Chapter 8

Trade and Payments

Introduction

Growth of world merchandise trade remained weak in 2013 due to slow global economic growth. Sluggish demand in many developed countries and wavering growth in developing countries led to the decline in world export volume growth from 3.1 per cent in 2012 to only 2.3 per cent in 2013, well below the trend prior to the financial crisis. The prospects for world trade are expected to improve, driven by a modest increase in demand in Europe, further recovery in the United States and a return to more dynamic trade in East Asia.

The world economy grew by 2.1 percent in 2013. While most developed economies continued to tackle with the challenges and taking appropriate fiscal and monetary policy actions in the aftermath of the financial crisis, a number of emerging economies which had already experienced a notable slowdown in the past two years, encountered new domestic and international headwinds during 2013. Some signs of improvement have emerged more recently. The euro area has finally come out of a protracted recession, with gross domestic product (GDP) for the region as a whole starting to grow again; the economy of the United States of America continues to recover; and a few large emerging economies, including China will see accelerating growth. World Gross Product (WGP) has been forecasted to grow at a pace of 3.0 and 3.3 per cent in 2014 and 2015, respectively.

WTO has projected that trade will grow by a modest 4.7 percent in 2014 and by 5.3 percent in 2015. This projection of 2015 would be in line with the average growth rate of world trade over the last 20 years. These forecasts are consistent with other figures that show the world economy is gradually recovering from the financial crisis. There have been some sharp swings in global commerce since the onset of the crisis. In 2009, trade in goods declined by 12 percent and bounced back by 14 percent the following year. The year 2011 was in line with the long term average, and then came what the WTO calls a two-year slump - annual growth of around 2 percent. The overall impact is that global trade is above its pre-crisis level, but well below where it would have been, had it grown in line with the earlier pre-crisis trend. In fact, that gap is still getting wider and by next year will, on the new forecasts, be 19 percent.

Unlike imports, which are closely related to domestic business activity, exports are more dependent on developments outside the domestic economy. A statistically significant link exists between world exports and world GDP and it is therefore worthwhile to see the impact on Pakistan's exports of changes in world GDP. For most of the period, the elasticity remained greater than one.

On 31 October 2012, major changes to the EU's Generalized Scheme of Preferences (GSP) were enacted into law by the European Parliament through a Regulation. Revisions to the qualification criteria applicable to the special incentives scheme of the GSP have created an opening for Pakistan, among other nations, to apply for qualification as a GSP Plus (GSP+) beneficiary and gain access to the EU market through duty-free imports of GSP-eligible products.

The European Union (EU) is not only Pakistan's largest export destination (in FY13, Pakistan's exports to the EU were valued at around US$5.7 billion), but it is also engaged in multiple levels of social and economic development activities in the country. The GSP+ arrangement, which is conditional to ratification and implementation of 27 international conventions, provides a platform on which Pakistan's export-driven economy can be utilized for the promotion of basic social and governance standards to which the EU is strongly committed. Adoption of these conventions will assist Pakistan in integrating into the cross-border supply chains that will sustain its manufacturing activities and further promote its exports.

Exports

Overall exports recorded a growth of 4.24 percent during first ten months of FY14 (Jul-Apr) against a growth of 4.23 percent in the same period last year. In absolute terms, exports have increased from $ 20,143 million to $ 20,997 million. Although there is moderate growth as compared to last year, the exports likely to gain momentum in coming months due to access to GSP Plus.

Broad categories of exports suggest that textile group and petroleum group & coal performed well during current year whereas other manufactures group could not performed and showed a negative growth. Exports of food group were up by 0.7 percent only; Textile Manufactures' export increased by 6.5 percent, petroleum group exports registered manifold due to export of Petroleum top Naphta amounting to $ 542.7 million during first ten months of current year against no import of this item during comparable period last year. Other Manufactures Group which accounted for almost 21 percent of total exports, registered a decline of 8.8 percent. This sector mainly suffered due to sharp decline of more than 72 percent in the export of jewelry.

Exports of food group accounting for 19 percent in total exports grew only by 0.71percent and its share remained negligible in overall exports growth. Within food group, export of rice alone accounting for 46.9 percent, registered an impressive growth of 16.41 percent. Pakistan clearly benefited from the unprecedented rise in international price of rice. Since Pakistan is a net exporter of rice, it is likely to benefit from the elevated international prices of rice in coming years. This will also encourage farmers in Pakistan to grow more rice and benefit from the current hike in international prices of rice. The other important component of food group which registered impressive growth includes oilseeds, nuts & kernals and fruits; meat and meat preparations; fish and fish preparations. However, export of sugar, tobacco, spices and vegetables witnessed a decline during first ten months of current financial year. (Table: 8.1).

Export of textile manufactures, which account for about 53 percent of total exports registered a growth of 6.5 percent during first ten months of current financial year. All the sub-groups in this category witnessed positive growth with the exception of cotton yarn, towels and art, silk & synthetic textile during current financial year. Export of value added textile like bed wear, knit wear and made-up articles (excluding towels) was up substantially during this period due to the growth in quantum terms. Export of cotton cloth, the largest item in textile group witnessed a growth of 5.5 percent in value terms while its growth in quantity terms remained 10.9 percent showing less favorable prices of Pakistani cloth. Export growth of cotton yarn remained sluggish during current financial year as its exports both in value as well as in quantum witnessed negative growth. It may be explained that its export growth could not be picked up due to less favorable international prices and its increased domestic demand. However, export of raw cotton increased handsomely during current year due to favorable prices. Pakistan towels export growth also remained negative both in terms of value and quantity during current year prices of raw material fluctuations in the local market, energy shortages and stiff competition.

Within Petroleum group, export of petroleum top naphtha remained $ 542.7 million (2.6 percent of total export) during first ten months of current year against no export of this item during comparable period last year. Naphtha is produced as a surplus product from petroleum refineries. So the more crude the refineries in Pakistan refine, the more naphtha comes out as a byproduct. The core reason for the rise in naphtha exports is better capacity utilization owing to improved liquidity at refineries after the partial resolution of the circular debt. Even though the refineries were not as much replenished with government funds as was the power sector, better liquidity of the energy chain helped in increased refinery yields.

Unlike 'textile manufactures group, exports of other manufactures group generally accounting for around 21 percent witnessed a negative growth of 8.9 percent in the current fiscal year (Jul-Apr period) and remained major contributor to the export growth during current year despite performance of chemicals and pharma product (51.3 percent), leather manufacturer (12.1 percent); leather tanned (12.3 percent); surgical goods& medical instruments (11.5 percent) under this category of exports. The performance of carpets & rugs (10.0 percent); engineering goods (17.1 percent) and sports goods (6.6 percent) also remained notable. Export of cement and jewelry which had been shown outstanding performances during the last few years witnessed a negative growth of 11.5 percent and 72 percent, respectively, during first ten months of current financial year. More specifically export of jewelry remained sluggish during current year. Some analysts attributed this decline to the fall in gold prices. Performance of other manufactures group's exports remained slow due to the power and skilled labor shortages and international laws of labour. Negative growth witnessed in this group blocked 186 basis points in the overall growth of exports during current year (Table 8.1).

