Government of Pakistan

Trade Policy 2007 – 08

Speech

By

HUMAYUN AKHTAR KHAN
Minister for Commerce

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TRADE POLICY SPEECH 2007-08

Ladies and Gentlemen, Assalam-o-Alaikum

Today I have the rare privilege of presenting before you the trade policy for 2007-08. This is the fifth successive trade policy that I as Commerce Minister have the honour to present to the people of Pakistan. This honour is magnified by the realisation that it is also the last Trade Policy that will be presented by our Government, which is completing its full five year term of office in a few months time [the only such instance in the parliamentary history of this country]; and many of us will soon present ourselves for re-election before our electorate. May our electorate judge wisely and base their fresh choices on our performance and record of the past five years.

Since President Musharraf assumed office in 1999, his economic reforms agenda has led Pakistan through a period of impressive economic growth. Policies under the economic reforms agenda have been consistent, prudent and transparent. These policies, coupled with good governance, have strengthened Pakistan's economy through responsible fiscal management and disciplined implementation of structural reforms, resulting in economic stability. The upshot of this is that Pakistan is now confidently travelling on the road to achieve the twin objectives of sustainable economic growth and eradication of poverty.

Throughout this period, the Ministry of Commerce has diligently followed the guidelines set out in the reforms agenda, and has been carrying out its assigned role of increasing the country's exports. As a result, the past 7 years have witnessed unprecedented increase in merchandise exports, which have grown by almost 112% from US$7.8 billion in 1998-1999 to US$16.5 billion in 2005-06. Last year we had set for ourselves an export target of $ 18.6 billion. I would now like to inform you that our merchandise exports for the year 2006-07 were US $ 17.011 billion. Our services exports for 11 months of the year 2006-07, were US $ 3.1 billion, and our defence exports for the full year were US $ 63 million. This is the first time in the history of Pakistan that merchandise exports have crossed the barrier of US $ 17 billion.

Export Performance 2006-07

This past year of 2006-07 has been a particularly challenging one, where the uncertainties resulting from the war in Iraq caused oil prices to maintain their high levels. The high price of crude oil increased our petroleum import bill, and also had an inflationary effect, thereby adding to the cost of production and the cost of doing business. During the first 11 months of 2006-07, for example the Petroleum Group

Imports increased by 11.1% as compared to the same period of 2005-06. Despite the challenges that our exports have had to face during last year, they have still continued to grow. This is a tribute to the resilience and hard work of our businessmen and exporters and the business friendly policies of your government.

During the first 11 months of 2006-07, the exports of Textiles Group increased by 6%. It is heartening to note that within the textile group, exports of some products have almost doubled in the first 11 months of 2006-07. Among these, Art Silk & synthetic textiles have grown by 122%, Tents and Canvas by 99%, and Yarn other than cotton yarn by 82.7%. This shows that our product base within textiles is diversifying from the traditional cotton base. Exports of other textiles products that have continued to grow, during the same period, are knitwear, and readymade garments, increasing by 12.9% and 5.4% respectively.

It would be recalled that last year I had announced a targeted **Rapid Export Growth Strategy** with a focus on the engineering goods sector. I am happy to inform you that during the period July-May 2006-07, the engineering goods sector has shown an overall increase of 8.7% over the same period last year. The most vibrant component within this group is electric fans which registered an increase of 28.8%.

Another fast developing sector is that of gems and jewellery. The exports of Gems have increased by 15.9% and exports of jewellery have risen from US$ 15.1 million to US$ 34.5 million. This is an increase of 120% during the first 11 months of this year. This is the reason why we have decided to increase our focus on this sector and it will now become another one of our targets for the Rapid Export Growth Strategy.

The services sector is important for our economy because it generates employment, contributes to the GDP and is a significant driver of economic growth. Trade in services accounts for over 20% of world trade and is therefore of critical importance for us. Last year I had announced that, the statistics relating to trade in services will be fully disaggregated. I am pleased to confirm to you that this is being done and the disaggregated figures are reflected under the categories of Transportation, Travel, Communication, Construction, Insurance, Financial, Computer, Information, Royalties and License fees, other Business services, Personal, Cultural and Recreational services, and Government services. These figures are released by the Federal Bureau of Statistics along with the statistics relating to trade in goods. Currently, there is a lag of one month between release of export figures of goods and services. This lag period will be bridged with the passage of time.

The export growth scenario that I have so far presented to you is satisfactory, but it is circumscribed by the fact that the growth momentum has decelerated from 14.4% last year to 3.6% this year. Though Pakistan's economy grew robustly by 7% growth during 2006-07, this growth was driven primarily by domestic consumption, and the investments made in the telecommunications, services and construction sectors. It is a fact that higher growth levels of the economy can only be sustained by a rapid growth in exports; for example, a 7-8% GDP growth is only maintainable through a 20-25% annual export growth. For such growth, we are dependent, in addition to textile and clothing, on our Large Scale Manufacturing sector for generating exportable surpluses. However, the declining growth trend in the Large Scale Manufacturing sector during 2006-07, from 10.7% to 8.8% reduced our exportable surpluses.

To regain the export growth momentum, we need to address a host of **Challenges** and to put in place proactive policy measures. On the Supply-Side, Low competitiveness is a major challenge. According to the latest global competitiveness index, Pakistan presently ranks at 91 out of 125 countries. Competitiveness has many aspects like a productive workforce, improved quality, in time delivery of bulk orders and superior research and development to keep pace with international trends.

Another challenge is lack of productive capacity as a result of relatively low investment in new machinery and technology leading to lower productivity, and higher costs. Another reason is the tax treatment which favours investment in the non-industrial sectors, particularly speculative businesses such as stocks and real estate.

We presently fetch low prices for our exports because we generally produce low end and low quality products. We must venture into higher value added and sophisticated products for a higher niche of the market enabling us to increase our export values even at the same volumes.

Most of our export industries are still fragmented and informally organised. It is imperative that all the players in the manufacturing chain have close coordination to reduce wastage and keep their technology updated.

Pakistan's consistent high growth in the last 8 years has created unprecedented demand for energy in the country and power generation has not been able to keep pace with this demand. The resultant energy gap has effected our industrial production. Meeting rising energy demands is now a major challenge.

On the demand-side, the international market poses even tougher challenges. While the track record during the past 4 years, of my Ministry and our Government in negotiating market access for our products is laudable, challenges still remain.

The European Union's drug related GSP incentives to Pakistan's textile products ended in 2005. Secondly, some of our competitors especially in textiles enjoy preferential (duty-free) market access due to their status as LDC's especially for the EU and US markets, whereas similar Pakistani products are charged the full duty.

The competition spawned by globalisation means that traded goods and services must now meet stringent international standards. In Western markets the consumer is extremely environment-conscious, and strict about adherence to international labour, health and safety standards. Thus, compliance with Social, Environment, and Health standards has emerged as a serious test for our exporters. Besides the various challenges that I have highlighted we face the problem of insufficient product diversification, so that, when textile exports took a hit, the overall growth in exports declined. During the first 11 months of 2006-07 growth rate of textile exports decreased to 6.0% from 14% during the corresponding period of 2005-06. Within the textiles group, the export of bed wear declined by 3.1%, Cotton cloth by 4.1% and export of raw cotton decreased by 21.7%. The impact of this decline was partially offset by export growth in certain other textiles and clothing products as I have already indicated. There was also negative growth in other export sectors, including in leather and leather manufactures, leather garments, and carpets etc.

