



Government of Pakistan
Ministry of Commerce

TRADE POLICY 2005-06

Speech by

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TRADE POLICY SPEECH 2005-06

Ladies and Gentlemen A.A.

It is indeed a great honour for me today to present to you the trade policy of Pakistan for the fiscal year 2005-2006. This is the third successive policy that I as Minister of Commerce have had the privilege to announce.

2. Since 1999, when President Musharraf assumed office and immediately assigned the highest priority to economic revival and initiated a forward looking Reform Agenda, Pakistan has been particularly fortunate to have experienced a sustained period of stability and good governance. As a result, the economy of Pakistan as a whole has been improving at an impressive pace. Like other arms of the government, the Ministry of Commerce has also been carrying out its assigned role of increasing the country's exports. This vital responsibility has been entrusted to the Ministry of Commerce as part of the export led growth strategy that the government is embarked upon.

Export Performance 2004-05

3. While announcing the trade policy for the year 2004-2005, I had stated that during the year, the Ministry of Commerce would strive to increase Pakistan's exports to new and previously unattained levels. In this regard we had set ourselves a target of \$ 13.7 billion. It now gives me great pleasure to inform you that by

the Grace of Almighty Allah, not only did we achieve this target but we surpassed it substantially. Our exports at the close of the year amounted to \$ 14.41 billion, an increase of 17% over last years' export level.

4. While last year, export growth was largely on account of higher unit values, this year's exports are driven mainly by substantial rise in volume. This is the fourth consecutive year of year-on-year growth and achievement of target levels. Compared to 1999-2000, exports have increased by 68.2%. In the context of the socio political and economic challenges faced by Pakistan and its private sector, this is more than satisfactory. The people of Pakistan and our business community deserve congratulations for this achievement, which would not have been possible without their sustained effort and dedication.

5. Textiles and Garment's export were US \$ 8.6 billion during 2004-2005, which is 59.5% of the total exports. This showed an increase of US \$529.2 million over the corresponding period of last year. Of the **total increase** in exports of US \$ 2.097 billion, Textile and Garments contributed 25.2%. It is encouraging to note that five of the sub sectors namely cotton cloth, knitwear, bed wear, readymade garments and cotton yarn achieved exports in excess of US\$ one billion each during 2004-2005.

6. During 2004/2005, exports of non-textile sector was US\$ 5.842 billion, for the first time crossing the US\$ 5 billion threshold, showing an increase of 37% against corresponding period of 2003/2004. It's share in exports also increased from

34.7% in 2003/2004 to 40.5% in 2004/2005. What is encouraging is the fact that 75% of the export increases of US\$ 2.1 billion registered during 2004/2005 against 2003/2004 was due to enhanced exports of non-textile products. Our policy initiatives to diversify exports is beginning to yield positive results. We will continue to pursue export diversification strategies.

7. During 2004-2005, export of rice, at US\$ 933 million, was 47.1% higher over the corresponding period of last year, leather & leather group, at US \$787 million, was 18.2% higher, petroleum products at US\$ 413 million, were up by 54.9%, chemicals at US\$382 million increased by 45.3%, carpets at US\$283 million increased by 22.2%, and surgical goods at US\$172 million increased by 29.9%,.

8. During the period 1999 to 2003, world exports increased by US\$ 1.774 trillion i.e. by 31%. During the same period Pakistan's exports grew by 43% reflecting an improvement in world share. By comparison, Singapore's exports increased by 26%, Malaysia 19%, Indonesia 25%, UAE 5%, Philippine 1%, Bangladesh 25%, and Sri Lanka 10% .

9. On 1st January 2005 quota restrictions on textiles were removed. There were apprehensions on the part of several analysts about the fate of Pakistan's textile industry and their level of preparedness to cope with a post quota regime. Similarly, some skeptics said that Pakistan's export diversification strategy will suffer as exporters would be preoccupied with coping with post

quota period, as textiles traditionally accounted for over 65% of our exports.

10. The export performance during January-June 2005 proved both these concerns to be misplaced. Pakistan's textile exports which had increased by 0.4% in July-December 2004 bounced to 12% growth in the first 6 months of 2005. However the exports of knitwear and art silk and synthetic textile declined during this period by 4.2% and 22% respectively. With the textile package announced in the Budget and the R & D Support announced by the Government, I am confident that this sub-sector will also perform well in 2005-06. The rate of increment in other areas were much higher in this period than the 6 months of July-December 2004. This was all possible due to the exporters efforts and preparedness to cope with post quota period and to fully benefit from the export incentives and facilitations announced by the government in its trade policies.

11. Exports during 2004/2005 increased by US \$ 2.1 billion as compared to the same period of 2003/2004. This increase is historic and is larger than ever achieved in Pakistan's past history. The major increment is attributable to increase in export of non-traditional items, which increased by US\$ 690 million accounting for 33% of the increase. This increment is mainly because of our export diversification initiatives. I say diversification because the increase is due to rise in non traditional products made up mainly of 1400 items Similarly, the efforts to increase export of engineering goods are also showing positive results. Exports of engineering goods during this period increased by US\$

101 million, accounting for a 5% increase. Similar was the quantum of increment in each of leather goods, chemicals and petroleum product sectors. The export of rice also increased by US\$ 299 million accounting for a 14% increase.

12. I expect this trend to gain momentum and our exports to increase at a faster rate in the remaining months of 2005, when additional facilities announced by the government during the budget and in this policy would be fully availed by the exporters.

