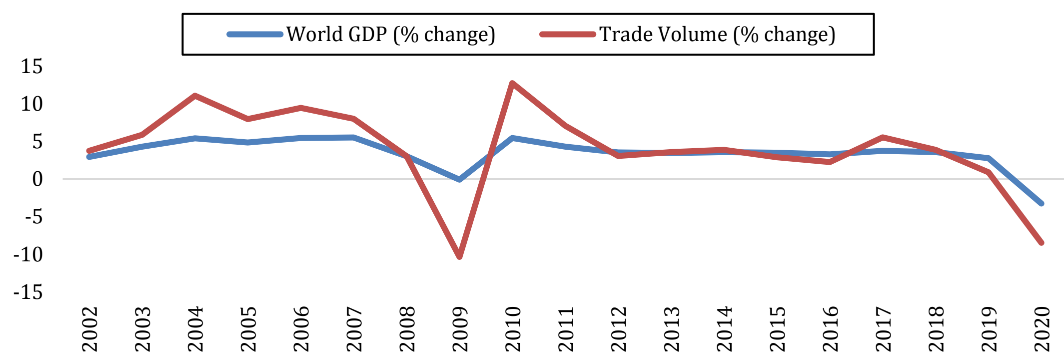
Chapter 8

Trade and Payments

Even prior to COVID-19 outbreak, globalization in trade, finance, investment and migration was facing a number of headwinds, stimulated by geopolitical tensions over trade between the United States (US) and China, "Brexit" vote for United Kingdom (UK) as well as rising polarization and social inequality. The pandemic has further exacerbated the prevailing trade relationships among nations. All the measures taken by the states to restrain the spread of virus like closure of borders, strict lockdowns and quarantines have distorted supply chains and weakened the demand of an interconnected economy. This has resulted in an overall decline in global output and trade during 2020.

Fig-8.1: Trends in World GDP & Trade Volume

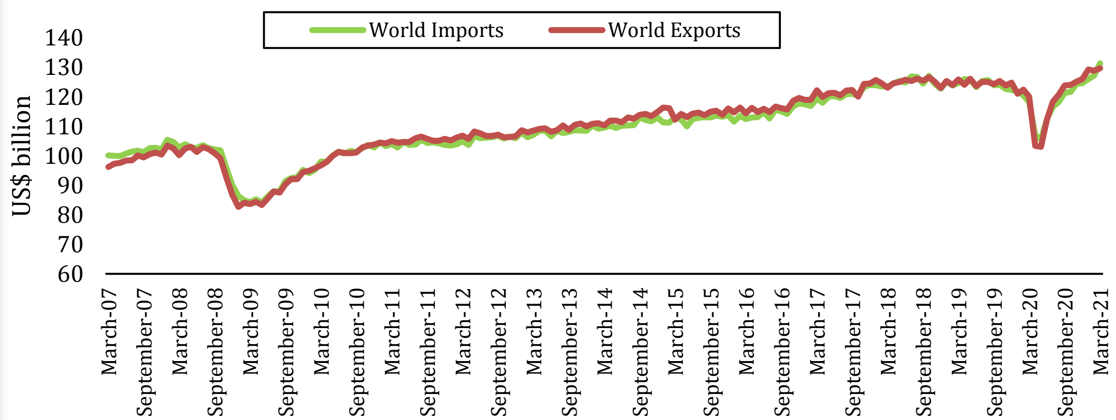


Source: International Monetary Fund, World Economic Outlook Database, April 2021

Amidst the economic crisis, fluctuations in the trade volume tend to be more volatile than in real output (Fig-8.1). As the above graph shows, during global financial crisis, global output witnessed a contraction of 0.1 percent while the world trade plummeted by 10.4 percent. Continuous trade and technological tensions among leading countries had already muted the growth in the world trade volume from 3.9 percent in 2018 to 0.9 percent in 2019. COVID-19 related restrictions have exacerbated the situation and resulted in a sharp contraction in the trade volume (-8.5 percent) during 2020 due to falling global demand. The pandemic had caused serious distortions in the supply chain and subdued foreign direct investment. Overseas migration and worker remittances were severely disrupted and tourism was particularly hard hit. In short it brought the economic activities to a standstill. The impact was significantly different across regions. Advanced economies suffered the steepest decline in exports (by 9.5 percent) and imports (by 9.1 percent), while Emerging Markets and Developing Economies (EMDEs) witnessed somewhat lower contraction in exports (by 5.7 percent) as well as in imports (by 8.6 percent).

However, monetary, financial and fiscal support measures were promptly executed globally. Massive relief packages by fiscal authorities as well as liquidity support and credit extensions by monetary authorities helped in mitigating the adverse impact of lockdowns especially on the poor masses. Special assistance and grants from international organizations and debt relief by G-20 also provided some cushion to subside the financial vulnerabilities. As countries began to emerge from lockdown in the second half of 2020, shifting from strict lockdown to partial or no lockdown strategy, economic activities started to resume. Concurrently, deployment of vaccines has raised hopes of a turnaround in the pandemic and economic activities.

Fig-8.2: Trends in World Merchandise Trade Volume



Source: CPB, World Trade Monitor (Netherlands)

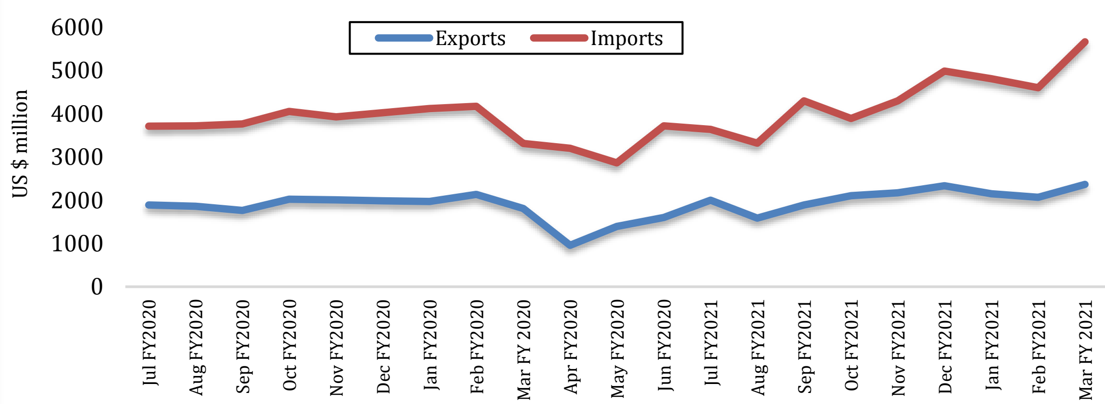
A steep fall was observed during January-May 2020 in the world merchandise trade which dropped to 8.6 percent compared to corresponding period last year. However, unlike the global financial crisis, the contraction was short lived. With the easing of lockdowns and acceleration in economic activity, a surge in trade was observed in June and July 2020, thus leading to full V-shaped recovery. The rebound in trade in the second half of 2020 is a reflection of increased demand for consumer durables from advanced economies and resumption of supply chains in emerging markets.

Economic activities have been revived especially in main trading partners of Pakistan subsequent to development of vaccines. According to World Economic Outlook April 2021, the global economy is projected to grow by 6.0 percent in 2021 and 4.4 percent in 2022. In line with growth in output, world trade volumes are also projected to grow by 8.4 percent in 2021 and 6.5 percent in 2022. The Brexit deal, ended in December 2020, has opened a number of opportunities for Pakistan to explore post-Brexit UK and Euroarea markets in the field of pharmaceuticals, surgical instruments, IT enabled services as well as processed food and agriculture products. Moreover, UK-Pakistan trade and investment relations may continue to benefit by the duty-free access available to Pakistan on more than 90 percent of its exports. The global economic recovery can help Pakistan in exploring more exports destinations and diversifying its products.

Performance of Pakistan's External Sector

Amid the resurgent COVID-19 outbreak, tight containment restrictions were imposed in Pakistan, bringing the economic activities to a halt. Pakistan's exports saw a sharp contraction in the month of April FY2020, (-47 percent M-o-M growth). However, Pakistan's relatively better performance to control the spread of the virus, due in part to government's swift policy response, helped to ease the strict lockdown strategy by following smart lockdown policy since the start of the fiscal year 2021. After the contraction induced by the COVID-19, policy stance has shifted from stabilization to growth. Thus, economic activities resumed to give boost to industrial production. Both exports and imports picked up the momentum, closely following the V-shaped recovery in line with global trade. The surge in imports may be attributed to the rising demand for intermediate goods with the resumption of economic activities. Current account turned to surplus owing to strong growth in remittances and moderate growth in exports. Market based exchange rate regime and reserve buffers helped to stabilize the Pakistani rupee against the US dollar.

Fig-8.3: Trends of Pakistan's Exports & Imports



Source: Pakistan Bureau of Statistics

Exports

Pakistan's exports bounced back owing to proactive measures taken by the state authorities and it was among those countries whose exports recovered more rapidly. Initiatives taken to uplift the export-oriented industries amidst the COVID-19 outbreak include:

- Gas and power subsidies through the industrial support package
- Extensions in the validity of subsidized power and gas utilities under erstwhile zero-rating certificates
- A cumulative Rs 190 billion enhancement in the limits of refinancing for banks under the Export Finance Scheme (EFS) and the Long Term Financing Facility (LTFF)

- Loans deferment and restructuring
- Payroll support under the Rozgar Scheme
- Temporary Economic Refinance Facility (TERF) and
- Tax refunds to improve liquidity conditions of exporters.

In order to meet the objectives of the National Tariff Policy, 2019-2024 and to remove distortions in the tariff structure, tariffs were rationalized as per details given below during the budget exercise 2020-21:

- Additional Customs Duty (ACD) of 2 percent on 1623 tariff lines, consisting of basic raw materials, was removed.
- Customs Duty on 90 tariff lines, consisting of intermediate goods/inputs not manufactured locally, was reduced from 11 to 3 percent and 0 percent.
- In order to implement Government's "Make in Pakistan Initiative", tariffs were rationalized on 112 tariff lines.
- Regulatory Duty (RD) on 36 tariff lines of iron & steel sector was reduced to ensure cheap raw materials for manufacturing sector.