There have been a host of other factors affecting our export growth. These include stiff international competition in Textile products from China, India, Vietnam and Bangladesh in our major markets of the US and the EU; regional preferential arrangements such as NAFTA (North American Free Trade Area), CAFTA (Central American Free Trade Area), and the setting up of U.S. sponsored Qualified Industrial Zones (QIZs) in Jordan and Egypt which allow duty free access to their products, have also affected our competitiveness. Among some other factors are, a fall in unit prices in the textile sector, the 5.8% average antidumping duties in the European market on our bed-linen exports, and negative (albeit unfair) travel advisories on Pakistan. This last area is of grave concern as Large International importers and chains are reluctant to visit Pakistan citing security concerns. This has led to trade diversion from Pakistan to Bangladesh, China and Vietnam who are our product competitors in textiles. In our export destinations, the major reduction was of an approximate US$ 300 million in exports to Afghanistan mostly in POL products. In other products; exports of Leather garments decreased by US $ 167 million, and exports of rice decreased by US$ 33 million since the crop was not upto expectations.

Although our export performance has not kept pace with the overall robust growth of the economy, and though the challenges I have enunciated above are daunting, yet these are not insurmountable as the current global trading environment under the WTO is rapidly transforming the world into an integrated single market with most countries bringing down tariff walls and eliminating or reducing non-tariff measures. Global tariff reductions by most countries have spawned exciting opportunities. Our best opportunity for market access lies in the success of the current WTO Doha Round of negotiations. A successful conclusion will bring down tariffs especially on Non-Agriculture products, and mitigate to a large extent the adverse impact of preferential tariff concessions enjoyed by Pakistan's competitors in our major markets. We are the 4th largest producer of cotton in the world, with textile products constituting 64% of our total exports. The end of the textile quotas has opened up vast export opportunities for Pakistani textile products which will however require new investments in machinery, better labour skills, and improved product quality.

Our fast growing Services sector has been a boon for the economy which now comprises 53.3% of our GDP. Considering the protracted nature of the Doha Round negotiations including on Trade in Services, we are also endeavouring to secure market access in the services sector through many bilateral initiatives. We have concluded services negotiations with Malaysia and will conclude similar initiatives with China and Sri Lanka during 2007-08. These will usher in investments in Pakistan's telecommunication, banking and other service sectors, to translate into an increase in our services exports.

One of the product groups showing dynamic export growth during the last 20 years is Electronics and electrical goods. Pakistan is now well-placed to make use of new opportunities in these areas since a good domestic base has been set-up in the last 5 years via tariff rationalisation and elimination of import substitution programmes. Since 2003, growth in electronic industries has ranged between 35-40% per annum. We need to strengthen this sector and concentrate on enhancing exports of these products.

A SNAPSHOT OF IMPLEMENTATION OF TRADE POLICY INITIATIVES OF THE LAST FOUR YEARS 2003-4 TO 2006-07:

During the past four years, the Government announced and implemented the following important initiatives which have underpinned our export strategy over these years. Let me touch upon some of these initiatives briefly:-

FOR REDUCING COST OF DOING BUSINESS:

- **Long Term Financing of Export Oriented Projects (LTF-EOP):** This scheme was announced by the State Bank of Pakistan at the initiative of the Ministry of Commerce. It provides concessionary long-term project finance to export oriented enterprises since May 2004 for import of machinery for various projects. The interest rate is around 7.5% - repayable in 7 years, against the normal rate of 12 – 13%. So far an amount of Rs. 49 billion has been disbursed under this scheme, of which, Rs. 34 billion have been disbursed under a Debt Swap arrangement; while Rs. 15 billion has been disbursed as loan for import of machinery.

- **Relocation of Industries:** The government shares 50% of the cost for relocation of export oriented industry to Pakistan. This includes Freight expenditure, Machinery/ equipment transfer cost, wharfage and handling costs, inland transport, offloading, insurance, and agency charges.

- **Freight Subsidy:** Considering the high freight costs from our ports to export destinations, it was decided to share some of the burden with exporters. This scheme provides 25% freight subsidy for designated products and countries.

- **Inland freight subsidy:** To encourage export of finished products of furniture, granite and marble from far flung areas of Pakistan, subsidy @ 25% of inland freight on these items was allowed provided the factories were located beyond 250 km from exporting sea ports.

- **Sales Tax Facilitation for Export Sectors:** The Sales tax regime has been eliminated for the entire Textile Chain, and for Leather products, Surgical Goods, Carpets, and Sports Goods. Sales tax on textile machinery and on most raw materials, intermediaries and finished goods has been zero-rated.

- **Incentives for Priority Export Sectors:** The following priority export sectors have been facilitated by zero-rating duty on their machinery and raw materials:

    - Agriculture – [machinery];
    - Horticulture [machinery, equipment and raw materials];
    - Fisheries, Shrimp-farming – [machinery];
    - Furniture/Fans – [raw material];
    - Gem & Jewellery – [equipment for gemstone extraction and processing industries];
    - Footwear – [5% concessional duty on raw materials];
    - Surgical Instruments [machinery, equipment & raw materials for surgical sector];
    - Leisure Equipment;
    - Marble / Granite – [machinery, equipment for marble, granite extraction and processing industries];
    - Food processing - [machinery];
    - pharmaceutical machinery [Heat ventilation air conditioner], subject to certification by Ministry of Health;
    - Meat and poultry [machinery and equipment];
    - Complete rice parboiling plant.
    - Complete plant for relocated industries.

- **Research and Development (R&D):** Anticipating the challenges to the Garment and Home Textile Sectors in the post-quota period, the Government introduced a special Textile garments package on the recommendation of the Ministry of Commerce in the shape of Research and Development (R&D) Support at 6% This support has helped the textile garments sector to survive and sustain itself, prevent potential export losses of millions of dollars, and retain jobs in the sector. A similar support has now been extended to the Home Textiles sector in 2006-07. This support will continue in 2007-08. Leather footwear is also provided R&D support at 6%. Till 31st May 2007, Rs. 18.434 billion have been disbursed via this scheme out of which Rs. 14.286 billion have been paid to the Garment sector, Rs. 4 billion to Home Textiles, and Rs. 147 million to Leather Footwear.

FOR MARKETING AND BUSINESS FACILITATION:

- **Expo Pakistan:** Pakistan has a wide range of quality products which can find markets globally. To show-case these products, Expo Pakistan, a mega event, is held annually at Expo Centre in Karachi since 2005 to show case our products. A similar Expo centre is now nearing completion in Lahore and centers are planned for Islamabad, Peshawar and Quetta.

- **Retail Sale Outlets:** Under this scheme, Pakistani companies with their own brands wishing to open their own retail outlets abroad are provided financial support.

- **Encouraging Women Entrepreneurs:** Women participation in international exhibitions and exploratory delegations is now fully funded by TDAP.

FOR SECTORAL DEVELOPMENT;

- **Industrial Clusters:** TDAP is executing the Industrial Cluster Development Programme in collaboration with UNIDO. Clusters are being developed for Gems & Jewellery, Leather, Garments, Fans, and Cutlery.

- **Facilitating Export of Pharmaceutical Products:** Financial Assistance upto 50% is being provided to pharmaceutical companies for registration of their products in foreign countries for export. This scheme also covers registration/certification with FDA of USA. Under this scheme, 62 products have been registered abroad, while others are under process. In addition, pharmaceutical exporters to a country with duly registered products, are also provided facility of hiring 3-medical representative for a period of 2 years.