Export of all other items normally accounting for over 6 percent of total exports decreased by 7.2 percent during Jul-Apr, FY14 as compared to same period last year and accordingly, adversely contributed by 0.45 percent to overall export growth of 4.24 percent.

Table 8.1 : Structure of Exports ($ million)

	Particulars	July-April		% Change	Absolute Change
		2012-13	2013-14 P		
	Total	**20143.2**	**20997.5**	**4.2**	**854.3**
A.	**Food Group**	**3918.0**	**3945.7**	**0.7**	**27.7**
	Rice	1589.6	1850.4	16.4	260.9
	Sugar	393.1	248.3	-36.8	-144.8
	Fish & Fish Preparation	255.8	292.1	14.2	36.3
	Fruits	340.6	399.0	17.1	58.4
	Vegetables	213.6	187.0	-12.4	-26.6
	Wheat	53.4	7.1	-86.8	-46.4
	Spices	55.1	44.6	-19.0	-10.4
	Oil Seeds, Nuts & Kernels	28.0	76.7	174.2	48.7
	Meat & Meat Preparation	177.6	192.5	8.4	14.9
	Other Food items	811.2	648.0	-20.1	-163.2
B.	**Textile Manufactures**	**10739.8**	**11437.6**	**6.5**	**697.8**
	Raw Cotton	138.3	196.1	41.8	57.8
	Cotton Yarn	1860.5	1708.1	-8.2	-152.4
	Cotton Cloth	2224.0	2346.8	5.5	122.8
	Knitwear	1663.6	1842.1	10.7	178.5
	Bedwear	1468.2	1767.3	20.4	299.1
	Towels	645.0	624.5	-3.2	-20.5
	Readymade Garments	1470.8	1580.8	7.5	110.0
	Made-up articles	480.8	552.1	14.8	71.3
	Other Textile Manufactures	788.6	819.8	4.0	31.2
C.	**Petroleum Group**	**6.2**	**601.3**	**9653.7**	**595.1**
	Petroleum Products	5.7	58.6	919.4	52.8
	Petroleum Top Neptha	0.0	542.7	-	542.7
D.	**Other Manufactures**	**4227.6**	**3852.3**	**-8.9**	**-375.3**
	Carpets, Rugs & Mats	96.8	106.5	10.0	9.7
	Sports Goods	268.5	286.1	6.6	17.6
	Leather Tanned	390.1	438.2	12.3	48.1
	Leather Manufactures	463.2	519.4	12.1	56.2
	Surgical G. & Med. Inst.	252.6	281.7	11.5	29.1
	Chemical & Pharma. Pro.	636.3	962.7	51.3	326.5
	Engineering Goods	217.8	255.1	17.1	37.3
	Jewellery	1142.9	319.1	-72.1	-823.8
	Cement	468.7	415.0	-11.5	-53.7
	Guar & Guar Products	119.8	58.4	-51.2	-61.4
	All Other Manufactures	170.9	210.1	22.9	39.2
E.	**All Other items**	**1251.6**	**1160.5**	**-7.3**	**-91.0**

P : Provisional
Source : Pakistan Bureau of Statistics

Trends in Monthly Exports

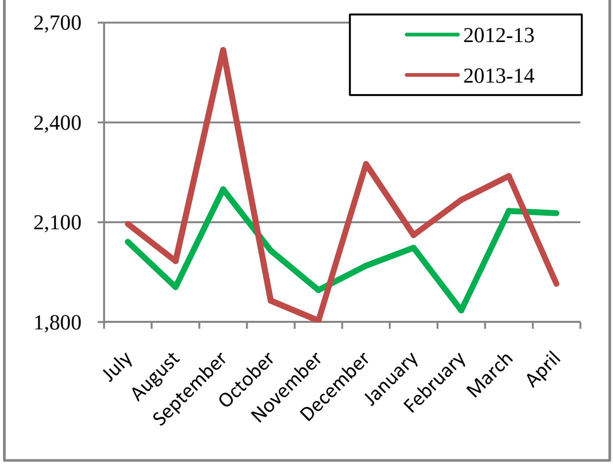
The monthly export for the period July-April, 2013-14 remained consistently above the corresponding months of last year, with the exception of October and November, 2013 and April 2014 period, averaging $2,102 million per month as against an average of $2,014 million same period last year. (Table 8.2 & Fig-8.1).

Table 8.2: Monthly Exports

Month	($ million)	
	2012-13	2013-14 P
July	2,041	2,095
August	1,905	1,983
September	2,199	2,617
October	2,015	1,864
November	1,896	1,804
December	1,969	2,275
January	2,023	2,061
February	1,835	2,167
March	2,134	2,239
April	2,127	1,915
Monthly Average	**2,014**	**2,102**

P : Provisional
Source : Pakistan Bureau of Statistics

Fig-8.1: Monthly Exports ($ million)



Concentration of Exports

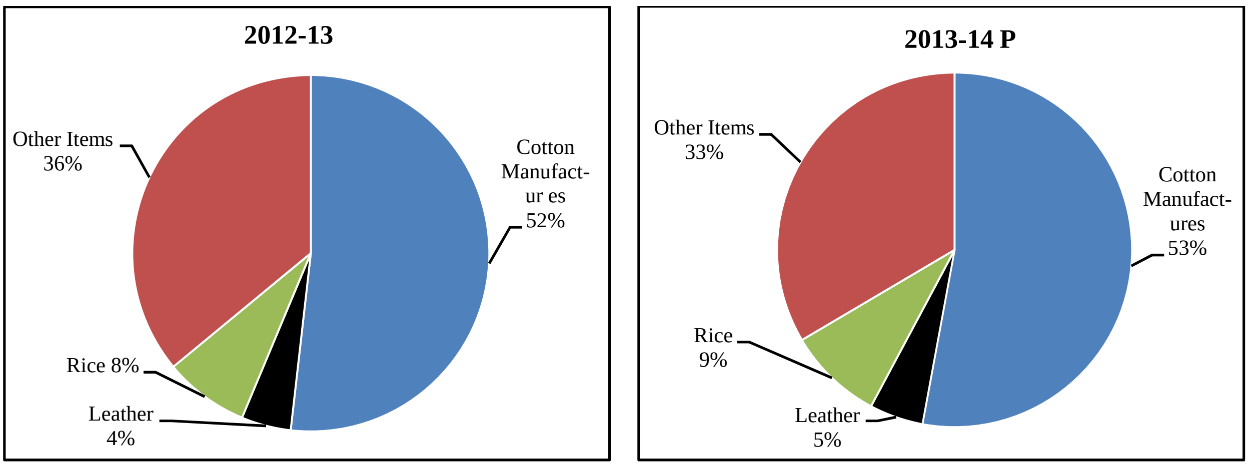
Pakistan's exports are highly concentrated in a few items namely, cotton and cotton manufactures, leather, rice, chemicals & pharma products and sports goods. These five categories of exports accounted for about 70 percent of total exports during FY14 (Jul-March) with cotton manufactures alone contributing 52.9 percent, followed by rice (8.7 percent) and leather (4.9 percent). The degree of concentration further increased in favour of these items during current financial year. Further disaggregation reveals that products exports in a few items are a major cause of instability in export earnings. The annual percentage shares of the major export commodities are given in Table 8.3 as well as Fig. 8.2.

