exported ready-made garments (including cotton-based clothing, bed wear, trousers, silk and synthetic textile), cement and pharmaceuticals while it imported tea, coconuts, charcoal from wood, paper-based products, finished rubber items, and betel leaves from Sri Lanka.

In the case of Central Asia, the largest increase (in percentage terms) in Pakistan's exports to Central Asia was seen in the case of Uzbekistan. However Kazakhstan being one of the larger economies in the central Asian region received the largest value of Pakistani exports (see Table 9).

Table 9: Pakistan's Trade with Central Asia ('000 $)

Direction of Trade	Q4 FY18 (A)	Q4 FY17 (B)	Delta (A-B)	Percentage change
Kazakhstan				
Exports (to Kazakhstan)	104,49	16,347	-5,898	-36.1
Imports (from Kazakhstan)	416	1,976	-1,560	-79.0
Kyrgyzstan				
Exports	334	105	230	219.8
Imports	0	38	-38	-
Tajikistan				
Exports	4,057	2,099	1,958	93.3
Imports	1025	1611	-586	-36.3
Turkmenistan				
Exports	929	1089	-160	-14.7
Imports	2,169	122	2,047	1,675.8
Uzbekistan				
Exports	5,294	1,452	3,842	264.5
Imports	2,139	470	1670	355.3

Source: State Bank of Pakistan

Kazakhstan: Pakistan's two-way trade with Kazakhstan dropped by 40.7% during Q4FY18 compared with the Q4FY17. The trade balance was in favour of Pakistan during Q4FY18 and Q4FY17. The trade balance saw a decline of USD 4.3 million in Q4FY18. Pakistan exported rice, medical equipment and medicaments. Pakistan's imports from Kazakhstan included ferrous metals.

Tajikistan: Pakistan's two-way trade with Tajikistan increased by 36.9% during Q4FY18 compared with Q4FY17. The trade balance was in favour of Pakistan during Q4FY18 and Q4FY17. Pakistan's exports to Tajikistan include sugar and confectionary, medical, surgical and pharmaceutical items, dairy products, rice, and construction material. Major imports from Tajikistan included chemicals.

Turkmenistan: Pakistan's two-way trade with Turkmenistan increased by 156% during Q4FY18 compared with Q4FY17. The trade balance was in favour of Turkmenistan and stood at $1.2 million for Q4FY18. During Q4FY17 Pakistan had a trade surplus with Turkmenistan to the tune of $0.9 million. Pakistan's exports to Turkmenistan mainly included cereals, 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; oil seeds and oleaginous fruits; and worn clothing. Pakistan's imports from Turkmenistan were plastering materials and plastic items.

Uzbekistan: Pakistan's two-way trade with Uzbekistan increased by 287% during Q4FY18 compared with the previous corresponding period. The trade balance was in favour of Pakistan during Q4FY18 and Q4FY17. The trade balance saw an increase of $217 million in Q4FY18. Pakistan's exports to Uzbekistan mainly included pharmaceutical products, cutlery items, and mechanical appliances. Major imports from Uzbekistan included plastic items and mechanical appliances.

7. Special Section: Strategic Trade Policy Framework

In this quarter's bulletin we provide an overview of preparations towards formulation of Strategic Trade Policy Framework (STPF) 2018-23 at the Ministry of Commerce. We also solicit views from the private sector and how their associations can support the Ministry towards better design and implementation of STPF. We also discuss with both public and private sector respondents regarding their views on binding constraints to export growth in Pakistan and shortcomings in the content or implementation of past STPF exercises.

A. Interview with Mr. Muhammad Ashraf, Director General, Trade Policy Wing, Ministry of Commerce, Government of Pakistan

What is the current status of STPF formulation exercise?

