CHAPTER 8

Trade and Payments

According to World Economic Outlook global growth is expected to be moderate for the year 2019. Global trade during 2018 remained slow on account of decelerated export orders and global manufacturing activity, particularly in capital goods. Global output and investments are likely to be suppressed in 2019 due to uncertain business environment stemming from expected disorderly Brexit and US fiscal policy. Prices of metal and agricultural commodities also weakened due to concerns about fluctuation in trade and growth. However, if these differences are resolved without any further trade barriers and softener financial situation is observed then growth could be lifted up.

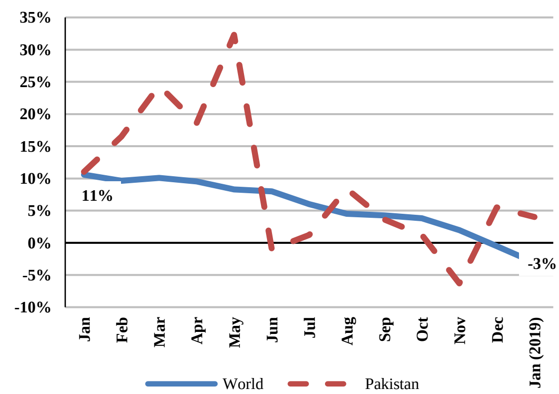
Major economies, like US and China, involved in trade tension have affected almost 2.5 percent of global trade says World Bank Report. In contrast, some developing economies may be beneficiaries of trade diversion as prices of these targeted goods may rise in US and China.

The Year 2019 is proving to be a very hard for global growth which is projected to slowdown to 3.3 percent in 2019 from 3.6 in 2018. Leading global institutions and agencies including IMF and World Bank are continuously downgrading their global growth projections. Developed and developing economies are finding it hard to stay on the upward trajectory of growth. Recession is silently cannibalizing the growth targets.

Global trade has been at a historic low since the recession in 2008, declining to -3 percent in January 2019 from 11 percent in January 2018.

China's exports declined by 21 percent in February 2019. India's export declined from double digit 18 percent in October 2018 to 2 percent in February 2019. Bangladesh's exports declined from 55 percent in October 2018 to 7 percent in January 2019. Indonesia and Thailand have posted negative growth since the onset of the muted recession. The global demand is falling which clearly indicates waning consumer and business sentiment. Protectionist measures, trade tensions, ineffective stimulus packages, geopolitical uncertainties may hurt future growth.

Fig-8.1: Pakistan's Export Growth vs. Global Exports (Jan 2018-Jan 2019)



Balance of Payments

Pakistan witnessed the highest export of US$ 25.1 billion in 2013-14. However, in subsequent years exports have declined considerably. This declined started from financial year 2014-15 when an international commodity slump set in. This was compounded by structural supply side constraints including energy shortages, high input costs and an overvalued exchange rate. From financial year 2014 to 2016, exports declined by 12.4 percent. Exports growth trend over this period was similar to the world trade growth patterns.

In FY2018, global economic changes like increased oil prices (60.06 $/brl), trade protectionism and regional frictions affected many developed and developing economies including Pakistan. However, in Pakistan this situation was aggravated due to insufficient FX reserves together with increased import bills, deteriorating trade balance and stagnant remittances.

During FY2018 Pakistan's exports picked up and reached to US$ 24.7 billion showing a growth of 12.57 percent over previous year FY 2017. Imports on the other hand also increased by 16.25 percent and touched the highest figure of US$ 56.6 billion. As a result the trade deficit widened to US$ 31.8 billion which was the highest since last ten years.

Historically remittances have been providing support to sustain current account deficit as a buffer against the trade deficit with average growth rate of 7.7 percent during last five years. Current account deficit widened to US$ 3.1 billion in FY2013-14 to US$ 19.89 billion in FY2017-18 depicting the increase of US$ 16.8 billion. CAD was highest by 6.3 percent in FY2017-18 as a percentage of GDP.

However, the present government took this challenging issue and focused on anchoring the increasing import bill by restricting unnecessary imports which started eroding the competitive edge of domestic industry including the exports units. A number of measures have been taken in this regard which helped in reducing the import bill and simultaneously formed a stimulus for sustainable economic growth by improving competitiveness and efficiency of the industry especially export oriented and import substituting units and reducing anomalies and cost of doing business.

Further, macro adjustment policies, such as monetary tightening, exchange rate adjustments, cuts in development spending, started paying dividends. The current account deficit declined by a sizable amount of 26.9 percent on year on year basis US$ 11.58 billion during Jul-Apr FY19. The impact played out through both goods and services imports, which declined by 4.9 percent and 18.58 percent respectively during the period. Major support to the current account also came from an 8.45 percent increase in workers' remittances, led by higher inflows from advanced economies. However, exports emerged as a cause for concern, with receipts declining 1.9 percent during Jul-Apr FY19.

Table 8.1: Summary Balance of Payments

Items	July-June		July-April	
	2016-17	2017-18	2017-18	2018-19 P
Current Account Balance	-12621	-19897	-15864	-11,586
Trade Balance	-26,680	-31824	-25,813	-23,934
Exports of Goods FOB	22003	24768	20,489	20,099
Imports of Goods FOB	48,683	56592	46,302	44,033
Service Balance	-4,339	-6068	-5,041	-3,217
Exports of Services	5,555	5288	4,379	4,453
Imports of Services	9894	11356	9,420	7,670
Income Account Balance	-5048	-5484	-4229	-4458
Income: Credit	662	679	568	564
Income: Debit	5710	6163	4,797	5,022
Balance on Secondary Income	23446	23479	19,219	20,023
Of which:				
Workers' Remittances	19351	19914	16,482	17,875

P: Provisional

Source: State Bank of Pakistan

Pakistan trade deficit has decreased by US$ 1.879 billion in the current fiscal year (July-April 2018-19). Pakistan's exports during the period July-April (FY 2019) stood at US$ 20.01 billion compared with US$ 20.49 billion during the corresponding period of FY 2018. It reflects a 1.9 percent decline in dollar terms. Pakistan's imports during the period July-April (FY 2019) stood at US$ 44.03 billion compared with US$ 46.302 billion during the corresponding period of FY 2018. It reflects a 4.9 percent decrease in dollar terms. Overall, the trade deficit has decreased by 7.28 percent in the Jul-Apr FY2019 to US$ 23.93 billion from US$ 25.81 billion in the same period last year.

Current Account

Pakistan's current account deficit has seen containment in FY 2019. Current account deficit reached to US$ 11.586 billion in July-April FY2019 as compared to US$ 15.864 billion in the same period last year showing a contraction of 26.9 percent. This is mainly attributed to healthy remittances inflows and low import bills. On the import side, the entire decline of 4.9 percent in payments during the period July-April FY2019 came from non-energy products. As early harvest CPEC power projects reached completion, an expected decline in import payments for power generation and electrical machinery was noted. At the same time, cuts in development spending and a general slowdown in economic activities reduced the demand for imported construction-related items, particularly construction machinery and iron and steel. Further, support came from 18.4 percent decline in transport import payments. Lower purchases of aircraft and related parts, and old ships for ship breaking, were mostly responsible.

On year on year basis, current account deficit has been continuously shrinking. However, month on month shows that it amounted to US$ 1241 million in April FY2019 as compared to US$ 871 million in March FY2019. Decreasing exports and low remittances, specifically from EU and UAE, pushed up CAB in April FY2019.

Fig-8.2: Monthly Current Account

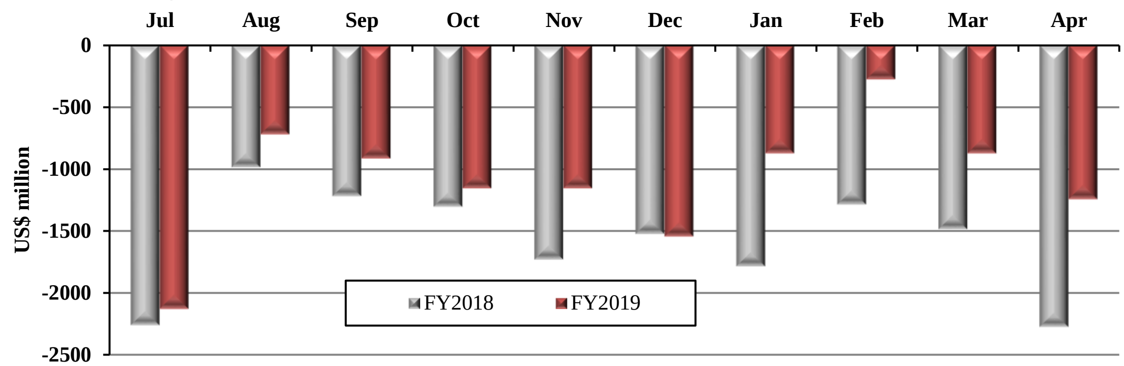


Table 8.2: Current Account Deficit $ Billion

Year	Current Account Deficit	% Change MoM	Year	Current Account Deficit	% Change YoY	Year	Current Account Deficit	Year	Current Account Deficit	Average Growth in CA deficit %
Jun-FY18	1.971									
Jul-FY18	2.13	7.8	Jul-FY17	2.26	-5.8	Jul- FY 18	2.13	Jul- FY 17	2.26	-5.8
Aug-FY18	0.72	-66.2	Aug-FY17	0.99	-27.1	Jul- Aug FY18	2.85	Jul-Aug FY17	3.25	-12.3
Sept-FY18	0.91	26.9	Sept-FY17	1.22	-25.1	Jul- Sep FY18	3.76	Jul-Sep FY17	4.47	-15.8
Oct-FY18	1.15	26.1	Oct-FY17	1.31	-11.6	Jul- Oct FY18	4.92	Jul-Oct FY17	5.77	-14.8
Nov-FY18	1.15	0.1	Nov FY17	1.73	-33.3	Jul- Nov FY18	6.07	Jul-Nov FY17	7.51	-19.1
Dec-FY18	1.54	33.8	Dec- FY17	1.52	1.3	Jul- Dec FY18	7.62	Jul-Dec- FY17	9.03	-15.7
Jan-FY19	0.87	-43.5	Jan- FY18	1.79	-51.1	Jul- Jan FY19	8.49	Jul-Jan- FY18	10.82	-21.5
Feb-FY19	0.28	-68.2	Feb- FY18	1.29	-78.4	Jul- Feb FY19	8.77	Jul-Feb- FY18	12.10	-27.6
Mar-FY19	0.87	213.3	Mar- FY18	1.49	-41.4	Jul- Mar FY19	9.64	Jul-Mar FY18	13.59	-29.1
Apr-FY19	1.24	42.5	Apr- FY18	2.28	-45.5	Jul- Apr FY19	11.59	Jul-Apr FY18	15.86	-27.0