After the budget, the following further measures were taken:

- ACD and RD on 164 tariff lines of textile sector such as fibers, yarn and fabrics of nylon, viscose, acrylic, silk, wool and vegetable-based fibers like hemp, not manufactured in the country, were removed in order to increase the share of Man Made Fiber (MMF) in textile exports.
- In order to meet the demand of value-added textile sector, 5 percent RD on import of cotton yarn was removed and the tariff was reduced from 10 percent to 5 percent.
- ACD on 152 tariff lines pertaining to raw materials, mostly chemicals, used by the local manufacturing sector was removed.

It is worth mentioning that Pakistan has finally received the Geographical Indication (GI) tag for Basmati rice. It would strengthen Pakistan's case against India in the European Union, where India has been trying to block Pakistan's trade by claiming its Basmati was the geographically original one. This will provide protection to our products against misuse or imitation and hence will guarantee that their share in international market is protected.

Merchandise Exports

In line with world trade, Pakistan's exports bounced back, after a sharp hit during strict lockdown in the last fiscal year, mainly due to export-oriented government policies and strong economic recoveries in the main export markets. Exports were targeted at US$ 22.7 billion for the fiscal year 2021. Exports during July-March FY2021 amounted to US$ 18.7 billion as compared to US$ 17.4 billion in the same period last year, which shows an impressive growth of 7.1 percent as compared to the 2.2 percent in the same period last year.

Table 8.1: Structure of Exports

	Particulars	Units	July-March Values in US$ million			July-March Quantity		% Change in Quantity
			2019-20	2020-21 (P)	% Change	2019-20	2020-21 (P)	
	Total		17,443.3	18,687.4	7.1			
A.	**Food Group**		3,396.0	3,332.2	-1.9			
	Rice	M.T	1,594.0	1,560.4	-2.1	3141961	2885388	-8.2
	Sugar	M.T	70.7	-	-	181447	-	-
	Fish & Fish Preparation	M.T	317.3	303.6	-4.3	130148	136370	4.8
	Fruits	M.T	379.5	378.3	-0.3	722634	829224	14.8
	Vegetables	M.T	257.9	246.1	-4.6	710472	699159	-1.6
	Wheat	M.T	11.4	-	-	48083	-	-
	Spices	M.T	66.8	70.3	5.2	15755	17446	10.7
	Oil Seeds, Nuts & Kernels	M.T	28.0	76.4	172.9	20138	68808	241.7
	Meat & Meat Preparation	M.T	233.0	248.2	6.5	62653	72863	16.3
	Other Food Items		437.5	448.9	2.6	-	-	-
B.	**Textile Manufactures**		10,412.9	11,355.5	9.1			
	Raw Cotton	M.T	17.0	0.6	-96.5	12776	499	-96.1
	Cotton Yarn	M.T	819.8	721.2	-12.0	336845	292997	-13.0
	Cotton Cloth	TH.SQM	1,547.3	1,419.2	-8.3	2003233	875511	-56.3
	Knitwear	TH.DOZ	2,299.9	2,780.9	20.9	87345	126677	45.0
	Bedwear	M.T	1,761.6	2,052.3	16.5	338650	343476	1.4
	Towels	M.T	592.4	692.1	16.8	144407	159028	10.1
	Readymade Garments	TH.DOZ	2,170.6	2,268.6	4.5	43211	27683	-35.9
	Made-up articles		492.3	565.5	14.9	-	-	-
	Other Textile Manufactures		712.1	855.1	20.1	-	-	-
C.	**Petroleum Group**		132.7	85.8	-35.3	-	-	-
	Petroleum Products	M.T	86.2	53.3	-38.2	79956	46687	-41.6
	Petroleum Top Neptha	M.T	46.5	32.5	-30.0	100111	96033	-4.1
D.	**Other Manufactures**		2,426.2	2,565.9	5.8	-	-	-
	Carpets, Rugs & Mats	TH.SQM	48.7	54.3	11.6	1302	1087	-16.5
	Sports Goods	TH.DOZ	222.7	192.2	-13.7	-	-	-
	Leather Tanned	TH.DOZ	151.3	113.3	-25.1	13895	8125	-41.5
	Leather Manufactures		401.0	427.7	6.7	-	-	-
	Surgical Goods. & Med. Inst.		303.0	324.3	7.0	-	-	-
	Chemical & Pharma. Pro.		734.5	844.2	14.9	-	-	-
	Engineering Goods		140.4	164.0	16.8	-	-	-
	Jewellery		3.2	6.5	103.5	-	-	-
	Cement	M.T	210.1	210.0	0.0	5592788	6247086	11.7
	Guar & Guar Products	M.T	27.3	25.8	-5.5	19926	21535	8.1
	All Other Manufactures		211.4	229.4	8.5	-	-	-
E.	**All Other items**		1,075.4	1,348.0	25.3	-	-	-

P : Provisional
Source: Pakistan Bureau of Statistics

Broad categories of exports exhibited the mixed performance (table 8.1). Food group, despite being a significant sector of the economy, declined by 1.9 percent during July-March FY2021 compared to the same period last year. Within the food group, rice exports decreased both in quantity and value by 2.1 and 8.2 percent, respectively.

The Basmati rice exports declined by 27.3 percent in value and 33.2 percent in quantity during July-March FY2021 as compared to the corresponding period last year. The contraction in export of rice was mainly driven by higher prices due to unavailability of shipment containers which raised the average cost of shipping. Taking advantage of the situation, India took over the market by offering lower prices to increase its share further. However, it is important to highlight that Pakistan has started reaping benefits from long awaited GI tag for basmati rice against India received in January 2021. Resultantly exports of basmati rice showed a remarkable turnaround and witnessed 73 percent growth in March FY2021(on M-o-M basis) over February FY2021.

Other varieties under rice group witnessed a growth of 11.9 percent in value despite the decline of 1.6 percent in quantity due to higher domestic prices accompanied by tight supplies before the arrival of the new crop. However, the price impact was much stronger than the overall quantum impact.

Export earnings from fruits contracted by 0.3 percent in value and increased by 14.8 percent in quantity. Vegetables also witnessed a decline of 4.6 percent in value and 1.6 percent in quantity. Fish & fish preparation subgroup decreased by 4.3 percent in value due to low price in international markets but its quantity increased by 4.8 percent as compared to last year.

Exports of oil seeds, nuts & kernels witnessed a growth of 241.7 percent in quantity and 172.9 percent in value during July-March FY2021 as compared to the same period last year. The export of spices also increased by 5.2 percent in value and 10.7 percent in quantity during the period under review. Meat and meat preparation increased both in value and quantity by 6.5 and 16.3 percent, respectively signaling a recovery in production of livestock.

Textile group, which has around 60 percent share in total exports, witnessed a growth of 9.1 percent during July-March FY2021 compared to the corresponding period last year. Rebound in exports of textile is the outcome of a series of incentives to support exporters to meet the challenges in the wake of COVID-19 and disruption in supplies. Moreover, the government’s decision to keep businesses open during lockdown provided an opportunity to secure orders diverted from economies under strict lockdown.

Higher textile exports came on the back of quantum growth in high value-added products, particularly knitwear, home-textiles (bedwear and towels) and made-up articles. At the same time raw cotton, cotton yarn and cotton cloth showed a declining trend. This indicates countries preferences shifting from raw and intermediate goods to value added exports. To prop up the exports of high-value added textile, additional customs duty on import of raw cotton has been exempted by the government. Beside this, the sector also benefitted from Export Financing Scheme (EFS) and out of Rs 68.7 billion EFS loan, Rs 44.8 billion has been given to textile sector during July-March FY2021. This significantly helped to improve the liquidity conditions and enhanced the capacity utilization of the sector. Meanwhile declining share of China in the US apparel market and shifting focus from apparel to global textile market provided some room to Pakistan and other competitors to enhance their shares in apparel exports.

In case of home textiles (bedwear and towels), exports increased by 16.6 percent Y-o-Y to US$ 2.7 billion on the back of higher unit values. Knitwear exports grew by 20.9

percent in value and 45.0 percent in quantity as compared to the corresponding period last year. Export earnings of readymade garments showed growth of 4.5 percent in value but a decline in quantity by 35.9 percent during the period under review.

The exports of intermediate commodities like cotton yarn witnessed a fall both in value and quantity by 12.0 and 13.0 percent, respectively. It could be attributed to the lower production due to unfavorable weather conditions, pest and locust attacks last year. The same trend continued in the current fiscal year. Cotton cloth export declined both in quantity and value by 56.3 and 8.3 percent, respectively.

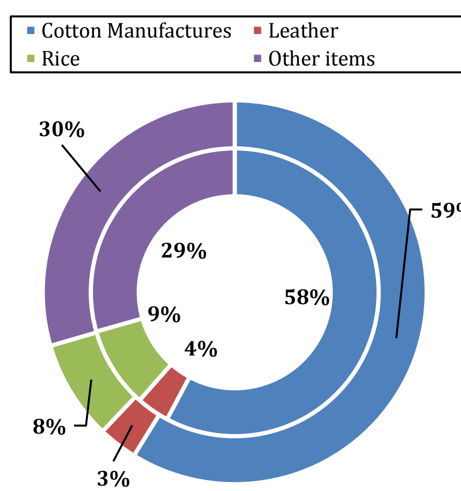
The exports of petroleum products, largely affected by COVID-19, slumped by 35.3 percent. Moreover, petroleum crude exports also dropped by 58.9 percent and reached US$ 62.7 million. Export of items like leather tanned and gloves etc. could not grow in quantitative terms. In the case of sports goods, football – the major export item – witnessed a decline both in quantity and value by 29.7 and 23.2 percent, respectively.

Export of carpets, rugs and mats registered a growth in value by 11.6 percent whereas the export quantity decreased by 16.5 percent as compared to the same period last year. The export of cement witnessed a strong growth in quantity by 11.7 percent but in value terms it remained the same as last year partly due to reduction in Federal Excise Duty (EFD) in wake of COVID-19 and a fall in coal prices. China and Sri Lanka were the main destinations as both countries used infrastructure as a tool for revival of the economy during the pandemic. Guar and guar products registered a decline in value by 5.5 percent but grew in quantity by 8.1 percent.

