

Strategic Trade Policy Framework

2009-12





Strategic Trade Policy Framework 2009-12

**Ministry of Commerce
Government of Pakistan**



Makhdoom Muhammad Amin Fahim

Minister for Commerce

“ Despite all the challenges we face, as a nation, we should be willing and prepared, at all times, to transform challenges into opportunities. In line with our manifesto, the Strategic Trade Policy Framework will promote growth with equity, greater opportunities for employment, contribute to sound macroeconomic framework, poverty reduction, environmental protection, investing in human resources and promotion of private sector as an engine of growth with a focus on small sectors, particularly agriculture. I am confident that all the relevant ministries, sectoral bodies and stakeholders would join hands with the Ministry of Commerce to make exports as an engine of high, sustainable economic growth and prosperity in Pakistan. ”

(Trade Policy Speech, 27th July 2009)



Foreword

The Strategic Trade Policy Framework (2009-12) is being announced amid hopes that the world economy may be easing out of a severe recession that has left global trade volumes in a downward spiral. The global recession coupled with domestic problems such as energy crises, high cost of capital and the war on terror compounded Pakistan's difficulties on the economic front. Our exports for the year 2008-09 decreased to US\$17.8 billion, as compared to US\$19.1 billion during 2007-08, missing the target of US\$22 billion set in Trade Policy 2008-09. In a long time perspective, Pakistan's global share has fallen from 0.20 in 1999 to 0.13 in 2008.

Issues like falling export competitiveness, lack of sophistication and diversification of products and markets stem from structural weaknesses inherent in the economy and must be addressed forthwith. This requires holistic, integrated and consistent policies across the public and private sector. Responding to this need of having a coherent national export competitiveness development programme, we have developed the Strategic Trade Policy Framework (STPF) 2009-12 after extensive consultations and research work, to provide the direction for policy and support interventions by the government, industry, civil society and donors in a coordinated, efficient manner, to help Pakistan achieve sustainable high economic growth through exports. Set in a three year framework, STPF would also ensure continuity of policies.

The STPF comprises of six pillars:

- (i) Supportive macro policies and services
- (ii) Enhancing product sophistication level in Pakistan's exports
- (iii) Enhancing firm level competitiveness
- (iv) Domestic commerce reform and development
- (v) Product and market diversification
- (vi) Making trade work for sustainable development in Pakistan



In order to effectively implement different short term and long term trade policy measures, Strategic Trade Policy Framework envisions comprehensive and effective implementation, monitoring and evaluation mechanisms, with the Ministry of Commerce, assuming a lead role in coordinating activities across different stakeholders. I strongly hope that the STPF (2009-12) would go a long way in making exports the engine of sustained, equitable economic growth in Pakistan by successfully initiating the much needed structural transformation of Pakistan's exports.

A handwritten signature in blue ink, appearing to read 'S. Ghani', with a large, stylized flourish extending downwards.

Suleman Ghani
Secretary Commerce



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Acronyms

AFP	Agro Food Processing Facilities
ASEAN	Association of Southeast Asian Nations
BSIs	Business Support Institutions
DDA	Doha Development Agenda
DGTO	Directorate General of Trade Organisations
ECOTA	Economic Cooperation Organisation Trade Agreement
EEF	Enterprise and Entrepreneur Fund
EISF	Export Investment Support Fund
ENERCON	National Energy Conservation Centre
EPR	Effective Protection Rates
FBR	Federal Board of Revenue
FBS	Federal Bureau of Statistics
FTAs	Free Trade Agreements
GBC	Gujranwala Business Center
GCC	Gulf Cooperation Council
GI	Geographical Indication
GSP	Generalised System of Preferences
ICTs	Information and Communication Technologies
IMU	Implementation Management Unit
LDCs	Least Developed Countries
LDDB	Livestock and Dairy Development Board
MINFA	Ministry of Food and Agriculture
MTDF	Medium Term Development Framework
NAFTA	North American Free Trade Agreement
NAMA	Non-Agricultural Market Access
NPR	Nominal Protection Rates
NTBs	Non Tariff Barriers
PAKGAP	Pakistan Good Agricultural Practices
PITAD	Pakistan Institute of Trade and Development
PHDEP	Pakistan Horticulture Development and Export Board
PPMIU	Policy & Project Monitoring and Implementation Unit
R&D	Research and Development
ROW	Rest of the World
ROZs	Re-Construction Opportunity Zones
RTAs	Regional Trade Agreements
SAFTA	South Asian Free Trade Agreement
SBCC	Sialkot Business and Commerce Centre
SEDC	Services Export Development Cell
SMEs	Small and Medium Enterprises
SMEDA	Small and Medium Enterprise Development Authority
SPDC	Sports Industries Development Centre
STPF	Strategic Trade Policy Framework
TBT	Technical Barriers to Trade
TDAP	Trade Development Authority of Pakistan
UL	Underwriters Laboratories
WBIC	Women Business Incubation Center
WTO	World Trade Organisation



SECTION: 1

Overview of Pakistan's Trade And Case for Strategic Trade Policy Framework

1.1 Trade Review

Pakistan's exports during 2008-9 decreased to US\$17.8 billion as compared to US\$19.1 billion during 2007-08. A target of US\$22.2 billion was set in the Trade Policy 2008-09, keeping in view the growth in exports of 13% in the previous year. Export target could not be materialised on account of many internal as well as external factors. On the external account, economic downturn in our major markets, i.e. USA and EU, negative travel advisories and buyers' perception of Pakistan as a supplier of low quality products played a significant role. Whereas, on the domestic front, high cost of finance, power outages, worsening law and order situation, decline in foreign investment contributed to poor export performance.

A review of sectoral performance of Pakistan's export profile during 2008-09 reveals that the export of textiles, accounting for around 54% of Pakistan's total exports, dropped from US\$10.6 billion to US\$9.6 billion. The major losers in this sector were Readymade Garments, whose exports declined by 21.7%, Cotton Yarn by 15%, Bed linen by 10.2%, Art Silk & Synthetic Textiles by 22.1% and Cotton Fabrics by 4.0%. The poor performance of all major categories in this sector can be attributed to both price and quantity effects. Textile is a sector which has experienced little or no growth in terms of international trade value during the last few years. Secondly, buyers have become more

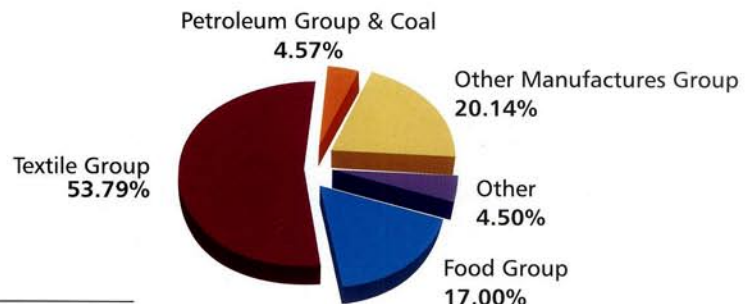
In textile sector, exports of Ready made Garments dropped by 21.7%, Cotton Yarn dropped by 15%, Bed linen dropped by 10.2%, Art Silk & Synthetic Textiles dropped by 22.1% and Cotton Fabrics dropped by 4.0%

demanding requiring more value for money, better quality, shorter delivery times, improved services, enticing designs, lower prices and credit sales among other things. These requirements have proved to be too demanding for a textile sector already encumbered with a multitude of productivity and supply side problems. The textile industry is also facing stiff competition from other regional competitors like India, China and Bangladesh. Bangladesh, which is not a cotton producing country, has been able to undercut Pakistan's share due to preferential market access granted by EU and USA on account of it being an LDC.

The exports of finished leather and leather manufacturers also registered a drop of 24.5 %, coming down from US\$1.1 billion to US\$0.84 billion. Export of leather declined due to many internal as well as external factors. On the demand side, this sector faced stiff competition from China, India and Bangladesh, grabbing around one-third of leather export share of Pakistan due to the relief packages announced by their respective governments to combat the global recession. On the domestic front, this sector was confronted with non-availability of quality leather, scarcity of specialised leather technicians, lack of R & D facilities and non- existence of effluent treatment plants.

The export of rice, however, registered an impressive growth from US\$1.84 billion to US\$1.99; an increase of 8.2%. This performance can be attributed to a number of factors which interalia include a large and expanding market, surge in the international price of rice, which increased on an average by 48.4% last year, business friendly policies of the Government and investment made on plant modernisation. Export of engineering goods also registered an increase of 26.1% from US\$211.3 to US\$266.4 million, the major contributors being the specialised machinery, transport equipment and electric fans. The export of jewellery also rose from US\$213.4 million to US\$288.4 million, registering an increase of 35%. Figure-1 below indicates shares of major sectors in the total exports of Pakistan.