Fig-8.3: CA deficit, % Change MoM

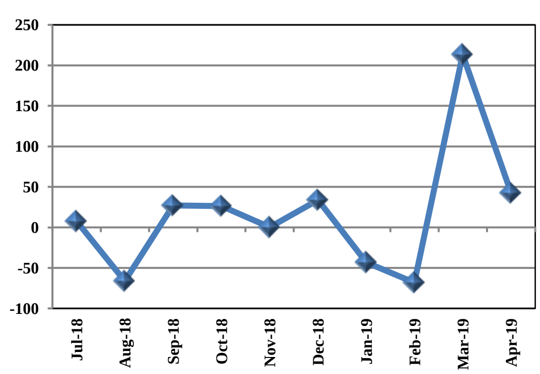
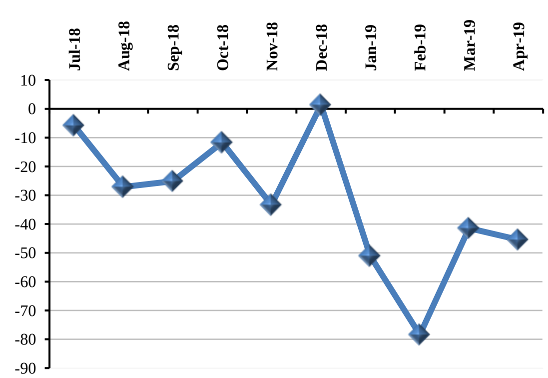


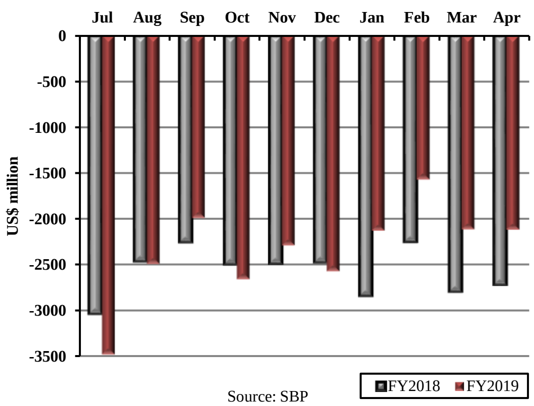
Fig: 8.4 CA deficit, % Change YoY



Trade and Services Balance

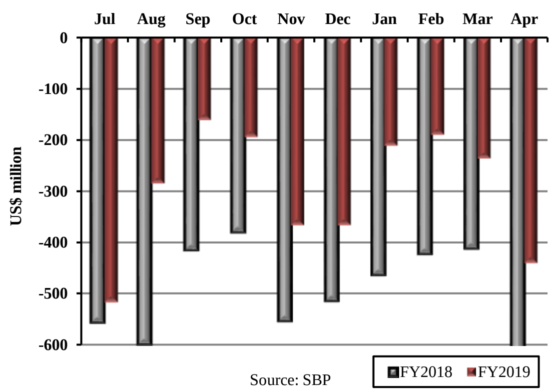
Trade account especially services trade presented a positive picture in FY2019. After a lackluster performance in first four months of FY2019, trade in goods started picking up the pace. This was mainly due to the macro adjustment policy measures taken by the present government to curb imports. Goods Trade balance shrunk by 7.3 percent in Jul-Apr FY2019 to US$ 23.93 billion as compared to US$ 25.81 billion in the corresponding period last year. On the other hand, services sector remained on positive trajectory throughout FY2019. Major shift in current account balance also came from services sector which contracted by 36.18 percent to US$ 3.217 billion during July-April FY2019 as compared US$ 5.04 billion in the same period last year. Export of services remained stable but a visible decline in services import has been observed in transport, travel, financial services and construction sector, specifically.

Fig: 8.5 Trade Balance in Goods



Source: SBP

Fig: 8.6 Trade Balance in Services



Source: SBP

Workers' Remittances

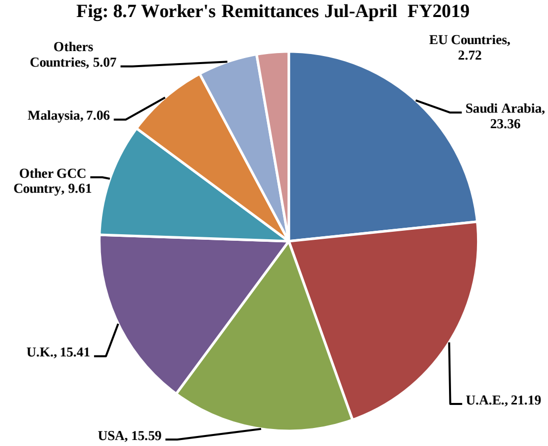
The remittances have always been a key source of balance of payment support. The remittances registered a significant growth of 8.45 percent during July-April FY 2019 as compared to 5.36 percent last year and reached to US$ 17.875 billion during first ten months of current fiscal year against US$ 16.482 billion during the same period last year. On the back of initiatives taken by the government and the trend observed, it is expected that target of US$ 21.2 billion for FY 2019 is likely to be achieved.

Table 8.3: Country/Region Wise Cash Worker's Remittances

Country/Region	July-April		($ billion)	
	2017-18	2018-19	% Change	Share
Saudi Arabia	4.09	4.18	2.08	23.36
U.A.E.	3.64	3.79	4.04	21.19
USA	2.29	2.79	21.82	15.59
U.K.	2.36	2.76	16.59	15.41
Other GCC Country	1.82	1.72	-5.40	9.61
Malaysia	0.93	1.26	35.77	7.06
Others Countries	0.82	0.91	10.39	5.07
EU Countries	0.54	0.49	-9.28	2.72
Total	16.48	17.88	8.45	100.00

Source : State Bank of Pakistan

Fig: 8.7 Worker's Remittances Jul-April FY2019



The major share of remittances are from Saudi Arabia 23.36 percent(US $ 4175.32 million), U.A.E 21.19 percent (US $ 3786.96 million), USA 15.6 percent (US $ 2786.35 million), U.K 15.41 (US $ 2755.52 million) , other GCC countries 9.61 percent (US $ 1717.86 million), Malaysia 7.06 percent (US $ 1262.67 million), EU 2.72 percent (US $ 485.89 million) and other countries 5.07 percent. The remittances during July-April FY2019 have declined by 9.28 percent from EU countries, 5.40 percent from other GCC countries. However, a marginal increase in remittances has been observed from Saudi Arabia, 2.08 percent as compared to 9.5 percent decline in the same periods last year. However, visa fee reduction from the Kingdom is likely to boost up the inflows in coming years. A strong increase from USA and UK provided a major push to inflows. Remittances increased by 21.82 percent form USA and 16.59 percent from UK. Economic turnaround, declining unemployment and rising wages in the US and the UK in the recent past have supported inflows from these countries.

Besides the US and the UK, inflows from Malaysia also supported overall remittances, with inflows amounting to US$ 1.262 billion in July-April FY2019. Over the last couple of years, Malaysia has been facing workforce shortage in labor-intensive sectors, such as manufacturing, construction and agriculture. To address the problem, Malaysia raised the wages for both local and foreign workers in its minimum wage policy of 2013. Following this, the number of Pakistanis going to Malaysia for work has been rising since 2014-15, leading to increase in remittances from the country.

To further enhance the remittances the government has taken number of initiatives given in the following box.

Box-I: Initiatives Taken During FY2018-19 to Increase Home Remittances

- **Extension in home remittance services**

In order to further facilitate overseas Pakistanis/resident Pakistanis, banks are allowed to affect Business to Customer (B2C) and Customer to Business (C2B) transactions through foreign correspondent entities under their existing/new home remittance agency arrangements. This extension was announced in October 2018.

Resultantly, under B2C transaction freelance payments and pension payments can be received upto a certain threshold by resident Pakistanis from overseas companies. Whereas overseas Pakistanis will be allowed to pay their Utility Bills, School fees, Hospital charges, Superstores bills, Insurance fees, Credit Card Payments, purchase/pay installment of property such as residential plots, flats and buildings etc.

- **Incentive Scheme for financial institutions**

In order to encourage domestic banks/microfinance banks/exchange companies providing home remittance disbursement services, a performance based scheme has been developed to enhance their marketing/promotional/awareness efforts for home remittance products and services. The Government of Pakistan (GOP) shall reimburse these expenses through SBP as given below:

Home Remittances mobilized by domestic Banks/MFBs/ECs (in equivalent US$)	Marketing Expenses Reimbursement
Home remittances exceeding 15 percent growth in FY 2018-19 compared with the levels achieved in FY 2017-18.	Rs. 1 per each incremental USD mobilized over 15 percent growth

- **Rationalization of M-Wallet Scheme:**

Beneficiary of remittances were offered Rs. 1 airtime per USD received in their M-Wallet under the 'Promotion of Home Remittance Scheme through M Wallet' introduced in 2017. In order to further promote Home Remittances through BB Channel, the incentive of airtime has been increased from Rs. 1 to Rs. 2 against each USD received as home remittances through M-Wallet. The amendment was made in December 2018.

- **Second Pakistan Remittance Summit**

Second "Pakistan Remittance Summit 2019" was held on April 2019 in Dubai, UAE. This Summit was organized by the top five remittance receiving banks in Pakistan under the patronage of State Bank of Pakistan (SBP) and Pakistan Remittance Initiative (PRI).

The summit shed light on the importance of workers' remittances for the development and support of

Pakistan's economy and the measures being taken by SBP/PRI and the banks in Pakistan to increase remittances through official channels.

- **Media/Awareness Campaign to Promote Remittances through Formal Channels**

SBP/PRI have launched an awareness/marketing campaign for the promotion of formal channels with the following objectives:

I. To inform the remittance customers about the existence and facilities of sending remittances through formal channels

II. To position formal channels as the industry front runner in enabling reliable and efficient home remittance transactions through a network of banks, exchange companies and Pakistan Post

III. To inform remittance customers that use of Hawala is illegal

- **Block-Chain Based Remittance Model (From Malaysia To Pakistan)**

Technology has been a crucial feature in facilitating overseas Pakistanis and their beneficiaries in remote areas. Banks are continuously guided to introduce better and efficient technology based products. It is with the help of Block-Chain technology that wallet-to-wallet remittance service reaches Pakistan from Malaysia instantaneously and in a secure way. Valyou in Malaysia and Telenor Microfinance Bank in Pakistan launched cross-border remittance service through e-wallet platform in January 2019, which is based on block-chain technology developed by Alipay, a subsidiary of ANT Financial.