Rapid Export Growth Strategy (REGS)

13. Having put Pakistan on a continuous growth path as far as exports are concerned, by taking the exports from US \$ 7.8 billion to US \$ 14.4 billion in six years, our next objective is to significantly increase the rate of export growth by adopting a Rapid Export Growth Strategy (REGS) based on five pillars.

14. The five pillars of the Rapid Export Growth Strategy are as follows:-

- i. **Improved market access** through trade diplomacy, and new FTAs/PTAs with selected priority countries.
- ii. Focusing on **neglected Regions** and countries like Africa, Latin America, Eastern Europe, Central Asia and the Far East.

- iii. Strengthening of **trade promotion infrastructure** of the Government including the EPB and the trade offices abroad.
- iv. Improving skill development and productivity through provision of **large scale training**.
- v. Provision of **state of the art physical infrastructure** by the government to spur investment and FDI.

15. The first three pillars of the strategy are areas where most of the work has to be done by the Ministry of Commerce. The last two pillars relate to our national supply side constraints and are to be executed by other Ministries, supported by the Ministry of Commerce.

16. Since trade diplomacy is one of the major functions of the Ministry of Commerce, we are intensively interacting with other governments to obtain additional market access for Pakistani exports. In this context we have initiated discussions and negotiations with a number of countries for concluding Preferential Trade Agreements (PTA) or Free Trade Agreements (FTAs). Our first FTA has become operational with Sri Lanka this year, and we have concluded a PTA with Iran and also signed an Early Harvest agreement with China as a prelude to an FTA. Apart from that, bilateral negotiations are underway with, Malaysia, Singapore, Indonesia, Turkey, Kazakhstan, Tajkistan, Morocco and Mauritius. As far as regional bodies are concerned, we are working out

preferential access arrangements in SAARC, ECO, OIC, D-8, Mercosur and GCC.

17. Given the importance of the **EU** market for us, it has been a major focus of our trade diplomacy. Since Jan 2002 Pakistan has benefited from the EU's Drug related G.S.P scheme. Under this scheme Pakistan has availed duty free access for its exports to the EU except leather and leather products, yarn and fabrics. From 1st January 2005, Pakistan's clothing sector also graduated, so that 80% of Pakistan's exports now stand excluded from the benefits of this G.S.P Scheme. However as a result of intense diplomatic efforts by the Ministry of Commerce, Pakistan would now be included in the EU's new G.S.P. Scheme as of 1st January 2006. This new scheme would again allow all of Pakistan's exports including textiles and clothing to enter the EU markets at concessionary rates of tariff.

18. Since after the EU, the **United States** is our largest trading partner, we have been making major diplomatic efforts to enhance access to that market for Pakistani exports. As a result we have begun negotiations on a Bilateral Investment Treaty (BIT) with the US. This Treaty is likely to be instrumental in promoting buyer driven FDI, which is an important factor for export growth. Pakistan's request to the US for free trade negotiations is under consideration. Besides that, two specific market access proposals are currently being discussed between our two countries.

19. At this point I would like to express our deep appreciation of the President and Prime Minister of Pakistan who

have taken a keen interest in our trade diplomacy and have made intense efforts in support of our national objectives in this area.

20. Since the second pillar of the REG Strategy requires a focus on previously neglected regions and markets, we have so far organized conferences of our envoys and trade officials in Central Asia, Latin America, Africa and China. As a result of these conferences, with the input of our Ambassadors and Trade Officers, a well focused strategy based on the requirements of each region has been developed.

21. For the Rapid Export Growth Strategy to succeed, the existence of an effective and well tuned trade promotion set up is required. An important step taken in this regard has been to overhaul our trade offices abroad. Various well considered measures have also been initiated to ensure the availability of a higher quality of human resource and physical resources for this purpose.

22. As I had just said, the last two pillars of our strategy require action by a number of government entities besides the Ministry of Commerce and are intended to address the supply side constraints that limit the rate of growth of our exports. I would like to emphasize that unless these supply side issues are addressed speedily and effectively, we will be unable to achieve rapid growth in our exports due to lack of significant growth in our exportable surplus. One important limiting factor for our export oriented businesses is the lack of adequately trained manpower. There is

therefore a need for all relevant government agencies, to launch large scale and good quality technical training. However, since the shortcomings on the supply side impede exports, MOC can not absolve itself of its responsibility.

23. With respect to the three pillars relating primarily to the Ministry of Commerce, a detailed tactical plan has been prepared which will be implemented during the current year. This plan has the following eight areas of tactical focus under which specific proposals have been formulated:

- I. Diversification of Exports
- II. Trade Facilitation
- III. Increased Market Access
- IV. Enhancing export competitiveness by reducing cost of doing business.
- V. Capacity Building on WTO and Trade Negotiations.
- VI. Developing Export of Services
- VII. Improving compliance and quality infrastructure and
- VIII. Technico-legal proposals.

All the initiatives being announced later in the speech are in the context of the above tactical focus areas.

24. Since our future export strategy would need to be based on what has been done in the past, I now wish to talk about some of the trade policy measures initiated over the last few years.