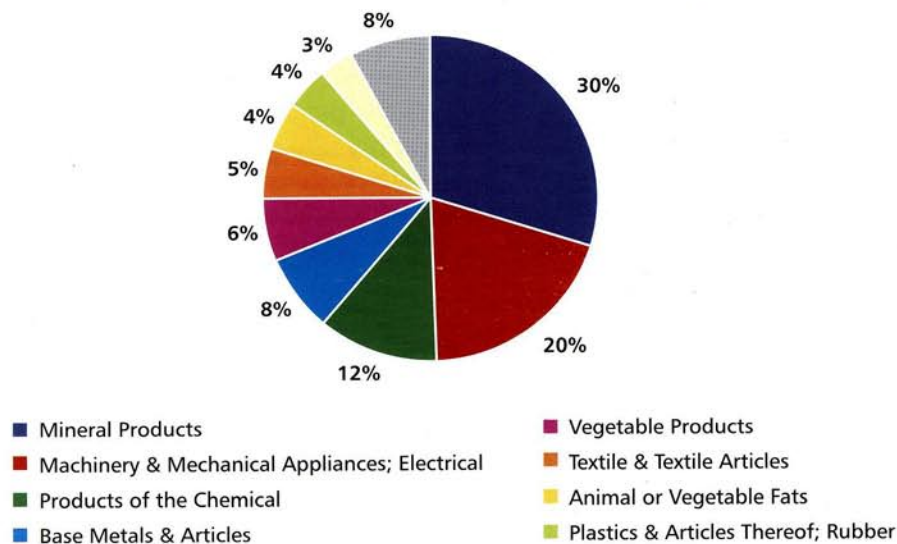
Figure 1: Export Shares of Major Sectors of Pakistan (2008-09)



Source: FBS/ MOC Calculations

In the year 2008-09, Pakistan's imports stood at US\$34.8 billion, as compared to US\$40 billion in FY 07-08, showing a decline of 13%. The fall in imports also led to fall in the trade deficit which fell to US \$17.04 billion in the current year from US\$20 billion in the previous year. The fall in imports can be attributed to lower international prices for our major import products, i.e. oil, food and fertilizers. Imports also declined due to a falling demand at home. Most of the major product categories comprising Pakistan's import basket witnessed a decline or a moderate increase. The food group witnessed a fall in import value by 3.1%, Machinery group saw a growth of only 0.5%. Petroleum imports fell by 7.6%, consumer durables imports fell by 16.4%, fertilizer by 40.4%, transport by 42% and telecom by 54.8%.

Figure 2: Composition of Imports of Pakistan in 2008-09



Source: FBS/ MOC Calculations

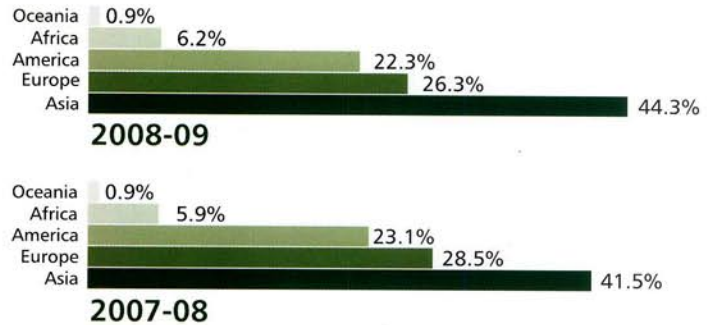
During the year 2008-09, trend of Pakistan's export of major commodities remained more or less the same, being concentrated in five categories namely, cotton manufacture, leather, rice, synthetic textiles, and sports goods. These five categories account for 73.5% of total exports of Pakistan. In addition to concentration of exports to a limited range of products, Pakistan's exports are destined primarily to EU and USA, which account for 23% and 18.78% of Pakistan's total exports respectively. Figure-3 below indicates the shares of different regions in Pakistan's export profile which suggests that it remained more or less the same, except in the Asian region, where exports share slightly increased from 41.5% to 44.3%.

The product groups that witnessed growth in imports;

Products	(%)
Machinery Group	0.5

The products groups that witnessed decline in imports;

Products	(%)
Food Group	3.1
Petroleum	7.6
Consumer Durables	16.4
Fertilizer	40.4
Transport	42.0
Telecom	54.8

Figure 3: Region Wise Exports of Pakistan

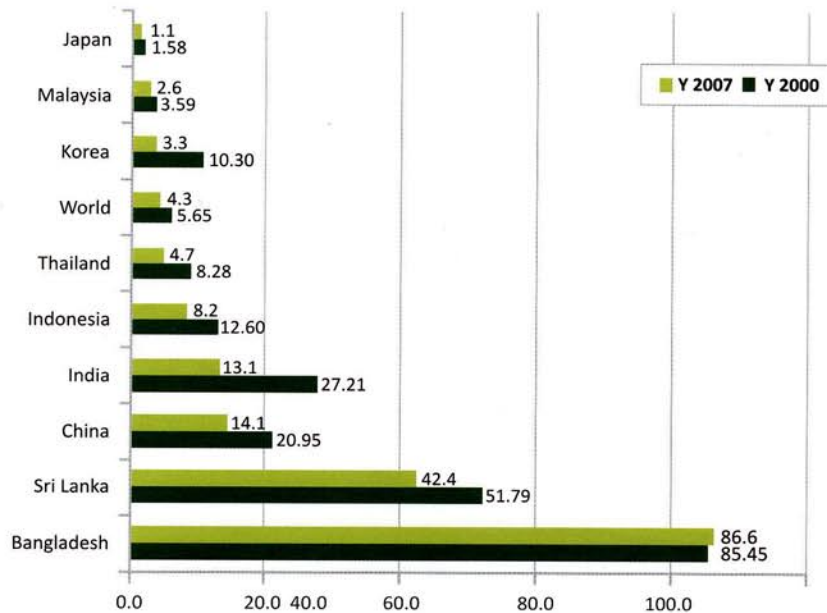
Source: FBS/ MOC Calculations

Ordinarily, the global market share is a good indicator of the export competitiveness of a country. Pakistan's share in the global market, according to WTO data, has declined by more than 1/3rd, i.e. from 0.2% in 1999 to 0.13% in 2008. During the period 2008-09, Pakistan's exports were beset by the traditional supply side problems such as low productivity, lack of scale and poor trade support services. However, this year was particularly challenging due to global down turn, oil and food price shocks, energy crisis, very high cost of capital and law and order problems.

During the last few decades, the global trade has undergone a major change in traded volumes, product composition and geography of trade. According to WTO, the world merchandise exports stood at US\$13,619 billion in 2007 whereas it was US\$7,375 billion in 2003 and US\$3,675 billion in 1993. A salient feature of this change has been a gradual increase in the share of non-textile manufactured exports at the global level. During 2007, world exports of textiles and clothing were recorded as US\$238 billion and US\$345 billion respectively. Despite an impressive growth in world exports of Textiles and Clothing since 2000, the share of Textiles and Clothing in world trade have gone down due to relatively higher growth in volumes of other merchandise exports. Currently, the share of Textiles stands at around 1.7% in world merchandise exports whereas the share of Clothing stands at around 2.5%. But in case of Pakistan, the share of non-textile manufactured exports has gone down from an already low figure of US\$5.83 billion (25.08%) in 2007-08 to US\$3.12 billion in 2008-09. At the same time, our competitor economies, particularly in Asia, have significantly enhanced their share in non-textile manufactured, as shown in Figure-4.

According to WTO, the world merchandise exports stood at US\$13,619 billion in 2007 whereas it was US\$7,375 billion in 2003 and US\$3,675 billion in 1993

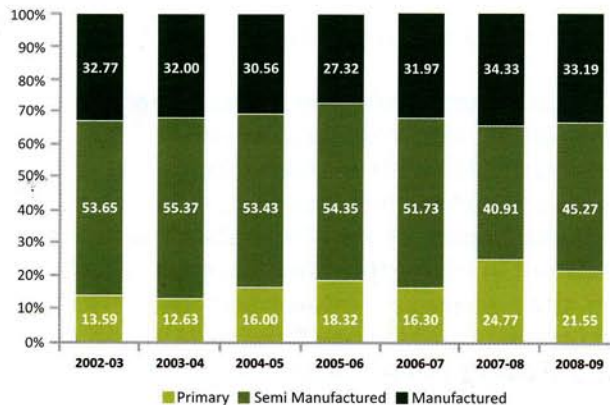
Figure 4: Textile Exports as a Percentage of Country's Total Exports



Source: WTO 2008

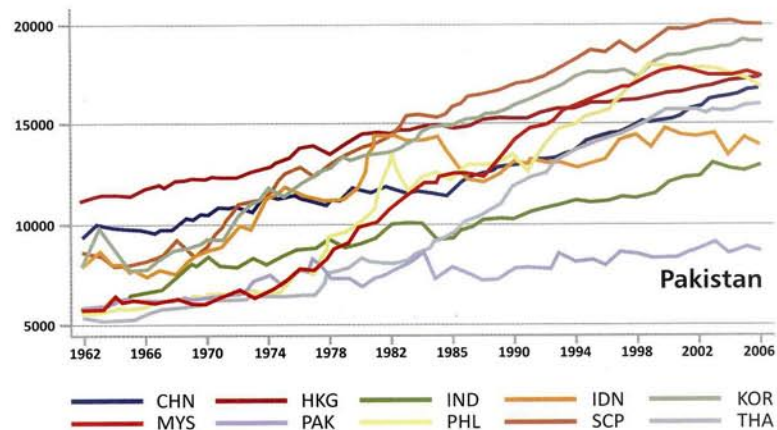
Within the textile sector, broadly divided into Textiles and Clothing, the rate of growth in clothing has been much higher than textiles in international market. Pakistan, though managing to maintain its global market share in textiles to an extent, has been slow in benefiting from expansion in the clothing sector. In case of Pakistan, the shares of primary, semi-manufactured and finished products' exports during the last seven years have been rather stagnant as indicated in Figure-5 below, signifying slow movements towards sophistication through technology and innovation.

Figure 5: Sophistication Share of Pakistani Exports (2002-03 to 2008-09)



The importance of sophisticated manufacturing exports for sustained economic growth has been stressed over time by cross-country experience. Relatively stable export composition of Pakistan indicates a slow structural transformation of our productive capabilities. On the contrary, many economies in the region have been successful in affecting a structural transformation as shown in Figure-6.