FOR INFRASTRUCTURE DEVELOPMENT:

- **Special Export Zones:** A Special Export Zone is being set up at Karachi called the Textile City. It is owned and operated as a corporate entity, in which GOP, multilateral institutions and stakeholders are equity partners. This zone would have modern infrastructure like water supply, sewerage, self power generation and effluent treatment plants. This zone will be focusing on the textile sector particularly on dyeing, processing and finishing. The Sundar estate Lahore and Faisalabad M3 value added city are following the same concept.

- **Garment Cities:** Garment Cities are being set up at Lahore, Faisalabad and Karachi, to be owned and operated as corporate entities, in which multilateral institutions and stakeholders are equity partners. These cities are for value added finished textile products.

- **Creation of Pakistan Horticulture Development and Export Board (PHDEB):** PHDEB was established to promote, regulate, co-ordinate and enhance the export of horticulture products for the economic well being of all the stakeholders in the horticulture value chain. The Board is working on various project like Apple Treatment Plant in Quetta; Date Processing Plants at D. G. Khan Turbat and Khairpur; Collection Point and Cold Storages at Khuzdar, Loralai, Batkhela and Mansehra; and Agro Processing Zones at Mirpur Khas, Multan, and Sargodha. These projects will not only strengthen our supply base but also give the necessary drive for growth and investment in this sector.

FOR PRODUCTIVITY AND QUALITY ENHANCEMENT;

- **Garment Skill Development Board:** Textile Garments and Home Textiles Skill Development Board has been established in the Ministry of Textile Industry. The government is also providing funds required for affiliation of this Board with Foreign Institutes.

- **Contamination Free Cotton:** A training Institute is being established with funding from the Export Development Fund for training farmers and ginners in production of contamination free cotton; Trading Corporation of Pakistan which works under the Ministry of Commerce continues to intervene and procure contamination free cotton at a premium. Quality control standards are being developed for cotton, and a research centre is being established at Rahim Yar Khan for development of quality cotton.

FOR COMPLIANCE FACILITATION:

- **In-house Effluent Treatment Plants:** Export oriented enterprises in order to meet the requirements of foreign buyers, can establish in-house Effluent Treatment Plants, by importing them at 5% duty only even if such plants are produced locally. The raw material required for them is importable duty free. The first 6% mark-up cost of loans obtained by existing units for establishing such plant is picked up from the Export Development Fund (EDF).

- **Establishment of Combined Effluent Treatment Plants (CETPs):** CETPs are being set up in export-oriented industrial estates in collaboration with Provincial Governments / Local Governments and the Private Sector. A recently commissioned plant was inaugurated at Korangi in Karachi by the President of Pakistan.

FOR TRADE DIPLOMACY:

a) **Regional Conferences of Envoys / Commercial Officers:** Pakistan's envoys and Commercial Officers abroad can play a vital role in promoting our exports and attracting investment for joint ventures. They can also provide valuable inputs for export strategy. To utilise this potential, and as a Trade Diplomacy initiative, the Ministry of Commerce has organised regional conferences of Envoys and Commercial Officers in Africa, Central Asian Republics, East European countries, East Asia, Middle East, and Latin America in consultation with the Ministry of Foreign Affairs. The recommendations resulting from such conferences have been introduced in our trade policies of the last 2 years.

MAJOR LONG-TERM (INSTITUTIONAL) REFORMS UNDERTAKEN BY MINISTRY OF COMMERCE OVER THE PAST YEAR IN ORDER TO BOOST EXPORTS:

Before I go on to spell out the new trade policy measures that we are initiating, I would like to inform you of some major institutional reforms, finalized as a result of strenuous efforts and consultations by Ministry of Commerce, over the past 12 months. These reforms aim to move forward the objectives and implement the strategy of export-led growth as well as for bringing transparency into the working of some organizations reporting to the Ministry of Commerce.

THESE REFORMS ARE: -

- **Creation of TDAP:** Success in international trade in goods and services is now inextricably linked with an effective export marketing strategy and compliance with international standards and trade laws. The Export

Promotion Bureau, the marketing arm of the Ministry of Commerce needed to be replaced with a new organisation equipped to deal with the intricacies of global trade and the ever growing challenges of the changing global trade environment. The EPB has been replaced with the Trade Development Authority of Pakistan (TDAP), which will now focus on export marketing. TDAP will be responsible for achieving synergy in development of exports at the national level by forging effective liaison with private and public stakeholders, and developing a sustainable, result-oriented, export marketing plan. It will also develop plans and initiatives for strengthening exporters' capabilities and capacities. It will also promote human resource development in the export sectors. Its status has been changed in that EPB was an attached department of the Ministry of Commerce created via a resolution while TDAP is an Authority created through legislation. It now has financial and administrative autonomy under a Board headed by the Commerce Minister and consisting of senior government officials and private sector stakeholders. The TDAP will now report to this Board to facilitate quick decision making; and the trade officers abroad will report to the TDAP for marketing related activities.

- **Revamping of the Trade Bodies Law and framing of Rules:** For development and efficient representation of trade, commerce, industry, women and trade in services; the Trade Organizations Ordinance 1961 has been replaced with a new and progressive law. This will remodel the trade bodies as efficient, professional, corporate-like service providers.

- **Energizing the Insurance Sector in Pakistan:** Ministry of Commerce drew up a detailed strategy for reforms in the insurance sector in Pakistan in consultation with stakeholders and with input from the best consultants in the business, The strategy focused on introducing best practices in both life and non-life insurance business, and revamping the public sector insurance business. The Prime Minister has approved the strategy and it is now under implementation. The proposed initiatives will unleash the huge untapped potential of this sector in Pakistan and lead to its growth. The areas which will be focused upon are Group Insurance, Takaful Insurance, Micro-Insurance, Re- Insurance, and Health Insurance.

- **Tariff Rationalization initiative:** Applied tariff on imports has a direct linkage with the strategy of export led growth as competitiveness of our exports is diminished when the incidence of duties and levies are not neutralized on exports. High tariffs on imported inputs also impact the selling prices of similar domestically produced products. Exports suffer the incidence of tariff indirectly. Pakistan had a top rate of custom duty of 120% in the 1980's excluding other tariff peaks, which went way beyond the general maximum rate. The number of applied rates was as many as 42 and four complex taxation systems, namely ad-valorem; specific, alternate and composite were being applied. The system was further complicated by a vast SRO regime, which distributed favours by way of tax exemptions and tariff concessions. The maximum rate of custom duty of 90% in 1990-91 was brought down to 25% in 2001. During 2001-2006, the maximum applied rate remained at 25% and the number of slabs was increased to 5. In the current budget for 2007-08; the top rate has been retained at 25%. However, on the recommendations of Ministry of Commerce a slab of 0% has been created; so that the number of slabs has now gone up to 6.

Tariff reforms will continue with the point of view of eliminating the anti-export bias and encouraging export-led growth.

- **Strengthening Domestic Commerce:** A vibrant Domestic Commerce is a pre-requisite for innovation, entrepreneurship, quality assurance and product development. It stimulates private sector led growth and positions countries to effectively tap international markets. The Ministry of Commerce has carried out detailed studies on the State of Domestic Commerce in the country covering important sub-sectors like Competitiveness; Protection; Subsidies; Market regulations; Wholesale Markets; Retail markets; Storage and warehousing; Transport; and Real estate. The studies focus on key areas like Firm Characteristics; Competitiveness & Efficiency; and Regulations.

  The findings of the studies have brought out various strengths & weaknesses of the domestic commerce sectors and made specific recommendations for improvements.

  Improvement in this area would require coordination among several Federal Divisions, the State Bank of Pakistan, and Provincial Government Departments. The scope of the newly created 'Domestic Commerce Wing' in the Ministry of Commerce will be enlarged to induct core experts and consultants for preparation of specific action plans / projects for improving the state of domestic commerce.