Table 8.3 : Pakistan's Major Exports **(Percentage Share)**

Commodity	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	July-March	
							2012-13	2013-14 P
Cotton Manufactures	51.9	52.6	50.6	52.9	49.6	51.6	51.8	52.9
Leather**	5.8	5.4	4.5	4.4	4.4	4.7	4.5	4.9
Rice	9.8	11.2	11.3	8.7	8.7	7.8	7.7	8.7
Sub-Total of three Items	**67.5**	**69.2**	**66.4**	**66.0**	**62.7**	**64.1**	**64.0**	**66.5**
Other items	32.5	30.8	33.6	34.0	37.3	35.9	36.0	33.5
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

Fig-8-2: Concentration of Exports



Direction of Exports

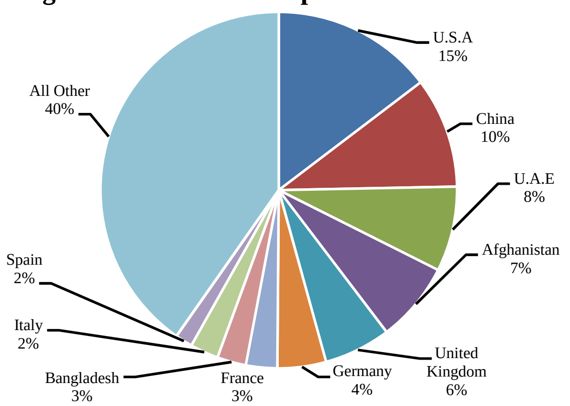
Although Pakistan trades with a large number of countries its exports nevertheless are highly concentrated in few countries. About one-half of Pakistan's exports' destinations are to six countries namely, USA, China, UAE, Afghanistan, UK and Germany. Among these countries, the maximum export earnings come from USA (15 percent) followed by China (10 percent) making up approximately one-fourth of the total. China's share in total exports has gradually picked up from 4 percent in 2008-09 to 10 percent during current year. The share of export to Afghanistan in total exports, however, witnessed a decline in recent years from 10 percent in 2011-12 to 8 percent during current year. The share of exports to EU countries like France, Italy, Spain, etc. remained relatively stagnant. However, it is expected that with the grant of GSP plus status, Pakistan exports to EU countries will gain momentum in coming days. Pakistan exports to Bangladesh, UAE and some other Asian countries also could not show much growth despite existence of FTAs and PTAs with some of the countries. This aspect requires consideration and impact evaluation (Table 8.4, Fig.8.3).

Table 8.4 : Major Exports Markets (Rs. billion &Percentage share)

Country	2008-09		2009-10		2010-11		2011-12		2012-13		July-March 2013-14 P*	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
U.S.A	261.4	19	281.7	17	338.3	16	315.3	15	341.3	14	291.9	15
China	54.9	4	96.7	6	139.7	7	195.9	9	252.5	11	199.9	10
U.A.E	114.8	8	144.2	9	154.6	7	205.6	10	205.4	9	153.7	8
Afghanistan	109.3	8	131.7	8	199.6	9	200.6	10	200.0	8	144.5	7
United Kingdom	68.5	5	86.1	5	103.1	5	105.7	5	121.2	5	120.6	6
Germany	57.7	4	66.5	4	108.8	5	94.0	4	93.6	4	87.8	4
France	24.6	2	26.7	2	34.1	2	29.8	1	93.7	4	56.5	3
Bangladesh	30.1	2	40.6	3	86.8	4	56.6	3	68.7	3	52.2	3
Italy	45.3	3	50.8	3	67.6	3	51.6	2	52.2	2	51.2	3
Spain	37.7	3	36.4	2	48.9	2	43.7	2	51.0	2	31.4	2
All Other	554.9	40	655.9	41	839.3	51	811.9	38	887.0	37	802.0	40
Total	**1,383.7**	**100**	**1,617.5**	100	**2,120.8**	100	**2,110.6**	100	**2,366.5**	100	**1,991.6**	100

Source: Pakistan Bureau of Statistics
P* Provisional

Fig- 8.3 :% Share Of Exports 2013-14



Imports

The imports target for current financial year was set at $43.3 billion for FY14. Pakistan imports were up by only 1.2 percent in the first ten months of the current fiscal year, rising from $36,664.94 million during FY13(Jul-Apr) to 37,104.50 million during first ten months of current financial year, showing an increase of $439.56million in absolute term. The major contributors to this additional import bill have been alone the machinery group ($463.6 million or 9.8 percent) followed by Agriculture and Chemicals ($291.5 million or 5.6 percent) and Textile group ($52.2 million or 2.4 percent). Other groups witnessed decline in import during first ten months of current year led by Metal Group (8.4 percent) and food group (5.8 percent). The Petroleum Group, the largest group in the Pakistan import bill has witnessed a decline of 1.3 percent ($157 million) during Jul-Apr, FY14. The detail is given in Table-8.5.

Import of crude oil and petroleum products which generally constitute about 33 percent of total import bill of Pakistan remained within affordable limit. Crude oil import in quantity terms increased by only 1.5 percent whereas its import value increased by 3.1 percent showing marginal rise in the international prices during this period. Import value of petroleum products decreased by 3.9 percent given that its imported quantity increased by about 5.9 percent showing some decline in the prices.