The STPF draft is at an advanced stage. The Ministry of Commerce has conducted consultations with different stakeholders including government departments, development partners, and business associations. We have also held thematic consultations around areas such as gender and trade. Ministry of Commerce reached out to the stakeholders in the private sector. We held consultations with all the Chambers in the leading export clusters and the 36 trade associations representing export sectors. Such a dialogue process for future policy making is being encouraged so that the policy outcomes are sustainable. The draft is now ready for further consultation. We will be sharing it with the different ministries for their feedback before it is presented to the new government for approval.

How have the interventions proposed in STPF changed overtime?

Ministry of Commerce had been formulating an Annual Trade Policy (ATP) which was substituted by a three-year STPF in 2009. While the policy focus varied from policy to policy, the ATP generally consisted of three parts: review of preceding year's trade performance, changes in trade regime warranted by international commitments or trade facilitation, and export development initiatives (EDIs). The centerpiece of the ATP was the EDIs.

Since the trade policy interventions, unlike budgetary measures, have a long gestation period, in order to provide policy predictability, the annual trade policies have been replaced with the three-year STPF since 2009. Going forward, the period is being increased. The policy period will concur with the five-year term of the political government.

We have also learnt that the implementation of the STPFs was slow due to multiple reasons. For instance, under the STPF 2015-18, in order to preclude any chances of misuse of the monetary incentives, the procedural requirements were made so stringent that it became next to impossible for the SMEs to qualify for the incentives. For STPF 2018-23 we have tried to create a robust monitoring and evaluation mechanism to ensure the policy implementation.

So, what can we conclude from an evaluation of past STPFs?

Our analysis has revealed that the past policies had issues in (a) direction of policy interventions, (b) low levels of implementation, and (c) effectiveness of the policy measures. The policies had an over-emphasis on cash transfers under EDIs since the cash transfers ensured an immediate buy-in of the policy from the exporting enterprises of incumbent sectors. Second, there was no mechanism for monitoring the implementation of the policy. Therefore there was extraordinary implementation deficit in nearly all the policies. Third, the effectiveness of the policy interventions was seldom measured.

In the upcoming STPF, we are trying to fix all the three issues. A considerable amount of policy research has gone into the making of the STPF to ensure that the policy direction is correct. An implementation mechanism is being built into the policy itself. A periodic review of the policy will be conducted to ensure the effectiveness of interventions and make adjustments wherever required. Our focus will remain on developing the capacities of the private sector on sustainable basis so that the enterprises are able to stand on their own feet after the support measures are withdrawn or phased out.

How is China-Pakistan FTA seen in your evaluation?

China-Pakistan FTA is by far the most discussed trade agreement Pakistan has signed so far. However, there is a gap between perception and reality about the FTA. The general perception is that Pakistan's trade deficit with China is because of the FTA and it has caused substantial injury to the domestic industry. While it's true that a renegotiation of the FTA is required, we need to understand that Pakistan's trade deficit and the injury to the domestic industry is primarily because our industry lacks competitiveness due to multiple reasons. We need to address our competitiveness constraints rather than scapegoating the trade agreements. Our prime focus should be to increase our competitiveness and to negotiate market access for our products in the $2.1 trillion import market in China to claim our rightful share.

How will the learning from past experience help in providing a better policy direction to the upcoming STPF?

We have conducted an exhaustive analysis of the challenges confronting the export sector and designed our policy response accordingly. Our export portfolio is concentrated in few products, exported by few exporters, to few markets. The trade policies have been blamed for not altering this paradigm over the decades. The draft STPF 2018-23 seeks to provide strategic direction in product and market diversification, objectivity to preclude the influence of vested interests, focus to address the real issues of the export sector, and resources to implement the policy initiatives.

Instead of focusing entirely on cash transfers, the upcoming STPF will address the policy at three levels. At the bottom of the policy spectrum is the enterprise-level interventions which aim at (a) infusing fresh blood to the body of enterprises through creation of entrepreneurial culture, (b) supporting the SMEs to internationalize, and (c) providing strategic short-term financial support through targeted time-bound incentives to boost their competitiveness. As the subsidies cannot be perennial component of business viability, the policy initiatives under STPF 2018-23 will contain a plan for a sunset scenario when the enterprises will be self-sustainable to compete in the international market.

