

TRADE AND PAYMENTS

Pakistan's external sector remained under pressure for a long time. Exports were on a downward trajectory, while imports increased significantly. The main reasons associated with declining exports were currency overvaluation, domestic energy crises, global market contraction, declining international commodity prices, competitiveness crises especially between Pakistan and major export competitors. In FY2019, thus the government has embarked on a journey towards stability and sustainable inclusive growth through various structural and policy adjustments including implementation of a market-based flexible exchange rate regime. There was considerable improvement in key economic indicators till third quarter of FY2020 and economic recovery was expected by the end of FY2020. The policy adjustments were started to reap benefits in the form of decline in current account deficit, buildup foreign reserves, stable exchange rate etc. During July-March FY2020, current account deficit reduced by 73.1 percent to US\$ 2.8 bn (1.1 percent of GDP) against US\$ 10.3 bn last year (3.7 percent of GDP) mainly due to reduction in trade deficit by 31.0 percent to US\$ 14.7 bn (US\$ 21.3 bn last year).

However, the COVID-19 outbreak generated both demand and supply shocks reverberating across the global economy and it became an unprecedented challenge having severe impact on social and business activity. The world went into a lockdown which is leading to worst economic recession. To contain the spread of Corona virus, quarantines and social distancing have been adopted which affects many sectors such as travel, hospitality, entertainment and tourism. Supply chain is dislocated due to closure of workplace. The domestic disruption has spill over effect on trading partners through trade and global value chain linkages, apart from that historically low global oil prices and declining commodity prices adding to overall macroeconomic effects.

World Economic Outlook April 2020, has forecasted that the global economy to decline sharply by 3 percent due to COVID-19; worse than 2008-09 financial crisis. With the anticipation of fading pandemic in the second half of 2020 due to normalized economic activity, the global economy is projected to grow by 5.8 percent in 2021. However, with prevailing global condition, there is risk of worsening of economic outlook.

Global economy is highly integrated through tourism, trade and remittances. According to WTO, world merchandise trade due to COVID-19 is expected to decline by 13 to 32 percent in 2020. During 2020 trade volume is expected to decrease by double digits in nearly all regions, depending on the duration of the outbreak and effectiveness of policy response. Trade in services is also expected to be affected adversely due to restriction on transport and

travel on account of the pandemic. Due to ongoing trade tensions and slowing economic growth, merchandise trade fell by 0.1 percent in 2019.

The manufacturing activity in China has been severely affected due to pandemic: disrupting supply chains which are creating a gap in their exports, provides an opportunity for Pakistani exporters to timely capitalize the situation. Due to global economic slowdown, the global oil prices declined at historical low level, created an opportunity for the Pakistan to reduce its import bill and current account deficit along with deceleration in inflation.

On the other hand, the outbreak of Coronavirus in Europe, North America and GCC may have an adverse impact on Pakistan's exports as International Financial Institutes (IFIs) have started forecasting a slowdown in global growth during 2020. Under a moderate scenario of contained global impact of COVID-19, the exports may have minimal repercussion on Pakistan economic growth in FY2020 as exports form a relatively smaller portion of the GDP in Pakistan as compared to emerging economies. Meanwhile, remittances from major destinations may decline temporarily in the coming months passing some downward impact on domestic consumption.

Exports

Exports remained on a downward trajectory due to multiple factors over the previous years, however, the present government made all efforts to put exports on a rising path. The government realized the fact that the country's future lies in the export-led growth strategy. Main mentionable steps are:

- Market -based exchange rate.
- Extension in PM's Export Package for 3 years.
- Refunds to exporters and industrialists
- Tariff rationalization on inputs
- Export refinancing scheme.

Before COVID-19, export performance was satisfactory in terms of both products and destination diversification. In terms of product diversification, surgical goods and medical instruments recorded a growth of 8.3 percent during July-March FY2020, while, in terms of destination diversification, the Ministry of Commerce has initiated to explore new markets, especially in Africa. Thus there was a 10 percent increase in exports to Africa till July-February FY2020. Pakistan has the basic infrastructure to tap the growing demand in the medical devices industry, diversification and inter-sectoral up gradation in products and to increase participation in the GVCs.

Thus, till Feb 2020, Pakistan's exports were performing better than most of its competitors despite the challenging external environment. During July-February FY2020, exports reached US\$ 15.6 billion compared to US\$ 15.1 billion last year, thus registered a growth of 3.6 percent. However, due to COVID-19, exports declined by 15 percent in March 2020 compared to Feb 2020 while according to PBS, in April 2020, exports remained only US\$ 957 million, thus showing 47 percent decline compared to March 2020. On year on year basis exports declined by 54.2 percent in April 2020 to US\$ 957 million as compared to US\$ 2089 million in same period last year. Thus, exports during July-April, FY2020

reached US\$ 18.4 billion compared to US\$ 19.2 billion during same period last year, showing a decline of 3.9 percent.

A sharp decline in REER due to market-based exchange rate and the government's initiative to provide cheaper electricity to the textile sector have enhanced the competitiveness of the Pakistani products vis-à-vis its competitors in the global market. Moreover, FBR expedited refunds claims of major exporting sectors, which alleviated liquidity constraints of exporters thereby augmenting their capability to export more. During ongoing financial year rice, readymade garment and knitwear were major contributors to export growth, with higher quantum offsetting the lower price effects. On the other hand, exports of the POL group, tanned leather, chemicals and cement were major drags on the overall growth. Power subsidy provided to export sector in January 2019, when government had announced 7.5 cents/KWh flat power tariff led to the increased value addition and improved export performance of this sector.

Due to the COVID-19 Pakistan's exporters are facing declining demand in overseas markets and difficulties in executing existing orders. The exports target for current financial year was set at \$26.2 billion for FY2020, which seems difficult to be achieved. As the exports declined on a month on month by 47.2 percent in April 2020 to US \$ 957 million as compared to US\$ 1814 million in March 2020. To support exporters State bank of Pakistan maintained Export Finance Scheme (EFS) Rate at 3.0 percent and Long-Term Finance Facility (LTFF) at 6.0 percent. Per project, the LTFF limit has been enhanced to Rs 5 billion. SBP enhanced the existing limits of exports related soft loans and allowed manufacturing sector an advance payment of up to US \$ 10,000 for import of raw materials and spare parts. Banks are allowed to make advance payment up to 50 percent of the value of imports against LCs. The total subsidized credit to exporters outstanding under both schemes (EFS and LTFF) is approximately Rs 660 billion. Reduced the performance requirement for availing credit under EFS, from twice to one and a half times of borrowed fund, that will be effective for the current as well as FY2021. Further extension in time period to meet performance requirements by 6 months to end December 2020. Extension in time period to ship goods from six to twelve months. The limit for Long Term Financing Facility (LTFF) has been reduced to 40 percent or US\$4 million from 50 percent or US\$ 5 million of the total sales to become eligible during the period January 01, 2020 to September 30, 2020.

SBP has also allowed banks to enhance the time period for realization of exports proceeds from existing requirement of 180 days to 270 days on a case to case basis where the delay is related to COVID-19. This would help exporters to provide ample time to their buyers for making payments. Exporters can directly dispatch the shipping documents of their exports' consignment to their foreign buyers without any limit subject to the condition that exporter's export over-dues are less than one percent and the exporter has exports of at least US\$ 5 million during the previous three years.

Merchandised Exports

The disaggregated data on exports available till March 2020 may have not captured COVID-19 completely due to the fact that lockdown was announced in last week of March. It is the reason that during July-March, FY2020, exports reached US\$ 17.4 billion from US\$

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17.1 billion during July-March, FY2019, posted a growth of 2.2 percent compared to 0.1 percent witnessed during same period in FY2019 over FY2018.

During current fiscal year food group and textile group have performed very well on the account of government policies.

Table 8.1: Structure of Exports

Particulars	Units	July-March Values in \$Million			July-March Quantity		
		2018-19	2019-20 (P)	% Change	2018-19	2019-20 (P)	% Change in Quantity
Total		17071.1	17443.3	2.2			
A. Food Group		3348.1	3396	1.4			
Rice	M.T	1487.9	1,594.0	7.1	2987081	3146014	5.3
Sugar	M.T	115.1	70.7	-38.6	377679	181447	-51.9
Fish & Fish Preparation	M.T	293.9	317.3	8.0	129704	133226	2.7
Fruits	M.T	369.2	379.5	2.8	694855	725199	4.4
Vegetables	M.T	167.8	257.9	53.7	738657	731974	-0.9
Wheat	M.T	122	11.4	-90.7	558061	48083	-91.4
Spices	M.T	68.7	66.8	-2.8	17303	16487	-4.7
Oil Seeds, Nuts & Kernels	M.T	69.5	27.8	-60.0	48123	20052	-58.3
Meat & Meat Preparation	M.T	156.4	233.0	49.0	42892	62727	46.2
Other Food Items		497.6	437.7	-12.0			
B. Textile Manufactures		9989.5	10,412.9	4.2			
Raw Cotton	M.T	15.7	17.0	8.3	9699	12776	31.7
Cotton Yarn	M.T	835.7	819.8	-1.9	320128	336437	5.1
Cotton Cloth	TH.SQM	1595.9	1,548.2	-3.0	2122959	1923102	-9.4
Knitwear	TH.DOZ	2154.6	2,299.9	6.7	89530	96837	8.2
Bed wear	M.T	1719.4	1,761.6	2.5	312324	337065	7.9
Towels	M.T	588.1	591.5	0.6	141991	144854	2.0
Readymade Garments	TH.DOZ	1955.8	2,170.5	11.0	38742	42785	10.4
Made-up articles		519	491.9	-5.2			
Other Textile Manufactures		605.3	712.6	17.7			
C. Petroleum Group		361.7	238.9	-33.9			
Petroleum Products	M.T	107.1	39.7	-62.9	147326	80147	-45.6
Petroleum Top Nephtha	M.T	47.8	46.5	-2.7	84880	100111	17.9
D. Other Manufactures		2,492.1	2,425.9	-2.7			
Carpets, Rugs & Mats	TH.SQM	50.7	48.7	-3.9	1183	1260	6.5
Sports Goods	TH.DOZ	222.9	222.2	-0.3			
Leather Tanned	TH.DOZ	187.9	151.3	-19.5	16087	13644	-15.2
Leather Manufactures		358.8	401.0	11.8			
Surgical Goods. & Med. Inst.		279.8	303.0	8.3			
Chemical & Pharma. Pro.		841.9	734.5	-12.8			
Engineering Goods		126.4	140.4	11.1			
Jewellery		3.8	3.2	-16.5			
Cement	M.T	221.3	210.1	-5.1	5206393	5586355	7.3
Guar & Guar Products	M.T	26.6	27.3	2.4	16813	19923	18.5
All Other Manufactures		198.6	211.6	6.5			
E. All Other items		1,086.5	1,122.2	3.3			

P : Provisional

Source: Pakistan Bureau of Statistics

Analysis of group-wise exports suggests that the food group registered a growth of 1.4 percent during July – March FY2020 compared to the same period last year. Within the food group, rice exports increased by 7.1 percent. The rice export increased both in quantity and value by 5.3 percent and 7.1 percent respectively as Pakistan's share in total rice imports of the EU has been rising consistently ever since the bloc restricted Indian rice imports over

excessive use of pesticides. Besides that, the currency movements of the competitor countries provided Pakistan an edge in its established African market.