Implementation of Trade Policy 2003-04 and 2004-05

25. It has been the policy of the Ministry of Commerce to involve all stakeholders, both in the formulation of policy as well as in the implementation process. In our previous Trade Policies we proposed some necessary activities, the implementation of which was then taken over by other stakeholders. For example, we proposed the setting up of special Textile Cities and Garment Cities. I am very happy to note that these proposals were readily embraced by the Federal as well as the provincial governments. Resultantly the Ministry of Textile Industry is implementing the textile city project in Karachi and setting up garment cities in Lahore, Faisalabad and Karachi. Similarly the Punjab Government has set up a new industrial estate at Sundar. The Rehabilitation of Industrial Infrastructure and Setting up of Combined Effluent Treatment Plants were also an initiative introduced in our last Trade Policy. These activities, with long term beneficial impact, are now being taken up with the active partnership of the Federal, Provincial and Local governments as well as private sector industrialists. These were new initiatives that were introduced in the previous Trade Policy and we hope to carry forward this spirit of mutual confidence and cooperation between the public, the private sector and the Federal and Provincial Governments.

26. I would now like to mention some of the initiatives, which we have implemented. In the last Trade Policy I had announced that the Government would rationalize the Sales Tax Regime for the textile sector. As you would be aware, the government on the recommendations of the Ministry of Commerce, exempted not only the textile sector but also four other key export sectors i.e. leather, sports goods, surgical instruments and carpets from sales tax in the recently announced Federal Budget for 2005-06. Imports of raw material for these sectors have also been exempted from customs duty and sales tax.

27. In the same endeavor, the Government has already announced extension of duty free temporary import under SRO 410 upto 30-6-2006 With regards to the Textile sector; I had also mentioned that the duty draw back rates on synthetic textile would be rationalized. The government has now solved this long-standing problem and rationalized the tariff structure for man made fibre and synthetic textile chain. This would lead the major growth in this sector.

28. In last year's Trade Policy, I had announced that support would be provided to meet the mark up expenses involved in financing Effluent Treatment Plants and Cool Chains for Horticulture. I also announced that support would be provided for obtaining Certification regarding Compliance with Standards as well as for Consultancy relating to export marketing activities. All of these measures have been operationalised for use by interested parties. To reduce cost of the exporters, I had announced provision of Freight Subsidy on export of non-traditional items and

export to non-traditional markets, In-land Freight Subsidy and Freight Subsidy on Relocation of Industrial Plants. I am happy to inform that not only have we implemented these measures, but in some cases have even enhanced their scope. I am referring to extending Freight Subsidy for relocation of Industrial Plants by Pakistani nationals and eligibility of the Leather garment sector for freight subsidy.

29. One of the main challenges of the last Trade Policy was to provide new opportunities to our exporters. One way to do this is to facilitate potential foreign buyers of Pakistani products. This matter has assumed crucial importance due to the fact that there are misconceptions and exaggerated fears in the mind of foreign importers concerning the security environment in Pakistan. The EXPO 2005 held in February this year was a major initiative to overcome this difficulty. I am happy to say that Expo Pakistan 2005 in February 2005 achieved its objectives to a considerable extent by convincing foreign buyers that Pakistan is a safe place to do business. Encouraged by the success of Expo 2005, we intend to organize a similar event every year.

Development of Infrastructure for Exports

30. For a quantum leap in exports, setting up of physical infrastructure and industrial estates is a pre-requisite. Hence, this is one of the five pillars of the Rapid Export Growth Strategy. The Trade Policy 2004-05 initiatives had earlier announced the setting

up of Textile Cities & Garment Cities, rehabilitation of Industrial Estates and establishment of Combined Effluent Treatment Plants to achieve this objective. The implementation of these projects has been transferred to Ministry of Textile Industry and Ministry of Industries. These projects are to be undertaken by companies set up with public – private partnership, and will be managed professionally on modern corporate principles.

Long Term Financing

31. With the cooperation of the State Bank of Pakistan, a Long Term Fixed rate Financing Scheme was introduced in May 2004, to support Project Financing requirements of export oriented Industries and various initiatives of the Trade Policy. By June 30th 2005, an amount of Rs. 3.70 billion had been utilized. Under this scheme the banks have allocated a limit of Rs. 8.60 billion for this scheme and it is likely that the whole amount would be utilized by December.

Pakistan School of Fashion Design

32. In order to provide high quality human resource for our textile and apparel sector, the Pakistan School of Fashion Design was set up in 1995 by the Ministry of Commerce. Recognizing the vital role it is playing in value addition in the textile sector, my Ministry has been engaged in constantly upgrading this Institution. In this regard, affiliations have been arranged with top French institution. The scope of this School has been enlarged to cover other areas of design such as jewellery, leather accessories

and carpets. The school is poised to be awarded a charter by the Federal Government, as a result of which it will become a degree awarding institution. So far this school had been lacking a custom built campus. I am happy to be able to report that this inadequacy has now been overcome. The building of a new state of the art school campus will begin soon in Johar Town Lahore. For this purpose, funds amounting to Rs.404.708 million have already been arranged from the P.S.D.P.

Strengthening of Border Infrastructure

33. The unprecedented increase in trade between Pakistan and Afghanistan has shown that there are a number of bottlenecks in the handling and clearing of cargo at border terminals at Chaman and Torkham. It is expected that in the near future trade with Iran through land route would also increase. In view of these recent developments, it has become imperative that the facilities at our border terminals be upgraded to facilitate international trade. The Prime Minister has accordingly tasked the National Logistics Cell to build modern border terminals at Taftan, Torkham, Chaman and Wagah. Since a number of Government agencies like the CBR, Ministry of Communications, Ministry of Interior and Provincial Governments of NWFP, Baluchistan and Punjab were involved in this initiative, the Ministry of Commerce has been given the responsibility by the Prime Minister to coordinate these efforts. This assignment is being given the highest priority by the Ministry of Commerce.