The second level of intervention is to provide institutional framework which usually has a gestation period of 3 to 5 years. Since the actual business in free market economies is conducted by the private sector, the government's role is to create and maintain an enabling environment mainly through trade support institutions (TSIs) in both public and private sector. The draft STPF 2018-23 attempts to reform TSIs – the restructuring of the existing institutions, the establishment and operationalization of new institutions, wherever the gaps exist.

The third and the most important level of intervention at which STPF 2018-23 operates is the structural one that defines the strategic vision of exports. The STPF contains a plan for structural reform which entails promoting product diversification by developing the non-traditional export sectors, increasing the share of high tech and innovation-based products in the product mix, market diversification towards unexplored markets and deeper regional integration, product sophistication by improving the production technologies, increasing share of value added products in the export basket, value creation through designing and branding and export-oriented entrepreneurship development.

What is the expected outcome of the next STPF?

The thrust of the STPF is to address the issues of Pakistan's export competitiveness and to bring about structural reforms so that our exports break the trap of $20 to $25 billion. The policy will aim at taking advantage of our location, young human resource, natural endowments, growth outlook and improved security situation. We also aim to support the momentum generated through China Pakistan Economic Corridor and GSP+ scheme.

A key aim of the policy would be to address sectoral distortions and the trend of deindustrialization in the country. To help the process of integration in global value chains, we aim to support each and every action that helps promote competitiveness of Pakistani enterprises including input costs and tariff regime.

The implementation of STPF had many challenges in the past and one major hurdle was the missing coordination between trade-related institutions and tax authorities in the country including FBR. How we are addressing this issue in the upcoming STPF?

To us, in the Ministry of Commerce, the announcement of the STPF is not an end but a means to an end. The end is to provide the policy direction to our international trade. It can only be achieved through an effective implementation of the policy. Indeed, a policy is only as good as its implementation. The traditional approach has been to implement the policies through creation of institutional superstructures. We are trying to ensure implementation through a coordination mechanism rather than superstructures. Every department involved in the implementation of policy will be provided a clear roadmap, support to enhance its capacity, and autonomy to deliver on the various targets under STPF. There will be a monitoring and evaluation committee which will periodically review the implementation status and work with the implementing agencies and departments to track the implementation status.

B. Interview with Engineer M. Abdul Jabbar, Chief Executive of Qaim Automotive Manufacturing Private Limited and Former Vice President of FPCCI

Note: Mr. Jabbar is also the former Chairman SITE Area and Chair of Board of Directors, Pakistan Steel Mill.

What are the binding constraints to growth of merchandise exports in your opinion?

The deterioration in investment activities and its nature is assessed by declining trend of FDI, which is the major factor in stagnancy or just a marginal increase in export. The FDI in Pakistan declined from $7 billion to less than $1 billion during the last 10 years. The low savings and low investment as percentage of GDP again are the constraints to export growth.

Subsidizing the foreign buyer instead of becoming preferred seller for the buyer is another flaw in the overall policy support for export growth. The policy needs to be focused for practical outcome as the presently employed subsidies from the public money do not give any promised export growth on sustainable basis for time to come. It may compensate the present circumstances surrounding the issues, which make subsidy only a temporary instrument. It does not promise export growth in any changed circumstances, wherein again we shall be focusing for more size of subsidy as the bailout.

While the law and order situation has only recently improved but the real improvement desired in the skilled human resource still remains a distant dream. The spill-overs of improved security outlook need to reflect in better socio-economic environment including human resource. This required integration remains absent in the overall export development ecosystem.

The past STPFs are an example of indecisiveness at various levels of the government apparatus. The continued upward revisions in the base interest rates and increase in cost of energy added to the issues facing competitiveness of our products. Issues of competitiveness remain central if we are to generate exportable surpluses. The exporting countries have economies of scale to make the domestic output and the surpluses for export markets at a competitive cost. The resources from the State Bank of Pakistan also have a flawed focus on providing differential mark-up rates to different subsectors, to start with lowest for the highest value addition.