The Basmati rice exports grew by 33.7 percent in value and 51.8 percent in quantity during July-March FY2020 as compared to the corresponding period last year. Milled basmati rice performed particularly well as quantum exports increased substantially to the major markets in the Middle East, which were collectively responsible for about 59.5 percent of total exports in the period. Moreover, month on month basis in March its export value increased by 20.9 percent and quantity by 21.5 percent.

Husked (brown) rice, which is mostly basmati variety, performed quite well in the European Union—mainly Belgium, Italy, Netherlands, and UK. This rice is further processed by mills to produce white rice that is commonly used in European countries. White (milled) basmati attracts 175 Euro/1000 KG in tariff in European Union against zero percent tariff on brown basmati rice. This also explains the decrease in the share of milled basmati rice exports to the bloc.

The other varieties under rice group witnessed a decline of 3.6 percent in value and 2.5 percent in quantity, compared to the corresponding period last year. In the case of non-basmati, broken rice and other varieties witnessed an increased supply to Africa and some Asian markets such as China, Indonesia, and Kazakhstan.

Export earnings from fruits registered a growth of 2.8 percent in value and 4.4 percent in quantity, while vegetables also witnessed a growth of 53.7 percent in value, however, its quantity declined marginally by 0.9 percent.

Fish & fish preparation subgroup during July-March FY2020 witnessed a growth of 8.0 percent in value and 2.7 percent in quantity, compared to last year. Pakistan's exports of fish frozen to China have increased by 81.5 percent, to US\$ 87.6 million during Jul-Mar FY2020 as compared to US\$ 48.3 million the same period last year. As USA seafood exports to China have become much costlier due to the US-China trade war, Pakistani exporters might increase their presence in the Chinese market.

Exports of sugar declined to 51.9 percent in quantity and 38.6 percent in value, during July-March FY2020 as compared to the same period last year. The export of spices also declined by 2.8 percent in value and 4.7 percent in quantity during the period.

Meat and meat preparation increased both in value and quantity by 48.9 percent, 46.2 percent, respectively during July – March FY2020 as compared to the corresponding period last year. Month on month in March 2020 it decreased both in quantity by 13.1 percent and value by 14.1 percent.

Textile group, which has around 60 percent share in total exports, witnessed a growth of 4.2 percent during July – March, FY2020 compared to the corresponding period last year. On month on month, the textile group declined by 18.4 percent and reached US \$1039.7 million in March, 2020.

There was lower USA quantum apparel demand due to US-China Trade War as the USA applied additional tariffs on Chinese apparel imports from September 2019. Thus, USA

buyers switched to low-cost suppliers that included Vietnam, India, and Pakistan. Pakistan was able to capture part of China's market as it experienced higher growth than any of its competitors.

The European Union's apparel imports from Pakistan accelerated from last year, both in value and volume terms, despite the decline in the bloc's overall apparel imports. The weakening of Euro against the US dollar and currencies of major apparel exporters except for the Pak Rupee led to the decline in the EU's apparel imports. The European buyers were attracted by continuously weakening PKR since Q4-FY2018, as unit prices fell only for Pakistan in July-March FY2020 vis-à-vis its competitors. The price effect was further reinforced by duty-free/quota-free access under the GSP Plus agreement. Bangladesh and Pakistan have been able to increase their exports to the bloc as they enjoy preferential trade treatment in trade with the EU.

Value-added exports with a share of 35.7 percent in total exports increased by 6.9 percent in value. Among the value-added exports knitwear exports grew by 8.2 percent in quantity and 6.7 percent in value during Jul-March 2020 as compared to the corresponding period last year. Export earnings of readymade garments show a remarkable growth of 11.0 percent in value and 10.4 percent in quantity during July- March FY2020 compared to same period last year. Higher textile exports came on the back of quantum growth in high value-added products, particularly readymade garments. Bed wear export grew by 2.4 percent in value and 7.9 percent in quantity during July- March FY2020 compared to the same period last year due to higher shipments to the European Union.

Exports of towels increased in both quantity and value by 2.0 and 0.6 percent, respectively during July – March FY2020 as compared to the corresponding period last year. The exports of intermediate commodities like cotton yarn witnessed a decline in value by 1.9 percent whereas quantity improved by 5.1 percent, as dollar receipts were pulled down by lower unit prices, which were in line with the declining prices in the international market during first nine months of the current financial year as compared to the same period last year. Despite a decline in its exports, China's demand for Pakistan's cotton yarn increased as it appeared to shift its yarn demand away from India and towards Pakistan on account of the second phase of the Pak-China FTA.

Cotton cloth export declined both in quantity and value by 9.4 percent and 3.0 percent, respectively, July – March FY2020 as compared to the same period last year. Although Pakistan has the highest share in cotton fabric imports of the European Union (in quantum terms) is on a rising trend over the last few years. The export of raw cotton increased both in quantity and value by 31.7 percent and 8.2 percent during July-March FY2020.

During July – March FY2020 petroleum and coal group's exports posted a decline of 33.9 percent over the corresponding period last year, as import demand from Afghanistan witnessed a fall in response to declining engagement of foreign forces. Moreover, petroleum crude (condensates) exports declined 26.2 percent to US\$ 152.7 million during July-March FY2020, as refineries are increasingly using condensate with low-gravity imported crude.

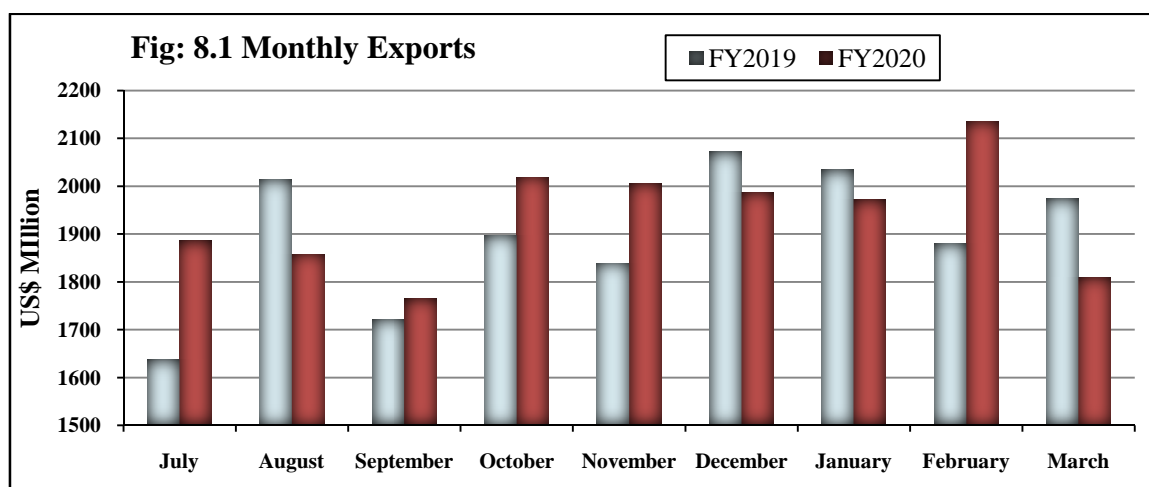
Export of items like leather tanned and gloves etc. could not grow in quantitative terms. In the case of sports goods, major export item football witnessed a growth both in quantity and

value by 9.7 percent and 9.1 percent, respectively.

Export of carpets, rugs, and mats registered negative growth in value by 4.0 percent whereas its export quantity increased by 6.5 percent during July- March FY2020 compared to the same period last year. The export of cement witnessed a decline of 5.1 percent in value and its quantity increased by 7.3 percent during the period under review. However, Pakistani cement exports this year have become more diverse in terms of market access compared to last year, when India was the key importer of Pakistani Portland Cement, importing one-fourth of Pakistan’s quantum cement exports. However, the overall value of cement was pulled down by low unit prices. Guar and guar products registered growth both in value and quantity by 2.4 percent and 18.5 percent, respectively.

Monthly Exports

The monthly exports for the period July-March FY2020 remained mostly above the corresponding months of last year, averaging US\$ 1938 million per month as against an average of US\$ 1897 million last year. The introduction of a market-based exchange rate system, despite low unit value a significant increase in exports volume, US-China trade war provide an opportunity in some sectors particularly textile and seafood and increased market shares in key destinations led to increase in exports. The exports fall in March except for the COVID-19 pandemic shows a negative growth of 8.1 percent as exporters are facing declining demand in overseas markets and difficulties in executing existing orders.



Concentration of Exports

The composition of Pakistan’s exports more or less remained the same during FY2020 compared to previous years showing high concentration in a few items like cotton & cotton manufactures, leather, rice, and a few more items. The first three categories of exports account for 69.2 percent of total exports during July-March FY2020 with cotton & cotton manufacture alone contributing 56.7 percent. Traditionally the contribution of these three categories was 69.1 percent during the same period last year and 73.6 percent during FY2018. The bifurcation of these items in Table 8.2 shows that exports in these few items are the major factor for lower export earnings.

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Table 8.2: Pakistan's Major Exports

Commodity	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	July-March	
							2018-19	2019-20 P
Cotton Manufactures	53.1	54.5	55.0	56.5	61.7	56.4	57.8	56.7
Leather**	5.1	4.8	4.9	4.1	4.2	3.7	3.7	3.7
Rice	7.6	8.5	8.8	8.8	7.7	9.0	9.1	8.8
Sub-Total of three Items	65.8	67.8	68.7	69.4	73.6	69.1	70.6	69.2
Other items	34.2	32.2	31.3	30.6	26.4	30.9	29.4	30.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

P: Provisional, ** : Leather & Leather Manufactured.

Source: Pakistan Bureau of Statistics

Direction of Exports

Year-wise major Pakistan's export destinations are mentioned in Table 8.3 which shows that during July-March, FY2020 period no visible change occurred and our exports are continuously concentrated to the same markets. Efforts are being made to explore new markets specifically in ASEAN and Asian regions having unexplored potential. The Ministry of Commerce has initiated the Look Africa Policy, the trade ties between Pakistan and African countries will create jobs, facilitate economic growth, and reduce poverty. The exports to Africa have increased by 10 percent during July-February FY2020 to US\$ 1030 million as compared to US\$ 937 million last year.