Concentration of Exports

Export growth is hindered owed to lack of diversification in export goods. The trend of Pakistan's exports of major items has remained more or less the same with concentration on three items viz cotton manufactures, leather and rice (See Table 8.2). These three categories accounted for 70.5 percent of total exports during July-March FY2021.

Fig-8.4: Pakistan's Major Exports (July-March)



Source: Pakistan Bureau of Statistics

Within these three items, cotton manufactures remain the major contributor with 58.8 percent in total exports. Thus, Pakistan's exports are still concentrated in a few items. The annual percentage shares of the major export commodities are shown in figure 8.4 with the outer line representing data for FY2021 and the inner line showing FY2020.

Table 8.2: Pakistan's Major Exports							(Percentage Share)	
Commodity	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**July-March**	
							2019-20	**2020-21 P**
Cotton Manufactures	54.5	55.0	56.5	61.7	56.4	56.6	57.8	58.8
Leather**	4.8	4.9	4.1	4.2	3.7	3.6	3.7	3.3
Rice	8.5	8.8	8.8	7.7	9.0	10.2	9.1	8.4
Sub-Total of three Items	**67.8**	**68.7**	**69.4**	**73.6**	**69.1**	**70.4**	**70.6**	**70.5**
Other items	32.2	31.3	30.6	26.4	30.9	29.6	29.4	29.5
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

Direction of Exports

Among the top export destinations, the USA continued to be the largest export market for Pakistan during July-March FY2021. Exports to the USA moderately increased from 17.3 percent in FY2020 to 19.7 percent in FY2021. Similarly share of exports to China increased from 8.0 percent to 9.7 percent during the period under review. Detailed bifurcation of major export markets is shown in the Table 8.3.

Table 8.3: Major Exports Markets										**(Rs billion & Percentage Share)**
Country	**2017-18**		**2018-19**		**2019-20**		**July-March**			
							2019-20		**2020-201P**	
	Rs	**% Share**	**Rs**	**% Share**	**Rs**	**% Share**	**Rs**	**% Share**	**Rs**	**% Share**
USA	400.4	15.7	532.8	17.0	585.4	17.4	471	17.3	593.6	19.7
CHINA	185.7	7.3	259.6	8.3	349.7	10.4	219	8.0	292.9	9.7
AFGHANISTAN	165.2	6.5	176.4	5.6	134.3	4.0	115.6	4.2	126.9	4.2
UNITED KINGDOM	186.7	7.3	226.8	7.3	239.6	7.1	194.7	7.1	245.3	8.1
GERMANY	146.7	5.7	173.4	5.5	199.0	5.9	162.1	5.9	187.7	6.2
U.A.E	104	4.1	125.8	4.0	178.9	5.3	141.6	5.2	118.8	3.9
BANGLADESH	81	3.2	101.8	3.3	102.6	3.0	91.8	3.4	126.9	4.2
ITALY	84.5	3.3	107.4	3.4	115.0	3.4	92.4	3.4	92.6	3.1
SPAIN	104.5	4.1	126.5	4.0	130.3	3.9	109.2	4.0	108.1	3.6
FRANCE	45.5	1.8	53.9	1.7	57.7	1.7	44.8	1.6	49.8	1.6
All Other	1,050.8	41.1	1,243.8	39.8	1,277.3	37.9	1,083.0	39.7	1,077.7	35.7
Total	2,555.0	100.0	3,128.2	100.0	3,369.8	100.0	2,725.2	100.0	3,020.3	100.0

P: Provisional
Source: Pakistan Bureau of Statistics

Box-I: Bilateral Relation

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

China-Pakistan

Pakistan is engaged with China through a bilateral agreement in addition to other commercial agreements. The implementation of Phase-II of the China-Pakistan Free Trade Agreement (CPFTA) is a significant achievement for Pakistan. The Government of Pakistan has gained most favorable market access at par with ASEAN, in the Chinese market. The significant features of Phase-II of the CPFTA, inter alia, include immediate market access on 313 items of Pakistan's prime export interest, more robust safeguard measures, inclusion of balance of payment clause and Electronic Data Exchange (EDE) to curb under-invoicing and mis-declaration of goods.

Third China International Import Expo (CIIE) was held in Shanghai, China, on 5-10 November, 2020. Pakistan's leading enterprises virtually showcased their products during the event. Moreover, awareness campaign was arranged by Ministry of Commerce during July-December FY2021, to sensitize the local business community about the benefits and opportunities available under Phase-II of the CPFTA.

Pakistan-Japan

The 7th Session of Japan-Pakistan High Level Economic Policy Dialogue (JPHLEPD) was held in March 2021 during which new proposals were shared regarding trade and economic relations between the two countries so as to explore opportunities to reap maximum benefits out of the longstanding and growing relations.

In addition, a monitoring Committee was established to resolve issues faced by the business community of both countries. The first meeting of the Committee was held on 26th November 2020 wherein both sides shared their willingness to promote discussions to facilitate and further strengthen bilateral trade and to address issues pending on both sides.

Pakistan-South Korea

Pakistan and South Korea held the 3rd Meeting of Joint Trade Committee on 6th January 2021 to discuss avenues for expansion of bilateral trade and investment linkages and prospects for preferential trading arrangements.

Pakistan - Bangladesh

Bangladesh remained the second largest export destination for Pakistan in South Asia after Afghanistan. The dynamics of the political relations between the two countries seem to be gradually moving in a positive direction. The Dhaka Chamber of Commerce and Industry (DCCI) is in the process of signing MoU with the High Commission of Pakistan to enhance business to business linkages. Pakistani businessmen were invited to participate in the DCCI Business Conclave virtually on 5 -7 January 2021.

Pakistan-Sri Lanka

The 7th Session of Pakistan, Sri Lanka Commerce Secretary Level Talks, was held on 18th February 2021 wherein both countries renewed the resolve to further deepen bilateral ties and to work on resolving technical issues by reviving the platform of Joint Working Groups. Pakistan also held its first ever Trade and Investment Conference in Colombo on 24th February 2021 on the side-lines of visit of the Prime Minister of Pakistan to Sri Lanka. The event proved to be a huge success and leading businessmen from both countries attended the conference. During the visit of the Prime Minister, the Investment Promotion Agencies of both countries also signed MoU on Investment Promotion.

Central Asian Republics, Afghanistan, Iran Region

- Pakistan's exports to Central Asia, Afghanistan and Iran increased from US $ 813.59 million to US$ 870.26 million during July-March FY2021.
- A Joint Inter-Governmental commission meeting was held, in which Kazakhstan agreed to establish Joint Working Group on Trade and Investment with Pakistan to remove trade barriers between the two countries.
- Pakistan's exports to the Afghanistan increased to US$ 779.39 million during July-March FY2021, despite a continuing ban on export of wheat and sugar. The 7th and 8th Afghanistan-Pakistan Transit Trade Coordination Authority (APTTCA) meetings were held in which bilateral and transit trade issues were discussed. Besides, Afghanistan Pakistan Transit Trade Agreement was extended for three months beyond 11th February 2021.
- The first meeting of Joint Working Group on Trade and Economic Affairs was held at Tashkent to discuss Preferential Trade Agreement and connectivity through Afghanistan through road and railway corridors.

- The 3rd Session of Pakistan, Azerbaijan Joint Working Group on Trade, was held in December 2020, to explore possibility of a Preferential Trade Agreement and cooperation in pharmaceutical and agricultural sectors, as well as in petroleum and LNG.
- To strengthen the trade relations, the memorandum of understanding (MoU) on establishment of Border Sustenance Market Places with Iran was signed on 21st April, 2021 at Tehran. Pilot Projects of border marketplaces will be established at Gabd, Mand and Chedgi.

Middle East Region

- The overall bilateral trade of Pakistan with the Middle East region has decreased from US$ 10445.25 million in July-March FY2020 to US$ 9420.56 million in July-March FY2021, due to COVID-19 pandemic and supply chain disruptions.
- Gulf Cooperation Council (GCC) has expressed its willingness to resume Pak-GCC FTA negotiations. The Ministry of Commerce is taking preliminary steps before holding the 3rd round of negotiations.
- To ensure continued exports of meat products to Saudi Arabia, two Halal Certifying Bodies have been registered with Saudi Food and Drug Authority and thirteen (13) companies have been registered with them.
- The Trade Mission in Riyadh had prevented the unlawful registration in Saudi Arabia of 'Kernal' as trademark of India.
- Six webinars to create awareness amongst Pakistani exporters were held in which Construction, Halal Accreditation, Information Technology and Pharmaceutical sectors were covered.

Africa

Total bilateral trade between Pakistan and Africa was recorded at US$ 3.15 billion during July-March FY2021.

- Webinars were organized to familiarize Pakistani business community regarding sector-specific dynamics, requirements and opportunities in African countries.
- Sector-specific strategies for Africa to enhance exports of priority sectors, identified for Africa under Look Africa Policy, were drawn up. Initial meetings of all stakeholders of pharmaceuticals and surgical sectors were held and finalization of export development strategy for pharmaceutical sector is in progress.
- The first official business delegation from Tanzania to Pakistan in approximately thirty years.
- Participation in 38th International Khartoum Fair.

United States

The United States (US) is the largest single country destination for Pakistan's exports. The volume of exports to the US stood at US$ 3,248.43 million during July-February FY2021, registering a growth of 21 percent. The volume of imports reached US$ 1,682.22 million against US$ 1,673.36 million last year.

Europe Union (EU)

Pakistani products have duty free access in all 28-member states of the EU on 91 percent tariff lines under EU's "Special Incentive Arrangement for Good Governance and Sustainable Development", which is also popularly known as GSP+, since 1st January 2014.

Pakistan's exports to EU increased by 4 percent to US$ 4,549.82 million during July-February FY2021. At the same time, Pakistan's imports decreased by 3 percent to US$ 2,539.07 million. The trade balance is in favor of Pakistan with trade surplus amounting to US$ 2,010.75 million.

Eastern Europe

Pakistan's exports to the Russian Federation during July-February FY2021 saw a surge of 20 percent as the exports increased to US$ 121.70 million. However, the imports also saw a significant increase of 240 percent and reached US$ 563.18 million.