Table 8.5 : Structure of Imports					($ Million)
Particulars		July-April		% Change	Absolute Change
		2012-13	2013-14 P		
	Total	**36665.0**	**37104.5**	**1.2**	**439.5**
A.	**Food Groups**	**3632.4**	**3423.2**	**-5.8**	**-209.2**
	Milk & Milk food	112.4	132.4	17.8	20.0
	Wheat Unmilled	0.0	107.2	-	107.2
	Dry Fruits	65.7	84.3	28.3	18.6
	Tea	323.0	247.8	-23.3	-75.2
	Spices	57.1	71.1	24.6	14.0
	Edible Oil (Soyabean & Palm)	1759.1	1608.2	-8.6	-150.9
	Sugar	4.1	5.1	24.1	1.0
	Pulses	282.8	239.5	-15.3	-43.2
	Other food items	1028.2	927.6	-9.8	-100.6
B.	**Machinery Group**	**4712.4**	**5176.1**	**9.8**	**463.7**
	Power generating Machines	818.5	850.4	3.9	31.9
	Office Machines	216.6	176.3	-18.6	-40.3
	Textile Machinery	306.7	489.9	59.7	183.2
	Const. & Mining Machines	122.3	209.7	71.5	87.4
	Aircrafts, Ships and Boats	577.9	738.9	27.9	161.0
	Agriculture Machinery	87.1	56.3	-35.4	-30.9
	Other Machinery items	2583.3	2654.6	2.8	71.3
C.	**Petroleum Group**	**12362.5**	**12205.5**	**-1.3**	**-157.0**
	Petroleum Products	7766.5	7466.8	-3.9	-299.7
	Petroleum Crude	4595.9	4738.7	3.1	142.8
D.	**Consumer Durables**	**1873.0**	**1933.6**	**3.2**	**60.6**
	Road Motor Vehicles	1191.8	1017.6	-14.6	174.2
	Electric Mach. & Appliances	681.2	916.0	34.5	234.7
E.	**Raw Materials**	**5079.1**	**5111.2**	**0.6**	**32.1**
	Raw Cotton	752.6	515.9	-31.5	-236.7
	Synthetic Fibre	333.9	349.4	4.6	15.4
	Silk Yarn (Synth & Arti)	449.3	517.0	15.1	67.7
	Fertilizer Manufactured	498.6	584.3	17.2	85.7
	Insecticides	63.5	95.5	50.4	32.0
	Plastic Material	1151.4	1352.8	17.5	201.3
	Iron & steel Scrap	545.1	589.1	8.1	43.9
	Iron & steel	1284.7	1107.2	-13.8	-177.5
F.	**Telecom**	**1284.9**	**1027.4**	**-20.0**	**-257.5**
G.	**All other items**	**7720.7**	**8227.5**	**6.6**	**506.8**

P : Provisional
Source : Pakistan Bureau of Statistics

Imports of machinery posted a modest increase of 9.8 percent in the first ten months (July-Apr) of current financial year reaching to $5,176.1 million. Within machinery group, Textiles machinery Construction & Mining machinery and Aircraft, Ships and Boats showed a substantial increase of 59.7 percent, 71.5 percent and 27.9 percent, respectively. Textile machinery growth of 59.7 percent can be seen as a reflection of the revival in textile related activities in the country. Import of power generating machines remained moderate during current year as its import posted an increase of 3.9 percent. The rise in the import of these different categories of machines is attributed to ongoing work on various power and construction projects in the country. The absolute increase in imports of these four categories of machines amounted to $463.5 million almost equals to the total absolute increase of 463.6 million in the total import of the machinery group. Within the machinery group, the combined decline in the imports of office machines and agriculture machinery to $71.2 million resulted the absolute increase of import of machinery group at $463.7 million. Import of Telecom machinery also witnessed a decline of 20 percent ($257.5 million) during first ten months of current financial year compared to same period last year (Table-8.5). The import of machinery is a positive development suggesting growth in industrial and construction activities.

Imports under food group witnessed a decline of 5.8 percent during Jul-Apr, FY14 of current financial year as compared to the same period last year on account of decline in the import prices of palm oil, tea, pulses and some other food items. Within food group, import of palm oil which constitutes around 45 percent of food import declined by 10.1 percent whereas its imported quantity remained the same when compared with import during the same period last year. Similarly, the import bill of tea witnessed a considerable decline of 23.3 percent, mostly because of fall in international prices as its imported quantity nominally increased by 3.8 percent during Jul-Apr period compared to same period last year. Import of pulses also showed a decline both in quantity and value terms by 0.9 and 15.3 percent, respectively. This shows that import prices of pulses also declined during current year as compared last year. During Jul-Apr, FY14, import of wheat un-milled amounting to $ 107.2 million has been witnessed. Food items which import has witnessed an increase include milk cream & milk food for infants (117.8 percent), dry fruits & nuts (28.3 percent) and soya-bean oil (35.2 percent) mostly due to its import quantity which increased by 69.8 percent.

During July-Apr, FY14, import of textile, agriculture & chemical and metal groups which mostly represent raw materials items witnessed a combined growth of 1.2 percent. Within raw material groups, import of plastic material remained the prominent factor leading to the increase in import bill of agriculture & chemical group by $291.5 million. Import of gold decreased from $ 236.6 million in July-Apr, FY13 to $173 million during July-Apr, FY14 (26.9 percent) due to a ban on its import for some period during current financial year. In quantity terms import of gold decreased by 6.8 percent during FY14 (Jul-Apr) showing a considerable decline in the gold prices.

Trends in Monthly Imports

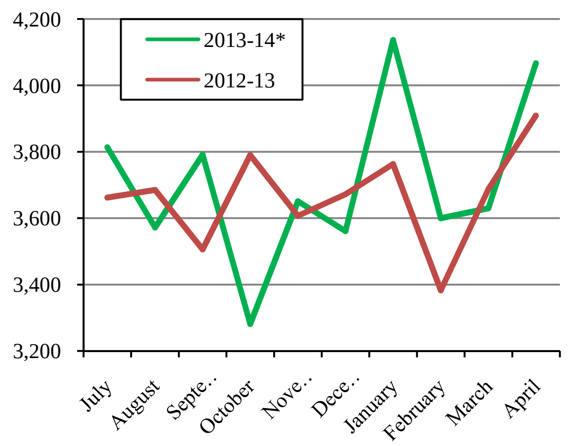
The monthly imports during July-Apr, 2013-14 witnessed some monthly fluctuations especially during January and April, 2014 mostly due to higher imports of construction, mining and textile machinery. Imports averaged $ 3,711 million per month during this period as against $ 3,667 million for the comparable period last year. Thus, on average, imports have risen only by $ 44 million per month during the period. The monthly imports are tabulated in Table 8.6 and Fig.8.4.