Table 8.3: Major Exports Markets

Rs Billion & Percentage Share

Country	2016-17		2017-18		2017-18		July-March			
	Rs	% Share	Rs	% Share	Rs	% Share	2018-19		2019-20 P	
							Rs	% Share	Rs	% Share
USA	361.1	16.9	400.4	15.7	532.8	17.0	384.6	17.0	471	17.3
CHINA	153.8	7.2	185.7	7.3	259.6	8.3	180	8.0	219	8.0
AFGHANISTAN	133.1	6.2	165.2	6.5	176.4	5.6	128.5	5.7	115.6	4.2
UNITED KINGDOM	163.1	7.6	186.7	7.3	226.8	7.3	166.9	7.4	194.7	7.1
GERMANY	125.1	5.9	146.7	5.7	173.4	5.5	125.6	5.5	162.1	5.9
U.A.E	83	3.9	104	4.1	125.8	4.0	77.3	3.4	141.6	5.2
BANGLADESH	65.4	3.1	81	3.2	101.8	3.3	77.8	3.4	91.8	3.4
ITALY	68.6	3.2	84.5	3.3	107.4	3.4	74.3	3.3	92.4	3.4
SPAIN	85.5	4.0	104.5	4.1	126.5	4.0	93.2	4.1	109.2	4.0
FRANCE	38.8	1.8	45.5	1.8	53.9	1.7	39.1	1.7	44.8	1.6
All Other	860.7	40.3	1050.8	41.1	1243.8	39.8	916.4	40.4	1083	39.7
Total	2138.2	100.0	2555	100.0	3128.2	100.0	2263.7	100.0	2725.2	100.0

P : Provisional

Source : Pakistan Bureau of Statistics

Bilateral Relation

Pakistan attaches great importance to its trade relations with other trading partners. Engagements of Pakistan with its trading partners in the ongoing financial year are mentioned below:

China-Pakistan

The implementation of Phase-II of the China-Pakistan Free Trade Agreement (CPFTA) is a significant achievement for Pakistan. The government of Pakistan has gained the most favorable market access in the Chinese market at par with ASEAN. The significant features of Phase-II of the CPFTA, inter alia, include immediate market access on 313 items

of Pakistan's prime export interest, more robust safeguard measures, the inclusion of balance of payment clause and Electronic Data Exchange (EDE) to curb under-invoicing and misdeclaration of goods. The Protocol to amend the CPFTA was signed in April 2019 while the Tariff Reduction Modalities (TRM) have been implemented from 1st January 2020 by both sides.

Second China International Import Expo (CIIE) was held in Shanghai, China, in November 2019. Leading enterprises of Pakistan actively showcased their products during the event. Pakistan will also participate in the 3rd CIIE to be held in November 2020.

Pakistan-Japan

During the 6th Round of Japan-Pakistan High-Level Economic Policy Dialogue, held on 11th July 2019 at Tokyo Japan, Pakistan proposed that as an interim step, a PTA may be concluded to allow Pakistan a level playing field as available to its competitors. Japanese side clarified that, if they were to discuss on possible EPA/FTA, it has to be full-fledged, covering "substantially all the trade", including Trade in Goods, Trade in Services, Investment, Intellectual Property, and E-Commerce. Based on this understanding, both sides shared the willingness to promote discussion to facilitate and further strengthen bilateral trade.

Pakistan-Thailand

Pakistan is Thailand's second-largest trade partner in South Asia and there is a tremendous potential to increase bilateral trade. An inter-sessional video conference on Pak-Thailand Free Trade Agreement (PATHFTA) was held on 7th July 2019 to discuss matters related to PATHFTA. Both countries are in the process of finalization of offer lists on 200 priority items under Pak-Thailand Free Trade Agreement (PATHFTA).

Pakistan-Sri Lanka

Pakistan-Sri Lanka Free Trade Agreement (PSFTA) became operational from 12th June 2005. The Sixth Secretary Commerce Level Technical Talks between Sri Lanka were held on 6th January 2016. During this the meeting talks were held on broadening the scope of FTA by the inclusion of chapters on Services and Investments. Pakistan enjoys a trade surplus with Sri Lanka. Under the PSFTA, a quota of 6000 MT of Basmati rice was allowed to be exported to Sri Lanka from Pakistan on duty-free basis each year. This quota was available only for two varieties, namely, PK 385 and/or Super Kernel grades. However, in December 2019, three new varieties of rice i.e., Super Basmati Rice, 1121 Kainat Rice, PK 198/D 98 Basmati Rice have also been added to the list of Rice having duty free access.

Pakistan-Indonesia

Indonesia-Pakistan PTA (IP-PTA) was signed on 3rd February 2012 and has been operationalized since 1st September, 2013. As a result of detailed negotiations and persistent trade diplomacy, Indonesia agreed to unilaterally provide "zero duty" to Pakistan on the 20 tariff lines. A protocol to give effect to this arrangement was signed during the visit of Indonesian President on 26-27 January 2018. Notification to this effect has also been issued by the Government of Indonesia and the newly granted market access is operational since 1st March 2019

Central Asian Republics

The overall bilateral trade of Pakistan with the Central Asian Republics (CARs) has increased to US\$ 86.15 million during July-February FY2020 as compared to the US\$ 84.47 million the same period last year. Pakistan's exports to the CARs have increased to US\$ 80.32 million during the period under review as compared to US \$ 73.08 million last year. Kazakhstan is the largest export market for Pakistan in CARs. In February 2020, Joint Inter-governmental commission meeting was held wherein Kazakhstan agreed to establish a Joint Working Group on Trade and Investment, with Pakistan to remove trade barriers for each other.

Africa

Total bilateral trade between Pakistan and the Middle Eastern region was recorded at US\$ 3272.04 million during July- March FY2020. Overall bilateral trade of Pakistan with Africa stood at around \$4.2 billion in 2018-19. Ministry of Commerce's Look Africa Policy Initiative exports increased to US\$ 1030 million during July-February FY2020 as compared to US\$ 937 million same period last year. The total imports have been decreased to \$1900 million during July-February FY2020 as compared to US\$ 1982 million same period last year.

- **Opening of New Commercial Sections:** Ministry of Commerce has opened six new commercial sections in Africa in line with Look Africa Policy Initiative
- **Pakistan –Egypt Trade Conference:** During Pakistan-Egypt Trade Conference in October 2019 an MoU was signed between the two sides to establish Pak –Egypt Joint Working Group (JWG).
- **Pakistan Africa Trade Development Conference:** Pakistan-Africa Trade Development Conference was held in Nairobi, Kenya in January 2020. During the conference in addition to the Trade Conference, B2B and G2G meetings were held which were attended by Pakistani Head of Missions (HoMs) in Africa, EAC members' delegations, Trade Officers, business community from Pakistan and Africa.

United States

United States of America (USA) is the major destination for Pakistan's exports. The U.S. Generalized System of Preferences (GSP), a program designed to promote economic growth in the developing world, provides preferential duty-free treatment for over 3,500 products from 128 designated beneficiary countries and territories. However, for the 44 Least Developed Countries (LDCs) enhanced market access is provided by allowing an additional 1500 tariff lines for duty-free treatment. On 1st July 2017, the US Government included 134 tariff lines into GSP schemes like travel bags, travel goods related to {HS 42 (two digits)} export interest to Pakistan. The US has renewed GSP Preferential Market Access Program till December 2020.

Europe Union

European Union is Pakistan's largest export partner. This is because Pakistani products have duty free access in all 27-member states of the European Union (EU) on 91 percent tariff lines under EU's "Special Incentive Arrangement for Good Governance and Sustainable

Development”, known as GSP+, since 1st January 2014. Recently, the Third Biennial Review of the GSP Plus (2018-2019) successfully concluded in March 2020 and this facility will continue for Pakistan. The Fourth Biennial Review of the GSP Plus (2020-2021) has formally commenced and the next EU Monitoring Mission to Pakistan is expected later this year after the COVID 19 crises have abated. As a result of this arrangement, Pakistan’s total trade volume to the EU has increased from US\$ 11,960.59 million in 2013-14 to US\$ 14,158.29 million in 2018-19.

The exports to the EU reached US\$ 5922 million during July-March FY2020 as compared to US\$ 5,736 million in the corresponding period last year, with a growth of 3.8 percent. The imports from the EU reached US\$ 3,328 million during July-March FY2020 as compared to US\$ 3,747 million in the corresponding period last year, with a negative growth of 9 percent.

Eastern Europe:

In December 2019, an Agreement was signed between Pakistan and Russian Federation on the settlement of mutual financial claims and the obligations on operations of the former USSR. Overall, Pakistan’s exports to the Eastern European block have witnessed an increase of 5 percent during July-March FY2020 as compared to the same period last year. The government has undertaken the following initiatives for enhancing trade to the region:

- Promotional /marketing activity in the Eastern Europe region is being carried out as part of a strategy to target non-traditional markets.
- Ministry of Commerce is arranging business delegations of textile garments, sports goods, leather goods, and surgical goods from Pakistan in coordination with TDAP.
- To cater to the demands of the Eastern European region, the Ministry of Commerce is carrying out market analysis of potential non-traditional sectors and products.
- To sustain GSP-Plus, Ministry of Commerce, is extensively working to fill the gaps, indicated by the EU monitoring mission in close liaison with Federal Ministries and Provincial Governments.
- The promotion of sports goods exports to the Czech Republic is being carried out.

Box-I: E-Commerce Policy

The Cabinet of Pakistan approved Pakistan’s first-ever e-Commerce Policy in October 2019 thereby according to a long due recognition to an important segment of the economy. E-Commerce in Pakistan is at a nascent stage, with modest internet retail sales, despite 161 million cellular subscribers, 70 million 3G/4G subscribers, 72 million broadband subscribers, and total teledensity of 76.56 percent, as of July 2019. However, it is an emerging sector with a noticeable surge in recent past in online vendors, local e-Commerce platforms, and online payment facilities introduced by banks and large cellular companies. According to the State Bank of Pakistan, excluding Cash-on-Delivery (CoD) sales, e-Commerce sales stood at Rs 18.7 billion by the end of June 2018 while the total size of Pakistan’s e-Commerce market in 2018 was Rs 99.3 billion. The number of registered e-Commerce merchants has risen by 2.6 times and e-Commerce payments have surged 2.3 times in just twelve months.