The business environment in terms of taxation does not provide a level playing field for domestic manufacturing. While exempting duties on (imports for) import based projects, the incentives of the domestic manufacturing sector have been hurt. It is of utmost importance to find out ways through which maximum ingredients for exports can be sourced from within the country, in turn reducing the pressures on already low foreign exchange reserves.

The foreign policy of Pakistan towards developing more friends for consuming our products and carefully negotiated free and preferential trade agreements also are fundamental to export growth. The concept of win-win situation is only ensured in negotiations when we also have merchandise to export to favouring countries who also give access to exports from our side. In short, domestic manufacturing and the environment faced by the local productive sectors cannot be excluded from the consideration of export growth.

Why has it been difficult for Pakistan to integrate in the global value chains?

The integration in the global value chains may be made possible on the basis of research and trade data analysis. In addition to that a study of how countries are integrating in terms of global value chains can provide lessons for Pakistan and also basis for debate i.e. whether or not we can follow the model or can customize the same in accordance with our needs.

Some researchers have considered the export performance, including the integration in the global value chains, on the basis of following categories. These need to be further analyzed to assess which categories can benefit Pakistan.

- Commodities which show increase in price and quantity;
- Commodities which show increase in price but decrease in quantity;
- Quantity increased but price decreased; and
- Decline in quantity and price.

Most of the focus in Pakistan is on the last category i.e. decline in both quantity and price. Therefore we have to check as to which category or model we need to be in to sustain the integration in the global value chain for times to come and eventually also becomes a preferred choice of foreign buyers.

Can a well-designed trade policy help in removing some of the above discussed constraints?

Some of the constraints including but not limited to the ones discussed above needs to be removed by making provision in the trade policy. All ministries and attached departments should take a statutory obligation in facilitating the steering of objectives of trade policy. The role of central bank is also important which presently does not work in-tandem with fiscal policies. The role of SBP and its obligation in the well-designed trade policy would be most necessary component. The ministry of energy and planning commission have to also act in a coordinated manner on the execution of trade policy which ultimately rests with the Ministry of Commerce.

In your opinion what difficulties are faced by the Ministry of Commerce in implementing STPF?

Some of the difficulties have been explained above. In my opinion the coherence of policy actions at a national level and buy-in from all ministries and departments who matter in trade governance is necessary.

Can the business community help and support the government and in particular the Ministry of Commerce in implementing the key interventions of STPF? How?

In my opinion the private sector currently lacks capacity for research and utilizing research tools to identify the potential gains from trade. The apex body like FPCCI does not have any pool of economists, trade analysts, experts on subsector-wise picture of the country and above all it lacks the required availability of human resources to understand the political economy of the world trading system.

The evolving multilateral trading system and the ongoing exit of UK from EU and the inward looking policies of the US together are the issues to be understood for supporting a medium-term trade policy for the country. The Chinese system being advocated for development of Pakistan has its roots in the industrial economy of China. Even the industrial cooperation with China needs to be explored more comprehensively. For example, Pakistan Steel Mill model could be a win-win for both countries.

Are private sector sectoral associations equipped with their own research units to help provide inputs to the Ministry of Commerce during the design and implementation of STPF?

I would feel uncomfortable to say that trade bodies are not well equipped. However, the proposals forwarded are unfortunately not based on a comprehensive cost-benefit analysis.

Most of the demands are based on seeking subsidies including frankly speaking prohibited subsidies. The reasons for non-development of economic research and outreach culture need to be investigated by the government.

How can the public-private dialogue on economic reforms desired by the private sector be strengthened?

Deserving should desire. Private sector has to first equip itself with knowledge in order to be able to influence the public sector. The strengthened role of private sector is only possible on the basis of ability to provide workable solutions during the short term and to be made workable during the medium term.

****

The usual disclaimer applies.

For comment and suggestions, please contact Wasif Naqvi: wasif@sdpi.org