Figure 6: Pakistan's low degree of Structural Transformation and Diversification



Source: Asian Development Bank (2007)

Pakistan embraced the structural reforms of 80's and integration in the global trading system through WTO with the hope that its economy would be able to benefit from the expansion of international trade. The falling trade to GDP ratio and unsatisfactory standing in international trade ranking make it clear that we missed an important opportunity of rapid economic growth through exports, which has happened in case of many emerging economies. The principal reason for this growing disconnect between the evolving global market structure and Pakistan's export performance is the ineffectiveness of government's policies to stem the erosion of the competitiveness of Pakistan's exports and the country's weakness in diversifying its product and market mix.

The Ministry of Commerce feels that Pakistan benefited to an extent from expanding global opportunities, enhanced further through Free Trade Agreements (FTAs) with markets like China, Malaysia and Sri Lanka, but our falling productive capacities did not let us benefit from these hard earned opportunities. The nations which have achieved more sophistication in their export mix have managed to derive more benefits from their resource endowments by better usage of the efficiency enhancers such as science & technology and well functioning organisations providing public goods for enhancing the capabilities.

Transition of Pakistan's economy from a predominantly factor driven economy to an efficiency driven and knowledge-based economy would remain an unfulfilled dream, if the drivers of efficiency such as higher education, training and technological readiness remain below par as compared to those of our competitors. In fact, the efforts undertaken by the Ministry of Commerce to improve the quality of Pakistan's exports have been constrained due to a dissonance between export promotion efforts and efforts aimed at the development of science and technology in Pakistan.

Boosting export competitiveness, moving up the sophistication ladder and improving business processes is a national challenge and needs a national response, both by the State and the industry

Pakistan can no longer afford to ignore the issue of its export competitiveness, sophistication of products and diversification of products and markets as the unsustainable trade deficit can have serious economy wide repercussions. Boosting export competitiveness, moving up the sophistication ladder and improving business processes is a national challenge and needs a national response, both by the State and the industry. We need to revisit our traditional ways of producing and exporting and come up with suitable policies to fill the gaps between the opportunities in a globalised market place and our production capabilities.

The overall objective of the Strategic Trade Policy Framework is to achieve sustainable high economic growth through exports with the help of policy and support interventions by the government, industry, civil society and donors

1.2 Structural Trade Policy Framework

Realising the need for developing and effectively implementing a national export competitiveness programme, the Ministry of Commerce has developed a three year Strategic Trade Policy Framework (STPF) 2009-12. The overall objective of the STPF is to achieve sustainable high economic growth through exports with the help of policy and support interventions by the government, industry, civil society and donors. This will be a medium term plan acting as a catalyst in the revival of domestic commerce and international trade in Pakistan, with the precise objective of bringing about a structural transformation in Pakistan's exports.

Traditionally, competitiveness refers to the capacity of a firm to produce, distribute and sell products and services more effectively than is done by the relevant competitors. But the governments indirectly help firms in becoming more competitive by providing better trade facilitation, improving business processes and reducing anti-export biases in its policies. Recent international experience in export competitiveness suggests that the quality of national institutions and policies and practices in organising and developing domestic commerce are important pre-requisites for the success of competitiveness development strategies of firms. In other words, governments play a crucial role in enhancing the export competitiveness. The conventional Trade Policy would try to improve the competitiveness by addressing the external operating environment

beyond national borders. The dynamics of the present global competitive trading system has enlarged the scope of Trade Policy. Gone are the days of pursuing traditional comparative advantage based policies, when states did not do much to impact the content and direction of exports.

The contemporary Trade Policy needs to deploy resources to the drivers and enablers of competitiveness behind the borders too. A review of Pakistan's trade policies for the last few decades would reveal that our policies lacked the wherewithal and sense of direction required to meet the challenges of changing paradigm of international trade.

The Ministry of Commerce has conceived the Strategic Trade Policy Framework to respond to the emerging challenges to our export competitiveness. We hope that a successful implementation of STPF would enable Pakistani firms to produce and export more sophisticated and diversified range of products. This will also result in an increase in wages for the sectors ready to embrace the global competitive environment.

The Pillars of STPF are as follows:

1. Supportive Macro Policies and Services
2. Enhancing Product Sophistication level in Pakistan's Exports
3. Enhancing Firm level Competitiveness
4. Domestic Commerce Reform and Development
5. Product and Market Diversification
6. Making Trade Work for the Sustainable Development in Pakistan

The old constraints and emerging challenges need a combination of short term and medium term measures. Therefore, the STPF is projected in a three year time frame, which would give the flexibility to leverage short term with the medium term interventions. This would also give sufficient time to suitably plan activities, develop effective implementation mechanisms and develop and carry our evaluation of the programs contributing to the overall objective of increasing exports.

The Government of Pakistan has allocated sizeable funds to support Trade Policy measures by setting up the Export Investment Support Fund (EISF) in 2009-10 budget

The global experience has shown that the competitiveness development involves many policy sectors, particularly fiscal and monetary policies, the planning and development policies and process, investment policies, innovation policy and industrial policies of a country. These policies can impact upon different dimensions of export competitiveness. In order to purposefully build strong competitive advantage on top of our traditional comparative advantage, the functional linkages between the Ministry of Commerce and other

Ministries and Departments like Finance, Planning, Industries, Agriculture , Investment, Science and Technology and provincial governments concerned should be much more stronger and productive.

With the help of all the stakeholders, STPF aims at building a more efficient National Competitiveness Governance System with the vision to minimise the competitiveness gap between successful international firms and Pakistani firms under the guidance of Federal Export Promotion Board, headed by the Prime Minister of Pakistan.

By setting up the Export Investment Support Fund (EISF) in 2009-10 budget, the Government of Pakistan has allocated sizeable funds to support Trade Policy measures. In a country like Pakistan, the fiscal constraints necessitate a strategic prioritisation of sectors and markets in the allocation of funds to better manage the trade offs in effecting the structural transformation in the economy, facing the global downturn and addressing imperfections in the domestic market. As the Strategic Trade Policy Framework does not simply deal with the offshore market development and promotion, but encompasses longer-term onshore challenges of establishing a national competitiveness environment and developing more competitive firms, industries and markets at home, the STPF provides a long term strategic direction for financing competitiveness development in Pakistan with the objectives of:

1. Moving away from comparative advantage to competitive advantage based policies
2. Moving away from subsidies to the provision of 'public goods' for enhancing export competitiveness
3. Helping Pakistan go up the sophistication ladder

The Ministry of Commerce would work closely with the Ministries of Finance and Planning Commission of Pakistan to ensure that the export competitiveness related programs and initiatives get more investment in the coming years to realise these objectives. A new strategic framework of a national export competitiveness development would mean little if the institutions entrusted with its implementation perform below par. The Ministry is aware of the organisational challenge of the STPF and would accord high priority to institutional reform of the principal wings and affiliates of the Ministry of Commerce.



SECTION: 2

Pillars of Strategic Trade Policy Framework

2.1 Supportive Macro Policies and Services

2.1.1 Reducing Anti-Export Bias in Tariff Policy

Wide ranging structural reforms aimed at liberalisation, privatisation and de-regulation since late 80s' brought about a marked shift in dependence from trade to domestic taxes and removal of protective duties/taxes on industry to foster competition and increase exports. However, within the ambit of fiscal policy, the existing tariff structure and the concessionary tariff regime have anti-export biases, as it accords identical tariff treatment to:

- Import substitution industries vis-à-vis export oriented industries
- Low value-added industries vis-à-vis high value-added industries
- Low-tech industries vis-à-vis high-tech industries
- Labour intensive industries vis-à-vis capital intensive industries
- Small scale industries vis-à-vis large scale industries

In the given scenario, the need to formulate a long term tariff policy can hardly be over-emphasised. A rational tariff policy and structure with short and long term tariff measures aimed at making the industry

A rational tariff policy and structure with short and long term tariff measures aimed at making the industry competitive and moving up the sophistication ladder is the priority objective of STPF (2009-12)

competitive and moving up the sophistication ladder is the priority objective of STPF (2009-12). There is a need for devising such tariff policy which aims at removing anti-export biases. It should help Pakistan come up with a much more effective response, in the context of reduction of tariff and binding, due to the expected conclusion of Doha Development Agenda (DDA) and bilateral trade negotiations, enabling the country to benefit from the next round of trade liberalisation. The Ministry of Commerce, which deals with treaties, agreements, protocols and conventions with other countries and international agencies, having a bearing on trade and commerce under the Rules of Business, would re-design the National Tariff Policy to realise the following objectives:

- Withdrawal of protection from inefficient, internationally non-competitive and government dependent industry
- Minimisation of taxation at investment stage to reduce the cost of doing business
- Rationalisation of Effective Protection Rates (EPR) and Nominal Protection Rates (NPR) currently ranging between extreme negative protection to excessive positive protection levels
- Review and revise the tariff protection criterion for taking into account sophistication, value-addition and diversification of export items and announcement of special incentives for the industry in this regard

The scheme of export re-financing and sectoral credit allocation parameters need to be re-designed, finely tuned and re-set to focus on high value sectors, more sophisticated export products and non-traditional items

2.1.2 Monetary Policy

Another crucial component of macro policies is monetary policy. Interest costs specifically in times of tight monetary policy, as being pursued since last one year, can raise the cost of production and thereby affect the competitiveness of exports. Though interest policy at macro level is more closely aligned with the status of aggregate demand, inflation, budget deficit and exchange rate policy, yet at times, it remains an important tool for dampening the cost of production. In case of export industries, the scheme of export re-financing and sectoral credit allocation parameters need to be re-designed, finely tuned and re-set to focus on high value sectors, more sophisticated export products and non-traditional items.