Formulation of the e-Commerce policy is a step in fulfilling the Government vision and commitment to effectively promote and encourage businesses, especially Micro Small and Medium enterprise (MSMEs) to go online and foster holistic growth of e-Commerce in Pakistan. The policy covers and provides guidelines on key components for the promotion of e-Commerce including the regulatory environment, financial inclusion, and

digitization through payment infrastructure, empowering youth and SMEs, consumer protection, taxation, ICT infrastructure, logistics, data protection, and engagement in multilateral negotiations. Since its approval, the e-commerce policy has made headways in smoothening the e-commerce business environment in the country. For instance, freelancers' remittance limit has been enhanced from US\$ 5,000 to US\$ 25,000, IT companies and freelancers are now given better exchange rates for dollar in-line with the interbank rate offered to exporters & trade receivable of IT companies will now be used as collateral for loan procurement from commercial banks.

Source: Ministry of Commerce

Box-II: Initiatives in The Pipelines

1. Geographical Indications (Registration and Protection Bill) 2019

Geographical Indications (GIs) identify the products that have a specific geographical origin and possess qualities or reputation attributable to their place of origin. These are generally traditional products that have gained a reputation in the local, national, or international market due to their specific unique qualities. The recognition and protection of these products, through legislation, allows the community of producers to get a fair value of their commodities while preserving their unique identity. A score of Pakistani products has the potential to be protected under a GI regime, including products such as Basmati Rice, Kinnow, Mango, Cutlery, Ajrak, etc.

Ministry of Commerce, and Intellectual Property Organization of Pakistan, drafted the first Geographical Indications (Registration and Protection) Bill, 2019 to provide for the registration and effective protection of the Geographical Indications of the country. The summary of the subject bill was sent to the Cabinet Committee for Disposal of Legislative Cases (CCLC) on 26th July 2019 after approval of the subject has been submitted to the Parliament.

2. National Tariff Policy (NTP)

The National Tariff Policy aims at removing the anomalies in the tariff structure and making it a reflection of trade policy priorities and enhancement of competitiveness through duty-free access to imported raw materials and promotion of investment into efficient industries through a predictable tariff structure, decided through an institutional mechanism (Approved vide Cabinet decision dated 19th November 2019).

3. Domestic Commerce Wing

i. Draft Paper on “Framework for the Development and Facilitation of Domestic Commerce”: The Domestic Commerce Wing has drafted the paper on “*Framework for Development and Facilitation of Domestic Commerce*”, which will be submitted to Domestic Commerce Reforms and Development Committee (DCRDC) for approval. The proposed framework deals with the following areas:

Enterprise Productivity & Modernization

SME Development

Agriculture & Mining

Retail & Wholesale Sector

Local brand Development

Transport & Logistics

Skill Development.

ii. Development of Provincial Strategies on Domestic Commerce: All the provinces and regions including Gilgit-Baltistan and AJK have formulated their respective domestic commerce strategies. These strategies are of high significance as they focus on effectively linking domestic commerce with Pakistan's international trade through the development of commercial governance framework.

Source: Ministry of Commerce

Box-III: Trade Facilitation Agreement (TFA):

'Trade Facilitation' implies the streamlining, harmonizing, and simplifying border procedures to expedite the cross-border movement of goods. In words of the World Customs Organization (WCO), trade facilitation is "*avoidance of unnecessary trade restrictiveness*".

Pakistan ratified TFA on the 27th of October 2015 that provides flexibility to the members in terms of implementation of the provisions of the Agreement. It envisaged that every signatory is required to divide the provisions of the Agreement into three categories, i.e. A, B, and C allowing time for implementation and at the same time assistance to developing and least developed countries for implementation.

Under its Article 10.4, Pakistan has committed to the establishment of a 'National Single Window' (NSW) as a 'Category-C' commitment with an implementation deadline of June 2022. This comes as the government increasingly focuses on enhancing exports and substituting imports to give a boost to domestic production and the overall economy. NSW allows the parties involved in trade and transport to lodge standardized information and documents with a single-entry point to fulfill all import, export, and transit-related regulatory requirements.

In December 2019, the ECC of the Cabinet approved the "Enactment of Pakistan Single Window Bill, 2019". The enactment of the Bill will highly facilitate the businesses in Pakistan. As of now, 42 government agencies are involved in granting approvals for different businesses. Which will be replaced and now through this Single Window, all parties involved in trade and transport can lodge standardized information and documents with a single-entry point to fulfill all import, export and transit-related regulatory requirements.

The Ministry of Commerce also secretariats the National Trade and Transport Facilitation Committee (NTTFC) which supports and coordinates among various government agencies and commercial enterprises that participate in international trade transactions. It also serves as a cross-sectoral secretariat to address trade, transport-related issues, and develop practical solutions.

Source: Ministry of Commerce

Imports

During FY2018, the growth momentum became unsustainable due to macroeconomic imbalances mainly due to high current account deficits. The maintained exchange rate accelerated the domestic demand which led to a massive surge in imports due to high consumption expenditure and government spending. The government started tackling the challenge primarily by managing the aggregate demand and addressing the deep-rooted structural problems. They took difficult decisions in reducing the overvaluation of the exchange rate and aligned it to the market value-based exchange rate adjustments. Further, import tariff was imposed on non-essential items. The present government imposed up to 60 percent regulatory duties on 570 luxury and non-essential imported goods to curtail the rising imports. Thus, during July-Feb FY2020, imports remained US\$ 31.5 billion compared to US\$ 36.6 billion showing a decline of almost 14 percent. Hence, trade deficit was contracted to 26 percent.

In April 2020 imports declined by 32 percent and remained at US\$ 3.2 billion compared to US\$ 4.7 billion in April 19. The main reason was suppressed demand for a wide range of energy and non-energy products also evident from falling crude oil prices which became a blessing in disguise for Pakistan. The total imports in July-April FY2020 decreased to US\$ 38.0 billion as compared to US\$ 45.4 billion the same period last year, thus registered a decline of 16.2 percent the lowest level in four years. Due to depressed industrial demand, there is lower import in quantum complemented with lower international commodity prices especially crude oil, LNG, coal, and metals.

To facilitate importers in the COVID-19 period, SBP has extended the time period for import of goods into Pakistan against advance payment from the existing requirement of 120

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days to 210 days. Enhanced the existing limit of US\$ 10,000/, or equivalent in other currencies, per invoice allowed to banks to make an advance payment on behalf of manufacturing & industrial concerns and commercial importers for import of raw material, spare parts & machinery to US\$ 25,000/. These measures are in continuation of facilitating export-oriented industries and manufacturing concerns in the backdrop of ease of doing business and promoting exports' growth and will further contribute to improving the economic outlook of the country. Allowing Authorized Dealers to effect import advance payment against irrevocable letter of credit up to 100 percent of the value of the letter of credit for import of plant, machinery, spare parts and raw material, etc. Extending the facility allowed to manufacturing & industrial concerns for import of raw materials and spare parts on an open account basis to commercial importers as well.

Till this time, disaggregated Group-wise data on imports is available till March-20. The data shows that all groups like petroleum, transport & agriculture imports, food, machinery, textile & metal, imports recorded a decline during July-March, FY2020. (Table 8.4)

Table 8.4: Structure of Imports

Particulars	Units	July-March Value in \$ Million		% Change in Value	July-March Quantity		% Change in Quantity
		2018-19	2019-20 (P)		2018-19	2019-20 (P)	
Total		40,679.7	34,790.6	-14.5			
A. Food Groups		4,261.4	3,963.3	-7.0			
Milk & Milk food	M.T	185.8	125.2	-32.6	76819	49802	-35.2
Wheat Unmilled	M.T	-	-	0.0	-	-	0.0
Dry Fruits	M.T	33.8	24.1	-28.7	18977	16747	-11.8
Tea	M.T	445.8	376.2	-15.6	170311	155528	-8.7
Spices	M.T	111.7	119.4	6.9	96253	103013	7.0
Edible Oil (Soyabean & Palm)	M.T	1,454.6	1,425.5	-2.0	2413601	2342943	-2.9
Sugar	M.T	3.0	2.3	-21.0	5910	4510	-23.7
Pulses	M.T	393.4	428.8	9.0	737551	848472	15.0
Other Food Items		1,633.4	1,461.8	-10.5			
B. Machinery Group		6,716.0	6,633.2	-1.2			
Power generating Machines		955.6	925.8	-3.1			
Office Machines		341.0	287.4	-15.7			
Textile Machinery		379.5	350.6	-7.6			
Const. & Mining Machines		177.8	167.9	-5.6			
Aircrafts, Ships and Boats		222.0	240.7	8.4			
Agriculture Machinery		101.1	73.2	-27.6			
Other Machinery Items		2,408.0	1,739.9	-27.7			
C. Petroleum Group		10,614.0	8,900.6	-16.1			
Petroleum Products	M.T	4,623.0	3,964.7	-14.2	7591057	7896482	4.0
Petroleum Crude	M.T	3,379.0	2,452.6	-27.4	6563416	5521957	-15.9
D. Consumer Durables		2,844.1	2,406.6	-15.4			
Road Motor Vehicles		1,810.9	943.4	-47.9			
Electric Mach. & Appliances		1,321.2	1,750.6	32.5			
E. Raw Materials		5,787.7	5,051.2	-12.7			
Raw Cotton	M.T	412.4	556.1	34.8	224575	336658	49.9
Synthetic Fibre	M.T	427.2	339.1	-20.6	214517	227528	6.1
Silk Yam (Synth & Arti)	M.T	485.3	429.9	-11.4	220055	210417	-4.4
Fertilizer Manufactured	M.T	716.0	482.3	-32.6	1709759	1429951	-16.4
Insecticides	M.T	135.2	108.6	-19.7	21070	18999	-9.8
Plastic Material	M.T	1,627.9	1,490.2	-8.5	1122987	1199206	6.8
Iron & steel Scrap	M.T	1,108.9	1,188.2	7.2	3638564	3044891	-16.3
Iron & steel	M.T	1,657.1	1,159.3	-30.0	2426840	1796710	-26.0
F. Telecom		1,031.1	1,337.8	29.7			
G. All Other Items		14,167.8	11,828.9	-16.5			

P : Provisional

Source : Pakistan Bureau of Statistics

The food group generally constitutes around 12.0 percent of the total import bill. During July-March FY2020, food group witnessed a decrease of 7.0 percent and its import reached US\$ 3963.3 million from US\$ 4261.3 million during the comparable period last year. The edible oil (Soybeans & Palm) import bill, the heaviest item in the food group, decreased in both quantity and value by 2.9 percent and 2.0 percent. The import bill of pulses surged by 9.0 percent during the period under review mainly due to the low domestic production. (Table: 8.4)

The import of crude oil and petroleum products constitute 25.6 percent of the total import bill of Pakistan. The import of petroleum group declined by 16.1 percent during July-March FY2020 and reached US\$ 8900.6 million as compared to the US \$ 10614.0 million corresponding period last year, mainly due to historically low global oil prices. Within the petroleum group, the petroleum products declined in value by 14.2 percent, despite an increase in quantity by 4.0 percent. Petroleum crude declined both in quantity and value by 15.9 percent and 27.4 percent during Jul-March FY2020 as compared to the same period last year.