The government has undertaken many initiatives for enhancing trade with the Eastern Europe region, prominent among them being:

i. Promotional /marketing activity in the Eastern Europe region is being carried out as part of strategy to target non-traditional markets.

ii. Ministry of Commerce is arranging business delegations of textile garments, sports goods, leather goods and surgical goods from Pakistan in coordination with Trade Development Authority of Pakistan.

iii. To cater the demands of Eastern European region, Ministry of Commerce is carrying out market analysis of potential non-traditional sectors and products.

Source: Ministry of Commerce

Imports

The total imports during July-March FY2021 clocked at US$ 39.5 billion as compared to US$ 34.8 billion in the same period last year, showing a growth of 13.6 percent. Non-energy imports remained the main contributor in the rising import bill. The surge in imports may be attributed to the rising demand for intermediate goods due to the resumption of economic activities; supply shock in agricultural products especially wheat, sugar and cotton; government's accommodative measures to underpin the production of industrial sector in the form of removal of customs duty on import of raw-materials; and concessionary loans.

Table 8.4: Structure of Imports

	Particulars	Units	July-March Value in US$ million		% Change in Value	July-March Quantity		% Change in Quantity
			2019-20	2020-21 (P)		2019-20	2020-21 (P)	
	Total		34,790.6	39,518.7	13.6			
A.	**Food Groups**		3,963.3	6,121.4	54.5			
	Milk & Milk food	M.T	125.2	146.2	16.8	49748	43929	-11.7
	Wheat Unmilled	M.T	-	983.3	-	-	3612638	-
	Dry Fruits	M.T	24.1	69.7	189.6	16950	60995	259.9
	Tea	M.T	376.2	435.1	15.6	155372	194962	25.5
	Spices	M.T	119.4	157.6	32.0	99955	135410	35.5
	Edible Oil (Soyabean & Palm)	M.T	1,425.5	1,909.3	33.9	2342965	2516069	7.4
	Sugar	M.T	2.3	127.5	5335.6	4751	279529	5783.6
	Pulses	M.T	428.8	448.4	4.6	859484	842777	-1.9
	Other Food Items		1,461.8	1,844.3	26.2	-	-	-
B.	**Machinery Group**		3,787.4	4,503.9	18.9	-	-	-
	Power generating Machines		921.1	1,381.5	50.0	-	-	-
	Office Machines		288.9	332.7	15.2	-	-	-
	Textile Machinery		352.7	381.9	8.3	-	-	-
	Const. & Mining Machines		168.9	104.6	-38.1	-	-	-
	Aircrafts, Ships and Boats		239.7	380.1	58.6	-	-	-
	Agriculture Machinery		73.2	66.0	-9.9	-	-	-
	Other Machinery Items		1,742.9	1,857.1	6.6	-	-	-

Table 8.4: Structure of Imports

Particulars		Units	July-March Value in US$ million		% Change in Value	July-March Quantity		% Change in Quantity
			2019-20	2020-21 (P)		2019-20	2020-21 (P)	
C.	**Petroleum Group**		6,417.3	5,471.0	-14.7			
	Petroleum Products	M.T	3,964.7	3,447.6	-13.0	8012377	10440246	30.3
	Petroleum Crude	M.T	2,452.6	2,023.4	-17.5	5508826	6422166	16.6
D.	**Consumer Durables**		2,594.1	2,635.6	1.6	-	-	-
	Road Motor Vehicles		852.3	1,534.3	80.0	-	-	-
	Electric Mach. & Appliances		1,741.8	1,101.3	-36.8	-	-	-
E.	**Raw Materials**		5,753.8	7,160.7	24.5	-	-	-
	Raw Cotton	M.T	556.1	1,032.1	85.6	338244	624945	84.8
	Synthetic Fibre	M.T	339.1	441.0	30.0	227365	346254	52.3
	Silk Yarn (Synth & Arti)	M.T	429.9	499.8	16.3	210810	316656	50.2
	Fertilizer Manufactured	M.T	482.3	440.2	-8.7	1423114	1259943	-11.5
	Insecticides	M.T	108.6	129.9	19.6	19327	29450	52.4
	Plastic Material	M.T	1,490.2	1,771.1	18.8	1196265	1448760	21.1
	Iron & steel Scrap	M.T	1,188.2	1,418.8	19.4	3050194	3829438	25.5
	Iron & steel	M.T	1,159.3	1,427.8	23.2	1806631	2306105	27.6
F.	**Telecom**		1,328.5	1,913.7	44.0	-	-	-
G.	**All Other Items**		10,946.3	11,712.4	7.0	-	-	-

P: Provisional
Source: Pakistan Bureau of Statistics

The highest contribution to the growth of total imports is that of food group. During July-March FY2021, food group witnessed a growth of 54.5 percent and its import clocked at US$ 6,121.4 million as against US$ 3,963.3 million during the comparable period last year. Within food group, surge was observed in the import of wheat, sugar, palm oil and dry fruits. Due to supply disruptions in wheat and shortage of production in sugar, government reverted to import of wheat and sugar to meet demand and to control price hike.

The edible oil, soybeans & palm, import bill, the heaviest item in the food group, increased in both quantity and value by 33.9 and 7.4 percent, respectively. The increase in the import bill of edible oil was mainly attributed to the rise in global palm oil prices, mainly due to lower production in Malaysia and rise in palm oil export levy by US$ 5 per tonne. The import bill of pulses surged by 4.6 percent during the period under review.

The import of petroleum group declined by 14.7 percent during the period under review and reached US$ 5,471.0 million as compared to US$ 6,417.3 million during the corresponding period last year. This was mainly due to historically low global oil prices and limited transportation in the wake of COVID-19. Within the petroleum group, the petroleum products declined in value by 13.0 percent, despite an increase in quantity by 30.3 percent. Petroleum crude reduced in value by 17.5 percent and quantity increased by 16.6 percent. The fall in unit prices more than offset the impact of the quantum increase. Liquefied Natural Gas imports decreased by 22.6 percent in value and Liquefied Petroleum Gas imports surged by 42.8 percent.

Machinery Group is the vital engine of growth for successful industrial and manufacturing sector development. Its import increased substantially by 18.9 percent and reached US$ 4,503.9 million against US$ 3,787.4 million last year. Within this group, import bill of power generating machinery increased by 49.9 percent and reached US$ 1,381.5 million as compared to US$ 921.1 million last year, mainly due to the ongoing work on CPEC-related power projects. The import bill of textile machinery registered an increase of 8.3 percent and stood at US$ 381.9 million against US$ 352.7 million last year.

Electrical machinery & apparatus imports plummeted by 36.4 percent to US$ 1,112.6 million during July-March FY2021 compared with US$1,748.8 million in the same period last year.

Within the machinery group, telecom sector imports accelerated by 44.0 percent to US$ 1,913.7 million as compared to US$ 1,328.5 million last year. Mobile phone imports increased by 56.7 percent and reached US$ 1,535.9 million as compared to US$ 979.9 million last year. Rising demand for mobile phones may be attributed to multiple factors, including reduction in taxes, changing work and educational environment like work from home and online schools in the wake of pandemic.

The import of transport group surged by 68.7 percent and reached US$ 2,018.3 million during July-March FY2021 as compared to US$ 1,196.5 million last year. The import of road motor vehicle increased by 73.0 percent of which CBU increased by 82.5 percent and CKD/SKD increased by 91.2 percent during the period under review.

Metal group import increased by 17.8 percent and reached US$ 3,621.4 million. Increased activity in the construction and automobile sectors led to a surge in import of iron and steel scrap by 19.4 percent in value and 25.5 percent in quantity. Imports of iron and steel also increased by 23.2 percent in value and 27.6 percent in quantity during the period under review.

In the textile group, import of raw cotton witnessed an increase both in quantity and value by 84.8 and 85.6 percent, respectively during July-March FY2021 as compared to the same period last year. Plunge in cotton production and rising demand for high value-added textile products of Pakistan in international markets (European and American), diverted from its competitors, compelled the producers to import significant amount of cotton thereby increasing the import bill.

Direction of Imports

Like exports, Pakistan's imports are also highly concentrated in a few countries. Imports from countries like China, Saudi Arabia, UAE and Indonesia constitute around 50 percent of the total imports. During the current fiscal year, share of imports from China has increased from 23.6 percent to 27.1 percent during July-March FY2021. Share of imports from USA has increased marginally from 4.8 percent to 5.5 percent during the period under review. Change in Pakistan's import pattern in recent years is shown in (Table 8.5).

Table 8.5: Major Import Markets (Rs billion & Percentage Share)

Country	2017-18		2018-19		2019-20		July-March			
							2019-20		2020-21 P	
	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share
CHINA	1,731.8	25.9	1,734.3	23.3	2328	33.1	1,267.2	23.6	1,725.8	27.1
UAE	893.3	13.3	1020.1	13.7	812.7	11.6	759.7	14.1	602.2	9.4
SAUDI ARABIA	356.4	5.3	401.3	5.4	273.6	3.9	286.2	5.3	301.9	4.7
KUWAIT	159.7	2.4	185.8	2.5	178.7	2.5	133.8	2.5	167	2.6
INDONESIA	278.5	4.2	327.3	4.4	339.6	4.8	245.5	4.6	360.6	5.7
INDIA	207.5	3.1	204.8	2.8	59.9	0.9	154.8	2.9	38.3	0.6
U.S. A	316.4	4.7	368.9	5.0	396.7	5.6	259.5	4.8	351.1	5.5
JAPAN	266.5	4.0	246.1	3.3	174.7	2.5	188.0	3.5	173.8	2.7
GERMANY	146.4	2.2	142.6	1.9	124.2	1.8	105.4	2.0	122.2	1.9
MALAYSIA	132	2.0	145.5	2.0	148.3	2.1	103.0	1.9	134.3	2.1
All Other	**2,206.5**	33.0	**2,666.5**	35.8	**2,193.4**	31.2	**1,867.9**	34.8	**2,400**	37.6
Total	**6,695**	100.0	**7443.3**	100.0	**7,029.8**	100.0	**5,371.1**	100.0	**6,377.2**	100.0

P: Provisional
Source: Pakistan Bureau of Statistics

Box-II: E-Commerce in Pakistan

Pakistan's first ever e-commerce policy was approved by the Federal Cabinet in October 2019. The policy aims to facilitate holistic growth of e-commerce in Pakistan by creating an enabling environment, reducing cost of doing business and lowering the threshold for enterprises to become part of the e-commerce. The policy outlines targeted interventions in key areas of regulation, payment infrastructure, taxation, consumer protection, logistics, data protection and SME growth among others.