- **Trade Competitiveness Institute of Pakistan:** A major constraint in the past has been the lack of effective research and information on multi-pronged trade and globalisation issues. The Foreign Trade Institute of Pakistan was created in 1989 with the objective of providing this research base but in fact was reduced to an average institute providing some training to new officers of the Commerce and Trade Group. In order to plug the original research gap, the Government has decided to replace the Foreign Trade Institute of Pakistan with the Trade Competitiveness Institute of Pakistan. In addition to conducting policy research on all key aspects of trade competitiveness, this institute will be the premier body for capacity building and human capital development on commerce. This Institute will also provide an important forum for the discussion and dissemination of information on issues of commerce. For enhancing the capacity of this institute to carry out its changed role effectively; a PC-I Rs.130 million has already been approved by Planning Commission.

- **Redefining the role of NTC:** In the emerging global scenario, the Government's role is to create a balance between liberalisation and effective protection for domestic industry against unfair trading practices of foreign firms and exporters. The structure and functioning of the National Tariff Commission are accordingly being re-aligned in the light of detailed recommendations approved by the Prime Minister. It will function as an effective trade defence organization of Pakistan.

- **Trade Competitiveness Indicators:** Pakistan's economy is one of the fastest growing economies of South Asia. However, Pakistan faces the economic challenge of achieving competitive advantage over its neighbours to not only maintain but also expand its market share. In last year's Trade Policy, I had mentioned that the Ministry of Commerce will work on developing Trade competitiveness indicators. It gives me great pleasure that trade competitiveness indicators have been developed to quantify and internationally benchmark the cost of doing business in Pakistan. A country's competitiveness is the ability of its economy to compete and grow in the global trading system and pass on the benefit to the domestic consumers, hence the competitiveness indicators take into account the financial, economic and regulatory factors including interest and exchange rates, public service provisions, legal frame work, business environment, human resource and technology for measuring comparative advantage and technological readiness. These indicators are under constant review by the Ministry of Commerce, in order that they can be the basis for meaningful policy recommendations and interventions.

- **Facilitating Transit Trade and Transport Logistics:** A prerequisite for the development of national trade is the availability of efficient international logistics & transportation services. This becomes particularly important in the absence of an adequate national merchant marine fleet. The Commerce Ministry has worked to develop the country's International Freight Forwarding Logistics & Transport Industry. The sector's representative body, Pakistan International Freight Forwarders Association (PIFFA) has engaged with International Federation of Freight Forwarders Associations (FIATA) to develop and introduce international level professional courses to improve the sector's human resource pool and upgrade the standard of services available to Pakistan's trade. International & Regional Transit Transport Agreements are being pursued by the Ministry and it is working to establish Pakistan as a gateway for the Central Asia & Western China's transit trade.

- **Transport Logistic and Trade Facilitation Initiatives:**

a) **National Trade Corridor Improvement Programme (NTCIP):** Reduction in the cost of doing business is a pre-requisite to ensuring that trade growth is sustained; and that the products are competitive. Transport logistics and trade facilitation are key elements in reducing the cost of doing business. Accordingly, the Government has taken some very important steps; and Pakistan is gearing-up to facilitate national trade through systematic simplification and standardization of procedures and improving transport logistics. The National Trade Corridor Improvement Programme (NTCIP) was initiated by the government in August, 2005. The priority of this programme can be gauged from the fact that the Prime Minister personally chairs the meetings to review progress of the implementation status of the programme. This programme is a roadmap for improving the transportation logistic chain, on the basis of the identified inadequacies and weaknesses. The programme will enhance regional connectivity through trade links, and energy and transport corridors with China, Central Asian Republics, Afghanistan and Iran. The Ministry of Commerce is an active partner in implementation of NTCIP, and its Trade & Transport Facilitation Project, also aims at reducing cost of doing business, thus increasing competitiveness of Pakistan's exports.

b) **Trade & Transport Facilitation Project (TTFP) and National Trade and Transport Facilitation Committee (NTTFC): T**he National Trade and Transport Facilitation Committee (NTTFC) under the Trade and Transport Facilitation Project (TTFP) which is headed by Secretary Ministry of Commerce, has taken several initiatives listed below for facilitating trade and reducing the cost of doing business:

   i) Development of the Single Administrative Document for goods declaration to enable filing of import and export documents electronically. This has already been introduced by customs. This replaced several paper documents used previously for this purpose and paved the way for introduction of Pakistan Customs Computerized System (PaCCS) under the Customs Administrative Reform (CARE) programme. PaCCS is now being used at three container terminals at Karachi Port and Port Qasim.

   ii) NTTFC collaborated with the Directorate General (Ports & Shipping) and CBR in implementation of trade security initiatives mandated by the International Maritime Organization (IMO) and US Homeland Security Department. The International Ship and Port Facility Security (ISPS) Code of IMO was implemented in Pakistan well within the stipulated period.

- **Pakistan School of Fashion Design:** This school is the premier fashion design school of the country, set up by the Ministry of Commerce. It commenced fashion design classes in Jan 1995, and fashion merchandising and marketing classes in 2005. In collaboration with French Fashion design institutes (L'ecole de la chambre syndicale and mode'spe of Paris). The school is preparing the national industry to compete successfully in the growing international fashion market. A purpose built campus is under construction at Johar town Lahore which will accommodate the existing faculties as well as incorporate additional disciplines such as gems and Jewellery design department, furniture design department, leather & accessories design department. A second portion of the school which will prepare our work force to convert the designs into finished products in manufacturing is on the drawing board. These classes will emphasize manufacturing expertise and will commence within this financial year. The curriculum being offered at the school in Lahore will be offered at the Karachi & Islamabad Chapters of the School, to be set-up within the period of this trade policy.

PREFERENTIAL TRADING ARRANGEMENTS

Trade Diplomacy

Multilateral trade negotiations under the WTO aim to address the issues of Tariff and Non Tariff barriers in international trade. Pakistan supports these talks, which are attempting to establish a rule-based and transparent global regime. Simultaneously however, over the past few years a proliferation of Preferential Trading Arrangements have been witnessed in the form of Regional Trading Arrangements (RTAs), Bilateral Free Trade Agreements (FTAs) or Unilateral GSP type programmes. Many such arrangements placed Pakistani exporters at a disadvantage vis-à-vis our competitors. Therefore and to counter these fallouts, the Government in the Ministry of Commerce embarked on a proactive preferential trade negotiating roadmap.

As a result some major agreements have been finalized while many others are close to finalization. I will detail some of these in the ensuing paragraphs.

To begin with, and in line with our policy to “Look East” for Trade Diplomacy, we have been successful in securing market access and creating economic linkages with China and a number of other countries in East and South Asia.

With China, a historic full-fledged FTA is now effective as of 1st July 2007. This FTA covers the areas of Trade in Goods and Investment.

The FTA with China has opened the door to a huge and friendly market for Pakistan and created enormous opportunities for FDI in the manufacturing sectors in

Pakistan. As a result of this FTA, all the core products of Pakistan like textiles, fruits and vegetables, gems & jewellery, engineering goods, leather products and sports goods, Surgical goods, marble products and industrial alcohol can enter the Chinese markets at zero duty or concessionary duties. Via this FTA, the all weather friendship between China and Pakistan has now translated into an institutionally under pinned economic relationship.

The ten ASEAN (Association of South East Asian Nations) countries have the most successful Free Trade Agreement (AFTA) in Asia.