Liquefied Natural Gas imports decreased by 6.7 percent in value and Liquefied Petroleum Gas imports surged by 18.7 percent during July-March FY2020 as compared to the corresponding period last year.

Import of the Machinery group, declined by 1.2 percent and reached US\$ 6633.2 million during Jul-March FY2020 as compared to US\$ 6716.0 million the same period last year. Within this group, the import bill of textile machinery registered a decrease of 7.6 percent (US\$ 350.6 million) during July-March FY2020 against (US\$ 379.520 million) the same period last year. Import bill of power generating machinery recorded US\$ 925.7 million during July – March FY2020 as compared to \$ 955.6 over the same period last year, showing a decrease of 3.1 percent.

A surge of 32.5 percent (US\$ 1750.6 million) is witnessed in Electrical machinery & Apparatus during July – March FY2020 over (\$1321.2 million) the corresponding period last year due to a rise in imports of heavy-duty electrical transformers (of greater than 10,000 kVA capacity) and related equipment. The higher imports of these products are in line with ongoing work to expand the transmission network in the country, especially by K-Electric in Karachi. According to National Transmission and Dispatch Company (NTDC) work is ongoing on 48 power transmission projects with completion dates ranging from FY2020 to FY2022.

Telecom sector imports within the machinery group, increased by 29.7 percent (US\$ 1337.8 million) during first nine months of the current fiscal year compared with US\$ 1031.7 million during the corresponding period last year. Mobile phone imports in Pakistan increased by 75.9 percent during July-March FY2020 and reached US\$ 979.9 million as compared to US\$ 557.2 million same period last year. In December 2018, Pakistan Telecommunication Authority's Device Identification Registration and Blocking System (DIRBS) became effective and efficiently restrict illegal cell phone imports by identifying and blocking non-registered cell phones that were using local SIM cards. For this reason, significant numbers of Mobile phones imports are now diverted to a formal channel from the

grey channel, leading to a surge in official import data. The government had abolished a three percent value-added tax on commercial cell phone imports via the FY2019 budget, which slightly reduced the cost of imports.

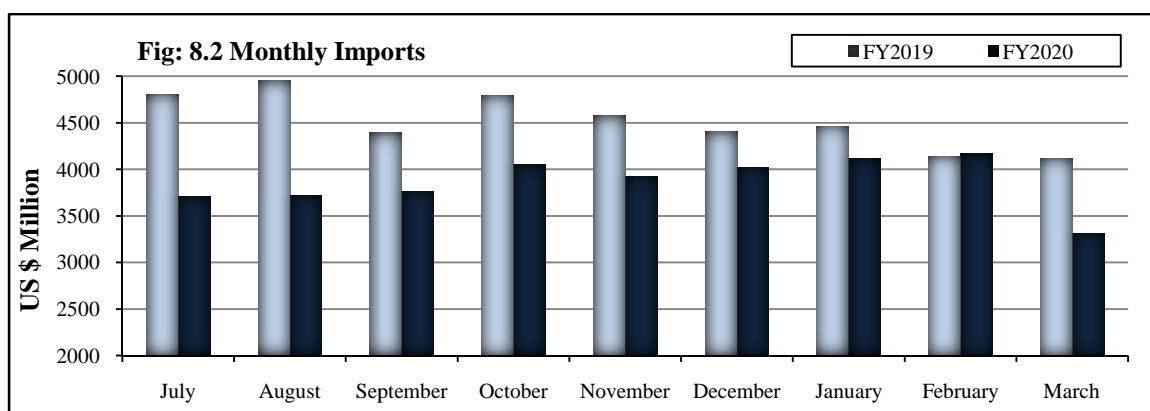
The transport group imports declined by 42.5 percent and reached US\$ 1197.7 million during July-March FY2020 as compared to US\$ 2083.2 million the same period last year as auto assemblers after significantly raising prices following the currency adjustment are now faced with slumping domestic sales. The firms responded to the lower consumer demand by cutting their production, which reduced their imports of Completely Knocked Down (CKD) kits and other auto parts. Meanwhile, the regulatory restrictions on car imports under the gift and baggage schemes continued to dent Complete Build Unit (CBU) imports. As a result, overall transport imports fell to a 10-year low. The import of road motor vehicles decreased by 47.9 percent, CKD/SKD decreased by 42.2 percent, buses decreased by 42.4 percent and motor cars decreased by 43.8 percent, during the July-March FY2020 over the corresponding period last.

Metal group bill also declined by 18.1 percent during July-March, FY2020 over the same period last year. The spillover of the downtrend in auto production was felt across the steel industry and the import of Iron & steel decreased by 30.0 percent. Finished steel imports were further suppressed after Pakistan imposed anti-dumping duties on some Russian and Canadian steel products into the country in September 2019.

In the textile group, import of raw cotton witnessed an increase both in quantity and value by 50.0 percent and 34.9 percent respectively during July-March FY2020 as compared to the same period last year on account of lower local production of cotton.

Monthly Imports

The monthly imports during July-March FY2020 witnessed a declining trend. Import averaged US\$ 3866 million per month. On average the monthly import decreased by the US \$ 654 million per month. The monthly imports are in Fig-8.2



Direction of Imports

Pakistan imports from countries like China, Saudi Arabia, UAE, and Indonesia constitute around 50 percent of the total imports. During the current fiscal year share of imports from China has decreased from 26 percent in last fiscal year to 24 percent during July-March FY2020. However, the share of imports from UAE has increased by 2 percent during July-March FY2020 as compared to the same period last year. Change in Pakistan's import pattern in subsequent years is shown in (Table 8.5)

Trade and Payments

Table 8.5: Major Import Markets Rs Billion & Percentage Share

Country	2016-17		2017-18		2018-19		July-March			
							2018-19		2019-20 P	
	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share
China	1584.3	28.6	1731.8	25.9	1734.3	23.3	1267.2	23.6	1394.3	25.7
UAE	774.5	14.0	893.3	13.3	1020.1	13.7	759.7	14.1	692.6	12.7
Saudi Arabia	227.7	4.1	356.4	5.3	401.3	5.4	286.2	5.3	241.5	4.4
Kuwait	141.9	2.6	159.7	2.4	185.8	2.5	133.8	2.5	138.7	2.6
Indonesia	240.4	4.3	278.5	4.2	327.3	4.4	245.5	4.6	258	4.7
India	178.2	3.2	207.5	3.1	204.8	2.8	154.8	2.9	53.3	1.0
U.S.A	267.9	4.8	316.4	4.7	368.9	5.0	259.5	4.8	302.9	5.6
Japan	217.4	3.9	266.5	4.0	246.1	3.3	188.0	3.5	134.7	2.5
Germany	114.3	2.1	146.4	2.2	142.6	1.9	105.4	2.0	97.5	1.8
Malaysia	100.2	1.8	132	2.0	145.5	2.0	103.0	1.9	112.8	2.1
All Other	1692.9	30.6	2206.5	33.0	2666.5	35.8	1868.0	34.8	2008.2	37.0
Total	5539.7	100.0	6695	100.0	7443.3	100.0	5371.1	100.0	5434.5	100.0

P: Provisional

Source: Pakistan Bureau of Statistics

Balance of Payment

One of the unsustainable macroeconomic imbalances, the government faced high current account deficits leading to a balance of payment crisis. The government aimed to solve the crisis primarily by managing the aggregate demand and addressing the deep-rooted structural problems. To avoid depleting foreign reserves, the government also had made considerable success in mobilizing additional financing from friendly countries in the form of short- to medium-term loans, deferred payment on imported oil, and temporary deposits in the central banks.

The structural and policy adjustments have started reaping benefits in the form of decline in current account deficit, the build-up of foreign reserves, stable exchange rate, etc, thus improving Pakistan's balance of payments not only in FY2019 but its trend continued in FY2020 as well. The implementation of a market-based exchange rate system, along with other demand management policies adopted earlier, resulted in a sharp 73.1 percent decline in the current account deficit to only US\$ 2.8 billion (1.1 percent of GDP) during July-March FY2020 against \$ 10.3 billion last year (3.7 percent of GDP). The improvement primarily came from imports, which declined by 16.2 percent during the period. The reductions in imports are due to ongoing macroeconomic stabilization measures, lower oil prices, and shift away of power sector from furnace oil-base.

The workers' remittances and exports also recorded some increase despite slowdown in advanced economies and the low unit prices for exports. The quantum of export, however, responded to policy adjustments and witnessed an increase in major export categories. The currency adjustment in the recent past allowed exporters to remain competitive in the challenging global environment. At the same time, remittances continued to grow on the back of higher inflows from the US, the UK, and Saudi Arabia.

At the same time, external financing remained sufficient due to the revival of the multilateral flows and the portfolio investment. These inflows allowed SBP to unwind its net short

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position in the forward market and re-build its reserves, which reached US\$ 10.8 billion by end-March 2020.