- **Reduction in Visa Fee (Qatar and Saudi Arabia)**

Saudi Arabia has drastically reduced the visit visa fee for Pakistanis from $533 (Dh1, 945) to $90 (Dh328), according to a notification issued by the Saudi Arabian Embassy in Islamabad. Moreover, Qatar is offering Visa on Arrival to all Pakistani Passport holders. Qatar plans to issue work visa to around 100,000 Pakistanis in different sectors. Pakistan offered assistance of Pakistani workforce and professionals in Qatar's development activities. These measures will increase the workforce in these countries and will ultimately boost remittances.

Source: State Bank of Pakistan

Capital Account

Non produced and nonfinancial assets with net capital transfers are presented in capital account. In Pakistan, capital account did not play a significant role in external sector and remained stagnant over the years. Capital account balance has decreased to US$ 176 million in July-April FY2019 as compared to US $ 305 million in the same period last year.

Financial Account

The financial account recorded a surplus of US$ 11.32 billion during July-April FY2019 as compared to the surplus of US$ 11.35 billion in the corresponding period.

Bilateral inflows from China, Saudi Arabia and UAE helped in uplifting financial condition of Pakistan. This was unlike last year, when Euro and Sukuk bonds with other short-term commercial borrowings had dominated. Official inflows from these friendly countries amounted US$ 9.2 billion between July-March FY2019. This partially offset the decline in net FDI and accelerating outflows from FPI, and also enabled the government to make the debt repayments coming due in the period.

Table 8.4: Capital and Financial Account **US $ Million**

Items	2014-15	2015-16	2016-17	2017-18	July-April	
					2017-18	2018-19 P
Capital Account Balance	375	273	375	376	305	176
Financial Account Balance	-5074	-6790	-10198	-14300	-11,350	-11,322
Direct Investment in Pakistan	988	2305	2749	3471	2849	1,376
Portfolio Investment in Pakistan	-1886	429	-251	2209	2314	-1397
Net Incurrence of Liabilities	2200	5029	8965	8855	6392	11,456

P: Provisional

Source: State Bank of Pakistan

Foreign Direct Investment

Foreign investment is on low growth trajectory. It dropped by 51.7 percent in July-April FY2019 to US $ 1.376 billion as compared to US $ 2.849 billion in July-April FY2018. FDI from China remained at 31.2 percent of overall inflows as compared to 60.5 percent in the preceding year. However, China continued to dominate direct investment followed by UK and Hongkong. A considerable decline in investment from Malaysia has been observed in this period.

However, Pakistan has improved its position on ease of doing business index and jumped to 136th position as compared to 147th position last year out of total 190 economies. This will surely attract foreign investors and will boost FDI. Furthermore, Pakistan carried out three reforms during the past year in the areas of starting a business, registering property and resolving insolvency, according to the World Bank's annual report titled "Ease of Doing Business 2019". Among regional peers Pakistan ranked behind Bhutan (89), India (77), Nepal (110), and Srilanka (100), only ahead of Bangladesh (176) Maldives (139), and Afghanistan (167).

In terms of sectors, construction sector replaced the power sector in attracting highest net FDI of US $ 386.8 million followed by oil and gas exploration US $ 287.3 million and financial business US $ 256.5 million. Power sector being the main contributor to drag down the overall inflows showed a sharp decline of 127.21 percent in July-April FY2019 as compared to the same period last year. This is mainly due to the completion of early harvest CPEC projects. Though there have been increased inflows in electrical machinery and financial business. Yet power sector declined inflows could partially be compensated.

The focus of the current government is to improve the investment climate to attract foreign investment in the country. For the purpose, the government has taken different initiatives at the international level. Pakistan has recently signed offshore Gas Pipeline deal with Russia. Similarly, Saudi Arab has shown interest to invest in a new oil refinery in Pakistan's growing deep-sea port of Gawadar which is likely to increase FDI in Pakistan. Moreover, Prime Minister's recent visits to Malaysia and UAE would also be helpful in attracting more FDI.

Foreign Portfolio Investment

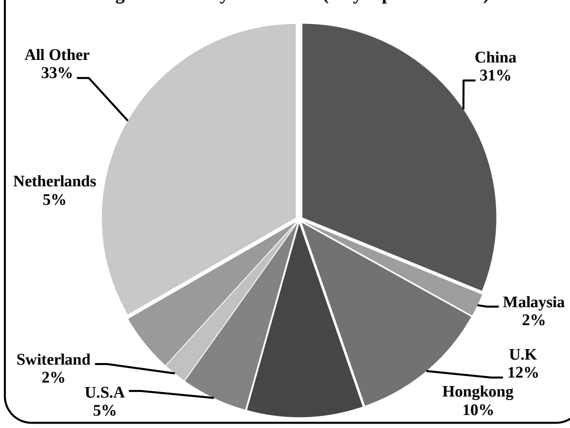
Foreign portfolio investment account witnessed outflows of US$ 1.27 billion during July-April FY2019 as compared to US$ 2.352 billion inflows in the same period last year. It is worth to be mentioned that previous government had mobilized US$ 2.5 billion in FY2018 by issuing Eurobond and Sukuk in December 2017. That was the main reason of the hump in FPI last year. Amid the decline in foreign investment, external financing from bilateral sources were quite helpful**.**

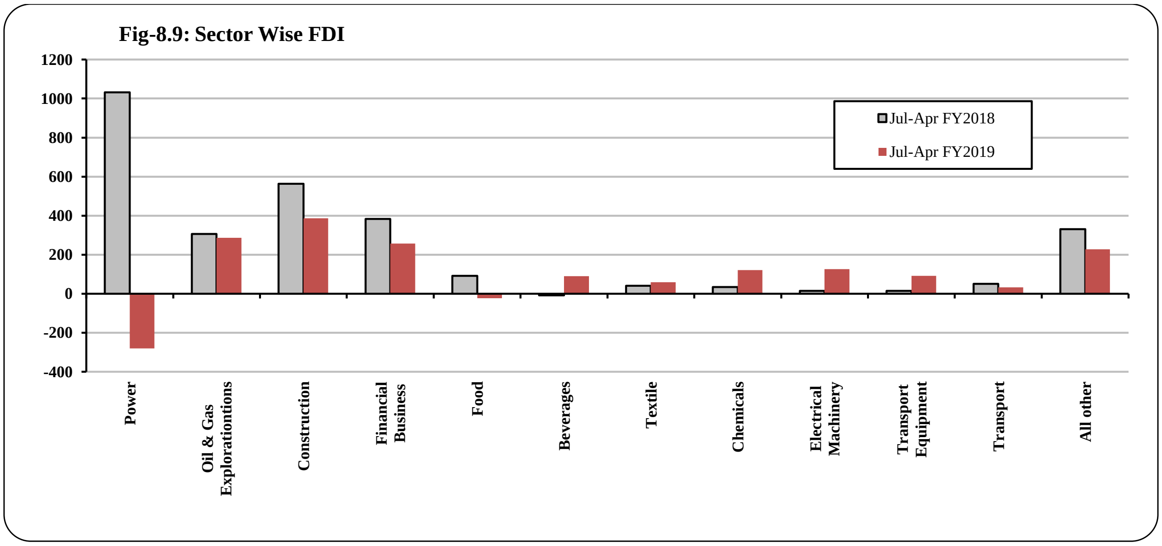
Table 8.5: Foreign Investment **($ Million)**

	FY2017	FY2018 R	July-April	
			FY2018 R	FY2019 P
A. Foreign Private Investment	2234.0	3230.5	2713	968
Foreign Direct Investment	2746.8	3471.2	2849.1	1376.1
Inflow	3451	4185.4	3440.4	2684.3
Outflow	704.2	714.2	591.3	1308.2
Portfolio Investment	-512.8	-240.7	-136.2	-408.1
Equity Securities	-512.8	-240.7	-136.2	-408.1
Debt Securities				
B. Foreign Public Investment	262.1	2450.5	2450.5	990.6
Portfolio Investment	262.1	2450.5	2450.5	990.6
Total Foreign Investment (A+B)	2496.1	5681	5163.5	22.6

P: Provisional
Source: State Bank of Pakistan

Fig: 8.8 Country-Wise FDI (July-April FY 2019)





Reserves and Exchange Rate

Although the higher import bills and debt repayments led to depletion of FR reserves. Yet it was stabilized with the help of monetary inflows from friendly countries. Foreign exchange reserves stood at US$ 15.722 billion till end-April FY2019. This was below than the total reserves of US$ 17.519 billion of the same period last year. Out of this SBP reserves were US$ 8.781 billion, where reserves held with commercial banks were US$ 6.941 billion.

A sharp decline in SBP reserves observed in first half of FY2019 when official reserves of SBP declined by US$ 3.02 billion. This decline was mainly due to the unavailability of sufficient FX reserves to finance country's growing import bill. This was the main contributor of shrinking total FX reserves since net reserves with commercial banks were on a stable path. However, in the second half of FY2019 it picked up the pace. Though the Eurobond and Sukuk had provided some relief to falling FX reserves last year, Pakistan had received US$ 9.2 billion as a financial support from China, Saudi Arabia and UAE between July 1, 2018 and end-March 2019. Moreover, government is about to launch Panda bonds in near future likely to be in the range of US$ 1.3 billion which will help in build up the reserves. Recent positive development of deferred oil payment worth of US$ 3.2 billion from Saudi Arabia will also help easing pressure on reserves and balance of payment. It would become operational from July 2019.