In order to gain a foothold in this huge market, Pakistan is working on a two-pronged strategy. The first is have bilateral FTAs with major countries of the ASEAN like Indonesia, Singapore, Malaysia and Thailand and the second is to negotiate a bilateral agreement with the entire association on a 10+1 basis (i.e. one Non Member with the ten Members).

I am happy to inform that our FTA negotiations with Malaysia have been successfully concluded, and the agreement will be signed and enforced within this year.

Our FTA negotiations with Singapore are on track, and we hope to complete them as well as our engagements with Indonesia by the end of this year.

SAFTA (The South Asian Free Trade Area Agreement) is operative since 1st July 2006.

The Pakistan-Sri Lanka FTA which is operational since June 2005 is also yielding encouraging benefits as exports of both countries have increased.

Of Pakistan's other trading diplomacy initiatives in Asia, I would briefly mention Pakistan signing an agreement for a PTA among 8 of the total 54 OIC Member countries known as the D-8; and our ongoing efforts for an FTA with the GCC (the Gulf Cooperation Council). Beyond South Asia, we have negotiated a PTA with Mauritius, which will be formally signed in July 2007. We are also vigorously pursuing an FTA with the Mercosur countries of (Argentina, Brazil, Venezuela, Paraguay and Uruguay) a framework agreement for which has already been signed and technical negotiations will begin soon.

We are also pursuing PTA negotiations with Russia.

I finally turn to Europe and the USA, our two largest export markets. While we continue to work towards improved bilateral market access to the EU, we now have an institutional mechanism, the sub-Group on trade, under the aegis of the Pakistan-EU Joint Commission set-up under the 3rd Generation Cooperation Agreement in May 2007.

We are also however seeking FTAs with certain Non EU countries in Europe and hence we will soon initiate negotiations with the European Free Trade Area (EFTA) made up of Switzerland, Norway, Iceland and Liechscenstein. Bosnia and Serbia have also agreed to negotiate FTAs with us.

For the USA, Pakistan's largest single export market, it is sufficient to give details of the:

Reconstruction Opportunity Zones (ROZs):

In order to create stability and secure market access for businesses in our border regions, the Government of Pakistan is in discussion with the U.S. Government for special trade incentives. These special trade incentives would create economic activity and generate jobs, thereby strengthening regional security. Accordingly, during his visit to Pakistan in 2006, the U.S. President announced a Reconstruction Opportunity Zones programme, specially designated for border regions in Pakistan. Products produced in these Reconstruction Opportunity Zones would qualify for duty free entry into the United States. Pakistan and U.S. Governments are in consultation on the modalities of this programme. It is expected that the ROZs would cover a large number of tariff lines including a number of textile and apparel categories.

The ROZs will give a boost to current export levels to the U.S. and will also help to diversify the export mix.

EXPORT STRATEGY

In order to accelerate export growth; I had announced in 2005-06, a **Rapid Export Growth Strategy (REGS)**. The strategy was based on the following pillars:

> i) Trade diplomacy to increase market access; ii) diversification of export markets; iii) Strengthening of trade promotion infrastructure; iv) Skill development; and v) Early provision of modern infrastructure

For 2006-07, we decided to continue with REGS in a targeted manner, and identified selected sectors like engineering goods, pharmaceuticals and chemicals, towels, denim, and leather and leather products to take their exports to the U.S. $ 1(b) mark in the next 3 years. We have made significant progress in trying to achieve these aims. For example, we have been following an ambitious and aggressive stance at the WTO for a successful conclusion of the Doha Round. Also, we have been actively negotiating for increased market access through FTAs, and PTA's. We have strengthened our commercial offices abroad and have replaced the Export Promotion bureau (EPB) with the Trade Development Authority of Pakistan (TDAP); a state of the art new organisation, to improve our trade promotion infrastructure, and provide a modern autonomous organization to work holistically for boosting Pakistan's exports.

We must now have a long-term vision to sustain our Export Growth Strategy. Under the directions of the Prime Minister, the Deputy Chairman Planning Commission after rigorous and in-depth consultations with stakeholders in both public and private sector, prepared a long-term export plan, which provides for broad-based targets in terms of specific sectors; investment requirements in those sectors; and recommends specific actions to achieve exports of US$ 45 billion by 2013; and increase the export to GDP ratio to almost 16% given an average annual economic growth of 7% to 8%.

In addition to this effort, the Ministry of Commerce has also drawn up an export strategy after in depth consultations with stakeholders and exporters, and in-house diligent research.

For the year 2007-08, therefore, our strategy will be an amalgam of this joint effort.

EXPORT PROJECTIONS FOR THE YEAR 2007-08:

We are determined to implement this strategy and achieve higher export growth rate. We have, therefore, set ourselves an export target of US $ 19.2.

EXPORT MEASURES:

ENHANCING COMPETITIVENESS, PRODUCTIVITY & EXPORT CAPACITY:

Long Term Financing for Export Oriented Projects:

The LTF-EOP (Long Term, Fixed Rate, Export Projects Financing Scheme) has been enlarged to cover

- Export oriented , core and developmental sectors.
- Purchase of Locally Manufactured Machinery
- Compact spinning.

Export Oriented Units (EOUs)

To encourage investment and facilitate exports, it has been decided to introduce a scheme of Export Oriented Units.

- The scheme will essentially have the same incentives as are available to units in the EPZs.
- Existing units exporting at least 80% of their production shall be eligible for registration (with FBR) under the scheme.
- New units, so registered, will be required to export 100% of their production.

Equity Fund:

It has been decided to establish an equity fund through pooling the resources of private and public sector organizations for:

A. <u>Brand Acquisition</u>

To encourage Pakistani companies to cater to niche markets, it has been decided that this Fund will be utilized for acquisition of overseas brands and/or the brand holding companies in the following manner:

a. If the acquirer is a wholly owned Pakistani company or a wholly owned subsidiary of a Pakistani Company, upto 50% of equity capital.

b. If the acquirer is a joint venture involving a Pakistani and a foreign company, upto 50% of the equity capital of the share of Pakistani Company.

c. Equity capital participation from the fund will not exceed US$ 5 million per proposal.

B. To Encourage SPS Compliance

There is a vast potential to increase the exports of fresh fruits and vegetables if SPS requirements are met. To encourage setting up of sanitary & phyto-sanitary facilities and testing laboratories, it has been decided that the equity fund will also be used for participation in investment in such facilities.

In both the cases, the fund will divest within 5 years from the date of investment by offloading to Pakistani sponsors. Other interested Pakistani companies. Stock Exchange, others deemed suitable by the fund.

Sectoral Investment incentives:

To encourage new investments particularly in hi-tech and core and developmental products, the government has decided to allow first Year Allowance (FYA) on investment in PME (Plant Machinery and Equipment), to be set off against statutory income in the year of assessment. Unutilized allowance can be carried forward. The FYA will have the following rates:

i. Exporting units or value added or Hi-tech industries @ 90% of the cost of the plant, machinery and equipment.

ii. Priority/developmental categories and agro based industry@ 75% of the cost of the plant, machinery and equipment.

iii. Other industries @ 50% of the cost of the plant, machinery and equipment

iv. Re-investment allowance at the same rate as mentioned in para (i) above will be applicable on capital expenditures/ investment in case of BMR & expansion.

v. Exporting units, value added and high-tech industries will be exempted from payment of customs duty and taxes on the import of Plant, Machinery and Equipment.