Table 8.6: Summary Balance of Payments US \$ Million

Items	July-June		July-March	
	2017-18	2018-19	2018-19	2019-20 P
Current Account Balance	-19195	-13434	-10284	-2,768
Trade Balance	-30903	-27612	-21261	-14680
Exports of Goods FOB	24768	24257	18,051	18,256
Imports of Goods FOB	55671	51869	39,312	32,936
Service Balance	-6426	-4970	-3488	-2441
Exports of Services	5851	5966	4,566	4,247
Imports of Services	12277	10936	8,054	6,688
Income Account Balance	-5437	-5610	-3735	-4278
Income: Credit	726	578	466	452
Income: Debit	6163	6188	4,201	4,730
Balance on Secondary Income	23571	24758	18,200	18,631
Of which:				
Workers' Remittances	19914	21740	16,032	16,991

P: Provisional

Source: State Bank of Pakistan

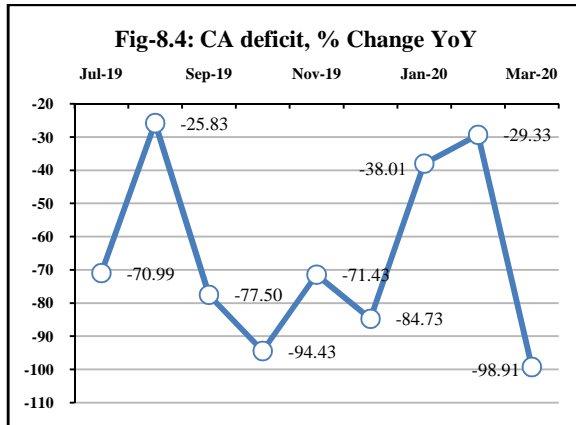
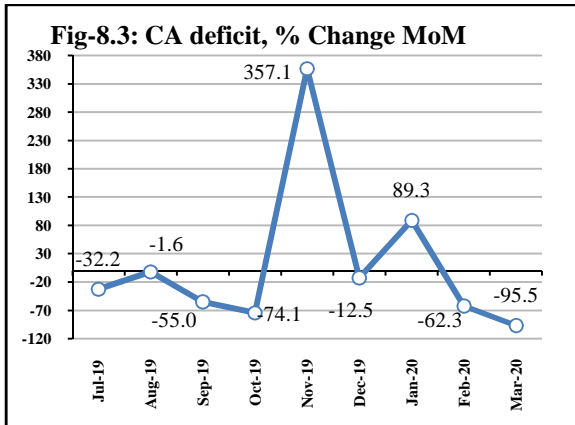
Current Account

Current account deficit leads to Balance of Payment crisis if it cannot be financed from Financial Account. Furthermore, the consequent depletion of foreign exchange reserves leads to depreciation in the value of the domestic currency. During the last 25/26 months, continuous reduction has been seen in the Current Account Deficit mainly due to contraction in a trade deficit. During July-March FY2020, current account deficit reduced by 73.1 percent to US\$ 2.8 billion (1.1 percent of GDP) against US\$ 10.3 billion last year (3.7 percent of GDP). The significant reduction in the current account deficit mainly reflected the impact of macroeconomic stabilization measures undertaken over the past year, which have significantly curtailed the import demand of a wide range of non-energy and energy products.

On other hand, low international prices suppressed export earnings of many emerging markets, including Pakistan as unit prices of textiles and rice continued to drop. Lower unit values dominated, partially offsetting the impact of significant volumetric growth in several major export products. Furthermore, the slowdown in the global economy also affected export performances of emerging markets (EMs). To overcome these challenges, exporters managed to increase its market share in key destinations, and export volume increased significantly. The trade war provides an opportunity for Pakistani Exporters, as China is shifted away from the US market and along with continued concessionary market access to the EU.

The COVID-19 outbreak has generated both demand and supply shocks across the global economy. It has posed significant challenges for exports to increase further in the coming months. However, the latest data indicates that the external sector continues to improve substantially on account of modest growth in both exports and workers' remittances and a significant reduction in imports. The overall external account liquidity has improved due to the pandemic. Pakistan, as a net oil importer, would benefit from the decline in global oil prices on account of the slowdown in global economy. Apart from deceleration in inflation,

this will further reduce the import bill and the current account deficit. On YOY current account is reduced by 99.0 percent to the US \$ 9 million in March 2020 as compared to the US \$ 823 million the same period last year. On month on month current account reduced by 95.5 percent from the US \$ 198 million in February 2020 as against US\$ 9 million in March 2020.

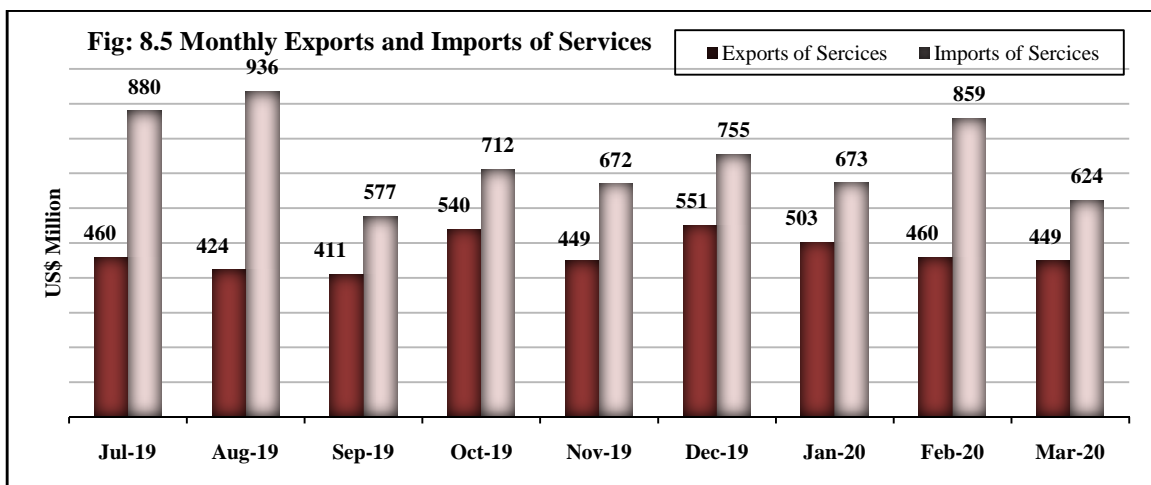


Balance in Trade of Goods and Services

During July-March FY2020, export of goods grew by 1.1 percent to US\$ 18.3 billion as compared to US\$ 18.0 billion the same period last year. Import of goods declined by 16.2 percent to US\$ 32.9 billion during July-March FY2020 as compared to US\$ 39.3 billion the same period last year. Consequently, the trade deficit reduced by 30.9 percent to US\$ 14.7 billion as compared to US\$ 21.2 billion last year

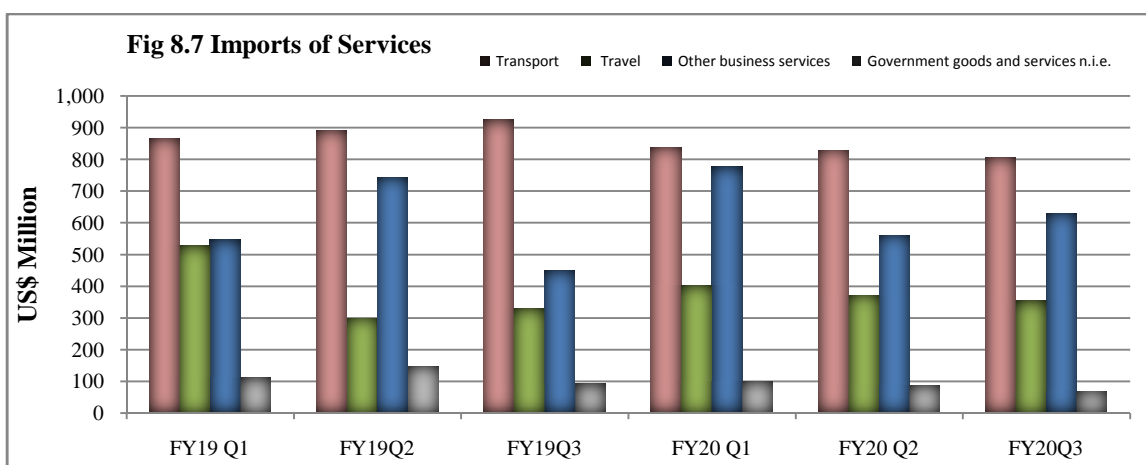
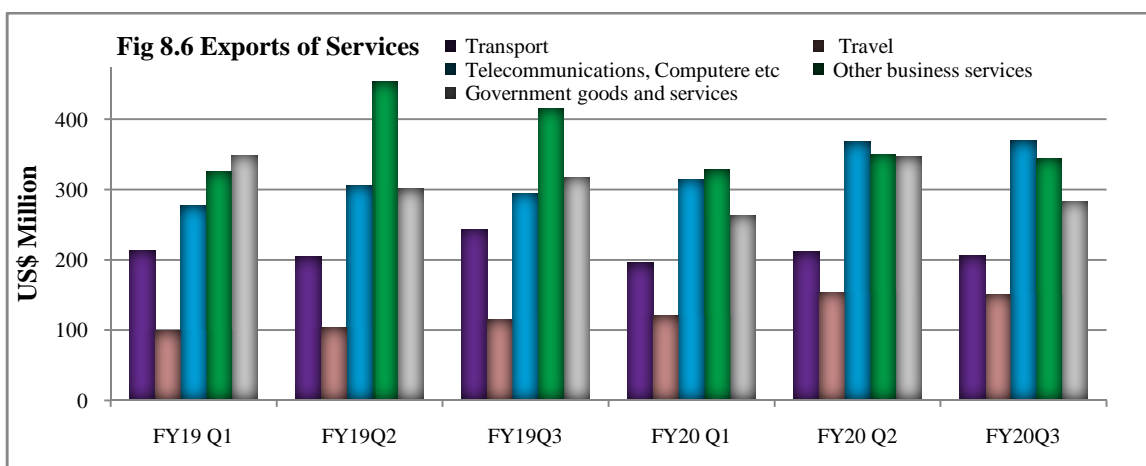
Till FY2018, not only imports of goods surged to a high level but also imports of services were rising. In FY2018, imports of services were US\$ 12.3 billion which was brought down to US\$ 10.9 billion in FY2019. Transport, Travel, and Other business services were the key components.

COVID-19 causing to lockdown and social distancing will adversely affect some services like education, travel, tourism, and hospitality, while, transport and distribution services may also be affected which are linked to merchandise trade. However, telecom, financial, and computer related services will be least affected as they can be provided online.



The exports of services declined by 7 percent during July-March FY2020 to US\$ 4.2 billion as against US\$ 4.5 billion the same period last year. The exports of services declined by 16.1 percent on year on year basis to the US \$ 455 million in March 2020 amid COVID-19 pandemic as global economy is facing lockdown, and worldwide ban on travel and tourism. Major services exports include telecommunication, computer, and information services US\$ 1059 million during July-March FY2020 as compared to US\$ 879 million the same period last year. Other business services US\$ 1023 million during July-March FY2020, as compared to US\$ 1195 million, and declined by 14.3 percent. Government goods& services decreased by 7.5 percent during July-March FY2020 and reached US\$ 891 million as compared to US\$ 969 million same period last year.

The import of Services declined by 17 percent during July-March FY2020 and is US\$ 6.7 billion as compared to US\$ 8.0 billion last year. Similarly, imports in services are also hit by ongoing lockdown due to COVID-19 pandemic and declined by 24.7 percent on year on year basis in March 2020 to the US \$ 636 million. Imports of services comprised of transport declined by 7.3 percent and reached US\$ 2474 million as compared to US\$ 2685 million and other business services increased by 13.2 percent and reached US\$ 1970 million as compared to US\$ 1741 million same period last year. The balance on trade in services reduced by 30 percent and reached the US \$ 2.4 billion during July-March FY2020 as compared to US\$ 3.5 billion the same period last year.