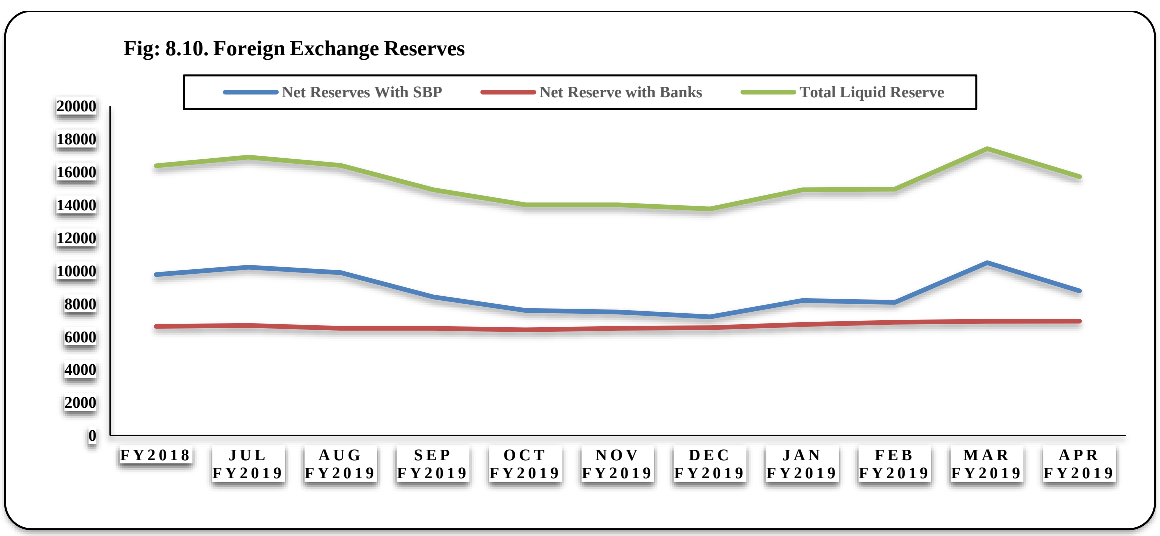
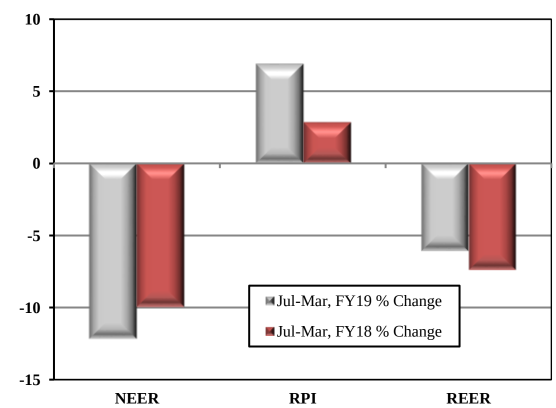


Table: 8.6 Liquid Forex Reserves (Million US$)			
	Net Reserves With SBP	**Net Reserve with Banks**	**Total Liquid Reserve**
FY2018	9,765.20	6,618.40	16,383.60
July FY2019	10,223.70	6,679.70	16,903.40
August FY2019	9,886.40	6,504.70	16,391.10
September FY2019	8,408.70	6,512.00	14,920.70
October FY2019	7,602.20	6,414.20	14,016.40
November FY2019	7,502.10	6,509.30	14,011.40
December FY2019	7,203.70	6,553.10	13,756.80
January FY2019	8,192.40	6,728.50	14,920.90
February FY2019	8,085.60	6,865.40	14,951.00
March FY2019	10,492.00	6,925.10	17,417.10
April FY2019	8,781.30	6,941.30	15,722.60
Source: State Bank of Pakistan			

The PKR also remained under pressure during the year, as despite the decline in the current account gap, it stayed at a high level. Responding to the resulting payment pressures, the PKR depreciated by 14.1 percent against the US Dollar between July 1, 2018 and April 22, 2019.

Fig: 8.11 Trend in PKR's NEER, RPI and REER



Pakistan’s nominal effective exchange rate (NEER) depreciated by 12 percent during Jul-Mar FY2019 as compared to 10 percent depreciation in the same period last year. On the other hand, real effective exchange rate (REER) depreciated by 7 percent, driven by both RPI and NEER specifically. Since local currency weakened significantly against all the major currencies during the period.

Pakistan’s REER index has exceeded the NEER index. Technically, higher REER suggests that prevailing exchange rate has overvalued. The gap arises when the export basket of a country faces higher cost of doing business in a country and hence, losses export competitiveness viz-a-viz it’s trading partners.

In the current fiscal year FY2019, as of May 20, 2019, PKR cumulatively depreciated by 18.7 percent against the US$ since end June 2018. In effective terms, up till March 2019, NEER depreciated by 12.1 percent. However, unlike FY2018, recovery in oil prices, increase in energy tariffs, and certain lagged pass-through effect of PKR depreciation in FY2019 widened the gap between Pakistan’s and its trading partners’ inflation. This in turn limits the adjustment in REER, which up till March 2019 has depreciated by 6.1 percent since end June 2018.

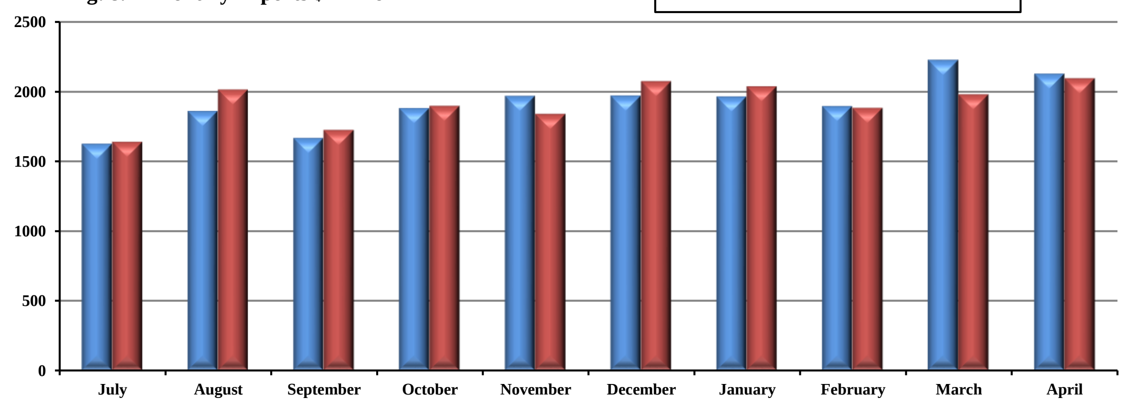
Nevertheless, these recent adjustments in PKR exchange rate have helped in bringing its real value close to historical trend. It would not only help in reducing the risks arising from the external sector’s vulnerabilities in the medium-term but would also prove to be beneficial to revive much needed recovery in the export-oriented sectors. While the fuller impact of PKR depreciation would take some time to completely unfold (and depends upon both conducive external demand and domestic supply situation), its preliminary affect is already visible from the reduction in external trade deficit, and thus current account deficit

Exports

The current government is focusing on making the exports a driver of sustainable economic growth. It is endeavoring to improve competitiveness and efficiency of the industry especially export-oriented sector and import substituting production, reducing structural anomalies and improving trade by increasing institutional efficiencies and reducing cost of doing business.

The export target for FY2019 was set at US$ 28 billion. Exports registered a decline of 0.1 percent growth during July-April FY2019. As per PBS data, exports during July-April FY2019 reached to US$ 19.17 billion as compared to US$ 19.19 in July-April FY2018. A slowdown in economic growth in the EU, along with spillovers from US-China trade tensions, led to subdued performance in exports. Textile sector remained the most vulnerable sector in these global headwinds.

Fig: 8.12 Monthly Exports $ Million



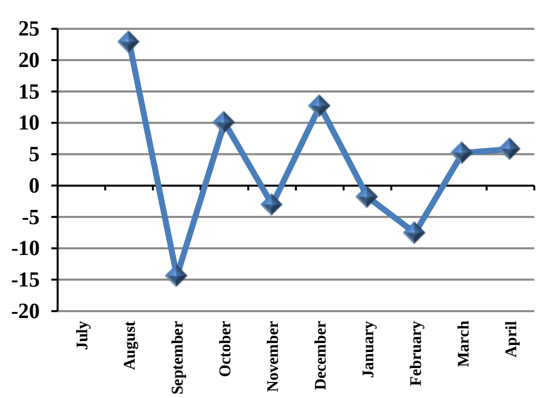
Monthly analysis shows that global synchronized slowdown has started hitting our economy. After showing some resilience exports started to retreat. However, March 2018 showed a phenomenal growth with US$ 2.2 billion exports in one month so it was expected that the March 2019 might not be that much phenomenal. April 2019 has registered highest export figure in the current fiscal year. It is pertinent to note that exports remained above US$ 2 billion in four months of FY2019. However, overall exports have got dampened due to global headwinds.

Table 8.7: Exports — **US$ Million**

Month	FY 2019	MoM
July	1,638	-
August	2,013	22.92
September	1,723	-14.41
October	1,896	10.05
November	1,839	-3.02
December	2,072	12.70
January	2,035	-1.83
February	1,881	-7.55
March	1,979	5.22
April	2,094	5.81
Jul-Apr	19,169	

Source : Pakistan Bureau of Statistics

Fig: 8.13 MoM Change in Exports FY2019



The government has taken number of initiatives like economic reform package (2019), supply of gas and electricity to zero rated industry at lower cost, continuation of prime minister’s export package of 2017, sales tax refunds and duty drawbacks, incentive package (2019) and formulation of Strategic Trade Policy Framework (2018-2023). Government has reduced cost of production of textile sector by abolishing regulatory duty on cotton imports.

Moreover, second free trade agreement has been signed with China, providing tariff concessions to 313 items. Pakistan is expanding its marketing and trade promotion campaign to all the major markets.

The State Bank of Pakistan has maintained low rates for export refinancing schemes and fixed investment to allow export sector industries to make investments on competitive basis.

In order to increase exports, the government has continued the five export oriented sectors - including textile, leather, sports goods, surgical goods and carpets - as part of zero rated sales tax regime. Devaluation has surely increased the cost of imported raw materials. However, this has been largely offset by the generous export incentives provided including larger export rebates, withdrawal of import duties on inputs of raw materials and intermediate goods and, more recently, the issuance of promissory notes against refunds due along with subsidies on gas and electricity consumed. All these measures likely to pay dividend with lag effect.

Merchandise Exports

During July-March FY2019, the exports reached to US$ 17.07 billion as compared to US$ 17.06 billion in the same period last year, which shows a meager growth of 0.1 percent as compared to 11.6 percent growth same period last year.

Disaggregated analysis suggest that performance of all the groups including food group, textile group, petroleum group and other manufactured groups remained subdued in the current fiscal year on the account of global headwinds.