Export Credit Risk Management:

20% export transactions of goods and services are on terms of payments, other than secure transaction terms (i.e. without L/C or advance payment). This practice is growing. Additionally, large buyers are eliminating middlemen and increasingly demand duty-paid, JIT deliveries. About all competing countries offer facility of Export Credit Agencies while Pakistani exporters face difficulty in obtaining risk covers for exports, especially SMEs. Pakistan is increasingly losing contracts. In view of this it has been decided to restructure PEFGA to:

- Include insurance of the exporters' credit risk;
- Restructure Board.

Social, Environment & Security Compliance:

Buyers in Developed countries/regions particularly in EU & USA, require Pakistani exporters to comply with Social, Security & Health standards

It has been decided that a Social, Environmental & Security, Compliance Board will be set up in TDAP to educate, coordinate and monitor implementation of local laws relating to these standards with all relevant government agencies in Pakistan and to interact with the buyers abroad.

Skill Development

Productivity of our skilled labor including production managers is low, both in terms of quantity and quality. Ministry of Commerce & TDAP took a lead in early 1990's and established training institutes for different export sectors, with funding from EDF. but there is a mis-match between existing programmes and demand of industries. To better align current training programme to skills required in export sectors, it has been decided to establish Export skills Development Council in TDAP and also to convert existing institutes into Technological & Skill Dev Resource Centers (TSDCs).

Agri-Marketing Integrated Centres (AMIC):

- Exports of agricultural produce is hampered by lack of modern storage facilities where produce could have consistent quality, conform to international standards, are duly certified and has desired traceability

- AMICs will establish close linkages with selected and enlightened farmers to obtain their produce for storage and sales on their behalf.

- AMICs will provide common facilities such as grading, packaging, fumigation, testing, certification, etc.

- Export linkages will be established with international and local buyers.

- TDAP will establish a private limited company to be managed by specialists in this field.

EXPORT FACILITATION AND MARKETING SUPPORT:

Assistance in Reaching International Standards:

To introduce best practices, it has been decided to hire international consultants for selected companies on cost sharing basis. The consultants would:

    - benchmark the firm characteristics including production technology, skills, accounting procedures, marketing and business practices relative to international levels.

    - identify the deficiencies and assist the firms in removing them.

- The scheme will initially include textiles and apparel, surgical instruments, leather products and sports goods.

- The companies, which do not follow the advice of the consultants, will be required to refund the money contributed by the Government.

- For each sector, there will a list of the approved consultants. Criteria for selection of companies will be prescribed.

Support for Compliance Certifications:

The government has been providing a subsidy of 50%for various compliance certifications (quality, environment and social)

- It has been decided that the level of the subsidy will be increased to 100% for ISO 9000, ISO 14000, OHSAS 18001, SA 8000, WRAP, EKOTEX, BSCI and BRC in the following manner:
    - One Certification 50%;
    - Two Certifications 66%;
    - Three Certifications 82%; and,
    - Four or more Certifications 100%.

Assistance for opening exporters' offices abroad:

- Companies need to set up business offices in their principal export markets for business development
- Setting up of offices abroad entails sizable costs and hence need govt. support.
- It has been decided to provide 50% subsidy in rentals and 50% subsidy in salaries for 3 employees, for 3 years with a suitable cap for only Socially & Environmentally Compliant and ISO certified exporters. Eligible countries would be Malaysia, Japan, China, UAE, Russia, USA ,EU and in Africa
- Eligibility condition with respect to minimum export would be prescribed by TDAP

Support for Marketing of Branded Products:

- Brands fetch premiums but Brands promotion is difficult and expensive.
- Brand promotion in potential markets needs facilitation.
- It It has been decided to provide 50% cost sharing in their media promotion plan and 50% cost of shelf space for branded products in leading retail outlets.

Retail Sales Outlets:

Trade Policy 2005-06, provided sharing of rental costs of branded exporters, for opening their outlets abroad for 3 years @50%, 25% and 10% with a cap of

US$50,000. End users consider this insufficient to meet expenses furnishing and staff salaries etc.

It has been decided to increase cost sharing of rentals to 4 years,@ 75%, 50%, 25%, and 10% per year.

Overseas Business Support Units:

- There is a need to set up Overseas Business Support Units to enhance market shares abroad

- OBSUs will comprise a locally employed Director, a market analyst, a secretary and marketing executives, with funding from EMDF

- It has been decided to set up 3 OBSUs in USA, EU and China in first phase and in Africa, ASEAN and East Europe in second phase.

E-Marketing:

It is important to have presence on the web and to directly sell through the internet in the current business environment. SMEs are unable to use latest tools of IT for lack of knowledge and high costs. It has been decided to establish, online presence (web portal of exporters) and undertake Internet Marketing for web portal. TDAP will also hire an IT Co. to assist the exporters in web development and train in internet marketing

British Retail Consortium (BRC) Certification:

- The British Retail Consortium is the lead trade association representing the whole range of retailers and it has developed and introduced the BRC Food Technical Standard to be used to evaluate manufacturers of retailers.

- In order to promote export of branded rice and food products to U.K. it has been decided to offer 50% cost of BRC Certification to exporters who have already established their brand.

SME Facilitation for exports:

In order to facilitate SME exporters, the FBR will announce a new scheme for temporary importation of raw materials, including fabrics, to be used as inputs for export products.

Exports to ISAF and DLA:

According to the existing Export Policy Order, exports to Afghanistan in convertible currency is zero rated only on certification of arrival by Afghan authorities. Since goods shipped to ISAF and Defence Logistics Agency (DLA) are not cleared by Afghan Customs Authorities. It has been decided that zero rating of sales tax or duty drawbacks as well as federal excise duty refund against goods exported to ISAF and Defence Logistics Agency will be allowed on production of receipt issued by the aforementioned agencies, endorsed by representatives of these agencies based in Pakistan confirming that they have received the goods.

SECTORAL INITIATIVES

Export Diversification:

At present textiles and apparel account for more than 60% of total exports of our country. There is a need to strengthen non-textile sectors and identify new items.

- It has been decided that international consultants will be engaged to:

    a. Identify Industrial, Agricultural and Service sectors where Pakistan may have or create some competitive advantage internationally

    b. Prepare short, medium and long term plans for such sectors so that in future policy making, the totals focus of the government is on such identified sectors.

To avoid duplication, ministries/divisions concerned will coordinate.

Export of Gems and Jewellery:

Import and Export of Gold, Gold Jewellery and Gemstones Order 2001, allows an exporter to import gold, gemstone and a few raw materials against his export performance. However, certain essential tools and equipment are not permissible for import under the Order. It has been decided that tools and equipment which either are not available in Pakistan or are substandard will also be allowed import to improve product quality.

Export of Gold and Jewellery:

Export of gold jewellery manufactured from imported gold is allowed subject to value addition as under:

a. For stone studded gold jewellery, 15%.

b. For plain gold jewellery, 10%.

c. For plain gold bangles, 5%.

During the last four years, the prices of gold have increased which effectively enhanced the ratio of value addition requirement. It has therefore, been decided that the following value addition requirements will be prescribed.

a. For stone studded gold jewellery, 9 %.

b. For plain gold jewellery, 6 %

c. For plain gold bangles, 4 %.

Export of Jewellery

At present Imports and exports of precious metals and jewellery made therefrom (except in case of Gold) are not allowed.

It has been decided to allow import of silver and platinum for the manufacture and export of jewellery made therefrom, as there is demand for such jewellery abroad.

Value Addition in Carpets exports:

To arrest decline in the exports of carpets it has been decided to allow the import of semi-finished carpets on temporary basis for processing for exports under Customs SRO 1065.

Promoting Engineering goods' exports:

Engineering goods consist mostly of bulky items. As a result, their transportation cost is quite high as compared to other items.