According to SBP report, Pakistan's e-commerce market size rose to Rs 96 billion upto Q1-2021 from Rs 71 billion in Q1-2020 with cash on delivery assumed at 60 percent of value, whereas in terms of prepayment it rose from Rs 29 billion to Rs 39 billion during the same period. E-Commerce merchants with prepayment have increased to 2,164 from 1,410 in the past 12 months. E-commerce merchants registered with Banks are increasing i.e. more than 8,600 in number during Q3-2020 while the average order value is decreasing as there is decrease in 1,000 points from 4,000 to 3,000 approximately in the same quarter. Prepayment orders per day have increased to 43,333 orders/day in Q3-2020.

Measures Taken to Facilitate E-Commerce

Outward Remittances to Digital Service Provider Companies: The State Bank, in August 2020, introduced a new mechanism for payments to globally recognized digital service provider companies against acquisition of digital services by local companies. The mechanism allows payment of up to US$ 200,000 to 62 digital service providers without prior approval from the State Bank. Moreover, authorized dealers can also release foreign exchange up to a maximum of US$ 25,000 per annum to digital services providers not included in the list.

Exception of requirement of Form E for E-Commerce exports: The State Bank, in December 2020, allowed the e-commerce exporter exemption from filing Form-E for exports under US$ 5,000. The exemption will greatly facilitate ease of doing business and will help small entrepreneurs and exporters who typically export varied goods in small quantities.

Separate Module in Web Based One Customs (WeBOC): In collaboration with Pakistan Customs and other stakeholders, a separate module has been developed in WeBOC to promote Business-to-Consumer (B2C) e-commerce exports. The new system will facilitate documentation and allow commercial banks to register e-commerce traders in WeBOC.

Increase in Payment limit for Freelancers: The State Bank, in collaboration with the Ministry of Commerce, increased the payment limit for freelancers to US$ 25,000 from US$ 5,000 in February 2020. The increase in limit would enable freelancers to expand their business operations and engage new individuals to join the workforce.

Pay Fast*:* The State Bank has approved e-commerce payment gateway "PayFast" to start its operations. PayFast is similar to international gateways like Stripe, Square and Razorpay and has more than 150 merchants on board as well as 12 partner banks. PayFast provides payment acceptance through multiple instruments, such as UnionPay, Visa and Mastercard cards, mobile wallets and bank account numbers.

Enlisting of more than 30 exporters on Amazon.com: Ministry of Commerce facilitated enlisting of more than 30 exporters with the well-known international e-commerce platform Amazon. This will allow Pakistani sellers to be directly registered from Pakistan and interact with buyers. After a trial run, registration will be expanded to other companies.

EMS Plus: The Pakistan Post has launched its first mobile application and export parcel service "EMS Plus" which facilitates small businesses to send their consignments/parcels abroad to any destination within 72 hours. The service was initially started in January 2019 for seven destinations but has been now expanded to the entire world.

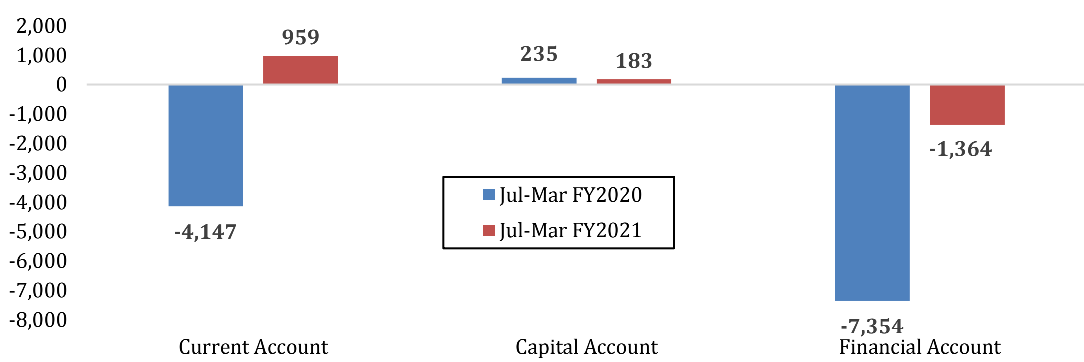
Specialized banking products for Freelancers: The State Bank is encouraging banks to develop separate products to facilitate the freelancers. In this regard, Faysal Bank and JS Bank Ltd are offering customized products for freelancers. Faysal Bank has signed up with Payoneer and the freelancers can pull their funds to their account with a few clicks. JS Bank has also developed JS Freelancers account that accepts freelance income from five main freelance platforms as valid source of income and has various incentives for freelancers.

Source: Ministry of Commerce

Balance of Payment

Amidst the uncertain and precarious global economic environment, where the global economy was lurching under the impact of the unprecedented COVID-19 shock, Pakistan's external sector has appeared as a key buffer for resilience. The comfortable external balance position of Pakistan has been supported by surplus current account balance on the back of robust remittances flow and a sustained recovery in exports. Furthermore, improvements in services and primary income account also provided cushion to turn current account deficit of US$ 4.1 billion into surplus of US$ 959 million during July-March FY2021.

Fig-8.5: Balance of Payment (US$ million)



Source: State Bank of Pakistan

Current Account

During July-March FY2021, current account posted a surplus of US$ 959 million (0.5 percent of GDP) against a deficit of US$ 4,147 million last year (2.1 percent of GDP). The main driver of improvement in current account balance was the robust growth in remittances. Even during the global economic crisis due to the COVID-19 pandemic, the inflows accelerated posting a year-on-year growth of 26.2 percent during the period under review over the same period last year and thus defying the general expectation of a decrease[1].

Table 8.6: Summary Balance of Payments US $ million

Items	July-June		July-March	
	2018-19	2019-20	2019-20	2020-21 P
Current Account Balance	-13,434	-4,449	-4,147	959
Trade Balance	-27,612	-21,109	-15,855	-18,657
Exports of Goods FOB	24,257	22,536	18,281	18,700
Imports of Goods FOB	51,869	43,645	34,136	37,357
Service Balance	-4,970	-3,316	-2,861	-1,362
Exports of Services	5,966	5,437	4,345	4,372
Imports of Services	10,936	8,753	7,206	5,734
Income Account Balance	-5,610	-5,459	-4,135	-3,594
Income: Credit	578	479	383	412
Income: Debit	6,188	5,938	4,518	4,006
Balance on Secondary Income	24,758	25,435	18,704	24,572
Of which:				
Workers' Remittances	21,740	23,131	17,008	21,468

P: Provisional

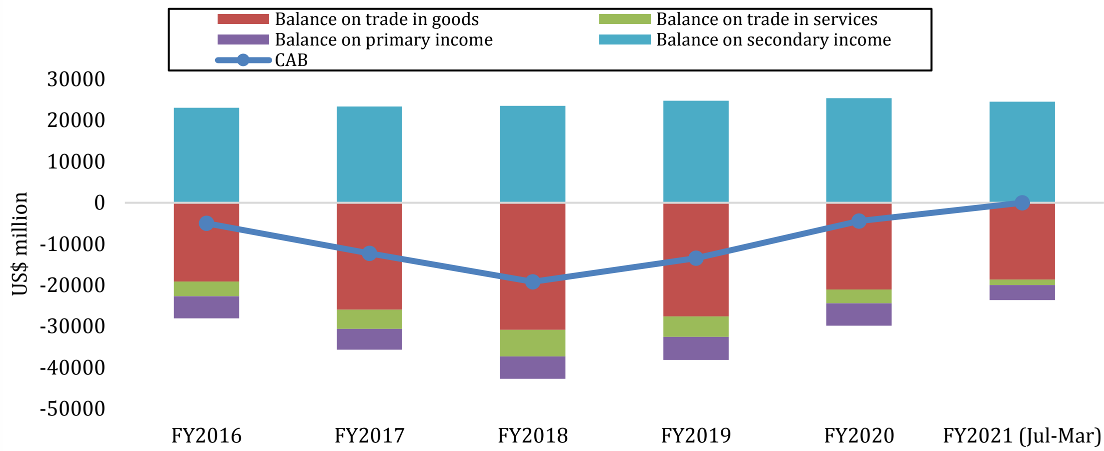
Source: State Bank of Pakistan

Concurrently, primary income account also provided cushion to improve current account balance. The lower interest payments and deferment of debt repayment (both interest and principal) under G-20 Debt Service Suspension Initiative (DSSI) have contributed to improve the balance of primary income as the deficit declined from US$ 4.1 billion to US$ 3.6 billion during July-March FY2021.

The services trade deficit shrank by 52.4 percent mainly because of strong demand of telecommunication services amidst lockdown and air travel restrictions. On the contrary, trade deficit in goods is widening owing to escalating imports of capital goods and industrial raw materials, as the economy is reviving from deadly implication of coronavirus lockdown and a rise in international commodity prices. Meanwhile, import of agricultural commodities like sugar, wheat and cotton, due to shortage in production, is another major contributor in widening of the trade deficit from US$ 15.9 billion to US$ 18.7 billion thus surging the deficit by 17.4 percent.

[1] Asian Development Bank (ADB) in its report published during April 2020 titled "COVID-19 Impact on International Migration, Remittances and Recipient Households in Developing Asia" projected that Pakistan would be among the 5 worst hit countries in terms of economy wide remittance loss due to the COVID-19 pandemic.