Table 8.8 : Structure Of Exports Million

Particulars		July-March Values in Dollars			July-March Quantity		
		2017-18	2018-19 (P)	% Change	2017-18	2018-19 (P)	% Change in Quantity
	Total	17064.5	17075.8	0.1			
A.	**Food Group**	3430.346	3348.144	-2.40			
	Rice	1,494.7	1487.51	-0.48	3124975	2969636	-4.97
	Sugar	362.0	115.13	-68.20	1010655	377677	-62.63
	Fish & Fish Preparation	315.6	293.887	-6.88	137819	130830	-5.07
	Fruits	339.8	369.225	8.66	624003	670464	7.45
	Vegetables	172.6	168.338	-2.48			
	Wheat	59.7	121.872	104.11			
	Spices	59.7	68.445	14.65	15799	18428	16.64
	Oil Seeds, Nuts & Kernels	31.9	69.479	117.88	25674	48485	88.85
	Meat & Meat Preparation	159.2	156.901	-1.42	43906	43489	-0.95
	Other Food Items	435.1	497.357	14.30			
B.	**Textile Manufactures**	9,983.1	9991.428	0.08			
	Raw Cotton	55.8	15.721	-71.84	33862	9744	-71.2
	Cotton Yarn	987.8	835.325	-15.44	380434	320525	-15.75
	Cotton Cloth	1,630.3	1596.271	-2.09	1666130	1967303	18.08
	Knitwear	1,971.9	2155.039	9.29	77712	89231	14.82
	Bed wear	1,674.1	1719.185	2.69	279460	308150	10.27
	Towels	598.8	587.779	-1.85	154237	137318	-10.97
	Readymade Garments	1,918.3	1957.018	2.02	29289	37528	28.13
	Made-up articles	513.4	519.857	1.26			
	Other Textile Manufactures	632.7	605.233	-4.33			
C.	**Petroleum Group**	155.2	154.922	-0.17			

Table 8.8 : Structure Of Exports Million

	Particulars	July-March Values in Dollars			July-March Quantity		
		2017-18	2018-19 (P)	% Change	2017-18	2018-19 (P)	% Change in Quantity
	Petroleum Products	115.9	107.111	-7.56	185067	148388	-19.82
	Petroleum Top Neptha	39.3	47.811	21.61	90699	84880	-6.42
D.	**Other Manufactures**	2,527.7	2489.681	-1.50			
	Carpets, Rugs & Mats	57.9	50.688	-12.51	1345	1189	-11.60
	Sports Goods	244.5	222.445	-9.04			
	Leather Tanned	240.4	187.936	-21.83	19232	15568	-19.05
	Leather Manufactures	391.7	358.771	-8.41			
	Surgical Goods. & Med. Inst.	283.8	279.667	-1.46			
	Chemical & Pharma. Pro.	794.8	839.883	5.68			
	Engineering Goods	141.9	126.575	-10.81			
	Jeweler	5.1	3.83	-24.22			
	Cement	166.6	221.258	32.81	3338065	5188661	55.44
	Guar & Guar Products	26.3	26.62	1.04	17537	16812	-4.13
	All Other Manufactures	174.6	172.008	-1.50			
E.	**All Other items**	968.2	1086.625	12.23			

P : Provisional

Source: Pakistan Bureau of Statistics

Food group constituting 19.6 percent of overall exports posted a decline of 2.4 percent as compared to same period last year. Within the food group, export of rice comprises 44.4 percent of total food group declined by 0.5 percent causing a major setback in overall food exports. The quantum drop in rice was 5.0 percent but its value declined by 0.5 percent. This underwhelming picture is attributed to the competition faced by Pakistan from its competitors like Africa and China. Pakistani exporters are facing tough time against Chinese competitors as they are offloading their stock at lower prices.

However, to tackle this situation government is taking necessary steps including reclaiming traditional markets besides accessing to new markets. Removal of restriction by Qatar on Pakistani rice export is a step in this direction that will reclaim Pakistan's share in the global rice market. Moreover, China has agreed to give duty free access to 200,000 tons of rice from Pakistan in the current calendar year.

Among other products fruits, capturing the second highest position in food group, posted a growth of 8.7 percent in value during the current fiscal year. Pakistan managed to explore new international markets for this group by participating in Berlin fair.

The other important components of food group which registered a positive growth include oil seeds, nuts & kernels, spices and wheat. Sugar exports declined by 68.2 percent on account of the withdrawal of subsidies and completion of earlier announced quotas.

Exports of textile manufacturers, which accounts 58.5 percent in total exports witnessed a trivial growth of 0.1 percent and remained at US$ 9.99 billion in July-March FY2019 as compared to US$ 9.98 billion during the same period last year. Within the group, knitwear and bed wear registered a positive growth but it was offset by the decline in cotton yarn and cotton cloth. Low demand from EU and lower unit prices, particularly for knitwear, contributed to the lackluster performance of this group. Textile trade agreements have been signed at Texpo Pakistan 2019 which will support textile exports.

Export of the textile items like knitwear comprises 12.6 percent of total exports and 21.6 percent of textile exports increased in both quantity and value by 14.8 and 9.29 percent respectively. Readymade garments with 11.5 percent share in total exports and 19.6 percent share in textile exports registered a positive growth of 2 percent in value and 28.1 percent in quantity. Value-added exports increased due to growing demand and improvement in export competitiveness after exchange rate adjustment.

Cotton cloth having 9.3 percent share in total exports and 16 percent in textile exports declined by 2.1 percent in value but its quantum increase was 18.1 percent. Bed wear with a share of 10.1 percent in exports and 17.21 percent in textile group, increased both in quantity and in value by 10.3 percent and 2.7 percent, respectively. Cotton yarn has 4.9 percent share in total exports and 8.35 percent in textile group, decreased in both quantity and value by 15.7 percent and 15.4 percent, respectively.

Towels having share of 3.4 percent in total exports and 5.88 percent share in textile group, decreased both in quantity and in value by 11.0 percent and 1.8 percent, respectively.

Raw cotton having a share of 0.1 percent in total exports and 0.16 percent in textile group, decreased in both quantity and value by 71.2 percent and 71.8 percent, respectively. May be due to declining international cotton prices from 2.15 $/kg in June 2018 to 1.92 $/kg in April 2019**.**

Petroleum group having a negligible share of 2 percent in total exports registered a negative growth of 0.2 percent on account of 7.6 percent decline in petroleum exports.

Other manufacturers accounting 14.6 percent of total exports registered a negative growth of 1.5 percent during the period July-March FY2019.

Within the group chemical and pharmaceutical products, bearing the largest share in the group, posted a growth of 5.7 percent in value. This is the only category showing significant growth in the group. Leather manufacturers continues to struggle but registered a negative growth of 8.4 percent in value. 21.8 percent decline in value is witnessed in leather tanned while its quantity decreased by 19 percent.

Exports of carpets, rugs and mats registered a negative growth of 12.5 percent in value. The acute shortage of electricity, bad law and order, ever-soaring inflation, shortage of skilled labor force and high mark-up rate during last one decade were the major reasons hitting the carpet industry besides causing huge decline in rugs exports.

Sports goods decreased in value by 9 percent on the back of 7.35 percent decline in exports of football. Other than these, surgical goods and medical instruments, engineering goods and jewelry posted a negative growth of 1.5, 10.8 and 24.2 percent, respectively. Although Cement export posted a significant growth of 32.8 percent in value and 55.4 percent in quantity during July-March FY2019. Low domestic sale and significant capacity additions paved the way to foreign markets for cement manufacturer.

Concentration of Exports

Pakistan's exports are highly concentrated in few items like cotton & cotton manufacturers, leather, rice and few other items. The first three categories of exports account for 69.2 percent of total exports during July-March FY2019 with cotton & cotton manufacturers alone contributing 56.7 percent. Traditionally, the contribution of these three categories was 70.3 percent during the same period last year, and 71.8 percent during FY 2017. The bifurcation of these items in table shows that exports in these few items are the major factor for lower export earnings.

Table 8.9 : Pakistan's Major Exports

Commodity	2013-14	2014-15	2015-16	2016-17	2017-18	July-March	
						2017-18	2018-19 P
Cotton Manufactures	53.1	54.5	55.0	59.4	56.9	56.7	56.7
Leather**	5.1	4.8	4.9	4.5	4.6	4.1	3.7
Rice	7.6	8.5	8.8	7.9	8.8	8.8	8.8
Sub-Total of three Items	**65.8**	**67.8**	**68.7**	**71.8**	**70.3**	**69.6**	**69.2**
Other items	34.2	32.2	31.3	28.2	29.7	30.4	30.8
Total	**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

Traditionally Pakistan's export destinations are concentrated to a few markets. Pakistani exports go to ten countries namely USA, China, UAE, Afghanistan, UAE, Germany, France, Bangladesh, Italy and Spain. Among these countries USA has the largest share of 17 percent in total exports followed by China 8 percent and UK 7 percent. The share of exports to Afghanistan and UAE witnessed a one percent decline during July-March FY2019 as compared to the same period last year. Table 8.10 suggests that all the countries have been on a stable trajectory in terms of export destinations of Pakistan. However, efforts are being made to explore new markets where lots of potential exists. Formulation of Strategic Trade Policy Framework (2019-24) is a way forward towards securing more international markets' access.

Table 8.10 : Major Exports Markets **(Rs. Billion & Percentage Share)**

Country	2015-16		2016-17		2017-18		July-March			
							2017-18		2018-19 P	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
USA	364.8	17	361.1	17	400.4	16	290.9	16	384.6	17
CHINA	174	8	153.8	7	185.7	7	133.9	7	182	8
AFGHANISTAN	149.9	7	133.1	6	165.2	6	122.4	7	128.5	6
UNITED KINGDOM	164.7	8	163.1	8	186.7	7	135.7	7	166.9	7
GERMANY	118	6	125.1	6	146.7	6	106.9	6	125.6	6
U.A.E	85.5	4	83	4	104	4	69.1	4	77.3	3
BANGLADESH	72.3	3	65.4	3	81	3	58.8	3	77.8	3
ITALY	67.7	3	68.6	3	84.5	3	60	3	74.3	3
SPAIN	84.3	4	85.5	4	104.5	4	77.3	4	93.2	4
FRANCE	36	2	38.8	2	45.5	2	31.3	2	39.1	2
All Other	**849.6**	**45**	**860.7**	**40**	**1050.8**	**41**	**752.6**	**41**	**914.4**	**40**
Total	**2166.8**	**100**	**2138.2**	**100**	**2555**	**100**	**1838.9**	**100**	**2263.7**	**100**

P : Provisional

Source : Pakistan Bureau of Statistics

Bilateral Relations of Pakistan:

China-Pakistan

Pakistan is courting China by means of a bilateral agreement in addition to other commercial agreements. China-Pakistan Free Trade Agreement (CPFTA) on trade in goods was signed on 24th November, 2006 and implemented from 1st July, 2007. FTA on Trade in Services was signed on 21st February, 2009 and is operational from 10th October, 2009. The FTA covers more than 7000 tariff lines at the 8 digit level of HS Code. Both sides are currently negotiating Phase-II of the FTA. Last round (10th round) of negotiation for China-Pakistan Free Trade Agreement (CPFTA) Phase-II 5 was held in Islamabad on 2nd April, 2018.