2.1.3 Exchange Rate Policy

Stable exchange rate is the first best policy to promote exports and manage imports. For Pakistan, it is predicated on stable internal and external macro environment that includes medium-term stability in oil prices, food commodity prices, predictable flow of FDI and foreign

assistance, exportable surplus and steadily growing world demand. Positive or negative shocks in any of these elements of macro-environment can impact on the nominal and real effective exchange rate that in turn determines the profitability of exports versus imports. In a regime of managed float, it is essential for promoting exports and controlling speculative imports, that exchange rate trends although mostly governed by free market mechanism, are managed by the State Bank to avoid wide fluctuations and promote orderly and smooth adjustments to reflect and incorporate the changing macro environment.

2.1.4 Effective Trade Facilitation

The Ministry realises that the transaction costs at and behind the border in Pakistan impact negatively on the competitiveness of Pakistan's exports. The benefits of reduced costs could actually be far greater in comparison to what is envisaged from greater market access and removal of tariff and non-tariff barriers. The latest studies suggest that the goods shipped from developing countries have comparatively high transaction costs that can be as much as two to three times the transaction costs in developed countries and account for as much as three times the average tariff rate applied to industrial country imports since the Post-Uruguay Round. The Ministry feels that all the stakeholders in trade facilitation need to wake up to this reality and face this common challenge. In Pakistan, an added challenge is that the transaction costs to import are significantly lower than exportation. The Ministry would undertake and coordinate all the necessary measures to facilitate the provision of lower cost, more efficient and reliable trade support services in promoting our exports, without which Pakistan would not be able to reap the benefits of expanded exports base, foreign investment and overall economic growth. We need to urgently look at policies and processes that underpin the logistic and trade facilitation.

The transaction costs to import are significantly lower than exportation in Pakistan

The Ministry of Commerce approved the National Transport and Trade Facilitation Strategy in 2008. Trade Policy 2009-12 includes many measures aimed at procedural efficiencies and trade facilitation. The Ministry would ensure an effective implementation of National Transport & Trade Facilitation Strategy and other reform efforts aimed at trade facilitation to increase the ranking of Pakistan at the global competitiveness index.

Trade Development Authority of Pakistan (TDAP), as the national trade promotion organisation, undertakes a large number of activities to promote Pakistan's exports, in most of the cases with the help of Business Support Institutions (BSIs) in Pakistan and Commercial Sections of Pakistani Missions abroad. There is a need to enhance its

efficacy so that the Pakistani exporters are not at a disadvantage as compared to their competitors as far as governmental trade promotion efforts are concerned. TDAP is undergoing institutional reform at present and the Ministry would help TDAP and other BSIs become vibrant, dynamic and world class trade promotion organisations.

In order to facilitate local firms to have international presence and to penetrate in the international market which would thereby increase their profitability, the following initiatives were announced in last year's Trade Policy (2008-09):

- Support for opening exporters offices abroad
- Support for opening retail sales outlets abroad
- Warehousing scheme abroad
- 100% subsidy for compliance certification

In the current year's Trade Policy, it has been decided that the above given initiatives would be continued.

It has been decided that in order to help trade and industry to interface with the office of Directorate General of Trade Organizations (DGTO) at their doorstep, four regional offices at Karachi, Lahore, Quetta & Peshawar would be established.

2.1.5 Improving Business Processes

The ability to re-engineer the business processes, where business comes across the government agencies, has started playing an increasingly important role in growing global competition. For a country like Pakistan, which needs to quickly enhance its manufacturing and firm level efficiencies, it is necessary that we revamp, restructure and redefine these business processes in line with international best practices in order to enhance productivity and improve competitiveness. Within three months of the announcement of the STPF, the Ministry of Commerce would critically look at those business processes which are hampering Pakistan's export competitiveness and come up with plans to improve the efficiency of these processes with the help of the private sector.

2.2 Enhancing Product Sophistication Level in Pakistan's Exports

2.2.1 Integrating Local Capacity with Overall Supply Chain

Climbing the export sophistication ladder is, to a large extent, linked to upgrading local industry's capacity to integrate into the global supply chain. This depends on factors such as technology intensity, income index (per capita measure), capital intensity in the production process, value-addition, entrepreneurial abilities, returns to factors of production, etc. There can be many entry points to increase the sophistication level of export products such as research, design, assembly, production, distribution, and marketing. With a view to push Pakistan up the sophistication ladder, the Ministry would initiate different sets of measures, with the help of relevant partners, to help potential sectors jump to the higher value ladder, especially through the development of networked clusters.

Surgical instruments, sports goods and cutlery sector is being granted 25% subsidy on certification cost and brand promotional expenses

Many of the developmental sectors, e.g. sports and surgical goods, have failed to establish their brands in foreign markets due to lack of resources and entrepreneurship. Consequently, manufacturing in these sectors is largely done under the brands of foreign companies, and that results in lower prices for manufacturers in these sectors.

To address this gap, it has been decided that surgical instruments, sports goods & cutlery sector would be granted 25% subsidy on certification cost and brand promotional expenses like advertisement in recognised trade journals.

2.2.2 Innovation and Technology Up-gradation

Technological capability of firms is the most important pre-condition of pushing Pakistan up the sophistication ladder. One of the principal objectives therefore of STPF is to increase the capacity of Pakistani firms for technology absorption, technology development and innovation creation. The Ministry of Commerce in this regard would seek an active collaboration with the Ministry of Science and Technology & Information Technology, Ministry of Industries, Textiles, Intellectual Property Organisations of Pakistan and other establishments of technology and innovation promotion in Pakistan. In order to enhance competitiveness of our industry by technology up-gradation and improved management systems, STPF proposes to establish Technology, Skill and Management Up-gradation Fund.

STPF aims to increase the capacity of Pakistani firms for technology absorption, technology development and innovation

2.3 Enhancing Competitiveness of Firms

2.3.1 Skills Up-Gradation

Pakistan despite having a potential demographic dividend has not been able to enhance the labour productivity as compared to its competitors. There have been a number of initiatives taken by the

STPF leverages the skill up-gradation programs in the priority sectors and strengthens the institutions entrusted with the skilling

government in the recent past to train our labour better. STPF would coordinate and leverage the skill up-gradation programs in the priority sectors and strengthen the institutions entrusted with the skilling. In this regard, skilling of women workers would be given special importance.

Surgical instrument industry has been identified as a priority sector as its growth has been retarded due to shortage of well-trained skilled manpower. To provide fillip to this industry, STPF has proposed to establish a Center of Excellence for catering to the training, designing, and research & development needs of surgical sector at Sialkot.

2.3.2 Enterprise and Entrepreneurship Development

STPF helps integrate the best practices through an Enterprise and Entrepreneur Development Programme, which leverages other programs of entrepreneurial skill development, involving the private sector and donors more actively

The overall competitiveness of firms is a reflection of entrepreneurial capability of firms. Pakistan's performance on this account has been rather weak, as compared to the international businesses which have embraced major corporate changes during the last few years to stay competitive, pro-active and customer-focused. More competitive exporting firms have been fast adopting the low cost efficient practices and new technologies which not only helped leaner and efficient production lines but are more cost effective in terms of wastage reduction, efficient consumption of utilities and manpower requirement. Our competitors have made massive investments to expand economies of scale to cater to the business needs of large and medium scale buying programs and extensive process re-engineering initiatives have been undertaken to produce faster, better and competitively. The efficient firms all over the world are giving special attention to productivity through training, adoption of more efficient technology, redefining process flows and comprehensive application of IT.

Similarly, the development of middle and senior management pool has become a special focus as a key success factor, enabling the exporting companies to keep pace with growth, confront challenges of being creative, be more responsive and ensure competitiveness. STPF would help integrate the best practices through an Enterprise and Entrepreneur Development Programme, which would leverage other programs of entrepreneurial skill development, involving the private sector and donors more actively. To support this program, the Ministry of Commerce would set up an Enterprise and Entrepreneur Fund (EEF) for enhancing the firm management capabilities in ten sectors chosen to push Pakistan higher on the sophistication ladder.

2.4 Domestic Commerce Reform and Development

Promotion of Domestic Commerce as a policy matter needs a major shift where supply and demand mechanisms would support entrepreneur development, consumer protection along with protection of domestic industries and facilitating domestic commerce to effectively contribute to value-addition, sophistication and economic growth. The Domestic Commerce Wing, set up at the Ministry of Commerce has identified the following key areas for the reform and development of Domestic Commerce:

- Retail and wholesale trade, which is the front end of Domestic Commerce
- Storage and warehousing
- The Transport industry, which links the whole supply chain
- The overall regulatory environment, including the extent of the policy related trade distortions and the level of subsidies and incentives, which impact on the overall level of competitiveness and potential for growth
- Promotion of modern business practices such as standardisation of quality, weights and measures and adoption of modern accountancy, record keeping and insurance services
- Modernising of those taxation practices which act as a barrier for the promotion of Domestic Commerce
- Improving the contract enforcement and repudiation issues, which distort the business environment in a variety of ways leading firms to depend on short term contracts and spot deals, forcing them into backward or forward integration, restricting businesses to fewer buyers and/or suppliers, making them rely on family labour, and forcing businesses to divide rather than grow
- Promotion of copyright protection and intellectual property rights
- Promoting small businesses access to formal sector financial institutions
- Development of tertiary services for developing firm level capacity vis-à-vis modernising management practices, skill development and business process improvement
- Avoid patronising the undocumented informal sector at the cost of formal sector

Many of the above issues are being attended by different government agencies. The Ministry of Commerce would leverage their activities and work to strengthen these individual reform and development efforts alongside the efforts to enhance the export competitiveness of Pakistan through holistic Domestic Commerce Reform and

Development Programme. This would be a mix of analytical work, initiation and coordination of policy interventions and initiatives, to reform and develop the Domestic Commerce and monitor the different indicators of the performance of Domestic Commerce.