STRENGTHENING OF FOREIGN TRADE INSTITUTE OF PAKISTAN (FTIP)

34. The Foreign Trade Institute of Pakistan is responsible for:-

- A. Specialized training every year to Commerce & Trade Group Officers.
- B. In service mandatory training to C & T Officers for promotion.
- C. Training of Foreign Service Officers prior to departure on foreign postings, to familiarize them about the WTO, current global trade patterns, and issues related to commerce.

35. The Ministry of Commerce has therefore;

- i. Reconstituted the Board of Governors, with adequate representation of the private sector.
- ii. A foreign Consultant firm has been tasked to revamp the Institute, so that it can be a seat of learning as well as a Think Tank where qualified people teach and carry out research in commerce related fields.

Capacity Building of Trade Officers

36. In order to improve the quality of Pakistan's Trade Officers in 37 missions abroad, the Ministry of Commerce this year

reached out to a large number of potential candidates who participated in a selection process conducted by LUMS. Private Sector, as well as Banks and multinationals, were invited to nominate candidates for the above selection process. Hopefully, this large reservoir which has been tapped and from which a final selection will be made, will enable well trained men and women to represent Pakistan as Trade Officers. Further, a long standing demand of the trade officers for upgrading their electronic office equipment, for hiring qualified local marketing officers and for enhanced travel and entertainment expenses, has been met by providing additional funding. Ministry has also conveyed stringent targets, and put in place a rigorous monthly monitoring system to judge the performance of these officers. Those whose results are good would be rewarded and those with poor results will face recall..

Ministry of Commerce's Web-based Portal

37. In the world of commerce particularly, it is necessary to have an efficient and speedy communication system. Accordingly, the Ministry of Commerce has established a web-based portal that not only integrates the Ministry with its allied organizations in Pakistan, but also with the 37 trade offices abroad. This electronic facility allows officers to communicate instantly with their colleagues. It also facilitates better information management and quick access to it when required. This capability has already improved the speed of response by the Ministry of Commerce

within the Government as well as with the stakeholders in Pakistan and abroad.

Export Projection for 2005-06

38. Export target of US\$ 17.0 billion is proposed to be fixed for 2005-06. This target shows an increase of **about 18%** over the export of US\$ 14.4 billion achieved during 2004-05.

EXPORT PROPOSALS FOR THE TRADE POLICY 2005-06.

39. I would now outline the specific export facilitation measures that we have decided to implement during 2005-2006.

Garment Skill Development Board

40. To provide support to the Textile Garments Sector, and to implement the initiative of skill development and training of workers, it has been decided to create a "Textile Garments Skill Development Board". The aim of the Board would be to accelerate the implementation and harmonise the certification system pertaining to Skill Development under one Umbrella Organisation.

41. Among other tasks, the Board will endeavor to carry out the following tasks:

- Selected state of the art garment manufacturing units would be declared as training institutes.
- Affiliation with the Board would be sought from international organizations specializing in this field such as the Bolton Institute in the U.K. and the Institute of Textile and Clothing in Hong Kong.

- The curriculum would be provided by these foreign institutions and they will prescribe the syllabus for various courses in consultation with the Board and undertake the exam and issue their certification.
- The selected garment units will meet certain minimum requirements laid down by the Board including provision of adequate academic infrastructure to meet the requirement of the academic content of the course.
- Fees and cost of training will be borne by the factory owner and the students. The Ministry of Commerce will provide funds required for affiliation with the Foreign Institutes.

Envoys' Conferences' Recommendations:

42. In order to achieve effective utilization of marketing resources, the Ministry of Commerce, in consultation with all stakeholders including Pakistan's Ambassadors, Trade Officers and the exporters, devised the strategy to prioritize in these regions the markets and the products for focused and concerted efforts to promote the country's exports. Envoy Conferences were organized in Latin America, Africa, and Central Asian Republics, and China for this purpose.

43. The priority countries identified are:

- CARs (Uzbekistan, Kazakhstan, Kyrgyzstan and Afghanistan).
- Latin America (Brazil, Chile, Argentina and Mexico)

- Africa (South Africa, Nigeria, Morocco, Kenya and West Africa with Senegal as base)

44. To boost Pakistan's exports in the priority countries, the following measures are being adopted:

- a) Wherever considered necessary Pakistan's Embassies will have a local Marketing Executive who will be funded from the Export Market Development Fund (EMDF).
- b) The Ministry of Foreign Affairs, in consultation with the Ministry of Commerce, will appoint Honorary Consuls General in important cities in the priority countries where there is no representation of Pakistan, to focus on Trade Promotion.

The existing Honorary Consuls General are also being asked to focus on trade promotion.

- c) EPB will factor in these priority countries and the priority products identified in the Envoys' Conferences in its annual exhibitions and delegations plan.
- d) A detailed scheme will be prepared to setup warehouses in priority countries..
- e) Envoys' Conferences will be held this fiscal year in the Far East, GCC countries, Eastern Europe, and Moscow.

PAKISTAN/ USA TRADE

45. USA is the largest and most important export destination for Pakistan after the EU, with textiles as the main export. Pakistan's exports to USA increased from US\$ 2.313 billion

in 2002 to US\$ 2.874 billion in 2004 with the share of textiles at 88% of total exports to that country. However, imports from Pakistan constitute only 0.2% of USA's global exports.

46. Given the potential of USA's market for Pakistan, there is a need to have a more focused approach to identify the problem areas which hamper the full exploitation of this market's potential. Presently, Pakistan along with South Asia, is positioned as a low speed suppliers to USA as compared to East Asian countries. Our export strategy for USA would, therefore consist of a programme to overcome the supply side constraints and to improve Pakistan's image as a reliable and efficient supplier. To overcoming supply chain management problems, a special programme focusing on trade facilitation in the context of USA will be chalked out. At the same time, a trade lobbying firm will be hired in the USA to enhance Pakistan's exports and market access.