Fig-8.6: Trends in Pakistan's Current Account Balance



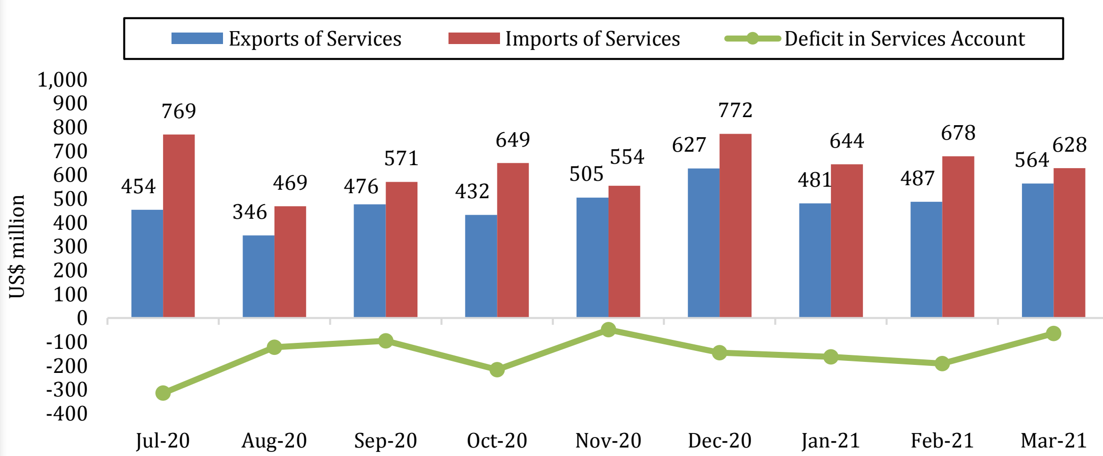
Source: State Bank of Pakistan

Balance in Trade of Goods and Services

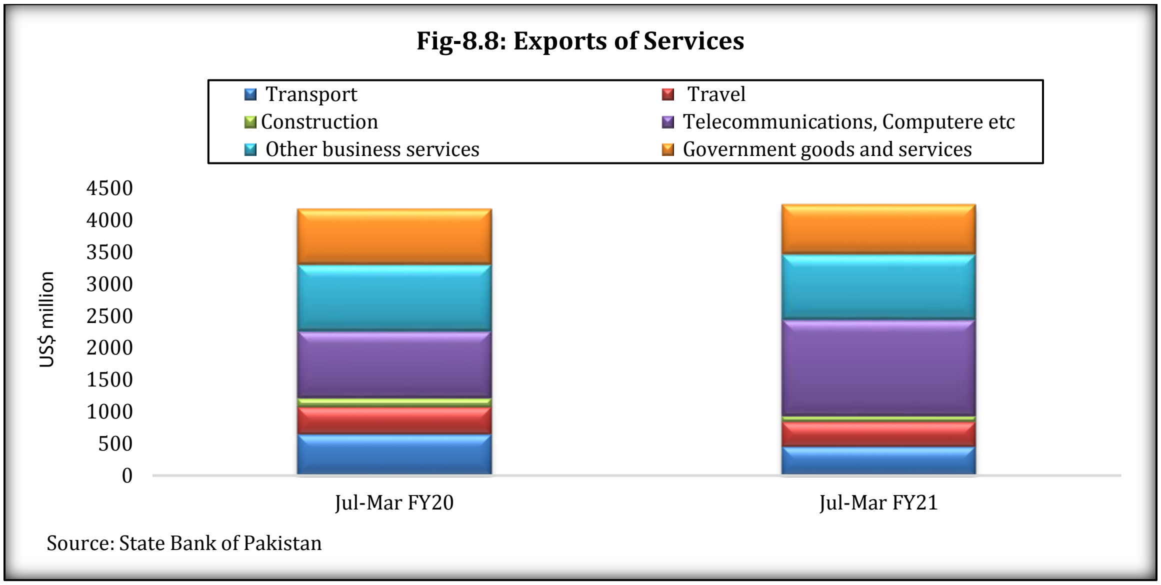
During July-March FY2021, export of goods grew by 2.3 percent to US$ 18.7 billion as compared to US$ 18.3 billion the same period last year. Import of goods grew by 9.4 percent to US$ 37.4 billion as compared to US$ 34.2 billion last year. Consequently, the trade deficit increased by 17.7 percent to US$ 18.7 billion as compared to US$ 15.9 billion last year.

The exports of services moderately increased from US$ 4.34 billion to US$ 4.37 billion, thus showing a growth of 0.6 percent, owing to restrictions imposed on air travel during lockdowns. Meanwhile, remote working and online education also contributed in rising demand for telecommunication services by 43.6 percent whose export reached US$ 1.5 billion against US$ 1.1 billion last year.

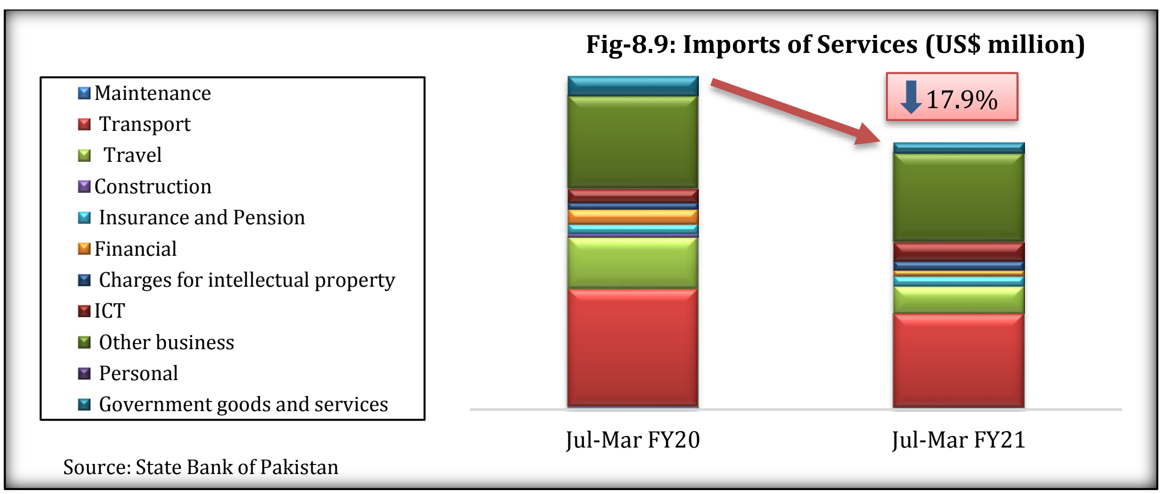
Fig: 8.5 Monthly Exports and Imports of Services



Source: State Bank of Pakistan



On the other side, import of services declined by 20.4 percent and stood at US$ 5.7 billion as compared to US$ 7.2 billion last year. The major component in imports of services is transport which declined by 20 percent and reached US$ 2.0 billion as compared to US$ 2.5 billion in the same period last year. All other sectors also declined except telecommunications, computer and information services which grew by 37.8 percent due to rising demand for computers or digital services in the wake of pandemic. Consequently, deficit in services came down by 52.4 percent during the period under review.



Remittances

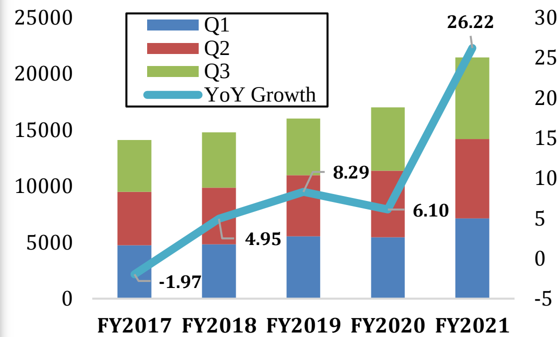
Worker remittances have remained an important source of foreign exchange earnings over the years and are considered to be a dominant force in keeping the current account deficit at a manageable level. According to the World Migration Report 2020 released by United Nations, out of all international migrants more than 40 percent in 2019 were born in Asia, primarily originating from India, China and South Asian countries such as

Bangladesh, Pakistan and Afghanistan. In some countries, remittances exceed 5 percent of GDP such as in Pakistan, Sri Lanka and Bangladesh.

The pandemic broke the growth momentum of international remittance inflows. However, some governments took initiatives to incentivize transfers by lessening compliance checks, restrictions and transaction fees; as well as undertaking aggressive promotion campaigns to migrants to prop up remittances. Pakistan has been placed among the top ten recipient countries that received most remittances in 2020 and its share as a percent of GDP increased to 9.9 percent[2].

Workers' remittances in Pakistan have been rising consistently since FY2018 and the trend continued in FY2021 with a remarkable growth of 26.2 percent. Remittances thus reached US$ 21.5 billion during the first nine months of FY2021. However, on a Y-o-Y basis, remittances posted a record high growth of 43.1 percent in March 2021 and clocked at US$ 2.7 billion as compared to US$ 1.9 billion last year. On month on month basis in March 2021, remittances accelerated by 20.3 percent as compared to February 2021. Robust growth has been observed in the inflows of workers' remittances even during pandemic due in part to governments' proactive policies and the efforts by State Bank of Pakistan (SBP) to spur inflows through formal channels. Banks are being encouraged to promote digital products under Pakistan Remittance Initiatives. Simultaneously, limited air travel also forced people to use more formal channels.

Fig-8.10: Workers' Remittances (US$ million)



Source: State Bank of Pakistan

In addition, a larger number of Pakistani workers living in the Gulf, USA and Europe sent extra money back home to ease the catastrophic impact of the pandemic. Major chunk of remittances is sent by the expatriates living in Saudi Arabia, United Arab Emirates, UK and the USA. Details has been discussed in Table 8.7.

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

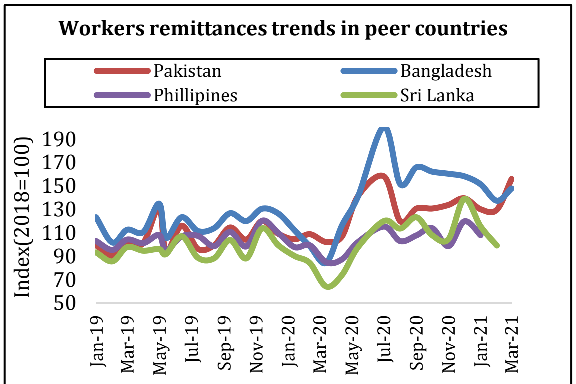
Country/Region	July-March		(US$ billion)	
	2019-20	2020-21	% Change	Share
Saudi Arabia	4.8	5.7	20.0	26.7
U.A.E.	4.2	4.5	7.3	21.1
USA	1.2	1.9	52.6	8.9
U.K.	2.3	2.9	28.1	13.5
Other GCC Country	2.3	2.5	8.6	11.5
Malaysia	0.2	0.2	-17.4	0.7
EU Countries	1.3	1.9	49.0	9.0
Others Countries	0.7	1.9	147.8	8.6
Total	17.0	21.5	26.2	100.0

Source: State Bank of Pakistan

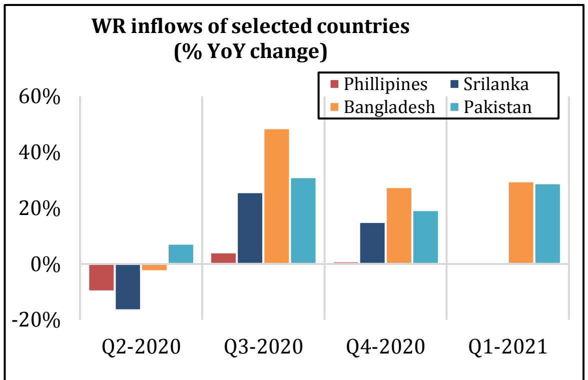
[2] Source: https://www.statista.com/chart/20166/top-10-remittance-receiving-countries/

Box-III: Cross-Country Comparison of Remittances during COVID-19 and Way Forward

Initially, the start of pandemic led to general expectations of fall in remittance flows globally, mainly due to possible jobs losses. However, the actual impact on remittances seems varied and uneven through the pandemic period.