2.5 Product and Market Diversification

Export diversification is widely recognised as a positive trade policy objective in sustaining economic growth. Diversification makes countries less vulnerable to adverse terms of trade shocks by stabilising export revenues, making it easier to channelise positive terms of trade into growth, knowledge spillovers, and increasing returns to scale. Many developing countries have pursued product diversification as a deliberate growth strategy to insulate themselves from the sharp and unexpected changes in their terms of trade and by extension to stabilise domestic income and employment. They have placed greater emphasis on producing manufactures as well as securing new markets for their products. There are many forms of diversification which include:

- Expanding the range of markets into which existing products are sold (geographical diversification)
- Up-grading quality of existing products including agriculture exports and widening the base of exports
- Taking advantage of opportunities to expand exports of services

All three turn out to be potentially very important whereas in the case of Pakistan, they have largely remained unexploited.

A review of Pakistan's export profile would reveal that Pakistan's exports are confined to seven major markets in seven core categories. There is an urgent need to undertake aggressive strategy to expand and deepen our markets and broaden the narrow base of our exports. The Strategic Trade Policy Framework aims at developing coherent, comprehensive initiatives to realise the twin objectives of product and market diversification as detailed in Sections 2 and 3. To increase the share of non-traditional products in the export product range of Pakistan, it has been decided to continue Cluster Development Programs announced in the previous year's Trade Policy.

There is an urgent need to undertake aggressive strategy to expand and deepen our markets and broaden the narrow base of our exports.

2.6 Making Trade Work for the Sustainable Development in Pakistan

The objective of the enhancement of export competitiveness is to make

exports an engine of growth. It is equally important to ensure that this growth does not come at the cost of environment, exploitation of marginalised sections in the society or SMEs. The strategies of competitiveness enhancement need to be closely aligned with the legitimate concerns of sustainable development so that the future generations could also benefit from the fruits of export enhancement. The STPF seeks to contribute to the sustainable development in Pakistan through the following means:

2.6.1 Making Trade Reduce Poverty

The government is aware of the need to address the possible negative distributional aspects of globalisation, manifesting in the form of unemployment, wage decrease of unskilled labour, informalisation of labour, etc. Ignoring these factors could reduce the benefits of globalisation and unleash protectionist sentiments and resentment against the free market regime. To strengthen the role of Strategic Trade Policy Framework as a tool of sustainable development, we would align it closely with the recently approved Social Protection Policy of Pakistan, as better social protection policies and stable labour markets are characterised by more investments by the industry on labour skilling and better labour productivity.

The role of STPF as a tool of sustainable development, has been strengthened by aligning it closely with the recently approved Social Protection Policy of Pakistan

The Ministry is aware that the protection and promotion of Geographical Indication (GI) products is also an effective way to link international trade with poverty reduction as most of the GI products in Pakistan are made by cottage industry or poor, rural households. The Ministry would expedite the promulgation of GI Law and allocate sufficient resources to assist the producer organisations to benefit from opportunities in the international market.

2.6.2 Consolidating Gender Sensitive Trade Policies

It is recognised world over that women have exceptional multi-tasking skills, endurance, dexterity and creativity. It is becoming increasingly important to create and maintain diversity at workplace. The economy can draw immense benefits if these innate skills can be suitably harnessed and mobilised, leading to the empowerment of women. At present, there are a number of initiatives underway to increase women's role in Pakistan's economy. Trade Policy 2009-12, which has been designed as gender sensitive trade policy, seeks to leverage many such initiatives. We recognise that trade policies affect men and women differently, as more often than not, women are constrained by structural gender inequalities such as low skill level, weak ability to negotiate wages or work conditions, etc.

Through STPF, a number of gender sensitive actions to enhance the positive contribution of Pakistani women in Pakistan's international trade are being taken

In Pakistan, women are present more in lower-skilled and low-paying sectors, especially in the textile and garment industries. With the increasing trend of female higher education, it is important that women are represented more at the managerial, supervisory and high-skill levels. Though women have started playing a larger role in Pakistan's export sector than ever before, yet we are far from other Muslim countries such as Malaysia and Bangladesh, who have tremendously benefited from the diverse and creative expertise of women in sectors such as garments, shoes, jewellery, electronics, horticulture, handicrafts and in services sectors.

While implementing Strategic Trade Policy Framework, the government would take a number of gender sensitive actions to enhance the positive contribution of Pakistani women in Pakistan's international trade, such as special incentives to encourage women in export-oriented services sector, i.e. designing, cultural industries, skill development programmes in women intensive export sectors, access to credit for women-managed SMEs in export sectors, protection and promotion of women intensive GI products, increasing the participation of women in international exhibitions and delegations and steps to encourage independent and good quality gender-oriented research and analysis on how to enhance women's trade capabilities and to study the impact of gender-based-barriers to market access and economic costs of gender inequality and the consequent trade-offs.

2.6.3 Promoting SMEs Exports

The Ministry of Commerce recognises the fact that large firms and conglomerates play an important part in developing new products and markets as they can produce at sufficiently large scale with high quality. Scaling is becoming very important in order to meet the requirements of large buyers and the government would work with the private sector to enable the firms for scaling up their capabilities. However, in a country like Pakistan, with such a large number of SMEs, there is a need to devise policies and programs aiming at the integration of SMEs into global value chains.

In the context of Medium Term Development Framework (MTDF) 2005-10 of the Government of Pakistan, which stressed upon strategic shift of government's assistance to infrastructure development and establishing Common Facility Centers in order to enhance the productivity and exports of SME sector, many projects are under way to increase the global competitiveness of SME sector such as the establishment of Agro Food Processing Facilities (AFP) at Multan, Gujranwala Business Center (GBC), Sialkot Business & Commerce

Centre (SBCC), Sports Industries Development Centre (SIDC) Sialkot and Women Business Incubation Center (WBIC), Lahore. A few sector-specific development companies have also been established by the Ministry of Industries that aim at upgrading production capabilities, i.e. Pakistan Dairy Development Company, Pakistan Gems and Jewellery Development Company, Pakistan Stone Development Company and Furniture Sector Development Company. There is a need to leverage the growth competitiveness activities of these companies with the activities and interventions being initiated through the STPF so that an improved performance by these sectors can increase the manufactured value added in Pakistan.

SMEs can become the main tools of 'value-addition' and 'sophistication' in Pakistan with a right mix of policies and incentives

The Ministry of Commerce fully supports the objectives of National SME Policy (2007) and would join hands with SMEDA's Policy & Project Implementation, Monitoring & Evaluation Unit (PPMIU), to make it a success. We have included many initiatives aimed at helping the SME exporters directly and indirectly. One such measure is the earmarking of significant funds from Export Investment Support Fund (EISF) for a new generation of SMEs driven by efficiency and innovation, in line with our declared focus on 'export competitiveness of Pakistan' through SMEs. We hope that with a right mix of policies and incentives, SMEs can become the main tools of 'value-addition' and 'sophistication' in Pakistan.

2.6.4 Greening of the Export Sector

Being aware of the importance of the greening of the economy in the coming days, the Ministry of Commerce would leverage the linkages between technology up-gradation/replacement and greening of manufacturing in Pakistan by supporting the energy efficient and carbon neutral technologies and equipments in high value sectors. A Green Technologies Fund is being set up to give a big boost to technology based competitiveness in the manufacturing sector for exports, which would incentivise the usage of energy efficient and environment friendly equipment through tax and credit incentives with the help of ENERCON and other stakeholders. According to an estimate, the energy efficiency of the boilers being used by our industry can be reduced by 30%, thereby reducing the cost of production significantly. Service providers for conversion of boilers are available but are reluctant to come to Pakistan. To encourage the conversion of boilers for increasing efficiency, the government would underwrite the agreements between the service providers and the industry.

To give a boost to technology based competitiveness in the manufacturing sector for exports, a Green Technologies Fund is being



SECTION: 3

Product and Market Consolidation and Diversification by Enhancing Sectoral Competitiveness

The Ministry of Commerce is very well aware of the supply side constraints for the export sectors and has provided a number of measures for providing an immediate relief to the industry such as the availability of low cost capital, reliable power supply and full insurance coverage to enable importers to visit Pakistan. As a provider of 'public goods', to enable Pakistan export more, a number of new initiatives have been provided. Recognising the need of reducing the cost of capital, it has been decided to create a fund to hedge mark-up rate hikes. The electricity shortage is an irrefutable fact and is adversely affecting industrial productivity. To increase the quantum of supply, Electricity Distribution Companies (DISCOs) being corporate bodies would enter into agreements with clusters of industries whereby electricity is supplied at mutually agreed times. The agreements should have punitive and legally enforceable compensation clauses; the compensation could be in the form of electricity charges, credit, etc. and should be underwritten by the government.

Considering deteriorating law and order situation, inspectors and sourcing agents of overseas buyers are reluctant to travel to Pakistan and the exporters have to meet them in other countries which increase the cost of doing business. To address this concern, a scheme is being

To offset the burden of taxes, interim relief to fourteen sectors in the shape of additional duty drawback at 1% of export value would be provided

introduced for compensating the buyers for additional premium paid/payable for period of stay in Pakistan. Furthermore, it has been found out that extra cost on inland transportation erodes export competitiveness of a range of developmental products. To enhance competitiveness of those sectors, a scheme is being launched to compensate inland freight cost to exporters of cement, light engineering, leather garments, furniture, soda ash, hydrogen peroxide, caustic soda, sanitary wares including tiles and finished marble/granite/onyx products.