The Sino-Pakistan volume of trade, which was around US$ 4 billion in the year 2006-07, reached an all-time high of US$ 17.48 billion in 2017-18. Pakistan's exports have jumped to US$ 1.74 billion in 2017-18 from US$ 575 million in 2006-07. Correspondingly, China's exports to Pakistan have increased to US$ 15.74 billion in 2017-18 from US$ 3.5 billion in 2006-07.

First China International Import Expo was held in Shanghai, China, on 5-10th November, 2018. Pakistan was invited as the Guest of Honor in the Expo. The Pakistan Pavilion at the CIIE 2018 was based on the theme of "Emerging Pakistan. Stalls were set up to attract business in Textiles, Food, Services, Sports and Industries' sectors. The Expo was attended by prominent world figures like President of Russia, President of China, founder of Microsoft Corporation Mr. Bill Gates, and Co-founder and Executive Chairman of Alibaba Group Mr. Jack Ma. Pakistan Trade and Investment Conference was held in Shanghai, China on 5th November, 2018. The event was attended by 360 Chinese Companies/ representatives, and 400 Pakistani Businessmen. Almost 30 MoUs were signed between Pakistani and Chinese companies.

Pakistan-Japan

Six Sessions of Joint Government Business Dialogue (JGBD) have been held so far. During the 6th Round of JGBD, held on 10th December, 2018 at Tokyo, Japan, Pakistan proposed that as an interim step, a PTA may be concluded to allow Pakistan 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", and covering not only Trade in Goods but also Trade in Services, Investment and rule areas including Intellectual Property and E-Commerce. Based on this understanding, both sides shared the willingness to promote discussion to strengthen and further facilitate bilateral trade.

Pakistan-Malaysia

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 is operational from 1st January 2008. Pakistan exports to Malaysia have increased from US$ 81 million in 2006-2007 to US$ 145.18 in 2017-18 as a result of this FTA.

Pakistan-Thailand

Pakistan is Thailand's second largest trade partner in South Asia and there is tremendous potential to increase bilateral trade. During the 3rd Session of Pak-Thai JTC, held on 12-13th August, 2015, it was agreed by both sides to enter into Free Trade Agreement. The negotiations on FTA were started in 2015 and so far 9 rounds have been held. Pakistan exports to Thailand have increased from US$ 95 million in 2010-11 to US$185.48 million in 2017-18.

Pakistan-Indonesia

Indonesia-Pakistan PTA (IP-PTA) was signed on 3rd February, 2012 and has been operationalized w.e.f 1st September, 2013.

The Third Review Meeting of IP-PTA was held on 10-11 August, 2017 in Jakarta, Indonesia. During the meeting Pakistan sought unilateral market access on 20 tariff lines of its prime export interest to make the PTA mutually beneficial. As a result of hard negotiation and persistent trade diplomacy, Indonesia agreed to unilaterally provide "zero duty" to Pakistan on these 20 tariff lines. A protocol to give effect to this arrangement was signed during the visit of Indonesian President on 26-27 January, 2018. Pakistan's exports to Indonesia have witnessed some improvement over the last years. After the above mentioned further concessions, Pakistan's exports are likely to witness a sizable increase.

Pakistan-Bangladesh

Pakistan and Bangladesh share the membership of SAARC, OIC and D-8. These are two major Islamic nations of South Asia, a region which is trying to come closer under the ambit of SAARC Free Trade Agreement (SAFTA). Both the countries have been working closely at international fora for promoting regional integration, trade, security and world peace. The volume of trade between Pakistan and Bangladesh has always remained in favor of Pakistan. Pakistan exported US$ 736 million and imported US$ 69 million to Bangladesh in FY2017-18.

Box-1: Trade Related Measures taken in first 3 quarters of 2018-19

In the first 9 months of FY 2018-19 following measures have been taken to improve the trade related environment.

1. Trade Policy Measures

The Trade Policy Wing of the Ministry has undertaken the following measures to facilitate trade of the country

1.1. **Exports Enhancement Measures**

Government of Pakistan has taken a number of exports enhancement measures that will support positive growth trends. The major interventions are as under:

1.2. Revision of Export Enhancement Package

In order to provide long term policy to support and encourage non-traditional exports of the country, the package was extended for another period of three years vide SRO 711 (I)/2018 dated 8.6.2018, i.e. from 1st July 2018 to 30th June 2021.

Under this package, new export sectors such as Transport equipment, Auto parts & accessories, Machinery incl. electrical machinery, Furniture, Stationery, Fruits& Vegetables, Meat and meat preparation including poultry have been included. The package is operating under the similar conditions of previous export package. The support through drawback of local taxes and levies will promote product diversification and enhance competitiveness of the exports. Moreover, for market diversification, additional incentive has been provided to promote exports to the non-traditional markets.

1.3. Economic Package to support industrial growth

Commerce Division has been working with the industry to develop a comprehensive plan to increase their competitiveness. One of the major impediments for export sectors was its higher duties on the import of raw materials and intermediate inputs. In this regard, a series of consultative sessions were held to identify sectors and products that require immediate relief in terms of reduction in the import duty in their inputs and raw materials. In the first phase, Custom Duties and Regulatory Duties on 236 Tariff Lines (TLs) of raw materials and intermediate products have been reduced. In the second phase, a list of 40 TLs were further incorporated in the Finance Bill 2019 (Supplement-I). In the second phase, tariff reduction plan has been approved for 12 sectors. The amendment in the tariff schedule has been introduced in Finance Bill 2019-Supplement, whereas, the Regulatory import duty for the export-oriented industries have been reduced vide SRO 190(I) 2019 dated 11th February 2019.

1.4. Payment of DLTL and Sales Tax Refund

The payment of Export Enhancement Package claims were pending due to which exporters were facing the liquidity crunch. After rigorous consultations with the Finance Division, State Bank of Pakistan and AGPR, a mechanism has been designed to expedite the payments to the exporters. It has been decided that the settlement of outstanding claims of exporters under DLTL/PM package schemes as on 31-12-2018 through cash payment (1/3rd) and issuance of Promissory Notes (remaining 2/3rd). Further mechanism has been developed to facilitate the process. Furthermore, the government has disbursed Rs. 20 billion of Sales Tax Refund & Rs. 10 billion DLTL.

2. Regulatory Measures

2.1. Mechanism for Ensuring Quality and Standards for Imported Goods

To address the issue of low quality imports, the Import Policy Order was amended vide SRO 1067 (I)/2017 dated 20th October 2017, to incorporate safety and health requirements/quality standards, proposed against each tariff line, to ensure that quality and SPS standards are complied with on such imports. Furthermore, the government has restricted the import of food items only through Karachi seaport and Land Border Posts i.e. Sost, Chaman, Torkham, Taftan, Wagha, Peshawar and Quetta vide SRO 706 (I)/2018 dated 6.6.2018. These aforementioned ports have the requisite infrastructure and human resource to provide the facility for the import permit after evaluating the health safety requirements by Department of Plant Protection (DPP).

2.2. Policy revision for the import of vehicles under transfer of residence personal baggage and gift schemes

In order to prevent the misuse of the scheme intended for Overseas Pakistanis, the existing policy has been revised. Under the revised Policy, the remittance for payment of duties and taxes will originate from account of Pakistani national sending the vehicle from abroad; and the remittance will either be received in the account of Pakistani national sending the vehicle from abroad or, in case, his account in nonexistent/inoperative, in the account of his family member as defined in Appendix-E, Para (1) of the import Policy Order. The decision of the ECC of the Cabinet has been notified vide SRO. 52 (I) 2019 on 15th January 2019.

2.3. Amendments in Export and Import Policy Order, 2016

Commerce Division has made amendments in certain provisions of export and import order 2016 to facilitate the exporters and importers. These amendments have been made after rigorous consultations with private and public sector stakeholders and subsequent approval of the Cabinet.

2.4. Labeling Requirements on import of edible products

Under Import Policy Order (IPO) 2016, the import of edible products is subject to, inter alia, the conditions that it is fit for human consumption, has at least 50 percent of the remaining shelf life and in case of meat it is obtained from 'halal' animals and slaughtered in accordance with the Islamic injunctions. There was a need that our consumers should be aware of the ingredients of the edible products they consume, keeping in view their safety and belief. Therefore, the following amendments have been introduced in the policy for consumer's welfare:

a. The product has at least 66 percent (2/3rd) of remaining shelf life
b. The ingredients and details of the product (e.g. nutritional facts, usage instructions etc.) of the food product are printed in Urdu and English languages on the consumer packaging
c. The logo of the Halal certification body is printed on the consumer packaging
d. The labeling under (b) & (c) not to be in the form of a sticker, overprinting, stamp or scratched labeling

The shipment is accompanied by a 'halal certificate' issued by a halal Certification Body, accredited with an Accrediting Body (AB) which is a member of International Halal Accreditation Forum (IHAF) or Standards Meteorology Institute for Islamic Countries (SMIIC)

However, the operation of the SRO has been suspended till July 01, 2019.

2.5. Easy issuance of NOC for carrying and temporary import/re-export of arms/ammunition by foreign hunters

The hunting/sporting activity coupled with improved law & order situation in Gilgit-Baltistan region has huge potential to attract foreign hunters/ tourists. However, the lengthy and cumbersome procedure for getting NOC from Ministry of Interior for carrying hunting arms and ammunition and another NOC from Commerce Division for temporary import-cum-export of arms/ ammunition has been discouraging to promote tourism. In order to make the process of issuance of NOC for temporary import-cum-export of hunting arms/ammunition easy, NOC from Ministry of Interior for carrying arms/ammunition by foreign hunters will be considered sufficient for temporary import-cum-export of hunting arms.