PAKISTAN-EU TRADE

47. The EU is our largest and most important export market. It has assumed even greater significance after its recent enlargement from 15 to 25 countries. In view of the unique nature of the EU, a special focus is required for enhancing exports to this region. Accordingly it has been decided to:

- I. Arrange EU-specific detailed market research studies for our exportable products.
- II. Arrange access for our exporters to an interactive EU trade information portal so that they are able to get latest supply and demand information regarding our

exportable products in EU markets. This facility will help our exporters to better focus their marketing efforts.

- III. Engage a specialized firm, which has particular expertise in marketing. Such a firm will be able to procure more export orders for our textiles, as well as get better prices for our products, given the fierce competition in the textile sector in the post quota era.

Trade Competitiveness Indicators

48. The Ministry of Commerce during this year will work on developing trade competitiveness indicators. This I feel is a necessary prerequisite for design of appropriate and well focused export facilitation policies. Once developed, these indicators will be kept under constant review by the Ministry of Commerce.. Broadly speaking these indicators will quantify and internationally benchmark the cost of doing business in Pakistan. In the design of these indicators the following factors, impacting upon competitiveness will be considered.

- Financial (interest/exchange rate)
- Regulatory (burden imposed by regulation)
- Public service provision (infrastructure, legal framework, set up costs etc)
- Business environment (law and order and social and economic amenities).

Internal Commerce

49. Traditionally, our main focus has been on the export sector, and not enough attention has been paid to internal

commerce. We feel however that unless this sector functions efficiently, we cannot realistically hope for rapid export growth, since internal commerce is the key to economic growth and development of value added products. Therefore, as part of the special emphasis on internal commerce, we intend to initiate studies to determine the state of internal commerce. As a result we will have better data and information of markets such as retail, wholesale, construction, storage, transport and agricultural. In the process, impediments to market growth will be identified. Thereafter appropriate policy recommendations will be possible which will be designed to energize this sector so that it can play its due role in enhancing exports.

Incentive for Pharmaceutical Exports

50. In addition to existing incentives announced in Trade Policy 2004-05 in the shape of cost sharing for registration of pharmaceutical products in foreign markets, it has been decided that pharmaceutical exporters to a country with duly registered products, will be provided funds for the salary of 3 medical representative for a period of 2 years @ US\$ 500 per medical representative per month. For designated high cost countries this support will be 30% higher.

Establishment of new Customs Station on Afghan Border

51. To facilitate exports to Afghanistan from Balochistan, it has been decided to open a new land custom station at Qamar-ud-Din Karez.

Simplification of Verification Procedure for Exports Consignments to Afghanistan

52. The prevalent system of verification of exports to Afghanistan in which the exporter had to bring a certificate from the Embassy of Pakistan to claim duty refund is being replaced with the verification of Pakistani exported goods to Afghanistan on the basis of copy of import clearance documents issued by Afghan Customs authorities across the border.

Removal of Anomaly in trade with Afghanistan:

53. To remove an existing anomaly in the Pakistan Afghanistan trade regime, it has been decided that items in the Negative List of Afghan Transit Trade will not be allowed for re-export from Pakistan.

.Promotion of Organic Cotton

54. Government will hire services of a consultant of international repute for developing best practices for production of organic cotton in Pakistan. Government will arrange training of interested farmers. Farmers producing organic cotton will be ensured a guaranteed procurement price through TCP.

Promotion of Exports of Minerals / Marble and Precious Stones

55. Mines in FATA and Balochistan have tremendous potential. Therefore to assist the local industry in these areas, it has been decided to arrange a consultant of international repute through EPB for modernizing practices in mining / quarrying.

Facilitation of Leather Garment Exports

56. To encourage export of leather garments it has been decided that exporters may send 100 samples in a year as against 50 samples allowed earlier.

Package for Gems and Jewellery Sector.

57. We consider the gems and jewellery sector to have considerable export potential. Therefore we have decided to announce the following package to facilitate this sector.

- i. Presently exporters are required to export jewellery made from imported gold within a period of 90 days. This time limit has now been extended to 180 days. Similarly, proceeds from export of jewellery were required to be remitted within 120 days. This time limit has now been enhanced to 240 days.
- ii. Presently a Valuation Committee is functioning for the clearance of gems and jewellery before export. The procedures involved were retarding the growth of exports of this sector. It has therefore been decided to abolish the Valuation Committee.

- iii. A scheme, in consultation with State bank, Pakistan Bankers Associations, commercial banks and jewellery exporters is being developed whereby exporters will import gold by utilizing financing from private banks under a collateral arrangement acceptable to commercial banks and jewellery exporters. Non availability of running finance has been a major problem in the growth of this industry.
- iv. It has been decided to declare this sector as an industry so that they have easy access to credit and have advantage in utility rates and taxes.

Awareness Campaign on Trade Agreements

58. The government is pursuing the objective of increased market access through multilateral & bilateral trade agreements. In order to create greater awareness among general public and stakeholders, the Ministry of Commerce and EPB will launch a campaign to publicise detailed information about FTAs and PTAs via the official websites of the Ministry of Commerce and EPB. In addition seminars; workshops and panel discussions on T.V channels will be held in coordination with concerned Trade & industry Associations and Chambers.