Exporters are forced to export indirect taxes, estimated to be around 9% of the cost of production. To offset the burden of taxes, interim relief to fourteen sectors in the shape of additional duty drawback at 1% of export value would be provided. The sectors are tents & canvas, electric machinery, carpets, rugs and mats, sports goods, footwear, surgical/ medical/ veterinary/ beauty care instruments, cutlery, onyx products, electric fans, furniture, auto parts, handicrafts, jewellery and pharmaceuticals. On the basis of suggestions by the industry and scientific research, the Ministry intends to introduce many more initiatives to overcome the supply side constraints and meet market requirements, as well as help Pakistan's export sectors save themselves from the potential risks in the coming days due to any change in the global environment of trade or as a result of negative trade strategies of the competitors.

Comprehensive plans for the priority sectors are being finalised in consultation with all the stakeholders

In addition to our traditional markets, Strategic Trade Policy Framework aims at significantly increasing our market share in emerging Asian economies. In the light of the proposed structural transformation in STPF, comprehensive plans for the priority sectors would be finalised and launched in consultation with all the stakeholders within three months of the presentation of STPF, to address the medium and long term objectives of product and market diversification of STPF for China, US, EU, Malaysia and Sri Lanka.

The Ministry of Commerce has announced support initiatives for the major sectors in the Trade Policy 2009-12

With a view to effect the structural transformation from low value exporter to high value exporter, the sectors given below would get more policy and development support in the first instance during the next three years. The Ministry of Commerce has announced support initiatives for the major sectors in the Trade Policy 2009-12. List of proposed measures is annexed. In the light of the strategic thrust of the STPF of providing public goods instead of subsidies, special efforts would be undertaken to significantly enhance share of these sectors in Pakistan's export mix and in the global market. The Ministry of Commerce would help develop detailed sectoral export development plans, with clearly defined indicators for competitiveness development for each sector, with the relevant sectoral/line ministries and other relevant organisations, both in the public and private sectors.

3.1 Textiles and Clothing

World trade in textiles and clothing has witnessed high growth and has undergone a series of structural changes around the globe since 2000 onwards in anticipation of non-quota regime from 2005. Pakistan also invested over US\$5 billion during 1999 to 2004, and the industry geared up for market openness by improving its competitiveness. The textile sector, i.e. spinning, weaving, bed linen and toweling sectors performed fairly well and even increased its global share slightly. But Pakistan's performance in the faster growing clothing sector was not be very satisfactory.

Pakistan managed to increase its world share of textiles exports from 2.9% in 2000 to 3.1% in 2007 with an average annual increase of 7% during the same period

Pakistan managed to increase its world share of textile exports from 2.9% in 2000 to 3.1% in 2007, with an average annual increase of 7% during the same period. However, Pakistan could barely maintain its world share of clothing exports at 1.1% from 2000 to 2007, with an average annual growth of 9%. Meanwhile, many competing countries like China, Bangladesh, Vietnam and Turkey managed much higher growth rates in clothing exports during post quota period due to enhanced competitiveness, favourable market access arrangements and better positioned supply chain advantages.

Pakistan could barely maintain its world share of clothing exports at 1.1% from 2000 to 2007, with an average annual growth of 9%

Since 2007, our exports as well as our market share have gone down. Pakistan has to embrace structural changes in its supply chain to regain the eroding competitiveness, both in textiles and clothing sectors. Pakistan needs to address its weakened and narrow based product and market mix to deepen its product coverage and enlarge its market reach for ensuring sustainable and comparable growth in the years ahead. As the global markets return to normalcy after due process of recovery and consolidation in the near future, Pakistan can only make a progressive difference with sweeping structural changes like enhancing economies of scale, productivity enhancement through process re-engineering, improving product coverage, increase in value-addition and market diversification. In addition to other necessary improvements, the textiles value chain still remains the single largest contributor to Pakistan's exports, with a share of over 50% with strong backward linkages. If our competitors continue enhancing their world market share, our textiles and clothing sectors would face an uphill task to reverse the negative growth of last year to a positive long term growth.

Pakistan has to embrace structural changes in its supply chain to regain the eroding competitiveness, both in textiles and clothing sectors.

Recognising the importance of the sector and to provide a foundation for sustainable growth, various initiatives are being planned through a separate and first ever Textiles Policy. The major thrust of the Textiles Policy is to enhance domestic capabilities and capacities for efficient use of resources through skills development, technology up-gradation and provision of infrastructural facilities. Measures are also envisaged

for diversification of fiber usage and mix. The Textile Policy takes a holistic approach and contains short-term and long-term measures to support the textiles and clothing manufacturers overcome the current problems created by the global down turn and equip them with necessary ingredients to meet the growing competitiveness challenges of the future.

The Strategic Trade Policy Framework would leverage the Textile Policy through its diverse measures and policies directly and indirectly. The Ministry of Commerce would lend its support to the Ministry of Textiles towards an efficient implementation of Textile Policy. In this regard, the following initiatives would be given high priority by STPF among many other initiatives, which the Ministry of Commerce hopes to develop and implement with the help of the Ministry of Textiles and other stakeholders.

- Promotion of new investment and modernisation of machinery
- For diversification of export mix, custom duty may be zero rated on
- Import of man made fibers other than polyester staple fiber
- Customs duty on import of sizing chemicals may be withdrawn
- Establishment of warehousing in major markets, requiring direct to store delivery
- Brand development program, to encourage the establishment of domestic and international brands
- Rationalisation of tariff on the principle of cascading to provide the exporting industry with an environment which supports manufacturing rather than trading
- Initiatives for greater market access, developing and enlarging acceptability of Pakistani textiles and clothing in niche markets and diversification of exports to newer destinations
- Initiatives to promote more effective holding of local and foreign exhibitions and meaningful participation

3.2 Leather

The global market size of leather and leather products is around US\$100 billion. Pakistan exported leather and leather products worth US\$1.25 billion during the year 2007-08, which was 1.29% of world trade. However, the exports of leather sector declined almost by a quarter during the year 2008-09.

Leather sector contributes 6.15% of large scale manufacturing GDP and 5.6% of export earnings in Pakistan. This sector, being labour intensive, employs more than 500,000 people in the country. The sector has tremendous potential for growth and exports. In case of Pakistan, the footwear industry which is 56% of total global leather trade is only 11% of Pakistan's leather trade and this gap can be filled to increase our exports. The Strategic Trade Policy Framework would endeavor to come up with a clear vision and road map in consultation with the major players of leather sector and Ministry of Industries. To address supply side constraints and to encourage leather sector regain its lost share, the following measures have been initiated in the Trade Policy 2009-10:

- Providing on the floor expert advisory / consultancy services to leather apparel manufacturers cum exporters
- Matching grant to establish design studios or design centers in factories
- Establishing R&D Centers in Karachi and Sialkot by Pakistan Leather Garments Manufacturers and Exporters Association for providing research & development support to Leather Garments & Leather Goods Exporters
- Installation of flaying machines at district level slaughter houses
- Sharing 25% financial cost of setting up of design centers and labs in the individual tanneries
- Providing matching grant for setting up of effluent treatment plants in individual tanneries

The share of Pakistan's leather and leather products in world trade was 1.2% in 2007-08

The footwear industry which is 56% of total global leather trade is only 11% of Pakistan's leather trade and this gap needs to be filled to increase our exports

3.3 Chemicals

The chemical sector is one of the five highest growth sectors in the world, with global trade volumes approaching US\$2 trillion. During 2008 -09, Pakistan exported chemicals and chemical related products worth US\$0.162 billion and its imports amounted to US\$4.04 billion, which is 12% of our total imports. The existing manufacturing capacity in Pakistan is rather small, both in level and scale. The productivity as well as research and development to improve chemical reactions, processes, molecular formation and beneficiation of locally available minerals remain low in Pakistan.

During 2008-09, Pakistan exported chemicals and related products worth US\$0.162 billion while its imports amounted to US\$4.04 billion, which is 12% of our total imports

The domestic demand for chemical products locally has also been on the rise, particularly for fertilizer inputs, pesticides and plastics, inputs for use in packing, auto, electronics, house hold items, cables, pipes and fittings besides the high use of chemicals in the processing of

textile, leather, carpets, etc. However, the absence of a clear policy framework on the development of chemical sector to expand local manufacturing in high potential sub-sectors and gearing the sector as a major driver of exports have resulted into haphazard growth on short-term need basis. The Ministry of Commerce would closely work with the Ministry of Industries and other stakeholders to set benchmarks for productive capacity and value-addition in comparison to global trends and other indicators of the sector with the aim of making this sector a major player in Pakistan's exports.