3. Policy reforms

The policy reforms will address the structural issues in the economy and will develop the supply chain for export diversification and industrial growth:

3.1. National Tariff Policy

The first ever National Tariff Policy (2019-24), in principle, has been approved by the Prime Minister on 7th March 2019. It will be presented to the Cabinet for approval. In pursuance of Rules of Business, 1973, which assigns Tariff (Protection) policy and its implementation to Commerce Division, an exhaustive exercise has been undertaken to develop with an aim to make the tariff structure truly reflect trade policy priorities, improve competitiveness through duty-free access to imported inputs, rationalize the tariff structure for enhancing efficiencies and reduce the relative “disincentive” for the exporting activities. The availability of cheaper imported inputs and raw materials is expected to increase exports by 2.5 percent in the next five years.

The draft Policy is based on the principles of:

a. Employing tariffs as an instrument of trade policy rather than revenue
b. Maintaining vertical consistency through cascading tariff structures (increasing tariff with stages of processing of a product)
c. Providing ‘strategic protection’ to the domestic industry against the foreign competition during the infancy phase
d. Promoting competitive import substitution through time-bound protection, which will be phased out to make the industry eventually competitive forex port-oriented production

3.2. Trade Related Investment Promotion Strategy

Ministry of Commerce has developed a draft Trade Related Investment Promotion Strategy (TRIPS) in consultation with the stakeholders. Since Pakistan’s trade growth largely depends on attracting efficiency seeking investment in the export-oriented sectors, TRIPS aims to channelize investment into export-oriented production and competitive import substitution. The framework seeks the following direction for investment related measures:

a) Identify the priority sectors to incentivize and facilitate efficiency seeking investment in the manufacturing sector
b) Identify the critical enablers for attracting trade related investment – e.g. competitive production environment, market size and time-bound protection, market access and investment eco-system etc
c) Provide the policy measures under the investment enablers in the priority sectors
d) Devise strategy for investment promotion and implementation of the policy

3.3. Strategic Trade Policy Framework (STPF 2019-24)

Commerce Division has drafted the Strategic Trade Policy Framework (STPF) 2019-24, which defines the policy direction for Pakistan’s international trade especially exports for the 5-year tenure of the new government. The STPF 2018-23 is an overarching policy framework that aims “to make Pakistan a dynamic and efficient domestic market and a globally-competitive export-driven economy”. The critical enablers, apart from tariff rationalization and investment, for exports growth strategy are (i) competitiveness, (ii) integration into global value chains, (iii) enhanced market access, (iv) institutional strengthening, and (iv) improvement in export ecosystem. It stipulates policy interventions in each of the area that will provide quantum jump to exports and at the same, facilitate equitable growth to the economy.

3.4. Improving Business Environment

The current regime is specifically focusing on improving business environment. Pakistan has improved its ranking by 11 points and moved from 147th/190 to 136th/190 in Doing Business Report 2019. In order to improve Pakistan’s ranking further, recently, following specific reforms have been undertaken in collaboration with the federal and provincial departments:

1. Complete Integration of SECP, Punjab and Sindh business registration portal. This will help in reducing the time and process for registering a company and give one platform where businesses can be started
2. Complete automation of property registration in Punjab. Property registration through online mode has reduced the time drastically for this process and is one of the key areas of reforms. It has improved the transparency and quality of land administration

- Online payment of federal and provincial taxes, contributions and duties –Online payments will help Pakistan to improve its ranking in paying taxes indicator
- Integration of key departments with WeBOC. To help importers/exporters and reduce the time and cost of compliance

with departments

- Automation of electricity connection process by K electric. K- Electric has made the process of getting a commercial electricity connection easier by making it online where the customer can track its application as well
- Establishment of Collateral registry. The collateral registry for unincorporated entities has been established in SECP. This will help the small business to use their moveable assets as collateral for getting credit
- Dedicated DB Unit has been set up at the BOI, Planning and Development Department Punjab for the purpose of removing bottlenecks and facilitating for smooth business operations

Some of the Future Targets

i. Rewriting the existing fundamentals of economy and aligning it with global best practices

ii. Making industrial sector completely subsidy free: Currently, cement and rice exports are among the leading subsidy free industries/exports

iii. Improving Pakistan's integration and share in global trade

iv. Pursue the multilateral trading agenda and continue to work for its improvement

v. Participating in the regional and global economic alliances for mutual gains

vi. Reformation of tax collection system that is hampering trade transactions

vii. Addressing the issues that are challenging our industrial competitiveness

viii. Effectively use Tariff as a trade policy instrument rather than a revenue generation tool

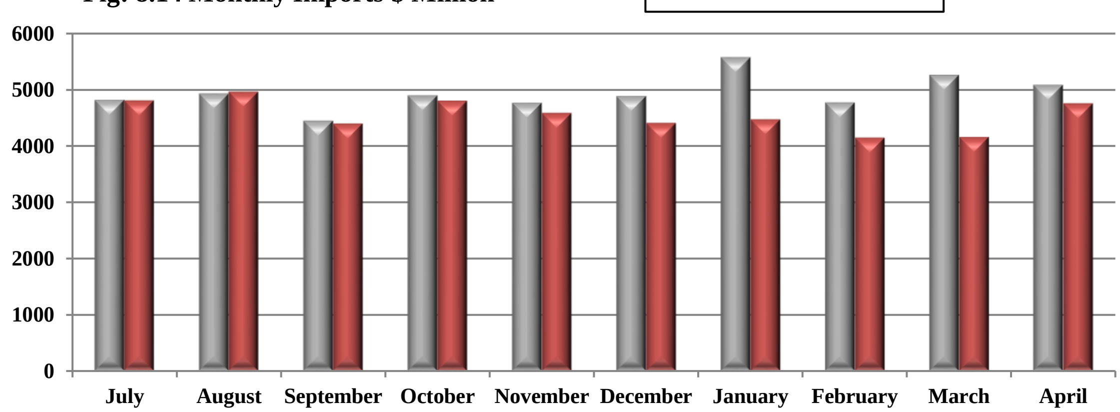
Source: Ministry of Commerce

Imports

Import target for FY2019 was set to US$ 56.5 billion. As per PBS data, imports stood at US$ 45.471 billion in July-April FY2019 as compared to US$ 49.360 billion in the same period last year showing a decline of 7.9 percent. The reduction in imports is due to decrease in imports of furnace oil, machinery & electric equipment, palm oil and textiles. Current scenario of declining imports shows that imports will be according to the estimates. With the falling global demand, weakening consumer and business sentiment among the major economies, trade tensions and economic stabilization measures at home, the imports are expected to be further decrease.

Additionally, the government has launched import substitution drive that will be instrumental in reducing pressure on current account. The Finance Supplementary (Second Amendment) Act, 2019 particularly offered tariff concessions to those industries that can offer import substitution. It lowered tariffs on the raw materials and intermediate goods that can help local firms in meeting local demand that is currently being fulfilled by the foreign firms.

Fig: 8.14 Monthly Imports $ Million



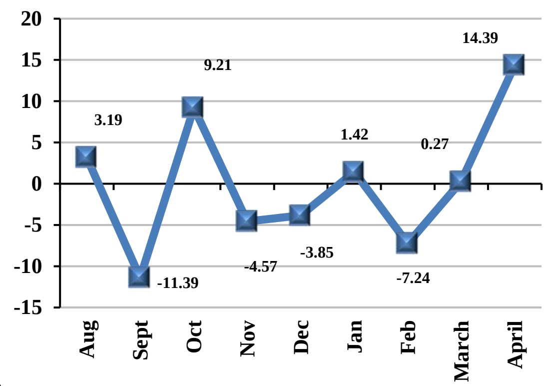
Year on year analysis shows that government's import contractions measures have started delivering early results. Imports have been continuously declining on year on year basis and March FY2019 has witnessed a tremendous decrease of 21 percent as compared to March FY2018 followed by January FY2019 with 20 percent decline as compare to January FY2018. Fig 8.3 shows that import reduction drive led by recent government started picking up the pace since October FY2019.

Table 8.11: Monthly Imports during FY19

Imports	US$ Million	
Month	**FY2019**	**MOM**
July	4,808	
August	4,961	3.19
September	4,396	-11.39
October	4,801	9.21
November	4,581	-4.57
December	4,405	-3.85
January	4,467	1.42
February	4,144	-7.24
March	4,155	0.27
April	4,753	14.39
Jul-Apr	45,471	

Source: Pakistan Bureau of Statistics

Fig-8.15: MoM Change in Imports FY2019



Disaggregated analysis reveals that all the groups including food group, machinery group, petroleum good, consumer durables and raw materials witnessed hefty decline in imports during the current fiscal year.

Table 8.12 : Structure of Imports **($ Million)**

	Particulars	July-March		% Change in Value	July-March Quantity		% Change in Quantity
		2017-18	2018-19 (P)		2017-18	2018-19 (P)	
	Total	**44,280.9**	**40,718.3**	**-8.0**			
A.	**Food Groups**	**4,730.6**	**4,261.4**	**-9.9**			
	Milk & Milk food	197.8	185.8	**-6.1**	**68935.0**	72163.0	4.68
	Wheat Unmilled	-	-	**0.0**	0.0	0.0	0
	Dry Fruits	95.6	33.8	**-64.7**	67778.0	19819.0	-70.76
	Tea	450.9	445.8	**-1.1**	147921.0	171237.0	15.76
	Spices	122.0	111.7	**-8.5**	99823.0	100748.0	0.93
	Edible Oil (Soyabean & Palm)	1,654.4	1,454.6	**-12.1**	2242805.0	2420751.0	7.93
	Sugar	4.0	3.0	**-24.8**	6673.0	5758.0	-13.71
	Pulses	407.9	393.4	**-3.6**	558568.0	712540.0	27.57
	Other Food Items	1,797.9	1,633.4	**-9.1**	-	-	-
B.	**Machinery Group**	**6,505.4**	**4,604.6**	**-29.2**	-	-	-
	Power generating Machines	1,927.7	981.4	**-49.1**	-	-	-
	Office Machines	356.7	341.0	**-4.4**	-	-	-
	Textile Machinery	424.4	379.5	**-10.6**	-	-	-
	Const. & Mining Machines	263.4	199.4	**-24.3**	-	-	-
	Aircrafts, Ships and Boats	757.5	222.0	**-70.7**	-	-	-
	Agriculture Machinery	96.6	101.1	**4.7**	-	-	-
	Other Machinery Items	2,679.0	2,380.1	**-11.2**	-	-	-
C.	**Petroleum Group**	**8,393.3**	**8,002.0**	**-4.7**	-	-	-
	Petroleum Products	5,459.8	4,623.0	**-15.3**	11463662.0	7577484.0	-33.9
	Petroleum Crude	2,933.5	3,379.0	**15.2**	7759960.0	6630812.0	-14.55
D.	**Consumer Durables**	**3,749.4**	**3,133.9**	**-16.4**	-	-	-
	Road Motor Vehicles	2,150.1	1,810.6	**-15.8**	-	-	-
	Electric Mach. & Appliances	1,599.4	1,323.2	**-17.3**	-	-	-
E.	**Raw Materials**	**6,948.0**	**6,571.1**	**-5.4**	-	-	-
	Raw Cotton	573.5	412.4	**-28.1**	320036.0	216427.0	-32.37
	Synthetic Fiber	396.2	427.2	**7.8**	185765.0	214935.0	15.7
	Silk Yarn (Synth & Arti)	487.5	485.3	**-0.4**	235380.0	219027.0	-6.95