Promotion of Pakistani Trade Marks

59. To encourage promotion of Pakistani quality products in foreign markets, it has been decided that Pakistani exporters who register their products with Pakistani Trade marks in foreign countries for export purposes will be provided subsidy equal to 50% of official fees of such registrations.

Development of Footwear Sector

60. Footwear sector, being labour intensive, has good potential in Pakistan. It has therefore been decided to hire a consultant of international repute to advise measures which can help in attracting FDI to Pakistan and transform the local industry to become a major player in the world market. It is further decided that Footwear Development Centers will be setup by the Footwear Association, at Lahore and Karachi with financial assistance from EDF.

Strategy for Export of Services

61. The services sector is the fastest growing component of international trade. We feel that this sector, given the richness of our human capital can make a major contribution to export growth. It has therefore been decided to :

- I. Conduct studies to develop an overall services export strategy with special focus on legal, accountancy, medical, architectural, construction and engineering services.
- II. Initiate measures, in coordination with the State Bank, Statistics Division and other agencies, to better organize data collection on services trade. This is necessary to enable better planning for this sector.
- III. Give a special focus to services exports in all trade promotion efforts. In this context the expertise acquired by NADRA for preparation of identity cards and machine readable passports will be actively marketed.

Assistance for Quality Standards Certification

62. Since export of agriculture products to EU will be facilitated by certification of EUREPGAP; It has been decided that 50% subsidy on cost of certification of EUREPGAP may also be allowed in addition to the various other certifications like ISO – 14000, ISO – 17025, HACCP Certification, WRAP Certification and ECO Labeling.

Reducing cost of Freight Forwarding.

63. For the growth of Pakistan's trade it is desirable that freight costs be reduced as much as possible. Accordingly it has been decided to :

- i. Declare the freight forwarding and logistics sector as an industry. This will entitle this sector to concessional duty and taxes on the import of equipment, reduced rates for utility charges and easier access to finance.
- ii. Allow freight forwarders to collect freight charges locally, and remit them in Foreign Exchange through the State Bank. This will allow our traders to negotiate and pay lower shipping and handling charges.

CAPACITY BUILDING ON WTO AND FTAs

64. At the present time when international trade is governed by WTO agreements, it is important that a significant reservoir of knowledge and expertise on WTO issues be developed and maintained within the country. Besides the government, such capacity also needs to be created in the private sector particularly in academia. Apart from the WTO, various

countries including Pakistan are also trying to become part of Regional Trading Arrangements or Free Trade Agreements in order to increase market access for their exports. However, in order to derive maximum benefit from these recent phenomena in the world trade order, it is desirable to have access to relevant expertise in the country.

65. It has therefore been decided that the Ministry of Commerce will enter into partnership arrangements with reputed Universities and think tanks in the country so as to encourage the creation of such expertise on a sustainable basis. In the process, the Ministry, from time to time, will award research studies on WTO and FTA related issues to partner institutions such as Universities, think tanks, and individual experts. The Ministry will also support these institutions in organizing research seminars in collaboration with private sector stakeholders. Pakistani scholars who opt to study abroad for PhDs in these subjects are already eligible for financing under a scheme of the Higher Education Commission..

National Tariff Commission (NTC)

66. In view of the emerging global scenario, the structure and functioning of the National Tariff Commission will be reviewed. Thereafter it will be revamped appropriately so as to enable it to function as an effective trade defence organization of Pakistan.

Assistance for Mandatory Certifications:

67. In last year's Trade Policy, the government encouraged setting up of certification laboratories in Pakistan by subsidizing the cost of their accreditation from EDF. However, there are still many export products, for which importers require certification from laboratories, the facilities for which are not yet available in Pakistan.

68. In order to facilitate the exporters, it has been decided that 75% of the certification cost of the internationally accepted laboratories, verified by the concerned Pakistan Embassies, will be borne from the EDF, subject to a maximum of US \$ 2000 per certification.

Commercial Courts

69. At present two Commercial Courts are functioning in Lahore and Karachi. Under the Import and Export (Control) Act 1950 a Commercial Court shall consist of either a session Judge or a High Court Judge as the chairman, and two members to be appointed by the Federal Government from amongst (a) officers of the Federal Government nominated by the Ministry of Commerce and (b) businessmen in consultation with the FPCCI.

70. EPB now feels the need for a full time presiding officer and prosecutor to handle its cases in these courts. Its request is being processed at the Ministry of Law.

Support to Textile Garments Exports

71. Anticipating the challenges posed to the Textile garment sector in the post quota regime, the Government of Pakistan has launched a special textile garments package in the form of Research and Development (R&D) support @ 6%. It is hoped that this measure will protect Pakistan's garments industry from a loss of US \$ 400 million of potential exports and 500,000 jobs in the SME sector. This support will not only help the textile garments industry to survive and sustain itself in the face of competition from other exporting countries, but would also encourage the garments industry to invest more in research and development and thereby improve quality. This in the longer term will result in increasing our market share. It has therefore been decided to extend this support till 30th June 2006.

72. Another difficulty being faced by our garment industry was on account of certain provisions in our labour legislation, which needed amendment. Responding to the need of this vital sector, the Ministry of Commerce pursued the issue vigorously with the Ministry of Labour. I am now pleased to report that the Federal Cabinet has today approved the required amendments and they will soon be sent to Parliament for legislation. As per the amendments, the garment factories will be able to operate for seven days a week and also increase the daily working hours. Women workers working long hours will have to be provided transport.

