



Trade and Commerce

Unsustainable Trade Deficit

The overseas economic management team hired by the last authoritarian regime pushed Pakistan to rapid duty reductions that caused serious imbalances in the import export equation. Imports grew exponentially as a result of this sudden and unsustainable reduction in duties as the local industry was unfavorably placed against cheap imports with minimal duties. Moreover, no preparations were made for post-quota trade regime, particularly in the textile sector.

Pakistani exports became almost stagnant. According to World Trade Organization, Pakistan's share in the global market declined by more than 1/3 to 0.13% in 2009 from 0.21% in 1999.¹ The principle reason for this growing disconnect between the evolving global market structure and our export performance is the erosion of the competitiveness of Pakistan's traditional exports in general and the country's weakness in diversifying its product and market mix.

The year 2008-2009 witnessed unprecedented economic downturn, especially in our major markets of export, i.e., U.S.A. and E.U. Consumption decreased in the developed world and the global trade shrank by 9%. Global recession adversely affected exporting countries and Pakistan is no exception to it. Exports from Pakistan declined to \$17.8 billion as compared to previous year's exports of \$19.1 billion. Imports also witnessed a relative decline and fell by 13% as Pakistan's imports during 2008-2009 stood at \$34.9 billion as compared to \$40.4 billion in 2007-2008.

During 2008-2009, the export of Textiles, which account for around 54% of Pakistan's total exports, dropped from \$10.6 billion to \$9.6 billion. The major losers in this regard

were readymade garments, which dropped by 21.7%; cotton yarn, which dropped by 15%; bed linen, which dropped by 10.2%; art silk & synthetic textiles, which dropped by 22.1%; and cotton fabric by 4.0%. The exports of finished leather and leather manufacturers dropped from \$1.1 billion to \$0.8 billion registering a drop of 24.5%.

The rice exports have registered an impressive growth from \$1.84 billion to \$1.99 with an increase of 8.2%. Engineering goods also registered an increase of 26.1% from \$211.3 million to \$266.4 million. In this regard, the major contributors have been the specialized machinery, transport equipment, electric fans etc. The export of jewelry also rose from \$213.4 million to \$288.4 million, registering an increase of 35%.²

One of the key issues to be addressed by the Government is the persistent huge trade deficit which has the capacity to neutralize all kinds of gains from economic development. This unmanageable deficit has occurred due to two policy changes: 1) too quick and too big a reduction in customs duties; and 2) non-adjustment of Pakistani textile exporters in the quota-free trade regime. The problem is further complicated by targeted duty concessions by U.S. and E.U. to Pakistan's competitors like Bangladesh. Both these issues need to be discussed with bilateral partners with a view to obtain competitive duty structures and improving the efficiencies of Pakistani manufacturers.

Policy Response

In a true democratic spirit, the People's Government has taken all stakeholders on board and has devised a strategy to come out of this situation. Trade Policy 2009-2012 aims to set the country on the path of sustainable high economic growth through exports. The

¹Trade Policy 2009-2010 Speech by Federal Minister for Commerce, Makhdoom Amin Fahim, <http://www.commerce.gov.pk/Tradepolicy.asp>.
²ibid.

policy is set in a three years Strategic Trade Policy Framework (STPF), which would result in the enhancement of export competitiveness of Pakistan to enable Pakistani companies overcome the shocks of international economic crisis through a set of integrated policy measures. The policy is geared towards: 1) contributing towards poverty alleviation; 2) achieving export-led growth and providing relief to the common man through the provision of jobs and services; and 3) focusing strongly on development and facilitation.³

Trade Development Authority Pakistan

The Trade Development Authority of Pakistan (TDAP) has a two-pronged strategy of directly involving itself for the growth in volume and value of exports and improving environment for the private sector conducive to achieve its export growth goals.

A review of the last two years' trade policies and initiatives taken by other Ministries and Departments shows that the TDAP has supported the Government and the private sector to join hands in a partnership to develop foreign trade with focus on exports, motivating both of them to act in unison to achieve export targets progressively and often unobtrusively. It goes to the credit of the People's Government that it proclaimed, for the first time in the country's history, a three-year Trade Policy (2009-2012) that envisions exports to attain new heights by reaching new markets around the world.

In 2008-2009, Expo Pakistan generated more than \$80 million dollars through business and with this Pakistan created employment opportunities for the people. As part of the trade policy initiatives, the authority opened its offices in a large number of countries. Besides, it set up retail sales outlets across

the world, which has helped exporters to introduce modern Pakistani products to attract the foreign buyer. Some other initiatives of the new Trade Policy include mandatory certifications, compliance certifications, effluent treatment plants and cluster development.