Table 8.6: Monthly Imports

Month	($ Million)	
	2012-13	2013-14 P
July	3,662	3,814
August	3,685	3,572
September	3,506	3,791
October	3,790	3,281
November	3,607	3,651
December	3,672	3,561
January	3,763	4,137
February	3,383	3,600
March	3,687	3,630
April	3,909	4,067
Monthly Average	**3,667**	**3,711**

P : Provisional
Source : Pakistan Bureau of Statistics

Fig-8-4: Monthly Imports ($ Million)



Direction of Imports

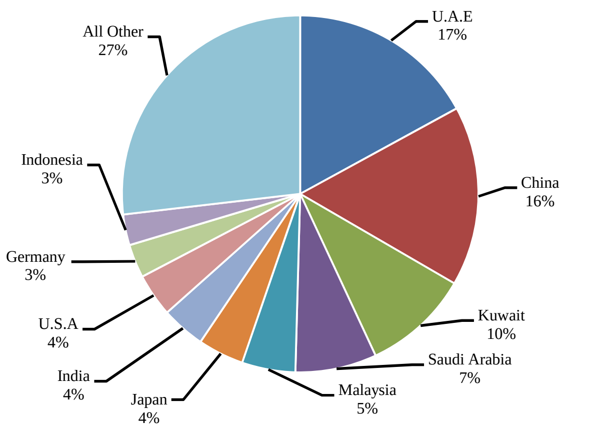
Like exports, Pakistan's imports are also highly concentrated in few countries. Based on current year data, around 50 percent of Pakistan imports originate from just four countries UAE, China, Kuwait and Saudi Arabia. Malaysia, Japan, India and USA are some other import suppliers of Pakistan. It is worth mentioning to add that China has emerged as Pakistan major trading partner both in terms of exports and imports. However, in case of India, the balance is not in favour of Pakistan as Pakistan exports to India are negligible whereas Pakistan imports from India are considerably higher and it is seventh major supplier (Table 8.7 and Fig.8.5).

Table 8.7 : Major Import Markets (Rs. billion & Percentage Share)

Country	2008-09		2009-10		2010-11		2011-12		2012-13		July-March 2013-14 P*	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
U.A.E	247.1	9	422.0	14	469.5	14	685.1	17	837.4	19	588.1	17
China	319.6	12	370.2	13	494.9	14	685.1	17	642.4	15	562.8	16
Kuwait	180.9	7	201.8	7	284.8	8	358.8	9	392.5	9	333.6	10
Saudi Arabia	334.1	12	283.6	10	388.8	11	449.6	11	334.5	8	254.8	7
Malaysia	125.6	5	146.3	5	210.3	6	216.9	5	202.9	5	167.1	5
Japan	98.5	4	128.8	4	142.2	4	171.4	4	197.3	5	143.9	4
India	72.1	3	102.9	4	149.0	4	134.8	3	175.5	4	137.1	4
U.S.A	146.2	5	135.0	5	154.7	4	132.0	3	156.6	4	134.6	4
Germany	102.5	4	98.7	3	80.2	2	100.1	2	131.0	3	104.8	3
Indonesia	42.6	2	53.8	2	68.8	2	104.4	3	125.3	3	96.1	3
All Other	1,054.2	39	967.9	33	1,012.2	29	970.9	24	1,154.4	27	926.0	27
Total	**2,723.6**	100	**2,911.0**	100	**3,455.3**	100	**4,009.1**	100	**4,349.9**	100	**3,448.9**	100

Source: Pakistan Bureau of Statistics
P* Provisional

Fig- 8.5: % Share of Imports 2013-14



Review of Strategic Trade Policy Framework 2012-15

Ministry of Commerce has launched STPF 2012-2015 after the approval of the Cabinet on January 30, 2013. Its successful implementation would build upon the foundations provided by STPF 2009-12 and enable Pakistani firms to produce and export more sophisticated and diversified range of products to more markets and help reduce unemployment and poverty in Pakistan. Main goals of STPF 2012-15 are:

- Make export sector as an engine of growth
- Enhance Pakistan's export competitiveness in short as well as long term
- Increase Pakistan's cumulative exports to $ 95 billion during 2012-15

The Elements of STPF 2012-15 purport to strengthen different aspects of Pakistan's export competitiveness directly or indirectly. These elements have been identified on the basis of an evaluation of STPF 2009-2012, an analysis of emerging global trade scenario and extensive consultation with the export sector (business community) and other government departments.

The measures to achieve STPF 2012-15 goals under the above mentioned salient features are spread over a period of three years and are broadly categorized as follows:

a. Regulatory amendments in the trade regulations

b. Institutional strengthening and governance

c. Measures to enhance export competitiveness

STPF targets supply side weaknesses along with the efforts to gain better market access in traditional export markers. A large number of initiatives to boost the firm level productivity have been introduced. These various initiatives are already functional.

All regulatory amendments in the trade regulations (Import Policy Order and Export Policy Order, 2013 have been issued vide SROs 192(I)/2013 and 193(I)/2013 dated 8th March, 2013 and stands implemented. In institutional strengthening and governance, Domestic Commerce Wing, Trade in Service Wing have been established in the Ministry of Commerce and started functioning in July 2013. Other institutions proposed in the STPF 2012-15 are in progress and will be established within the stipulated period of time. To enhance export competitiveness various export development initiatives are announced in STPF 2012-15. The business processes for these initiatives are under way in Ministry of Commerce in consultation with TDAP, SBP and Finance Division. As STPF is spread over 3 years, therefore all the initiatives will be achieved in the stipulated period of time.

Bilateral and Regional Trade Agreements

I. Trade Promotion with EU member's countries

The 10 year GSP plus status for Pakistan by the European Union is a blessing for the country. It will revive industrial sector of Pakistan and create thousands of new jobs for the people. However, there are many challenges being faced by Pakistan to fully utilize the benefits from this precious status. But with dedication and unflinching resolve on part of government, these problems will be overcome through interventionist strategies. Pakistan has been granted GSP Plus after vigorous efforts for Pakistan's inclusion in EUs GSP plus scheme for preferential market access for Pakistan's exports. This is anticipated to result in an increase in exports by more than $ 1.0 billion and consequently generate new employment opportunities.

Before grant of GSP Plus to Pakistan by EU, Pakistan's main exports to European Union were facing high tariffs:

Table 8.8: Pakistan's main Exports to European Union

Products	Exports to EU in 2012 (US $ Mil)	Tariffs till 31st December, 2013	Projected Increase by 2014 (US$ Mil)
Ethyl Alcohol	42.32	6.1% to 19.2 Euros/Hl	10.58
Carpets	48.62	6.40%	12.15
Plastics	50.13	3% (+5.1% ADD)	12.5
Footwear	71.88	Up to 12%	18
Leather	509.21	Up to 5.5%	127.25
Non Value Added Textiles	885.17	Up to 6.4%	221.25
Home Textiles	1,230	Up to 9.6%	307.5
Textile Garments	1,730.08	Up to 9.6%	408

Source: Ministry of Commerce

These products amounted to 82 percent of our total exports to European Union in 2012. Pakistan's total exports to EU during the calendar year 2012 amounted to US$ 5.6 billion out of which these products were worth US$ 4.57 billion.

Hence through GSP Plus, 82 percent of our exports which were previously facing stiff competition from countries like China, India, Brazil, Bangladesh will now be duty free. Some of the products from Pakistan had duty free access in EU because the normal or General Arrangement tariffs were already zero, these included the following:

Table 8.9: Duty free products from Pakistan to EU

Product Sector	Exports to EU in 2012 (US$ million)
Rice	78
Sports Goods (including football)	130.07
Surgical Instruments	116.01
Meat Products	64
Fruits	70.42

Source: Ministry of Commerce

Hence with the grant of GSP Plus status to Pakistan, more than 90 percent of our exports to EU will be eligible for duty free access.