Concessional Rate of Withholding Tax for Export Services

73. Services of Stitching, Dying, Printing , Embroidery and washing, provided to exporters and export houses by various enterprises are presently not treated as deemed exports. On the recommendation of Ministry of Commerce, CBR has agreed to treat the above services as deemed exports for concessional rates of withholding tax under section 153(3B) of Income Tax Ordinance, 2001.

Expo - Pakistan

74. **Exhibition Centres play** a critical role in promoting trade and commerce in the country, and in show casing our products to foreign buyers. In February 2005, we organized the Expo Pakistan in the Karachi Expo Centre. It was a mega event and hundreds of foreign importers and investors visited Pakistan. We plan to enhance the capacity of Karachi Expo Centre by constructing two additional exhibition halls. These halls would be ready by December 2005 and would provide additional space to our exporters to exhibit their products in Expo 2006, which would be held in March 2006. Further and in partnership with the Government of Punjab, an Expo Centre would be built in Lahore. Arrangements to start construction have been finalized, and actual work is likely to start shortly. This Expo Centre would be ready by December 2006.

IMPORT STRATEGY

75. Pakistan's Import regime has been reformed, restructured and liberalized over the years to meet the economy's ongoing structural shifts. Import related irritants impacting investment have been removed, to facilitate the import of capital goods and raw material. It must be realized that no country has been able to enhance its exports significantly without liberalizing its import regime.

76. While our exports grew to unprecedented levels, it is equally true that our imports also increased considerably beyond our estimated level and at the end of the financial year, stood at \$ 20.623 billion. The increase in overall imports and trade deficit should not be a cause for alarm. This is because it is generally the experience of developing countries that GDP growth and import growth are highly correlated. Secondly, the trade deficit has originated due to higher import of investment goods rather than consumer goods. The major factors in this regard are the increase in oil import bill from \$ 3.2 billion to around \$ 3.8 billion and increase in machinery imports and industrial raw materials by 38% and 32% respectively.

77. However, increase in trade gap has not adversely affected the balance of payments. For the last four years, Pakistan has recorded an overall balance of payments surplus arising mainly due to the surplus in our current account. The current account consists of four main components i.e., (i) trade balance; (ii) net services balance i.e. payments for services such as travel, freight, insurance and transportation (iii) net income balance i.e. payments for interest, profits, dividend and royalties and (iv)

current transfers i.e. worker remittances, residents' foreign currency deposits, receipts of exchange companies and grants. The analysis of the ten months (July – April 2004-05) data reveals that the current account deficit has almost completely been offset by the surplus in the Capital Account, which includes FDI, portfolio investment, foreign loan payments, and foreign currency accounts of non-residents.

78. For a number of years now the government has constantly been following a policy of trade facilitation, deregulation and tariff rationalization. Therefore every year the Ministry of Commerce works with the Ministry of Industries and CBR in order to rationalize tariffs, especially keeping in mind the difficulties being faced by export-oriented industries. This year also, on the recommendation of the Ministry of Commerce, the Government has in national budget for 2005-06 allowed the import of machinery in some sectors with customs duty and sales tax being zero-rated. These sectors are:

- (i) Marble & Granite
- (ii) Poultry & Meat
- (iii) Gems & Jewellery
- (iv) Horticulture
- (v) Pharmaceutical

79. These sectors have significant export potential, and to exploit it fully it was necessary to incentivize investment.

IMPORT PROPOSALS 2005-06

FACILITATION

Dispensing with the condition of obtaining prior recommendation from the Regulatory Authority.

80. In line with government policy of liberalization, it is proposed to dispense with the requirement of prior recommendation from the Regulatory Authority for import of machinery, equipment, specialized vehicles etc on import cum export basis. Certification of the Chief Executive of a company of the respective sector endorsing requirement of the contractor, sub-contractor will however, be essential. Custom authorities may adopt necessary safeguard measures to ensure re-export.

Widening the scope of temporary import facility

81. The present Import Policy does not allow Pakistani nationals working in international media to import temporarily equipment and materials for their professional requirement. However, the Ministry of Commerce allows them to import their equipment temporarily on case to case basis. Members of theatre and circus companies are also dealt with similarly.

82. To facilitate professional and cultural activities in the fields of media, theatre and circus, it is proposed to allow temporary import facility in favour of Pakistani nationals, theatre

and circus companies to meet their requirements of temporary import without recourse to Ministry of Commerce.

REGULATION

Import of Pressure Horns Parts.

83. Currently, pressure horns are banned for import due to environmental concerns. However, their parts are importable.

84. In order to remove this anomaly and discourage local manufacturing and assembling, it is proposed that parts of pressure horns may also be banned for import.

Import of Precursors (Chemicals):

85. The existing policy allows import of chemicals precursors such as acetone, acetic anhydride, anthranilic acid etc, only by those industrial consumers who have been cleared by the Narcotics Control Division. Such imports by pharmaceutical units with valid drugs manufacturing licence also require a recommendation from the Ministry of Health.

86. The Import Policy will be amended to comply with the UN Convention against illicit traffic in Narcotic Drugs and Psychotropic substances 1998, so that all controlled substances will be importable by concerned industrial consumers after an NOC from the Ministry of Narcotics Control.

87. The quantity imported by the industrial consumers will be determined by the CBR and of the pharmaceutical units by the Ministry of Health..

Import of 2/3 wheeler

88. As per existing policy, 2/3 wheeler auto vehicles are allowed without any condition of standardization. Ministry of Science and Technology has proposed that the import of said vehicles may be allowed which conform to the specifications laid down in the Pakistan Standards 4707 and 4708.