Trade Diplomacy Initiatives

Pakistan's Trade Policy objectives are focused on reducing protection, achieving a more outward oriented trade regime, and increasing market access for our core exports. Pakistan, being one of the founding members of the WTO, supports a system of global integration aimed at enhancing economic efficiency, competitiveness and export-led growth. After the establishment of the WTO, contrary to the expectations, Free Trade Agreements (FTAs) amongst countries increased bilaterally and regionally. At present, more than 200 such agreements are in operation globally. More than 60% of the world trade flows in terms of bilateral and regional FTAs. Accordingly, Pakistan had no option but to pursue the same policy to safeguard its export interests and to maintain our share in the world trade.

Following trade diplomacy initiatives have been undertaken during 2009-2010:

Free Trade Agreement with China

The Agreement on Trade in Services with China has been signed and has been operationalized on September 10, 2009. The Free Trade Agreement with China has been amended through a Protocol to facilitate the establishment of China Specific Investment Zones in Pakistan.

South Asian Free Trade Areas (SAFTA)

The Agreement on Trade in Services under

the umbrella of SAFTA is being negotiated, which will be signed by the member states in the near future.

PTA with D-8

Negotiations regarding the Preferential Trade Agreement (PTA) among the D-8 Muslim countries and the Economic Cooperation Organization Trade Agreement (ECOTA) are also under way to enhance economic cooperation among the Muslim countries of the region.

PTA with Indonesia

The bilateral negotiations between Pakistan and Indonesia on the Preferential Trade Agreement are also at an advanced stage and the negotiations are likely to be concluded during the current year.

Issues with European Union

Pakistan and E.U. have entered into a dedicated dialogue to explore various options for Pakistan's enhanced market access to the E.U. Two meetings of dedicated dialogue have been held. Pakistan has also proposed FTA with E.U. which once done will ensure duty free access to E.U. markets.

GSP+ Status: Pakistan enjoyed drug related GSP+ scheme till 2005. This scheme was awarded to Pakistan on the basis of its role in war on terror after 2001. After 2005 it was withdrawn by E.U. The exclusion of Pakistan from the GSP+ Scheme has placed Pakistan in a difficult position in the context of South Asian Association of Regional Cooperation (SAARC). Sri Lanka, Afghanistan, Bhutan, Nepal, Bangladesh, and Maldives being the Least Developed countries (LDCs) have duty free access to the E.U. market, while Sri Lanka is a beneficiary of the GSP+ Scheme, which entitles it to duty free treatment. E.U.-India FTA, once concluded, will provide duty free access to India leaving Pakistan in isolation viz-a-viz competitors in the region.

Third Option: Pakistan has also floated a 'third option' in which E.U. will have to seek WTO waiver to grant concession or duty free access to Pakistani products to E.U. markets. This option has been floated on the plea of Pakistan's role in war against terrorism. The Ministry has undertaken an exercise to quantify the economic losses suffered due to war against terror for which a booklet is in the final stages.

Pakistan-GCC FTA negotiations

Pakistan has been pursuing FTA with Gulf Cooperation Council (GCC) in order to enhance Pakistan's bilateral trade with the GCC member states and to penetrate in the regional market. The first round of talks was held in 2006. However, the process gained real momentum during the second round of negotiations held on September 7-8, 2008 at the GCC Headquarters, Riyadh, Saudi Arabia. During the talks, Pakistan and GCC discussed draft text of agreement covering Trade in Goods, General Provisions and Services in addition to rules of origin. The third round of negotiations on Pakistan-GCC FTA is expected to take place in 2010.

Pak-Morocco PTA

During the inaugural session of Pak-Morocco JMC held on July 17-18, 2008 at Rabat, Morocco, it was agreed to start negotiations on PTA between the two countries. Both the countries have exchanged trade related documents. Government of Morocco has been requested to indicate convenient date for exploratory meeting on PTA in Morocco.

Pak-Jordan FTA

First round of negotiations on FTA between Pakistan and Jordan were held on March 4-5, 2009 in Amman, Jordan. Pakistan-Jordan FTA will be a comprehensive agreement covering trade in goods, services, investment and economic cooperation. The second round of negotiations on FTA is expected in

³ibid.

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the second half of 2010 in Islamabad. FTA with Jordan will open up vast opportunities for Pakistani business community as Jordan is enjoying duty free access in the U.S. market due to Qualified Industrial Zones (QIZs).