Source: Haver and Central Banks of respective



Source: Haver and Central Banks of respective countries

Pakistan's remittance inflows fared better than some of its peers. In March 2020, many comparable countries saw a fall in their remittance inflows while Pakistan sustained its level.

Philippines and Sri Lanka did not see major shift in their remittance inflows. However, the increase has been quite pronounced for Pakistan and Bangladesh and the trend has broadly sustained till March 2021. In the coming months, workers' remittances are expected to remain higher on seasonal grounds due to the onset of Ramadan and Eid festivals.

Outlook for Remittances

The policy measures and government's strong determination to support the workers' immigration are going to be helpful in supporting the momentum in workers' remittances. Further positive impact is expected from the global recovery from COVID-19 during 2021 and 2022. Moreover, various steps undertaken for AML/CTF will help facilitate the inflows through formal channels. This supports the assumption that the current level of remittances is sustainable in the medium term and can be supplemented with further focus on skill-upgrade of the workers going abroad and streamlining the immigration process.

However, understanding and addressing any issues arising from recent changes made to the Kafala system in Saudi Arabia and Qatar, major host countries for Pakistani migrant workers and speed and success of domestic vaccination drive against the COVID-19 pandemic are some of the risks to remittance inflows in the near term.

Source: State Bank of Pakistan

Financial Account

The financial account recorded a marginal inflow of US$ 1.3 billion on net basis during July-March FY2021, as against much higher inflows of US$ 7.3 billion realized in same period last year. The outflow reflects a build-up in FX assets of commercial banks abroad. However, the asset build-up partially stemmed from the accumulation of net current account receipts abroad, following the heavy inflow of foreign exchange via remittances, an increase in trade credits and subdued import payments.

Foreign Direct Investment (FDI)

Amid the uncertain prospects of economic recovery, global cross-border investments recorded a sharp contraction in 2020 of around 42 percent (global decline of US$ 630 billion), as ongoing projects were postponed by multinational enterprises. The major brunt was borne by developed economies (almost 80 percent of total loss), in greenfield investment, wholesale trade, financial services and manufacturing. Developing countries appeared to be relatively resilient. China, the largest recipient of FDI, witnessed a small growth of 4 percent in 2020. On the contrary, FDI in South Asia surged by 10 percent. FDI in India grew by 13 percent in digital economies owing to rising demand of digital services amid lockdowns.[3]

During July-March FY2021, FDI in Pakistan reached US$ 1.4 billion compared to US$ 2.2 billion last year mainly due to sharp increase in gross outflows, which reflects the repayment of intercompany loans by firms in the communication, electrical machinery and power sectors during the period. On Y-o-Y basis, FDI reached US$ 167.6 million in March FY2021 compared to US$ 278.7 million in the same month last year. The inflows of FDI reached US$ 2.3 billion during July-March FY2021 compared to US$ 2.7 billion last year. The outflows of FDI during July-March FY2021 reached US$ 872.8 million against US$ 548.5 million last year.

Country wise analysis suggest that China has highest share in FDI (46.7 percent of total FDI) as China is continuing its investment into CPEC-related projects, particularly in the power sector. The inflows from China increased by 1.9 percent and reached US$ 962.4 million as compared to US$ 944.5 million in the same period last year. However, net FDI from China declined by 24.3 percent, as FDI outflows to China also significantly increased as compared to last year. Similarly, major investment was concentrated in power sector with highest FDI of US$ 737.8 million (52.9 percent of total FDI). The detailed bifurcation has shown in the Figure 8.11 and Figure 8.12.

Fig: 8.11 Country-Wise FDI (July-March FY2021, %)

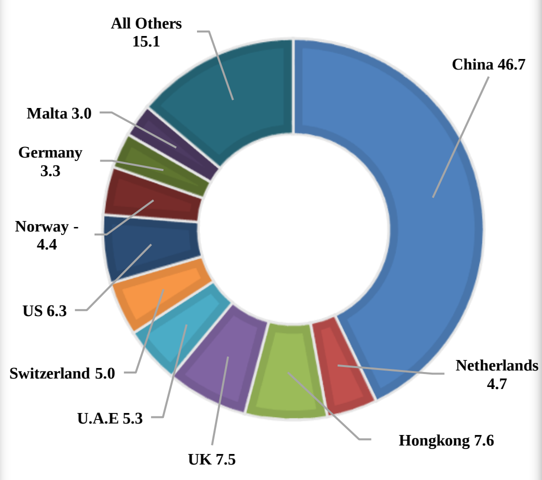
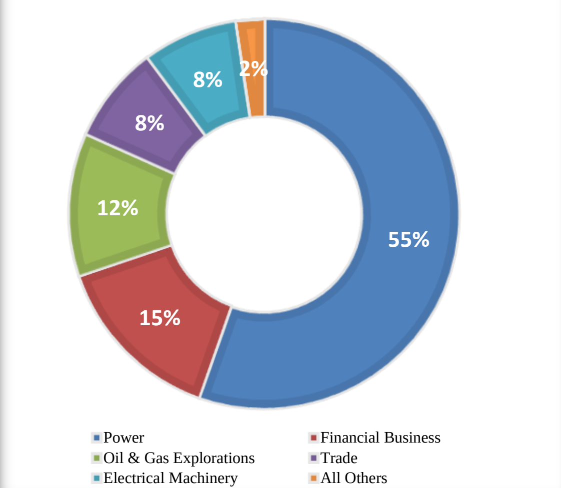


Fig: 8.12 Sector-Wise FDI (July-March FY2021, %)



Source: State Bank of Pakistan

The major share of China's FDI is driven from the Phase-I projects under the CPEC. In second phase, the investment focus is supposed to shift from energy sector to industrial

[3] Investment Trend Monitor, Issue 38, January 2021, UNCTAD.

development, agriculture mechanization, tourism and social development. However, these sectors are yet to see any significant foreign investment flows. Further, while global FDI had dropped in 2020, there were still some major developing economies that managed to attract higher foreign investment. In particular, developing Asia observed a decline of only 4 percent in 2020, with East Asian countries attracting around one-third of the global FDI in 2020. This indicates that there is a need for further progress on structural reforms in Pakistan. It also shows that Pakistani firms need to engage more actively in the global value chain so as to land partnerships with major global companies.

Table 8.8: Foreign Investment (US$ million)

	FY2019	FY2020	July-March	
			FY2020	FY2021 P
A. Foreign Private Investment	947.2	2,315.8	2,046.7	1,129.9
Foreign Direct Investment	1,362.4	2,597.5	2,150.3	1,395
Inflow	2,785.2	3,322.1	2,698.8	2,267.9
Outflow	1,422.8	724.6	548.5	872.8
Portfolio Investment	-415.2	-281.7	-103.6	-265.2
Equity Securities	-415.2	-281.7	-103.6	-265.2
Debt Securities				
B. Foreign Public Investment	-1,002	-241.3	331.1	-3.5
Portfolio Investment	-1,002	-241.3	331.1	-3.5
Total Foreign Investment (A+B)	-54.8	2,074.5	2,377.8	1,126.4

P: Provisional
Source: State Bank of Pakistan

Foreign Portfolio Investment (FPI)

The global financial markets recovered on the back of substantial support from the governments and the central banks. The emerging markets further benefited from the lower interest rates in the advanced economies, encouraging investors to search for higher yields in EMs. However, not all EMs have benefitted equally from this phenomenon. The foreign portfolio investment during July-March FY2021 witnessed a net outflow of US$ 268.7 million as against an inflow of US$ 227.5 million in the same period last year. Outflows were recorded from both debt (US$ 3.5 million) and equity securities (US$ 265.2 million).

It is worth mentioning that Pakistan has entered the international capital market after a gap of over three years by successfully raising US$ 2.5 billion through a multi-tranche transaction of 5, 10 and 30-year Eurobonds at coupon rates of 6.0, 7.4 and 8.9 percent, respectively. The transaction generated great interest as leading global investors from Asia, Middle East, Europe and the US participated in the global investor calls and the order book.

This is for the first time that Pakistan has adopted a programme-based approach with registration of Global Medium-Term Note programme. The programme will allow Pakistan to tap the market at short notice. The government intends to make full use of this programme and become a regular issuer in the International Capital Markets.

The trend of net FPI outflows from Pakistan's equity market is interesting, as the Pakistan Stock Exchange (PSX) has given investors sizable returns. The price-to-earnings (P/E) ratio of the PSX has been driven upwards by domestic investors' sentiments, mainly on account of a pickup in the domestic economic activity. Further, the P/E discount at which the PSX was trading against the MSCI EM Index also started to widen from September 2020 onwards. However, the equity outflow increased probably due to elevated level of the country's risk premium. Although, the credit default swap on the country's sovereign debt improved by more than 150 basis points from March 2020 level, it is still higher compared with the same period last year.