89. To comply with the afore-mentioned Pakistan Standards, it has been decided that import of 2/3 wheeler auto vehicles may be allowed subject to one-time certification of each model by Pakistan Standards and Quality Control Authority (PSQCA) that the vehicles conform to the prescribed Pakistani Standards.

Shelf life of food items

90. Presently, edible products specified in the Import Policy Order are importable subject to the condition that they have at least 9 months or 75% of the remaining shelf life, which ever is less. This percentage is too high as compared to prevalent international requirements. Consequently, importers of edible products, particularly food chains, are facing problems in meeting this requirement.

91. To harmonize conditionalities of import with the prevalent international practices, it is proposed that the remaining shelf life of edible products may be reduced to 50%.

Import of palm stearin with distinct colour

92. As per existing Import Policy, palm stearin is importable subject to the condition that it will have distinct coloration added to it. As there is no calibration of distinct coloration in respect of import of palm stearin, it gives rise to frequent disputes between the importers and the Customs Authorities.

93. The Import Policy Order will be amended so that fats soluble distinct blue colour will be added in palm stearin. This will ensure that it is not misused for manufacturing edible oils by the subsequent removal of colour.

Import of plastic waste:

94. As per existing import policy, waste, parings and scrap of styrene poly vinyl chloride and other plastics are importable subject to certification from exporting countries that the scrap being exported does not contain hazardous substances as defined under the Basel Convention. The provision, however does not specify the agency of the country whose certificate is accepted.

95. To clarify as to the certifying agency of the exporting country; the import of the above mentioned plastic scrap will be subject to certification of the relevant government agency of that country, or by an ISO-17025 accredited laboratory.

LIBERALIZATION

Import of Vehicles

96. To facilitate Pakistanis residing abroad the rules governing import of vehicles have been amended as follows:

- (i) Under the gift and personal baggage schemes, vehicles upto three years old will now be importable.
- (ii) Under the gift scheme, besides the parents, husband, wife and children, brothers and sisters will also be eligible.
- (iii) It will no longer be required that the vehicle be registered in the name of the Pakistani national prior to its import under the personal baggage or transfer of residence scheme.
- (iv) Overseas Pakistanis holding Pakistan origin card will also be eligible to import vehicles under the gift, personal baggage and transfer of residence scheme

Import of Used Fork-lifters

97. As per existing Import Policy, used fork-lifters of five tons capacity and above are permissible for import. In the wake of enhanced industrial activity in the country, the demand of fork-lifters of various capacities has increased.

98. It has therefore been decided that fork lifters of three tons capacity and above may also be allowed in used condition.

Import of Used Machinery

99. In consultation with the Engineering Development Board, it has been decided that the following list of used machinery will be allowed for import. This will help to reduce the cost of doing business:

S.No.	Description
1.	Weighing machines, weights , and parts of weighing machines.
2.	Fork-lift trucks powered by an electric motor.
3	Rolls for Rolling Mills
6.	Calculating machines, data recorders, postage machines, ticket-issuing machines, cash registers.
7.	Other office machines, automatic banknote dispensers, coin-sorting, counting or wrapping machines; pencil-sharpening machines, perforating or stapling machines.
8.	Drawing instruments.
9.	Mechano-therapy appliances.

Allow import of re-cycled plastics granules:

100. Plastic granules are importable provided they are made from basic raw material. Granules made by the recycling of plastic waste are not importable on account of being substandard.

101. In order to provide low-cost raw material to local producers, import of Granules made by recycled plastic waste will now be allowed. However, in order to ensure that they are free from hazardous material, the import will be subject to certification of the relevant government agency of the exporting country or from an ISO -17025 accredited laboratory that the exported plastic

Granules are free from any hazardous substance as defined under the Basel Convention.

Attestation of Form 7 (batch certificate) by the Health Authority

102. In consultation with Ministry of Health and CBR, it has been decided to do away with the condition of attestation of Form-7 (batch-certificate) by the Health Authority, required in connection with the import of pharmaceutical raw material for determining the shelf life.

CONCLUSION

103.. I would now like to conclude by saying that this year's trade policy is designed to provide the maximum possible export opportunities for our business community. Measures are also being put in place to further reduce the cost of doing business. This policy is the outcome of a continuing and constructive public – private partnership, which we consider necessary for the economic development of the country. We must not forget that the ultimate objective of our rapid export growth strategy is the alleviation of poverty and therefore broad based prosperity for the people of Pakistan.

104. Our exports over the last few years have shown very robust growth. This has been a result of our policy of deregulation, liberalization and privatization of the economy, and significant structural reforms in the last six years. We intend to continue with this policy.

105. It is very important that we send a clear message of consistency in our economic policies. The Pakistan of today is very different from the Pakistan of some years ago, and since the reforms process continues, the Pakistan of tomorrow would be very different from what it is today. For many years we strived to achieve the export target of US \$ 10 billion. That was achieved, and I can say today that the \$ 20 billion mark is now within sight. I expect it to be achieved in fiscal year 2006

106. The Government's role now is to be consistent; to move with international trends; to facilitate and to intensify trade diplomacy efforts for better market access, and to create a level playing field. The most crucial thing however is that the exporter, who is the most important part of this equation, has to reach out and seize the opportunities. It is also very clear that the past policies of import substitution have been replaced by import liberalization and an export led growth strategy. It is this very strategy which has ensured the rapid growth of the most dynamic emerging economies.

107. The Ministry of Commerce is fully cognizant of the role it needs to perform in order to achieve the targets that have been set. I am fully confident that, like in the past, we will be able to come up to the expectations of the nation.