Table 8.12 : Structure of Imports								($ Million)
Particulars		**July-March**		**% Change in Value**	**July-March Quantity**		**% Change in Quantity**
		2017-18	**2018-19 (P)**		**2017-18**	**2018-19 (P)**	
	Fertilizer Manufactured	615.2	716.0	**16.4**	1629770.0	1711457.0	5.01
	Insecticides	119.3	135.2	**13.3**	19334.0	21861.0	13.07
	Plastic Material	1,748.8	1,628.0	**-6.9**	1139497.0	1144407.0	0.43
	Iron & steel Scrap	1,164.9	1,108.9	**-4.8**	4030769.0	3546446.0	-12.02
	Iron & steel	1,842.6	1,658.1	**-10.0**	2808627.0	2381500.0	-15.21
F.	**Transport Group**	3240.0	2083.1	**-35.7**	-	-	-
	Road Motor Veh (Build Unit)	2150.1	1810.6	**-15.8**	-	-	-
G.	**Telecom**	**1,132.0**	**1,031.8**	**-8.9**	-	-	-
H.	**All Other Items**	**9582.2**	**11030.4**	**15.11**	-	-	-

P : Provisional, - : indicates nil
Source : Pakistan Bureau of Statistics

Food group constitutes 10.5 percent of overall import bill. Food import bill stood at US$ 4.261 billion in first nine months of FY2019 as compared to US$ 4.730 billion in the same period last year. Hence witnessed a significant decline of 9.9 percent. Within the group heaviest decline has been observed in imports of dry fruits, sugar, edible oil (soybeans and palm oil) and spices by 64.7, 24.8, 12.1 and 8.5 respectively. Although a quantum increase in palm oil has been witnessed during the period. Yet, lower international palm oil prices also suppressed import values.

Other mentionable items in the group are tea, milk & related items and pulses. All of these showed negative trend of 1.1, 6.1 and 3.6 respectively. Declined imports in this sector can also be attributed to the SRO issued by the government, demanding the proper labelling requirements on the fast-moving consumer goods accompanied with Halal certificate.

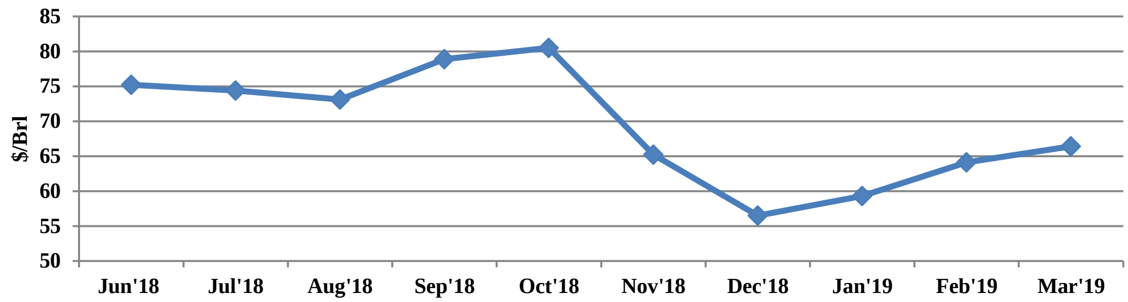
Machinery group with a 16.5 percent share in overall imports declined by 29.9 percent to US$ 4.604 billion, pushing down the import bill. Import of power generating machinery declined by 49 percent in July-March FY2019 as compared to the same period last year. A sharp pull back in power generating machinery drove most of the decline machinery import bill. Early harvest of CPEC projects and cut in PSDP spending contributed to the low machinery import bill.

Office and textile machinery decreased by 4.4 and 10.61 respectively in first nine months of FY2019. Construction and mining machinery import decreased by 24.3 percent mainly because of the slowdown in construction activities in the given period. Agriculture machinery import is the only segment with a positive growth of 4.7 percent. This seems to be on account of present government initiatives to enhance agriculture production under Prime Minister Agriculture Emergency Plan.

Transport group with 5.1 percent share in total imports declined by 35.7 percent. With a hefty decline of 15.8 percent in road motor vehicles.

Petroleum group, being the largest contributor to total import bill, declined by 4.7 percent in July-March FY2019 as compared to the previous period last year and stood at US$ 8.002 billion as compare to US$ 8.393 billion in the corresponding period last year. Among the petroleum group, petroleum products declined by 15.3 percent in value while 33.9 percent in quantity which is stemmed from the Pak rupee depreciation. Import bill of the petroleum crude increased by 15.2 percent despite a 14.5 percent decline in quantum import because of higher international oil prices. So a heavy decline in quantum import completely offset the decline in import of crude oil. Refineries have curtailed their crude oil imports to prevent a glut of domestic furnace oil from building up as a result of crude refining process.

Fig: 8.16 International Monthly Oil Prices (Average)



In textile group, import of raw material decreased both in quantity and value by 32.37 and 28.11 percent respectively during July-March FY2019 as compared to the same period last year. The import bill of fertilizers increased in both quantity and value by 5.01 and 16.4 percent respectively on the back of lower domestic production. Fertilizer import increased to supplement the stock and to meet up the demands for Rabi and Kharif crops.

Iron & steel scrap and iron & steel import bill decreased by 4.8 and 10 percent respectively. Lower construction activity and PSDP spending have urged local steel industry to curtail their production which has ultimately lowered the demand for imported raw material.

The import bill of telecommunication group decreased by 8.9 percent to US$ 1.031 billion in July-March FY2019. The import of mobile handsets decreased by 7.6 percent in the said period as compared to 14.5 percent increase in the same period last year. Import duties on mobile sets contributed to this positive development. Import of the other apparatus also decreased by 10.28 percent in July-March FY2019 as compared to same period last year.

Direction of Imports

Like exports, Pakistan's imports are also concentrated to few countries. Based on the current year data around 65 percent of total imports originated from countries like China, UAE, Saudi Arabia, Kuwait, Indonesia, India, USA, Japan, Germany and Malaysia. China being the largest import destination accounts for the 24 percent of total imports. Share of import from UAE has increased from 12 percent in FY2018 to 14 percent in FY2019. Change in Pakistan's import pattern is shown in the table 8.13:

Table 8.13 : Major Import Markets (Rs. Billion & Percentage Share

Country	2015-16		2016-17		2017-18		July-March			
							2017-18 P		2018-19 P	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
CHINA	1261.9	23	1584.3	29	1731.8	26	1252.7	26	1267.2	24
UAE	572.7	10	774.5	14	893.3	13	584.3	12	759.7	14
SAUDI ARABIA	237.2	4	227.7	4	356.4	5	255.8	5	286.2	5
KUWAIT	139.5	3	141.9	3	159.7	2	120.4	3	133.8	2
INDONESIA	222.7	4	240.4	4	278.5	4	205.6	4	245.5	5
INDIA	185.8	3	178.2	3	207.5	3	142.4	3	154.8	3
U.S.A	185.3	3	267.9	5	316.4	5	221.9	5	259.5	5
JAPAN	190.3	3	217.4	4	266.5	4	197.8	4	188	4
GERMANY	97.6	2	114.3	2	146.4	2	101.2	2	105.4	2
MALAYSIA	96.5	2	100.2	2	132	2	94.6	2	103	2
All Other	**1469.2**	**31**	**1692.9**	**31**	**2206.5**	**33**	**1592.299**	**33**	**1868.043**	**35**
Total	**4658.7**	**100**	**5539.7**	**100**	**6695**	**100**	**4768.999**	**100**	**5371.143**	**100**

P: Provisional

Source: Pakistan Bureau of Statistics

Conclusion

Although expansionary monetary policy in recent years, business activities and export oriented sector had not been happening as it should be rather exports remained low after seeing higher growth in 2013-14. The present government is sternly focused on enhancing exports and in this direction taken various initiatives with respect to adjustment of exchange rates and monetary tightening.

Imports during Jul-Apr FY2019 declined by 4.9 percent while worker's remittances increased by 8.45 percent. This proved to be a major support to the current account balance which improved by 26.9 percent during the period. However, exports remained a source of concern as they declined during Jul-Apr FY2019.

There is a continuous increase in the flows of credit to private sector in manufacturing and export oriented industry which is a welcome development in terms of business activities. However, the downside risk of the impact of continuous rise in policy rate and global slowdown in trade activities may influence the exports.

Financial account posted a surplus of US$ 11.32 billion during Jul-Apr FY2019. The improvement is mainly due to the bilateral inflows from China, India and UAE. However, foreign investment remained low during the period after a consistent increase over the last three years under CPEC. This is because of the completion of early harvest projects under CPEC.

There is a need to implement a range of structural reforms including growth enhancing fiscal consolidation, reducing cost of doing business, attracting foreign private investments, exploiting the potential of Pakistani diaspora, introduction of effective and responsive foreign exchange regime, and most importantly, focus on enhancing exports through improving productivity at different stages of production. Moreover, integrating the domestic production with global value change, research and development, technology up-gradation, value addition and branding will help in increasing the exports.

The establishment of special economic zone and free trade zone at Gawadar will enhance export growth and access to regional markets going forward. The trade diplomacy also needs to be strengthened.