It has been decided that inland freight subsidy will be allowed for the transportation of goods destined for exports.

Export of Meat:

To develop export quality slaughterhouses, it has been decided that financial assistance will be provided to investors initially from EDF. A scheme will be drawn up in this regard in consultation with the MINFAL.

Development of Women entrepreneurship in exports:

Women entrepreneurs are gradually coming up in export business. TDAP, is engaged in various promotional activities like holding annual Wexnet Exhibitions in Pakistan, provision of training facilities and subsidized participation in international trade fairs and delegations. TDAP has also prepared a database of women entrepreneurs to offer its services

To provide women entrepreneurs with a more organized environment, it has been decided to establish Women Entrepreneur Cities in Karachi and Lahore where infrastructure like Industrial plots Common Facility Centers, business centers, technical workshops child care centers, training centers etc. will be provided

Facilitation for exports of Pharmaceutical Products:

Trade Policies 2004-05, & 2005-6 announced scheme whereby 50% subsidy was allowed to pharma cos. for registration of their products in foreign countries and a facility to hire up to 3-medical reps. for a period of 2 years @ US$ 500 per medical rep. per month

- In order to further exploit the export potential of pharma sector, it has been decided to provide:
    - 50% cost of audit/accreditations by international health regulatory bodies
    - 50% cost of bio-equivalence and similar testing in WHO accredited labs

Support for Enhanced Production of Japonica Rice

- Japonica rice has a good market in all countries of East Asia e.g. Japan, Korea. Demand will further increase, once Japan and Korea further open their markets. Japonica variety rice is produced in Swat in limited quantity and has export potential.
- It has been decided to:
    - Engage an international consultant to review Japonica rice opportunities from an international perspective and develop concept for increasing production of the right variety
    - Undertake export promotion once substantial quantity is available

Fruits and Vegetables, and Floriculture

- Under National Trade Corridor Improvement Programme (NTCIP) Ministry of Commerce in consultation with PHDEB, prepared proposals for enhancing annual export of fruit and vegetables, and floriculture from existing $ 150 million to $ 400 million in the next 5 years. For this purpose it was envisaged to establish a cold chain system including pack houses, cold stores, and refrigerated containers.

- Following initiatives will be taken:

    - 39 modern pack houses, completely automated and equipped with advanced electronic devices for packing/grading and storage plants will be set up at 31 fruits and vegetable growing areas through out the country.

    - 23 facilities for cold storage and controlled atmosphere storage will be established at the fruit production areas, airports and seaports in the country.

    - Two container yards in Karachi and Lahore with a pool of 200 refrigerated containers and 50 controlled atmosphere refrigerated containers at each location will be established. Karachi pool will serve the requirements of Sindh and Balochistan Provinces while Lahore pool will serve the requirement of Punjab and NWFP.

PROCEDURAL / OTHERS

Export Procedure:

Presently imported items can be exported for repairs or replacement or refilling etc, on submission of indemnity bond to the Customs undertaking that goods being exported will be re-imported after repairs. There is no provision in the Export Policy Order for the return of defective goods for which replacement has already been received.

- It has been decided that in case of export of defective goods where replacement has been received the condition of indemnity bond will be done away with provided there is no revenue implication.

Export of Ghee to Afghanistan:

Consumers desire information about the ingredients used in edible products. In case of Afghanistan it was observed that all foreign brands contained product information in local language except those imported from Pakistan.

It has been decided that vegetable oils being exported to Afghanistan will have ingredients information printed in ‘Dari’ and ‘Pushto’ languages.

Encouraging Local Footwear Industry:

Exporters of footwear are allowed to import duty free footwear samples to meet their export commitments.

It has been decided that the this facility will be extended to manufacturers as well. This will help local manufacturers to improve the quality of their products and keep abreast themselves of fashion and trends in vogue in the world market.

Domestic Commerce:

A Vibrant domestic Commerce is pre-requisite for innovation, entrepreneurship, quality assurance and product development. It facilitates private sector – led Growth and positions countries to effectively tap international markets and ensure sustained capital inflows. Ministry of Commerce carried out detailed studies on State of Domestic Commerce covering all important activities relating to Competitiveness; Protection; Subsidies; Market regulations; Wholesale Markets; Retail markets; Storage and warehousing; Transport; and Real estate. The studies focused on key areas i.e. Firm Characteristics; Competitiveness & Efficiency; and Regulations. The findings of the studies brought out various strengths & weaknesses of domestic commerce sub-sectors and made specific recommendations for radical improvements. The recommendations also take into account some improvement in whole-sale, retailing sectors and better marketing techniques introduced in some sub-sectors in recent years.

Sustainable improvement requires coordination among several Federal Divisions, SBP and Provincial Departments. The Ministry of Commerce has already created a Domestic Commerce Wing.

It has been decided that the scope of the wing will be enhanced. The wing would engage additional core experts and consultants to prepare specific action plans for approval after coordination with all agencies concerned.

IMPORT STRATEGY:

Our import policy is based on the pillars of liberalisation, deregulation, and facilitation. The initiatives I am proposing in this trade policy will encourage businessmen and entrepreneurs to install new machinery, add capacity, and thereby improve their competitiveness. Further, the policy will continue as in the past to ensure the supply of essential commodities to consumers at reasonable prices.

Here I would like to say a few words regarding the trade gap. Although our imports have increased considerably, there is no cause for alarm. Growing economies do need to import as there is a strong correlation between higher imports and GDP growth. Over the past five years (2003-2007), Pakistan's economy has grown at an average rate of 7%, so that higher investments have led to higher imports of machinery and raw materials. Although the prices of petroleum products have remained high in world markets, higher volumes of Oil imports are required for the transport sector and for power generation.

I have mentioned earlier that our exports were US$ 17.01 billion during 2006-07 while imports during the same period were US$ 30.5 billion. This has resulted in a trade gap of US$ 13.49 billion against US$12.11 billion for the corresponding period of 2005-06. As export growth was slower than the import growth, the trade gap widened by US$ 1.38 billion. The bulk of the increase in imports is made up by the Petroleum group (31%), machinery (30.2%), raw material for textiles (10.6%), and chemical industries (6.5%). The imports of cars and buses in CBU condition have decreased by 11.1% and 20.6% respectively. The imports of mobile phones have increased by 27.6% during this period which is easily explained as the telecom sector growth is phenomenal.

The trade account is only a part of the current account, which along with the capital and financial account constitutes the overall balance of payments position. In the wake of significant inflow of remittances and inflows on account of foreign investment, the trade deficit is not impacting the foreign exchange reserves. In fact the foreign exchange reserves of the country have surpassed a record level of US$ 15 billion in 2006-07.

IMPORT MEASURES:

<u>FACILITATION</u>:

Construction Industries

At present, construction, mining and petroleum sector companies are allowed to import second hand PME including specialized vehicles not older than 10 years, actually required for their projects in Pakistan themselves. They are not specialized importers and their requirements will not be large enough for obtaining best prices.

It has been decided that commercial importers will be allowed to import machinery/equipment/specialized machinery, excluding dump trucks and mobile transit mixers, on their behalf (in case of construction only those companies registered with Pakistan Engineering Council). The imports will be subject to pre-shipment inspection by the designated companies to the effect that machinery is in working condition and not older than 10 years.

Registration of construction equipment with Pakistan Engineering Council:

Under the IPO construction companies, are allowed to import secondhand PME not more than ten years old actually required for their projects in Pakistan. To ensure that only genuine construction companies can avail the above facility, it has been decided that only those construction companies which are registered with Pakistan Engineering Council can import secondhand PME.