Horticulture Exports

Fruits and vegetables are good source of export earnings. Over the past two years their export has increased by 23% owing to the appropriate measures taken by the Democratic Government. The current horticulture exports are about \$240 million. In addition to strengthening position in the existing markets, new markets have also been successfully accessed. The significant developments are reported below:

Strengthening Institutional Support

The Pakistan Horticulture Development and Export Board (PHDEB) created under an Executive Order, was converted into a corporate entity, a Company registered under Section 42 of the Companies Ordinance 1984. Its Board of Directors was reconstituted and mandate expanded to make it more effective institution for the promotion and development of horticulture sector (fruits, vegetables, flora, herbs, etc).

Market Access

Mango Export to Jordan

Mango export to Jordan under a Memorandum of Understanding (MoU) signed between the two Governments was made in 2009 for the first time. The export volume was about 200 metric tons which will increase substantially during the

subsequent years.

Mango Export to U.S.A.

Continuous dialogue and meetings with USDA officials resulted in the designing of sanitary and phyto-sanitary protocols for exporting mangoes to U.S.A., the largest market with over 32% share of the global mango market. U.S.A. requires irradiation as quarantine treatment against fruit flies infestations. The food irradiation facility at Lahore, a joint venture between Pakistan Horticulture Development and Export Company and Pakistan Atomic Energy Commission has been made operational and is in the process of approval by USDA.

Infrastructure Development Projects

PARAS Food Lahore

It is a food irradiation facility for horticulture products to eliminate diseases/pests, extend shelf life and meet quarantine requirement of importing countries. The project has started operations since June 2009. Horticulture commodities are being irradiated, especially for export to Europe.

Apple Processing Plant at Quetta

The project has facilities including sorting, cleaning, washing, waxing, drying, grading and packing. It has become operational since 2008-2009.

Collection Point at Haripur

This is a modern fruits and vegetables wholesale market with required facilities. The basic

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infrastructure including auction shed, development of plots for shops and commercial activities, construction of 50 small shops, overhead water tank, roads, parking places, sanitary facilities etc have been completed. The project will be in operation towards end of 2010.

Collection Point at Loralai

It is a similar facility like the one at Haripur. The basic infrastructure has been developed. The project will be in operation towards end of 2010.

Collection Point at Khuzdar

It is also fruits and vegetables modern wholesale market with required facilities. The basic infrastructure has been developed. The project will be in operation towards end of 2010.

Flora Model Farm at Matli

This project has been recently launched with the aim to demonstrate production and export of floral products under public-private partnership mode. It covers 25 acres of land and includes green house/tunnels, open field production, and nursery production for selected cut-flowers, pack-house, cold storage and refrigerated transport facilities. It will act as demonstration center and provide training facilities to the stakeholders. Work on the project has been initiated.

Tomato Paste Plant, Balochistan

The project has been approved by EDF for funding. A private limited company has been incorporated. Work will start after receipt of funds from EDF. The project aims at value addition, import substitution and exports. The project will have direct impact on farm/rural incomes.

Establishment of Cold Chain System under National Trade Corridor Improvement Project

The project envisages establishment of a comprehensive cool chain system along the National Trade Corridor and includes 39 pack houses, 23 cold storages, two reefer containers yards and six testing labs. The PC1 was discussed in pre-CDWP meeting and decided to launch the project under public-private partnership mode. Accordingly, consultants were appointed and the work assigned to them is at advanced stage. The matter has been discussed in various meetings and is now under submission to Core Group under the Secretary Agriculture. The revised PC-1 project is likely to be submitted within the next two months. The project will have significant impact on exports as 30-40% of fresh produce is either wasted or devalued due to lack of cold chain system.

Trade Policy Strategic Framework 2009-2012

Development of PakGAP Standards

The initiatives announced by the Government of Pakistan under the Trade Policy Strategic Framework 2009-2012 include introduction of PakGAP standards. This scheme aims at mitigating sanitary and phyto-sanitary concerns on sustainable basis by introducing best practices along the value chain for selected horticulture commodities initially five (kinnow,

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mango, date, potato and onion). This would pave way for the aspirants of GlobalGAP certification and will operate almost on the pattern of FreshCare Australia. The PakGAP secretariat will be housed inside PHDEC and will be closely working with Ministry of Food and Agriculture MinFA. PC1 has been submitted and implementation will start within next quarter (March-June 2010). The technical support from the University of Queensland and Department of Primary Industries Australia has been sought through Joint Trade Committee.

Improvement of Fruit and Vegetables Wholesale Markets System

Another initiative under the Trade Policy Strategic Framework (STPF 2009-12) relates to "Domestic Commerce Reform and Development". It says that promotion of domestic commerce needs a major shift where supply and demand mechanisms would support the entrepreneur development, consumer protection and bring value addition to the local industry.