3.4 Pharmaceuticals

Pakistan's pharmaceutical industry is relatively young in the international markets with an export turnover of over US\$93.6 million in 2008-09, up from US\$89.44 million in 2007-08. This industry has a large number of quality producers and many units are approved by regulatory authorities all over the world. Like domestic market, the exports of pharmaceutical products have gone almost double during the last five years. The pharmaceutical industry has the capability to double its exports over the next three years, provided the institutional infrastructure is made more efficient by the corporatisation of the regulatory bodies and introduction of new Drug Law with rationalisation of the pricing policies to encourage further investment and exports. The sector has responded well to the recent policy stimuli. The Ministry hopes to provide a strong facilitation to the sector to help our pharmaceutical sector benefit more from the new regional and global opportunities. In order to further facilitate this growing sector, the following measures have been announced in the current Trade Policy:

Pakistan's pharmaceutical industry is relatively young with an export turnover of over US\$93.6 million in 2008-09

- Support for hiring medical representatives abroad
- Support for registration of pharmaceutical products abroad
- Support for bio-equivalence certification

3.5 Meat and Meat Products

Livestock sector accounts for 11.3% of Pakistan's GDP, but the livestock based exports are negligible. Pakistan imported livestock and meat products worth US\$803.14 million in the outgoing fiscal year. Globally, it is an important sector with actual volume of trade at around US\$79 billion. Having a strong livestock base, Pakistan can increase its global share meaningfully in a short span of time with a right policy mix. This would not only diversify Pakistan's exports and markets, it would help in rural development also. The government has undertaken a large number of initiatives to address the supply side constraints such as low

Pakistan imported livestock and meat products worth US\$803.14 million in 2008-9 despite the fact that Livestock sector accounts for 11.3% of Pakistan's GDP

reproductive efficiency of animals, limited scope of fattening programs, presence of trade related infectious diseases, lack of research on refinement of vaccines and disease diagnosis, poor management of public slaughter houses, inadequate processing and marketing of the by-products of slaughtered animals. The government has allowed duty-free import of dairy and livestock machinery to encourage the establishment of value-added industry in the livestock sector. The STPF would link these programs with the export market and demands of international market, especially the fast growing Halal markets.

The Ministry realises the potential of the Halal market and has undertaken many initiatives leading to the establishment of Halal food production and certification systems in order to get maximum benefit out of promising future of world Halal food trade. As a key sector, the Ministry would try to quickly address labeling and packaging issues and would enhance the collaboration with other countries for making Pakistan the hub of Halal food in future. In the coming year, the Ministry will develop a comprehensive policy for the promotion of Halal products. Halal Products (Food & non-food) is an over trillion dollar market. Pakistan despite being a Muslim country is being left behind and one of the major reasons is lack of recognised Halal standards. The Ministry of Science and Technology is entrusted with working out the standards and setting up a Halal Certification Board. Till the time the Halal Certification Board is setup, the government would subsidise the cost of certification by internationally recognised bodies by 50%.

Halal Certification Board is being setup in coordination with the Ministry of Science and Technology. The government would subsidise the cost of certification by internationally recognised bodies by 50% till its establishment

3.6 Agro-Processing and Dairy

Pakistan has a large agricultural basis and is a world ranked producer of cotton, wheat, rice, sugarcane and dates. Pakistan also has a reasonable potential of growing more horticultural products. A bigger focus on agro-processing has a huge poverty reduction potential. The Ministry recognises the potential which exists in the agro-processing and developing regional food supply chains and would take the necessary steps to tap this potential. The global food trade stands at more than US\$361 billion. Pakistan's current share in this market is negligible. Good Agricultural practices are essential to ensure food safety both locally and in export markets and thereby a better acceptability; our agricultural sector is lacking recognised agricultural practices standards. Pakistan Good Agricultural Practices (PAKGAP) standards, initially for five major horticultural exports (citrus, mango, dates, potato and onion) would be worked out by the Ministry of Science & Technology in consultation with Ministry of Food & Agriculture (MINFA) and implemented by MINFA in collaboration with Pakistan Horticulture Development & Export Board (PHDEB).

The global food trade stands at more than US\$361 billion

Pakistan is the 4th largest milk producing country in the world with dairy as one of the fastest growing sectors of the country

Pakistan is the 4th largest milk producing country in the world with dairy as one of the fastest growing sectors of the country

China with an annual demand growth of 14%, along with South East Asia and Middle East & North are likely to be the future demand hubs for dairy products

Pakistan is the fourth largest milk producing country in the world with dairy as one of the fastest growing sectors of the country. The milk economy represents around 25% of the total value of the agriculture sector. Pakistan has the potential of becoming future dairy exporter at the global level. The world dairy consumption is growing at around 2.0% per annum, with an estimated total trade of US\$61 billion. China with an annual demand growth of 14%, along with South East Asia and Middle East & North are likely to be the future demand hubs. The current global dairy trade accounts for 7% of the total production, with 93% being consumed domestically. With the liberalisation of trade in agriculture, the exports of dairy products are expected to grow very rapidly. For Pakistan, this is the time to prepare actively to gain from the post subsidy regime. The government, being aware of the opportunities in this sector, has already established Livestock and Dairy Development Board (LDDDB) to increase the pace of development in livestock industry. By according a high priority to the export of livestock based exports, the STPF would provide the much needed opportunities in the international market. Acknowledging the importance of the agriculture sector in the economic growth of Pakistan, specific measures for this sector were announced in the Trade Policy 2008-09, which would enable agriculture to contribute effectively to boost exports of Pakistan. These measures are as follows:

- Food exports would be supported initially by reimbursing ports of Pakistan. This includes R&D cost at 6% of the exports
- To reduce the possibilities of aflatoxin infestation. Matching grants would be given to farmers / rice millers for purchase of paddy harvesters and paddy dryers
- The horticultural exporters would be given markup subsidy on loans for establishing cool chain processes at 8% or 50% of the markup, whichever is lower

3.7 Minerals

The contribution of Minerals to GDP in Pakistan stands at 2.4% which is far below the actual potential. Keeping in view favourable geological environment and large number of mineral resources in the country, the Government is fully committed to making the mineral sector as one of the most dynamic sectors of the country.

Mineral sector is one of major export sectors globally, with an export volume of more than US\$2 trillion. The contribution of Minerals to GDP in Pakistan stands at 2.4% which is far below the actual potential

Our mineral sector has not yet been fully exploited to give a boost to local metals and chemicals industry exports as Pakistan has moved rather slowly up the value-addition chain. Mineral sector is one of major export sectors globally, with an export volume of more than US\$2 trillion. The sector has however, attracted significant foreign

direct investment recently. There is an immense potential to significantly increase the value-added exports of mineral based products. The Ministry of Commerce would join hands with the Ministry of Industry, Petroleum & Natural Resources and Board of Investment to devise effective ways to transform Pakistan's mineral sector as a major foreign exchange earner for the country and supplier of raw materials and intermediate goods in the local market.

3.8 Light Engineering Goods and Machinery

Engineering sector has been getting government's attention since many years due to its huge potential to increase Pakistan's share of value-added manufactured goods with an increasing level of sophistication in the global market. Though our exports registered an increase of 26% during 2008-09 as compared to the previous year, our base remains very low and narrow. Engineering sector is one of the most important export sectors in the world with trade volumes of more than US\$3.5 trillion. In order to get a significant share of this market, Pakistan needs to increase the technology intensity in production and then aggressively market its light engineering goods and machinery in suitable markets. The Ministry realises that this will require concerted efforts, with the help of Ministries of Industries, Information Technology, Science and Technology, Higher Education Commission and other establishments of technology and innovation creation, in gearing up our universities, poly-techniques and firms for the kind of manufacturing prowess and design capabilities required by the world market. The Engineering Development Board has already initiated sector development programs for various engineering sub-sectors with the objective to make them a part of international supply chain. The Ministry of Commerce would leverage these initiatives by supporting the light engineering sectors to export more in high paying markets. The Ministry of Commerce is creating funds for product development and marketing of light engineering goods in order to increase the sophistication level of the sector and realise true potential of this sector. Engineering sector has performed significantly in the last few years. In order to build upon the gains achieved, STPF stipulates the following measures for the engineering sector:

Engineering sector is one of the most important export sectors in the world with trade volumes of more than US\$3.5 trillion

- In order to increase the sophistication level & realise true potential of this sector, a special fund of Rs 2.5 billion would be created for product development and marketing for light engineering sector
- Export of motorcycles was facilitated through R&D support of US\$50 (Rupee Equivalent)/ Unit in the last years Trade Policy. This support would be continued till June 2010

- Safety Standards Certification by Underwriters Laboratories (UL) increases the level of acceptability of manufactured products particularly domestic electrical appliances in international markets. To encourage the exporters, 50% cost of UL certification would be subsidised

The global trade in gems and jewellery is estimated at US\$84.4 billion out of which Pakistan's exports in 2008-09 accounted for only US\$0.28 billion

3.9 Gemstone and Jewellery

The global trade in gems and jewellery is estimated at US\$84.4 billion out of which Pakistan's exports in 2008-09 accounted for only US\$0.28 billion. This sector has enormous potential as Pakistan has been gifted with abundant resources of several precious and semi-precious gemstones such as emeralds, pink and golden topaz and aquamarine, etc. But the sector continues having problems such as antiquated mining techniques, an unskilled workforce and a lack of product diversification to cater to the needs of major markets such as EU and US. There is also lack of branding and recognition of Pakistani Gems & Jewellery industry as a quality manufacturing centre in the international market. The government has taken many important steps to overcome the supply side constraints as well as to enhance the export capacity. As a focus sector, the Ministry of Commerce would devise a medium term strategy to boost the exports of Gems and Jewellery. To provide relief for the industry, it has been decided that import duty and sales tax on import of pearls of all types would be abolished.

3.10 Services

The services sector, accounting for around 60% of GDP has been an important contributor to Pakistan's economic growth over the past five years as it grew at an average of 6.6% annually since 2003-04. In terms of external trade however, Pakistan has continued facing deficit which stood at US\$3.2 billion for the first 10 months of 2008-09. Pakistan's share of the services export globally was 0.08% in 2008. Pakistan needs to undertake concerted efforts to give a push to the export of services.