It is estimated that due to GSP Plus there will be an increase of more than US$ 1.0 billion worth of exports to EU during the year 2014. Pakistan Readymade Garments Manufacturers and Exporters Association (PRGMEA) estimated that on an increase of US$ 4000 in our exports, one job will be created. Hence it is estimated that around 100,000 new jobs will be created in textile garments sector only.

II. Trade Normalization with India

A meeting was held between the Commerce Ministers of the two countries in New Delhi in January 2014, on sidelines of the 5th SAARC Business Leaders Conclave. A broad understanding was reached in this meeting, as reflected in the Joint Statement issued thereafter. The salient features of this understanding were as follows:

- Normalization of trade relations & providing Non-Discriminatory Market Access (NDMA) on reciprocal basis, before the end of February 2014
- Increase in working hours at Wagah with the objective of round the clock operations as soon as possible
- Allow transportation of cargo in containers by road through Wagah/Attari

Consultations with the stakeholders: The Ministry of Commerce has been in consultation with domestic stakeholders through various mechanisms and fora. This has also resulted in an extensive public debate in the media. During the consultations, most of the stakeholders supported granting NDMA and allowing import of all goods through the Wagah-Attari land route. Only some segments of four sectors, namely agriculture, automobiles, pharmaceuticals, and yarn manufacturers, expressed some concerns about the potential negative impact on their sectors/industries.

The concerns of these sectors have been examined and discussed with the relevant stakeholders. Most of the concerns have been addressed by including these industries' products in the sensitive list, which will provide protection through the prevailing rate of customs duty. Mechanism of further protection, if needed, is also being chalked out in close consultation with stakeholders.

III. Progress on PTAs/FTAs

Pak-Indonesia Preferential Trade Agreement (PTA)

Indonesia and Pakistan signed a Preferential Trade Agreement (PTA) on 3rd February, 2012. Pakistan's Offer List to Indonesia (transposed on HS-2012) under the Agreement includes a total of 313 tariff lines for market access at preferential tariff. Pakistan also agreed to offer the same treatment on Palm Oil products from Indonesia as provided to Malaysia under the Pakistan-Malaysia FTA which means that Pakistan will import palm oil from Indonesia @ 15 percent Margin of Preference (MoP) under the PTA. Indonesia extended tariff concessions to Pakistan on textiles and horticulture products including kinnow. The PTA has been implemented and operationalized since 1st September 2013.

Pak- Malaysia FTA

The Comprehensive Free Trade Agreement (FTA) for Closer Economic Partnership between Pakistan and Malaysia was signed on 08-11-2007 at Kuala Lumpur Malaysia. It became operational from 1st January 2008. Bilateral trade has increased by 36 percent since then from $ 1.72 billion to $2.34 billion.

Pak-China FTA

Bilateral trade and commercial links between the two countries were established in January 1963 when the first bilateral long term trade agreement was signed. Pakistan accorded MFN status to China. China-Pakistan Free Trade Agreement (CPFTA) was signed on 24th November, 2006 and implemented from 1st July 2007. The bilateral FTA with China covers trade in goods and investment. Pakistan secured market access on products of immediate export interest like cotton fabrics, blended fabrics, synthetic yarn and fabrics, knit fabrics, home textiles like bed-linen etc, minerals, sports goods, cutlery, surgical goods, kinnow, mangoes, industrial alcohol, etc. FTA on Trade in Services was signed on 21st February 2009 and is operationalized from 10th October 2009.

Pakistan-China volume of trade, which was in the region of US$ 4.1 billion in the year 2006-07 reached all-time high in 2012-13, amounting to US$ 9.2 billion showing an increase of 124 percent. While China's exports to Pakistan increased by 1 percent during this period, Pakistan's exports have increased by 400 percent from around $600 million in 2006-07 to $2.6 billion in 2012-13.

The negotiations for the 2nd Phase of China-Pakistan Free Trade Agreement (CPFTA) are presently underway. The 2nd meeting of 2nd Phase of CPFTA was held on November 14-15, 2013. Ministry of Commerce undertook a thorough analysis of the trade performance under the FTA with the objective of rectifying these omissions while concluding the revised FTA.

Balance of Payments

Pakistan's balance of payments shows a record increase in capital flows that has substantially offset a gradual widening of the current account deficit during current financial year. External account turned into surplus during Jul-April, FY14 compared to the same period last year. Overall external account balance posted a significant surplus of US$ 1,938 million during Jul-Apr, FY14 compared to a deficit of US$ 2,090 million in the corresponding period of last year due to significant improvement in the financial account after realization of floating of Pakistan Sovereign Bond inflows. This relative improvement has offset the deterioration in the current account deficit that reached to US$ 2,162 million during Jul-Apr, FY14 compared to a deficit of US$ 1,574 million in the corresponding period last year. The higher current account deficit was largely caused by the widening of trade and services account deficits. Specifically, higher services account deficit was the result of lower receipts under coalition support fund during Jul-Apr FY14, compared to the same period last year (Table-8.10). However, it is expected that receipt of CSF amount of $375 million in May, 2014 will improve the current account deficit.

On the other hand, capital and financial account improved substantially during the period under review and recorded a higher surplus of US$ 5.0 billion during Jul-Apr, FY14 compared to a deficit of US$ 0.4 billion during the corresponding period of last year.

Table 8.10: Summary Balance of Payments US $ million

Items	July-June		July-April	
	2011-12	2012-13	2012-13 P	2013-14 P
Current Account Balance	-4,658	-2,496	-1,574	-2,162
Trade Balance	-15,765	-15,431	-12,892	-13,259
Goods: Exports	24,696	24,795	20,544	21,038
Goods: Imports	40,461	40,226	33,436	34,297
Service Balance	-3,192	-1,472	-931	-2,171
Services: Credit	5,035	6,733	5,860	4,189
Services: Debit	8,227	8,205	6,791	6,360
Income Account Balance	-3,245	-3,685	-2,958	-3,156
Income: Credit	826	488	395	438
Income: Debit	4,071	4,173	3,353	3,594
Current Transfers Net	17,544	18,092	15,207	16,424
Of which:				
Workers' Remittances	13,186	13,922	11,570	12,895
Capital & Financial Account	1,463	813	-440	4,998
Capital Account	183	264	244	1,755
Financial Account	1,280	549	-684	3,243
Direct Investment in Pakistan	744	1,258	670	654
Portfolio Investment (net)	-144	26	298	2,244
Other Investment	680	-735	-1,652	345
Net Errors and Omissions	-80	-309	-76	-898
Overall Balance	-3,275	-1,992	-2,090	1,938