Remittances

Historically growth in remittances has always mitigated some of the impacts of the negative trade balance on the current account. However, in FY2018, the flattening of workers' remittances compounded the current account deficit due to a ballooning trade deficit. The present government took measures (Box-IV) to increase remittances through enhancing outreach, reimbursement of the T.T. Charges Scheme (Free-send Model), and improvements in the payment system. Thus, during FY2019, there was a 9.2 percent increase in workers' remittances which reached US\$ 21.7 billion. It was expected that same trend will continue in FY2020. During July-March FY2020, remittances reached US\$ 17 billion as compared to US\$ 16 billion the same period last year, with a growth of 6.0 percent. On Y-o-Y basis, remittances witnessed a growth of 9.3 percent in March 2020, recorded US\$ 1.9 billion as compared to US\$ 1.7 billion same period last year.

Due to COVID-19, there is slow growth in the global remittance mainly due to decelerating growth in advanced economies, lower oil prices, and weakening of currencies of some of the source countries against the US dollar.

During July-April FY2020, workers' remittances increased by 5.5 percent to US\$ 18.8 billion as compared to US\$ 17.8 billion last year. However, on a Y-o-Y basis, remittances witnessed a growth of 1.1 percent in April 2020, recorded US\$ 1.79 billion (US\$ 1.77 billion last year) may be due to seasonal effect of Ramadan and Eid. On month on month in April 2020, remittances declined by 5.5 percent, recorded US\$ 1.77 billion (US\$ 1.89 billion last month) as global lockdown, slow global demand and emerging recession especially due to massive decline in oil prices have increased the job risk of a number of Pakistani workers working abroad especially in GCC countries.

During July-April FY2020, the share of remittances from Saudi Arabia remained 23.3 percent (US\$ 4377.0 mn), U.A.E 20.8 percent (US\$ 3905.9 mn), USA 17.5 percent (US\$ 3282.3 mn), U.K 14.8 percent (US\$ 2780.7 mn), other GCC countries 9.5 percent (US\$ 1779.8 mn), Malaysia 6.6 percent (US\$ 1242.3 mn), EU 2.7 percent (US\$ 515.2 mn) and other countries 4.8 percent.

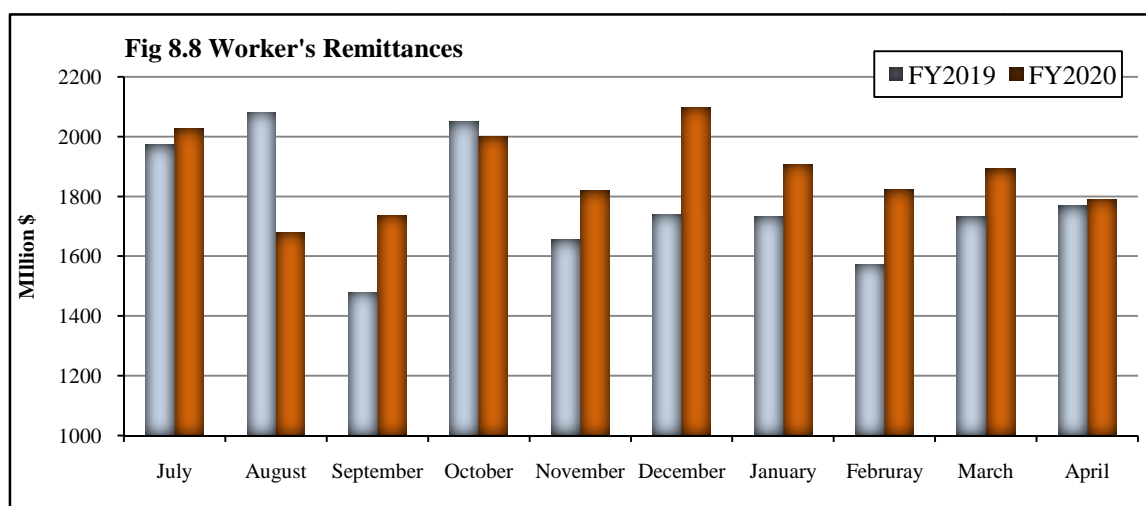


Table 8.7: Country/Region Wise Cash Worker's Remittances

Country/Region	July-April		(\$ Billions)	
	2018-19	2019-20	% Change	Share
Saudi Arabia	4.2	4.4	4.8	23.3
U.A.E.	3.8	3.9	3.2	20.8
USA	2.7	3.3	21.3	17.5
U.K.	2.8	2.8	0.9	14.8
Other GCC Country	1.7	1.8	3.6	9.5
Malaysia	1.3	1.2	-1.6	6.6
EU Countries	0.5	0.5	6.0	2.7
Others Countries	0.9	0.9	-1.5	4.8
Total	17.8	18.8	5.5	100.0

Source: State Bank of Pakistan

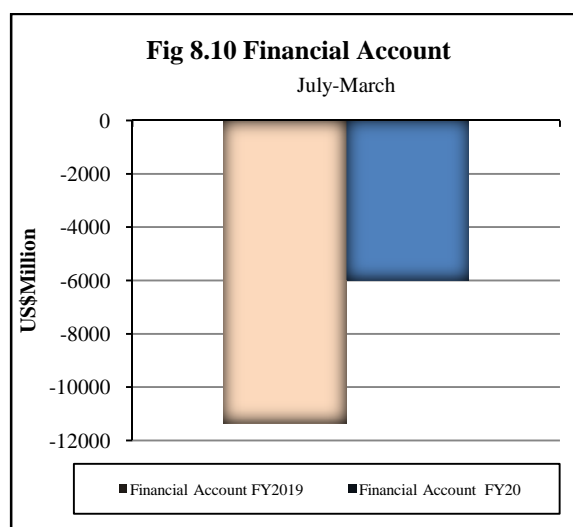
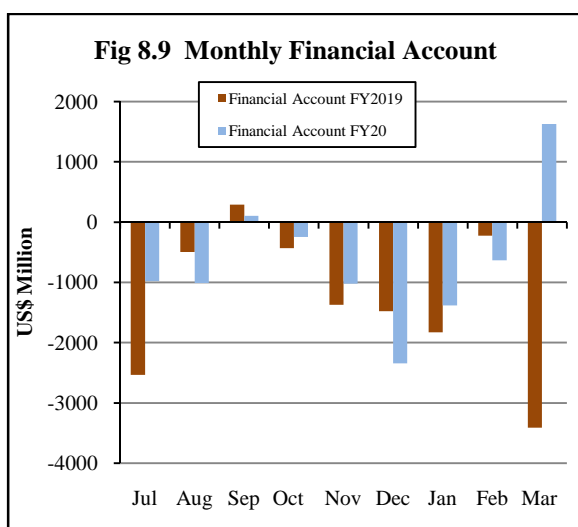
Box-1V: Measures to Increase Remittances

To encourage and facilitate the Overseas Pakistanis to send their remittances through official banking channels, various initiatives have already been taken by the government:

- The prevailing rate of the TT charges scheme (Free-send Model) has been enhanced from SAR 10/- to SAR 20/- for transactions between USD 100-200. It would cost an additional amount of Rs 3 billion to the Government.
- The existing incentive scheme for the marketing of home remittances i.e. PKR 01 against USD 01 of remittance amount beyond 15 percent growth over last year may now be based on tiered growth i.e. Rs 0.50 on 5 percent growth, Rs 0.75 on 10 percent growth and Rs 01 on 15 percent growth. It would cost an additional Rs 600 million to the Government.
- To leverage home remittance customers and encourage them to use banking channels, withholding tax will be exempted from Jul 01,2020 on cash withdrawal or on the issuance of banking instruments/transfers from a domestic bank account to the extent of remittances amount received from abroad in that account in a year. FBR has been requested for amendment in Income Tax ordinance through finance bill.
- A 'National Remittance Loyalty Program' will be launched from September 01,2020 with the collaboration of major commercial banks and government agencies through which various incentives will be given to remitters through mobile apps and cards.
- Technical Supplementary Grant of Rs 9.65 billion to reduce the lag time from 12 to 6 months in reimbursement of T.T charges to banks on home remittances.

Financial Account

Financial Account has critical importance in Balance of Payments for the reason it cannot finance current account deficit, there is pressure on foreign reserve and hence exchange rate. The government made all efforts for increasing inflows, driven by the significant increase in central bank deposits and bilateral flows due to liquidity injections from China, UAE, and Saudi Arabia. Regardless, in FY2019, the financial account remained US\$ 11.8 billion compared to US\$ 13.6 billion in FY2018, still, financial account in FY2019 can comfortably finance current account deficit. Thus, improving Pakistan's balance of payments position. The same performance of financial account was also expected in FY2020.



During July-March FY2020, the financial account remained at US\$ 6.0 billion, compared to US\$ 11.4 billion in corresponding period last year. However, this financial account was enough to finance easily the low current account deficit thus improving balance of payments position during July-March FY2020.

The financial account in July-March FY2020 saw a surge in the portfolio investment in local currency government securities, as foreign investors increased their focus on Debt Securities due to reforms initiated in the exchange rate market and to encash the available risk-adjusted returns in fixed income securities. Besides portfolio investment improvements were noticed in FDI inflows and other investments.

Foreign Direct Investment

Realizing the importance of FDI, the government made all efforts to attract FDI. Thus, Pakistan was among 'top ten best improvers' in World Bank's Ease of Doing Business Index 2020, jumping up 28 places on the index and clinching the 108th position out of total 190 economies. This helped to attract foreign investors. During July-March FY2020, foreign direct investment increased by 137.3 percent and reached US\$ 2.1 billion compared to US\$ 0.9 billion last year. On YoY basis, FDI increased by 91.7 percent and reached US\$ 278.7 million in March FY2020 compared to US\$ 145.4 million in the same month last year. The inflows of FDI reached US\$ 2.7 billion million during July-March FY2020 compared to US\$ 2.1 billion million same period last year, with a growth of 25.6 percent. The outflows of FDI during July-March FY2020 decreased by 55.8 percent and reached US\$ 548.5 million compared to US\$ 1241.8 million same period last year.

Government has taken different initiatives at the national and international level to attract FDI. The government is providing business friendly environment, especially in SEZs. In this regard, one-time custom duties exemption on plant and machinery has been given, while there is an income tax exemption for 5 years. Pakistan has signed an offshore Gas Pipeline deal with Russia. Saudi Arab has shown its interest to invest in a new oil refinery in Pakistan's growing deep-sea port of Gwadar, which is likely to increase FDI in Pakistan. Pakistan recently signed seven MoUs worth US\$ 20 billion with Saudi Arabia.