Import of used heavy duty prime movers:

To facilitate and modernize trucking and associated industries and to achieve better fuel efficiency and cleaner emission; EURO III compliant prime movers are required. The existing trucking industry requires infusion of heavy duty prime movers of 380 and above Horsepower to facilitate manufacturing industry of such prime movers in Pakistan; Renowned OEMs will take time to invest in Pakistan. It has been decided that:

- Import of upto to four year old prime movers of 380 Horsepower and above EURO III compliant, are allowed to registered transport companies/established fleet operators (owning and operating at least 25 prime movers in their name) for the year 2007-08 in the following manner:
  - These prime movers will be allowed to be imported from reputed OEMs;
  - Each import order will include a minimum of ten prime movers;
  - The importer will not be allowed to sell or transfer such prime movers to any other person or company within five years of import.

The fleet operators placing large orders of 100 or more units can start a dialogue with OEMs to establish full service support in Pakistan leading to manufacturing and possible future exports from Pakistan.

Facilitation for Exhibitors:

At present the import of permissible products for display in exhibitions and fairs officially organized by the Government or FPCCI or Chambers of Commerce and Industry are allowed on import-cum-export basis. All Pakistan basis trade associations and individual companies also organize exhibition and fairs. Ministry of Commerce has been receiving several requests from them for same facilitation.

It has been decided that the facility will also be extended to All Pakistan based Associations and individual companies subject to endorsement of TDAP.

Facilitation for disabled persons:

To help physically disabled persons, it has been decided to allow import of motorized wheel chairs whether new or in used condition as donations and gifts to the charitable institutions and hospitals.

Facilitation for mountaineering expeditions

Presently mountaineering expeditions have to approach Ministry of Commerce for permission to import their equipment and materials on temporary basis.

It has been decided to allow import of the same by mountaineering expeditions on import-cum-export basis without having recourse to Ministry of Commerce. In case, the equipment and material are not re-exported, they can now donate such equipment and materials to local mountaineering clubs and produce certificate from mountaineering Clubs to the effect that the equipment and material imported on import-cum-export basis has been donated to that club.

Facilitation for Overseas Pakistanis

Presently only FBR can allow release of goods sent by Overseas Pakistanis, to a consignee without sales tax registration. This causes undue delay in the release of goods.

In order to further facilitate the overseas Pakistani, it has been decided that the authority to grant exemption from sales tax registration will be delegated to the Collector of Customs concerned.

REGULATORY MEASURES

Quadrilateral Agreement:

Quadrilateral agreement provides that the contracting parties have the right to apply all the prohibitions for the traffic and transit, deriving from their national legislation.

It has been decided that the following provision will be provided in the IPO:

" Import and export of goods for transit under the Agreement for traffic in transit among the Governments of Peoples Republic of China, The Kyrgyz Republic, The Republic of Kazakhstan and the Islamic Republic of Pakistan shall be subject to all prohibitions and restrictions notified and reflected anywhere in the IPO.

Import of Drugs:

In order to prevent misuse of imported narcotic drugs and psychotropic substances, it has been decided that pharmaceutical units having valid drugs manufacturing licenses will be allowed to import these substances on the authorization of Ministry of Health. Such imports will also be subject to meeting the conditions prescribed for import of pharmaceutical raw materials.

Import of Chemicals:

Formaldehyde is a carcinogenic chemical. It has therefore been decided that the import of formaldehyde will be allowed only to industrial consumers who have valid licenses issued by the concerned environmental agency/dept under Pakistan Environmental Protection Act 1979.

Preventing import of stolen vehicles under Baggage, Gift and Transfer of Residence schemes:

To discourage import of stolen and chassis tampered vehicles under the personal Baggage, Gift and Transfer of Residence schemes, it has been decided that in addition to confiscation of the said vehicles, the importers will also be liable to such penalty as may be imposed by any other law for the time being in force. The re-export facility will also not be available for such vehicles.

PROCEDURAL PROPOSALS:

1. Pakistan has adopted HS 2007 version through the budgetary measures 2007-08. The transposition from HS 2002 to HS 2007 version has resulted into numerous changes affecting description of quite a few items and import status of certain other items. H.S code in the Trade Policy will be harmonized with the new system.

2. In the existing trade policy there is no uniform indication of PCT codes which in certain cases are at four, six and eight digit level. This creates problems at the automated customs computerized system. In the Trade Policy eight digit PCT codes on the basis of HS 2007 will be given to facilitate the automated clearances.

3. The list of items importable from India will be re-arranged in descending order based on the new HS Nos. It will make the consultation convenient.

4. The definitions of the terms "Job-lot " and "stock-lot" goods as given in CGO 12/2002 will be incorporated in the Import Policy Order.

5. The IPO does not defines the "Rules of Origin" for the imports coming from countries with whom no Preferential Trade Agreement has been signed. Such Rules of origin will be defined and made part of Import Policy Order. This step will help stop the items coming through transit countries from the countries wherefrom imports are banned.

6. To make the policy transparent in respect of Ozone Depleting Substances, it has been decided that the Import Policy Order will clearly mention the name of Ministry i.e. Ministry of Environment responsible for allocating quota for Ozone Depleting Substances

7. At present import of waste, parings and scrap of polyethylene (PE) and polypropylene (PP) is allowed to industrial consumers subject to certification from the exporting country and by PCSIR who expressed inability to certify the hazardous free nature of the imported scrap. It has been decided that the condition of certification by PCSIR in the policy will be substituted with mandatory certification by the Government of the exporting country or certification by a pre-shipment inspection company in the export country specialized in this field.

CONCLUSION:

Ladies and Gentlemen!

The Government has pursued good trade and fiscal policies in the last few years. We have been able to improve the business environment, which has resulted in giving us high growth rates. This has resulted in Pakistan's economy being put on solid foundations with the fiscal deficit, revenues, and debt significantly improved and exports performing well. The exports in Goods have risen from level of $ 7.8 billion in 1998-99 to over US $ 17 billion this year. Exports of Services of US $ 3.07 billion and defence exports of US $ 63 million are in addition to it.

However, challenges still remain. The trade deficit has grown significantly over the past few years and the growth rate of exports. I have tried to explain the reasons for it. In addition to those reasons, the large trade deficit is also the result of macro policy focus on growth, fiscal deficit and debt, which makes exports expensive and imports cheaper and, therefore, hurts industrial investment and trade competitiveness. It is important to have a balance in the macro policy so that exports could be encouraged and the current account deficit be reduced.

It is generally believed that in order to alleviate poverty in our country, we need high levels of GDP growth. Such levels of GDP growth can only be sustained in the long run through high level of growth in exports.

In the current era of globalization, free trade and intense competition, there are no short cuts to achieving exports growth and economic development. We need to continue to address the issues of exports competitiveness. The technology of our manufacturing, services and agriculture sectors should continue to be upgraded. Cost of doing business has to be brought down to internationally competitive levels. Efficient utilities and infrastructure need to be provided. Inputs should be available at internationally competitive prices. Skilled manpower must be developed. A successful conclusion of the WTO Doha Round is expected soon and will provide us an excellent opportunity to increase our exports. In the meantime, rapid progress is being made to gain market access through our trade diplomacy efforts.

It is now up to the businessmen and entrepreneurs of Pakistan to take advantage of the incentives and opportunities we have provided, to propel Pakistan's exports to greater heights, thereby assisting the economy to sustain the high growth rate Pakistan needs. This is the only way to alleviate poverty and create prosperity for our people.

We have come a long way, but we still have long way to go.

Thankyou! Pakistan Paindabad!