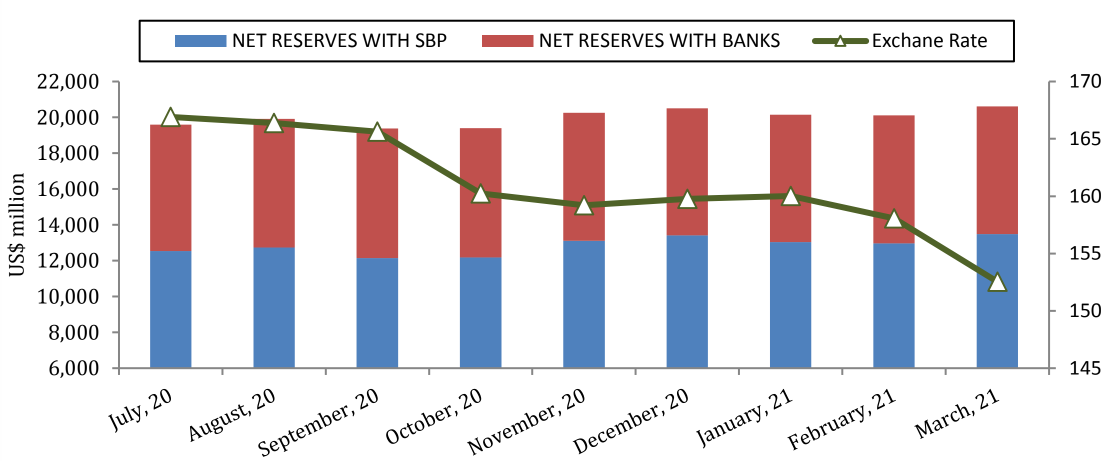
Reserves and Exchange rate

Pakistan's total liquid foreign exchange reserves increased to US$ 20.6 billion by the end of March 2021, up by US$ 1.7 billion, indicating a growth of 9.1 percent over end-June 2020. The breakup of reserves accumulation in March 2021 shows that the SBP's reserves increased by US$ 1.4 billion to the US$ 13.5 billion and commercial banks' reserves by US$ 355.8 million to US$ 7.1 billion over end-June 2020.

As the current account situation started improving on the back of restrained recovery in exports and vigorous growth in worker remittances, country's foreign exchange buffers started pushing up and the Pakistani Rupee started to appreciate. Moreover, strong inflows through Roshan Digital Accounts (RDA) also provided further support to the Rupee. The introduction of market-based exchange rate regime earlier also helped to stabilize and strengthen the Pakistani Rupee against the US dollar. As a result, the exchange rate reached Rs 152.5 per US$ by the end of March 2021, effectively appreciating the rupee by 10.01 percent over end-June 2020.

Furthermore, availability of external financing debt relief under DSSI and continued support from International Financial Institutions (IFIs) like Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB) and World Bank also helped to sustain the level of foreign reserves throughout the year.

Fig 8.13 Foreign Exchange Reserves & Exchange Rate



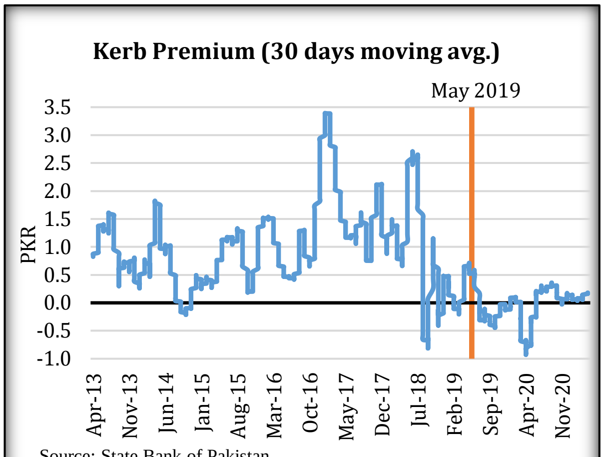
Source: State Bank of Pakistan

Box-IV: Transition to Market-based Exchange Rate and its Impact on Current Account Balance

Cognizant of emerging risks to macroeconomic stability, the State Bank of Pakistan adopted market-based exchange rate regime in May 2019. Resultantly, the current account deficit (CAD) of US$ 19.2 billion in FY2018 gradually came down to US$ 13.4 billion in FY2019 and improved further to US$ 4.4 billion in FY2020. Subsequently, the CAD during July-March FY2021 turned into surplus of US$ 959 million on cumulative basis as compared to a deficit of US$ 4.1 billion in the same period of FY2020. Much of the improvement came from robust growth in the workers' remittances since FY2020.

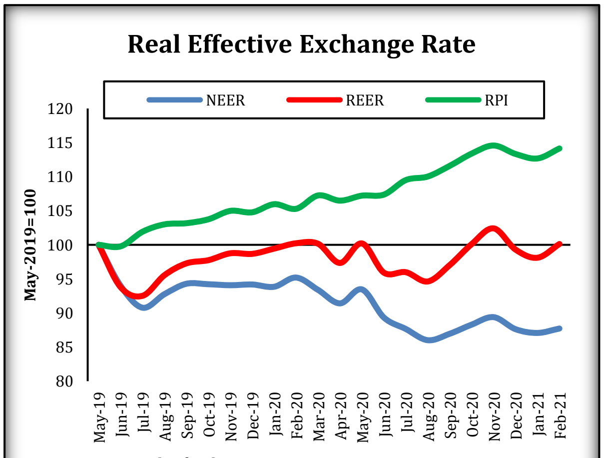
Following are some developments that have led to the sustained Current Account improvement so far in the current year:

Market based exchange rate led to a sharp reduction in kerb premium; supporting growth in workers remittances: Workers' remittances continued to extend their unprecedented streak of above US$ 2.0 billion for the tenth consecutive month in March-2021. Notably, the monthly inflow subsequent to introduction of market-based exchange regime remains higher as compared to the average monthly inflow before the regime was put in place. This is well complemented by the entrenchment of drastic reduction in the kerb premium after introduction of the market-based exchange rate regime, which will be instrumental in encouraging any growth of remittances to flow through formal channels. The existence of orderly foreign exchange market conditions, along with the emerging evidence that investment opportunities provided through Roshan Digital Accounts are gaining momentum, are going to support the Current Account in the coming months.



Source: State Bank of Pakistan

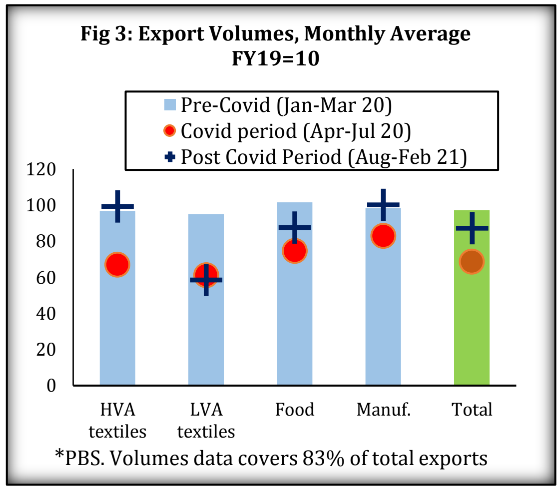
The transition towards the market based flexible exchange rate regime helped retain competitiveness in external trade. While nominal exchange rate is important, to retain external competitiveness, the inflation differential with trading partners and share of trade weight also matter. Accordingly, it is also important to note that the Real Effective Exchange Rate (REER), that accounts for these aspects, fared well after the adoption of the market-based regime in May 2019. As figure shows that REER index, relative to its level in May 2019 when the extent of overvaluation was deemed corrected, has remained relatively stable around the same level indicating that underlying competitiveness of the economy has been preserved.



Source: State Bank of Pakistan

Following adoption of market-based exchange rate, non-essential imports remained in check. Despite general appreciation of the Pak rupee during FY2021 so far, imports during July-February FY2021 increased by 7.8 percent (y/y). However, if adjusted for import of one-off items, which include wheat (US$ 916 million), sugar (US$ 127 million) and raw cotton in excess from same period during FY2020 due to domestic shortfall (US$ 480 million), import growth during July-February FY2021 amounts to a much lower level of 2.9 percent.

Export growth after adoption of the market-based exchange rate regime has been encouraging. After a decline in FY2020, led by the COVID-19 related disruptions during Q4 FY2020, exports during July-February FY2021 increased by 4.4 percent (y/y). The two-way movement of the Pak rupee against the US$ played a key role in stabilizing REER and maintaining export competitiveness during heightened global uncertainty. This is evident from the recovery in volumes of major exports after extreme pandemic period between April-July 2020 (**Figure 3**).



So far, this new mechanism has served well for rebuilding Pakistan's FX reserve. As compared to FY2019 (US$ 7.3 billion) and FY2020 (US$ 12.1 billion), SBP official FX reserves stood at US$ 16.1 billion on 9th April 2021. Along with this, SBP's forward swap liabilities have been curtailed to US$ 4.5 billion at present from US$ 8.0 billion during FY2019. In aggregate, country's foreign exchange buffers increased by US$ 12.3 billion.

Source: State Bank of Pakistan

Conclusion

As global trade teetered under the COVID-19 strain, concerns over the future of global supply chains emerged. The COVID-19 outbreak had severely disrupted world's cross-border trade and economic activities and exposed vulnerabilities of global supply chains. However, swift actions have been promptly executed globally. Meanwhile the approvals for usage of vaccines also raised hopes to turnaround in pandemic. Business activities resumed as the economies emerged from lockdowns. This paved the way for international trade to recover at the end of 2020 to pre-corona virus levels, making up for the sharp hit from the COVID-19 pandemic in the first half of the year.

Although the pandemic is not over yet, Pakistan has demonstrated a great deal of resilience, due in part to authorities' swift policy responses and regional cooperation efforts. The performance of Pakistan remained relatively better in controlling the spread of the virus which helped to ease the strict lockdown strategy in the very start of the fiscal year 2021. As a result, economic activities have resumed giving a boost to industrial production. Both exports and imports picked up the momentum, showing the V-shaped recovery in line with global trade. The surge in imports may be attributed to the rising demand for intermediate goods with the resumption of economic activities. Current account turned to surplus owing to strong growth in remittances and moderate growth in exports. The Pakistani rupee stabilized against the US dollar due to available external financing and market-based exchange rate regime.

The better performance of external sector in FY2021 is expected to continue in coming years on account of domestic economic rebound as well as global economic recovery especially in Pakistan's trading partners. Further government efforts regarding export diversification and exploration of new destinations will help in improving external sector in general and trade balance in particular.