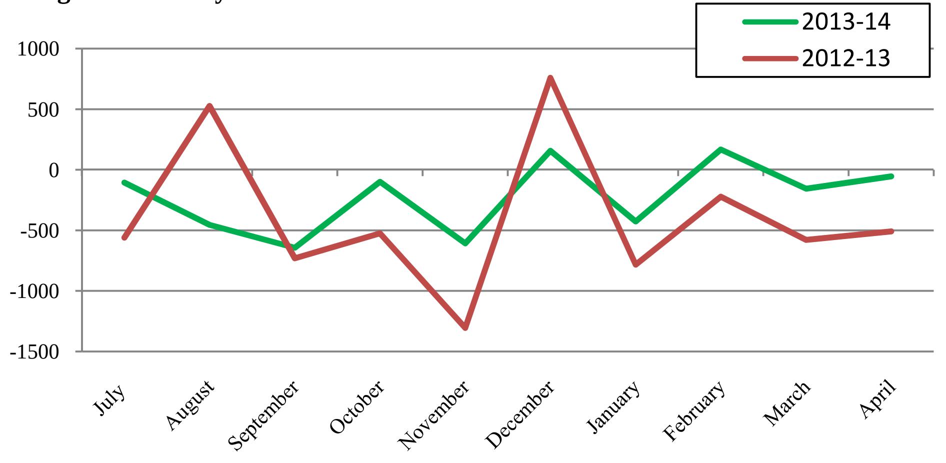
P : Provisional
Source: State Bank of Pakistan

As overall external account displayed surplus, the country's FX reserves improved substantially and the Pak rupee- dollar parity remained stable when compared with end June, 2013.

Current Account

Current account deficit gradually further widened during current financial year (Jul-Apr) to $ 2,162 million (0.9 percent of GDP) from $1,574 million during Jul-Apr, FY13 (0.7 percent of GDP). A striking feature of this year's current account deficit is that it has widened even though the import growth has slowed to 1.2 percent only but the performance of exports has remained slow, resulting in widening of trade deficit. Deficit in services account also widened manifold due to non- transfer of CSF and as such even a robust growth of 11.5 percent in current transfers (net) could not narrow the current account deficit. However, CSF transfer during rest of the financial year will improve current account position (Fig 8-6).

Fig-8-6: Monthly Current Account Balance



Capital and Financial Account

Unlike the current account, the capital and financial account improved and turned into surplus substantially amounting to $4,998 million during July-April, 2013-14 as compared to a deficit of $440 million in the corresponding period last year. Notwithstanding, higher surplus in the capital and financial account, the overall external balance of the country witnessed a surplus of $ 1,938 million during July-April 2013-14. This improvement in Capital and Financial account comes from realization of sovereign bond amount, grants from friendly countries and disbursements from multilateral and bilateral international financial institutions. This improvement in the Capital and Financial account balance enabled the overall external account balance in surplus.

Workers' Remittances

Like previous year's performance, worker's remittances registered commendable growth during Jul-Apr FY14, growing by 11.5 percent against 6.4 percent growth recorded in the corresponding period of last year. The consistent growth in remittances reflects a shift from informal to formal avenues to remit funds from overseas Pakistanis. The Government and SBP has focused on the promotion of formal channel for international remittances through banks and different money transfer services under its Pakistan Remittances Initiatives (PRI).Especially SBP has been playing a vital role to adopt formal channels for remittances. It has an active agenda to continuously analyze the global scenario related to remittances and take necessary steps to remove barriers to the flow of remittances, and improve access to banking facilities to overseas Pakistanis and their families.

Despite the constant growth in remittances inflows, Pakistan stands lag behind when compared with some its neighboring countries with huge exports of human capital like India, China, Bangladesh, etc. Present government is taking various measures to export human capital and is under negotiations with other governments in this regard.

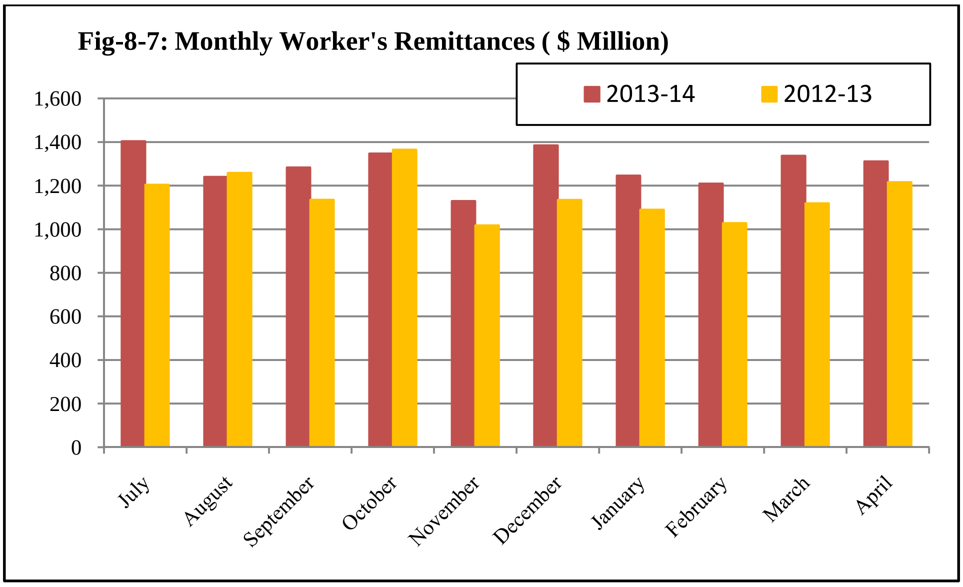
A greater share in remittances growth was that of oil rich gulf-region, Saudi Arabia, United Arab Emirates and other GCC countries (Table 8.11). Most of the increase came from Saudi Arabia and UK. Interestingly, it was earlier feared that due to ongoing drive against illegal immigrants in Saudi Arabia, there could be some repatriation of Pakistanis from the Kingdom, and subsequently, a reduction in remittances. However, due to government measures and negotiations from Saudi government, this did not happen while it is reported that over 50,000 Pakistani immigrants were sent back, around 800,000 documented and regularized, as per the new requirements, during the grace period.

Country-wise data shows that remittances from all major countries increased. The share of Saudi Arabia in overall remittances was the largest (29.5 percent); with UAE (19.6 percent) and USA 15.7 percent) having the second and third largest shares (Table-8.11).