The major FDI during July-March FY2020 received from China US\$ 872 million (40.6 percent of the total FDI) followed by Norway US\$ 288.5 million (13.4 percent of the total FDI) and Malta US\$ 166.7 million (7.8 percent of the total FDI). The power sector attracts the highest net

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FDI of US \$ 757.4 million (35.3 percent of total FDI) during July- March FY2020 as against outflow of US\$ 353.1 million same period last year. The communication sector received US\$ 490.3 million (22.8 percent of total FDI) against an outflow of US\$ 141.1 million same period last year. Other sectors such as oil & gas exploration US\$ 218.3 million (10.2 percent of total FDI), Financial business received FDI US\$ 210.5 million (9.8 percent of total FDI) and Electrical Machinery US\$ 143.4 million (6.7 percent of total FDI) during July- March FY2020.

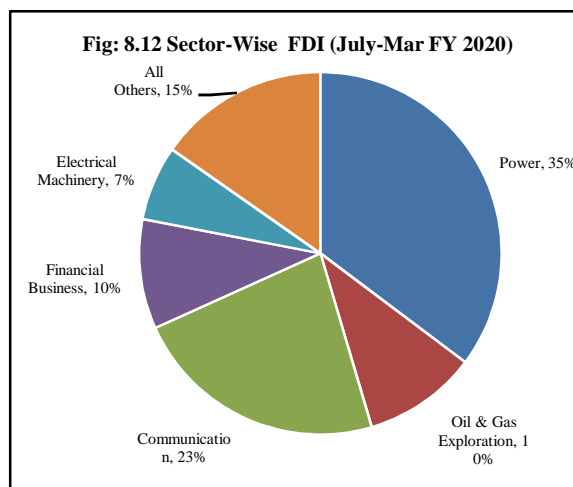
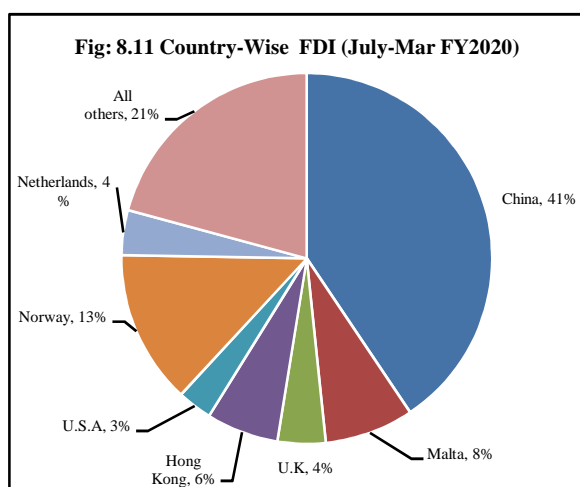
With regard to FDI, the COVID-19 outbreak could cause global foreign direct investment (FDI) to shrink by 5 percent-15 percent, (UNCTAD, March 08, 2020). In the context of Pakistan, the pandemic negative impact on investments will be felt strongly. The ripple effect could cause a major setback to efforts of government around the globe to attract the private investment and to achieve the target of US\$ 4.34 bn for the year CFY 2019-20.

Table 8.8: Foreign Investment (\$ Million)

	FY2018	FY2019	July-March	
			FY2019	FY2020 P
A. Foreign Private Investment	2539.6	947.2	495.6	2044.6
Foreign Direct Investment	2780.3	1362.4	905.1	2148.3
Inflow	3494.5	2785.2	2146.9	2696.8
Outflow	714.2	1422.8	1241.8	548.5
Portfolio Investment	-240.7	-415.2	-409.5	-103.6
Equity Securities	-240.7	-415.2	-409.5	-103.6
Debt Securities				
B. Foreign Public Investment	2450.5	-1002	-0.7	331.1
Portfolio Investment	2450.5	-1002	-0.7	331.1
Total Foreign Investment (A+B)	4990.1	-54.8	494.9	2375.7

P: Provisional

Source: State Bank of Pakistan



Foreign Portfolio Investment

The Foreign portfolio investment during July-March FY2020 reached US\$ 227.5 million as against an outflow of US\$ 410.2 million the same period last year. There is a risk of high capital outflow, as the major decline in all stock market during these days in ongoing pandemic.

Foreign fund managers invested into the T-bills and PIBs not only in chasing the risk-adjusted returns offered by Pakistan on the government securities but also in response to a sharp improvement in the BoP, the reserves buffers, and particularly reforms initiated in the exchange rate market. Moreover, the country's credit worthiness has improved with the initiation of the EFF program and the successful conclusion of its first review in November 2019. Besides, in December 2019 Moody's upgraded Pakistan's outlook to stable from negative and affirmed the government's local and foreign currency long-term issues and unsecured debt rating at B3. These developments led Pakistan's credit default swap rate to decline significantly and reach 3.4 percent by end-December 2019 from a high of 5.0 percent in August 2019.

Reserves and Exchange rate

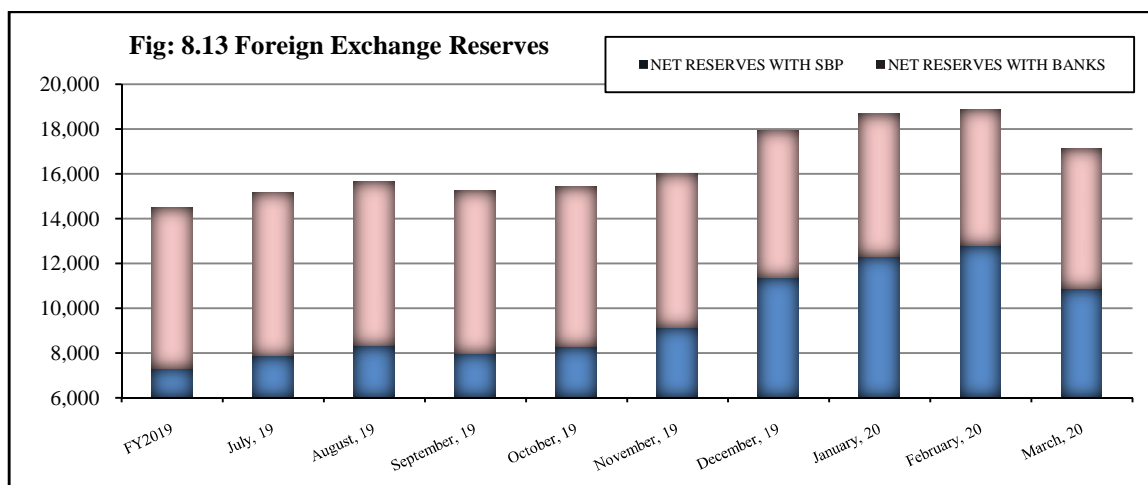
Pakistan's total liquid foreign exchange reserves increased to US\$ 17.1 billion by the end of March 2020, up by US\$ 2.6 billion over end-June 2019. The breakup of reserves accumulation in March 2020 shows that the SBP's reserves increased by US\$ 3.6 billion to the US\$ 10.8 billion against depletion of US\$ 943.5 million to US \$ 6.3 billion in commercial bank's reserves.

While the rise in SBP's liquid reserves seems substantial and an almost equivalent reduction in net forward liabilities suggests that actual reserve accumulation by SBP over this period is much higher. The reserve accumulation during July-March FY2020 was a result of higher official disbursements and sufficient market purchases by the central bank. While IFI loans revived with the inception of the IMF program and allowed better market conditions to SBP for making FX purchases.

The improvement in the Foreign Exchange reserves led to a 3.8 percent appreciation of Pak rupee against the US dollar during July-February FY2020. During FY2020 the PKR started appreciated during July-February, the NEER depreciated in the second and third quarters as against appreciation in the first quarter, as the currencies of other major trading partners appreciated against the US dollar. However, the higher Relative Price Index (RPI) due to higher domestic inflation resulted in REER appreciation in all quarters of FY2020.

However, due to the fallout of COVID -19, the PKR depreciated by 3.9 percent in just one month during July-March FY2020. The movement in PKR-US\$ exchange rate in the interbank market is based on foreign exchange demand-supply gap. The market-based adjustment is reflective of the country's overall external Balance of Payments position during the period. Further, compared to nominal ER depreciation, the NEER and REER for March over last month are only 1.9 and 0.98 percent respectively. This reflects the currency and inflation dynamics of Pakistan's major trading partners.

Pakistan has requested special assistance from the multilateral institutions, to counter the pandemic. In this regard, the total of US\$ 5 billion of external assistance has been mobilized, out of which IMF has provided US\$ 1.4 billion under Rapid Financing Instrument in budgetary support, World Bank has provided US\$ 1.79 billion, Asian Development Board (ADB) has provided US\$ 1.75 billion, in addition, G20 states have offered debt relief of US\$ 1.8 billion. G-20 / Paris Club have offered suspension of principal and interest for over 70 developing countries, including Pakistan.



Conclusion

The improvement in Pakistan’s balance of payments that started in FY2019 continued in FY2020 as well. The implementation of the market-based exchange rate system, along with other demand management policies adopted earlier resulted in a sharp 73.1 percent decline in the current account deficit to only US\$ 2.8 billion (1.1 percent of GDP) during July-March FY2020 against US\$ 10.3 billion last year (3.7 percent of GDP).

The significant reduction in the current account deficit is mainly due to import compression of a wide range of non-energy and energy products. Quantum-led import declines were observed across all product categories and were complemented by lower international prices of most of Pakistan’s principal import commodities. Low international prices suppressed export earnings of many emerging markets including Pakistan as unit prices of textiles and rice continued to drop. Lower unit values dominated, partially offsetting the impact of significant volumetric growth several of the major export products.

The COVID-19 outbreak has jolted even the strongest world economies and posed significant challenges for investments and exports to increase further in the coming months. With regard to Pakistan despite the adverse impact of Corona virus on economy the overall external account liquidity has improved due to a decline in oil and other commodity prices on the back of a slowdown in global economies. This will further reduce the import bill and the current account deficit. In light of recent domestic and global developments, the spillover impact of the Coronavirus outbreak on global trade and financial markets is moderate and short-lived. In such a scenario, the export slowdown and market volatility should be contained while the benign growth and inflation impacts of lower global commodity prices would dominate. Under a worst-case scenario, there will be a prolonged and severe phase of weak demand in Pakistan’s major exports and remittances may fall significantly due to lay-offs of our workers abroad. The government, cognizant of the COVID-19 challenge, has taken various measures to prevent its outbreak and adopted a semi-lockdown approach with well-established SOPs to move the wheel of the economy in this difficult time.