Table 8.11: Country/Region Wise Cash Worker's Remittances

Country/Region	July-April			($ billion)
	2012-13	2013-14	% Change	Share
Saudi Arabia	3.37	3.81	12.90	29.52
U.A.E.	2.31	2.52	9.12	19.57
USA	1.82	2.03	11.39	15.72
U.K.	1.61	1.80	11.62	13.95
Other GCC Country	1.33	1.53	14.70	11.85
Others Countries	0.55	0.58	7.10	4.53
EU Countries	0.30	0.36	19.36	2.76
Canada	0.15	0.13	-10.73	1.04
Australia	0.13	0.13	0.36	1.01
Total	11.57	12.89	11.45	100

Source : State Bank of Pakistan



Foreign Investment

Foreign investment during Jul-Apr, FY14 increased by 133.3 percent compared to same period last year on account of foreign public investment in debt securities comprising special US dollar bonds Euro bonds, FEBC, DBC, T-bills and PIBs. However, foreign private investment witnessed a decline of 15 percent mainly emanating from foreign direct investment (FDI) which reduced by 12.9 percent. Inflows of FDI were $1604 million during first ten months of current financial year. Portfolio investment in equity securities, however witnessed a rise of 27.8 percent. The sale of Pakistan Sovereign Bond, 2014 is a signal in reviving the foreign investors' confidence. The subdued growth in FDI is likely to revive in coming period. The upbeat Capital Market is also an indication on this account.

Sector-wise data shows Oil & Gas sector received the highest inflows of FDI ($412 million) followed by Financial Business ($199 million), Power (187.5 million), Communication ($178.2 million) and Chemicals ($116 million). Country wise analysis shows that major source of FDI inflows includes Switzerland ($257 million), USA ($241 million), Hong Kong ($200 million), UK ($155 million) and UAE ($149 million) (Table-8.12).

Table 8.12: Foreign Investment ($ million)

	July-April		% Change
	2012-13	2013-14	
A. Foreign Private Investment	1,081.7	919.1	-15.0
Foreign Direct Investment	862.3	750.9	-12.9
Portfolio Investment	219.4	168.2	-23.4
B. Foreign Public Investment	195.3	2,059.9	954.6
Total Foreign Investment (A+B)	1,277.0	2,979.0	133.3

Source: State Bank of Pakistan

Foreign Exchange Reserves

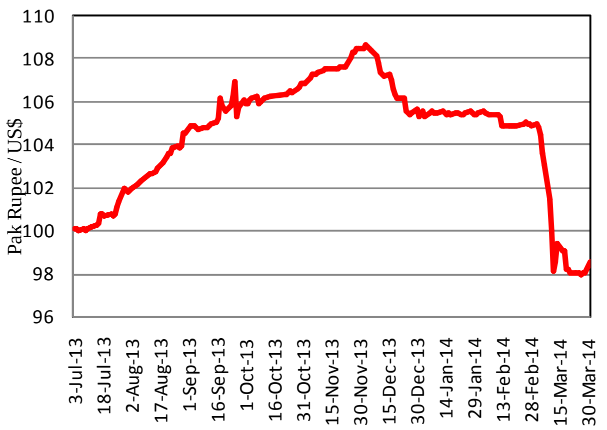
Pakistan's foreign exchange reserves improved by US$ 3.0 billion since July, 2013 and remained around $13.6 billion as on 2ist May, 2014, a change of more than 28 percent. Of the overall increase in reserves, SBP reserves increased by $3.2 billion, while that of the scheduled banks decreased by 0.2 billion. This improvement in reserve position was due to inflows from the IMF under the current program, coalition support fund (CSF), 3G/4G licenses, Issuance of Sovereign Bond, multilateral/ bilateral institutions and inflows from friendly countries. This improvement has been achieved despite the fact that Pakistan has so far repaid $2,708 million during current year to the IMF and other institutions.

Exchange Rate

As pressures on SBP reserves mitigated, Pak Rupee recorded an appreciation of 1.1 percent in Jul-Mar FY14, compared to 3.8 percent depreciation in the same period last year. As a result, the exchange rate by end June FY14 is worked out Rs. 98.77 against Rs. 99.66 per US$ at end-June 2013.

Quarterly data shows that during Jul-Sep FY14, exchange rate came under severe pressure due to US$ 1.8 billion external debt servicing; a sharp increase in the current account deficit; and heavy foreign exchange purchases by SBP from the interbank market ahead of the new IMF program. During Q1-FY14, the Pak Rupee depreciated by 6.0 percent, which was the highest quarterly depreciation in five years. While these pressures continued in the second quarter, some improvement was seen in December 2013 when current account posted a surplus, and the country received second tranche of US$ 554 million from the IMF. As a result, the Pak Rupee witnessed a marginal appreciation of 0.7 percent during Q2-FY14. Later in Q3-FY14, following a sharp increase in SBP reserves and positive market sentiments, the Pak Rupee appreciated by 6.9 percent (Figure 8.10).

Figure 8.10: Daily Movements in Exchange Rate

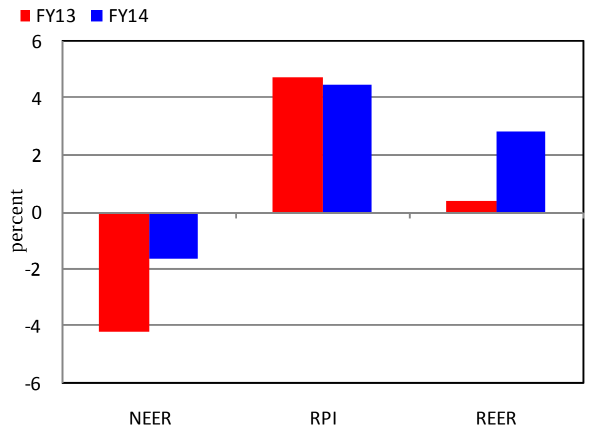


Source: State Bank of Pakistan

Real Effective Exchange Rate

Exchange rate of Pak rupee vis a vis basket of trading partner currencies – typically referred to as Nominal Effective Exchange Rate (NEER) – depreciated by 1.6 percent in Jul-Mar FY14, compared to 4.2 percent in Jul-Mar FY13. However, this nominal depreciation in Pak Rupee was more than offset by 4.5 percent increase in the relative price index (RPI). As a result, in real terms, Pak Rupee posted an appreciation against the basket of trading partner currencies during Jul-Mar FY14. More specifically, Real Effective Exchange Rate increased by 2.8 percent in Jul-Mar FY14, compared to a marginal appreciation of 0.4 percent in the same period last year.

Figure 8.11: Changes in NEER, REER and RPI (Jul-Mar)



Source: State Bank of Pakistan

Conclusion

External sector performance witnessed a mixed trend during current financial year. While Pakistan exports growth remained moderate in line with the global trends, the import bill recorded a nominal growth. Overall external account remained surplus considerably during current year on the back of capital and financial accounts performance and the inflows from multilateral and bilateral financial institutions, friendly countries and issuance of sovereign bonds. This has been achieved despite the fact that Pakistan has repaid a huge amount against its international obligations. The depreciation of currency and depletion of foreign reserves which was observed during first two quarters of current year has been well controlled with a net result of appreciation of currency and satisfactory reserve level when compared with end June, 2013. It is expected that the on-going trend will continue during rest of the year and all the targets of external sector will be achieved.