A National Steering Committee has been set up to devise a long term strategy for significantly improving Pakistan's export of services

The Ministry of Commerce has set up a National Steering Committee to devise a long term strategy for significantly improving Pakistan's export of services. Recently established Services Export Development Cell (SEDC) at TDAP has identified the Financial Services, Construction & Architectural Services, Professional Services, Health & Medical Services and Information Technology as priority sectors. SEDC is working with all the stakeholders to address core issues and devise comprehensive strategies for each sector.

The Ministry is also addressing the issues related to the generation and organisation of services trade related statistics with the help of Federal Bureau of Statistics (FBS), State Bank of Pakistan (SBP), Federal Board of Revenue (FBR) and other stakeholders in order to base government's promotional strategies on scientific grounds.

Our FTAs with China and Malaysia include services sector as well. The Ministry of Commerce would initiate special programs to promote the export of services in these and other markets and would work with relevant ministries to develop and implement suitable support programs for the priority sectors.

To help services sector grow and expand, a Services Export Development Fund is being established to provide assistance in the form of reimbursable grants to Pakistan services exporters for tendering or negotiating for international projects and for conducting pre-feasibility or feasibility studies for international projects.



SECTION: 4

Market Access and Trade Diplomacy

4.1 Market Access Initiatives

In order to boost our exports in these difficult times, Pakistan needs an early market access especially in the US and Europe, which are currently major export destinations of our products. The Government of Pakistan is actively engaged with the US and European Union on this account. The establishment of Re-construction Opportunity Zones (ROZs) will provide facility of exports to US at zero duty. After the finalisations of the sites of Zones, the Ministry would set up a dedicated organisation with functional linkages with the Provincial Governments to ensure an efficient utilisation of the facilities and enforce the compliance issues.

Pakistan needs an early market access especially in the US and Europe, which are currently major export destinations of our products

For market access in Europe Union, we are hoping to have bilateral FTA, but in the short run, the government would try to get special dispensation under the EU-GSP Scheme. At the bilateral level, we have significant market access in China through a Comprehensive FTA including goods, services, investment and economic cooperation. FTA Agreements with Malaysia and Sri Lanka also provide substantial market access to Pakistan. Ministry of Commerce is taking the necessary measures to increase and diversify Pakistan's exports to China, Malaysia and Sri Lanka.

The Ministry is fully aware of the opportunities offered by the Regional Trade Agreements (RTAs) such as SAFTA and ECOTA of which Pakistan is a member. Ministry of Commerce would continue trying to help these

The STPF aims to increase Pakistan's regional trade from 17% to 25%

RTAs become dynamic players in the international market. Pakistan is also in negotiation with ASEAN and block of GCC countries to expand its trade with these important trading blocks. The STPF aims to increase Pakistan's regional trade from 17% to 25%. The Ministry realises that more should be done to promote the bilateral and regional FTAs which Pakistan has initiated. The Ministry would develop a Communication Strategy for each of the new initiatives to ensure bigger participation by the private sector in making these FTAs work.

4.2 Maximising Gains from Multilateralism

Pakistan is committed to the greening of the economy and supports negotiations on climate change, however, would resist any effort to misuse the climate change concerns as an NTB or TBT

Pakistan is actively participating in Doha Development Agenda (DDA) negotiations. With its key interests in NAMA, Agriculture, Services, addressing Non-Tariff Barriers (NTBs) and measures relating to trade facilitation, Pakistan is trying for an equitable outcome of DDA. The Ministry realises that the reduction of tariff alone, however, is not enough to boost exports and we would continue trying to address the issues such as NTBs, compliance issues such as labour & environment and technical barriers to trade (TBT). Trade and Climate Policy are becoming increasingly entangled. A failure to agree on how to address global warming could undermine half a century of opening up of world trade as there is a possibility that countries or buyers start imposing penalties on countries that do not accept limits on carbon emissions or an "equalisation" levy on imports from countries that have not agreed to cut emissions. Pakistan is undertaking concrete measures for the greening of the economy and would see the climate change talks succeed but would resist any effort to misuse the climate change concerns as an NTB or TBT.

The successful conclusion of DDA can provide a window of opportunity for Pakistan, if we could see full elimination of export subsidies and substantial reduction in domestic trade distorting subsidies with caps on major items such as cotton, wheat and rice and also open hitherto untapped areas such as dairy, horticulture and tropical products, provided we expand our productive capabilities efficiently.

Pakistan would continue participating actively in the negotiations on the issues, e.g. Intellectual Property Rights (IPRs), Strengthening of Geographical Indicators, Dispute Settlement Procedures of the WTO and Revision of Agreement on Trade Defense Laws and Rules and WTO Reforms adopting the best effort approach to protect the national interest.

In anticipation of the completion of DDA negotiations, the Ministry has started the necessary analytical work to develop appropriate policy responses keeping in view different possible scenarios. The Ministry would also deploy sufficient, high quality human and institutional

resources to enable Pakistan to benefit from the conclusion of the Round.

The Ministry realises that the multilateral system and global trade will keep on evolving even after the conclusion of DDA. With the elimination of tariff peaks and equalisation of global tariffs by the developed and developing countries, at different levels, there are likely to be many new issues for deliberations. Pakistan would continue to strive to bring more equity, transparency and predictability in the international trade.

4.3 Enhancing Regional Trade

Pakistan has land borders with China, Afghanistan, Iran and India. These countries are our natural trading partners. In addition to China, which now has become a major international player in trade and investment, the other neighbouring countries are also registering significant growth. We are also including the Central Asian States and Gulf Cooperation Council (GCC) countries in our newly established definition of regional partners and would strive to have stronger trade links with all our regional partners in a bilateral or plurilateral context.

Our region at present is the least integrated region in the world. Pakistan's exports to the region at present stand at 17%

During the last 20 years, the direction of trade has significantly changed. This region has in fact become a big import destination. The regional trade, due to the benefits of proximity in the short run and with the possibility of developing regional supply chains and investment flows, has become a big opportunity for any exporting country. Our region at present is the least integrated region in the world. Pakistan's exports to the region at present stand at 17%. Promoting regional trade to the mutual benefit of the regional trade partners is an important objective of the STPF. It is hoped that Pakistan's exports to the region would increase at to atleast 25%. Pakistan would engage its regional partners for better market access, trade facilitation and trade promotion in order to give a big boost to the regional trade.

The government realises that sustainable political and economic relations with India are important to leverage the benefits of intra-regional trade and hope that a successful completion of the composite dialogue would significantly expand and deepen these relations. Transit Trade Agreement (TTA) with Afghanistan is of immense importance to Pakistan for smooth, legal and quick flow of goods across border and to have market access in the Central Asian States so that this trade is mutually beneficial to all the parties. It is hoped that the negotiations for the new Agreement will be concluded by the end of this year by addressing the concerns of stakeholders of both the countries.



SECTION: 5

Governance and Management of Strategic Trade Policy Framework

The success of the Strategic Trade Policy Framework in significantly enhancing export competitiveness of Pakistan would largely depend upon the quality of governance and management structures deployed to implement it by different stakeholders. Given the kind of challenges Pakistan is facing, the state needs to become more active to secure competitiveness development and should earnestly deploy maximum political and administrative resources to the task.

The Ministry realises that half the difficulty in making STPF a success lies in the effective implementation. The government realises that previous trade policies and development strategies and initiatives had mixed results due to implementation issues such as:

- Delay in implementation and attendant problems
- Ineffective implementation
- Weak implementation coordination within the government
- Poor implementation coordination with private sector
- Dispersal of responsibilities for enhancing growth and export competitiveness
- Absence of a mechanism for monitoring and resolving policy and implementation issues
- Lack of a systematic, scientific evaluation of the development interventions and of policy choices

The Ministry hopes to avoid the above pitfalls through a carefully devised implementation strategy of STPF. The principal elements of this implementation strategy would be as follows:

5.1 Enhancing Institutional Efficiencies

To effectively implement the STPF, it is essential for state institutions to be powerful and more importantly well placed to take crucial decisions. Unfortunately, we are experiencing a situation where many institutions are beset with institutional decay. More often than not, the anticipated results, specially the ones dependent on policy coordination and policy overlaps/interdependencies in a multi-stakeholder implementation context, are compromised. The Ministry realises that the management of STPF would need to be supported by substantial institutional strength of respective stakeholders. In addition to that, there would be a need for closer coordination among these institutions for timely implementation and evaluation of sectoral strategies. The Ministry of Commerce's role in this regard becomes more central than it has previously been, as all the stakeholders expect it to take the lead in pushing the agenda for export competitiveness. The Ministry hopes that with full political support, it would be able to work out coherent and all-inclusive strategies that address the issues identified in STPF for speedy redressal with the help of other Ministries and Departments.

Trade Development Authority of Pakistan (TDAP), National Tariff Commission, and Directorate General of Trade Organisations (DGTO) will establish clear benchmarks for their performance

The Ministry is aware that it needs a well functioning institutional architecture within the Ministry of Commerce for an effective implementation of Strategic Trade Policy Framework, with a strong leadership at the top. The Ministry would introduce the required institutional reforms within the Ministry and its affiliates such Trade Development Authority of Pakistan (TDAP), National Tariff Commission, Directorate General of Trade Organizations (DGTO) etc. for establishing clear benchmarks for their performance.

The Trade Officers abroad play an important role in bringing the exporters and importers together, bridging the information gap between the supply and demand, making an analysis of competitors export strategies, building an image of Pakistani export products and providing general facilitation to Pakistan's export enhancement. Where there is a need to open new trade offices in emerging markets, there is need to strengthen and utilise the existing trade offices better for the protection and promotion of Pakistan's commercial interest abroad. Our trade officers would play an active role in implementing the STPF and would be evaluated on the basis of their contribution thereof.

5.2 Steering and Coordination Arrangements

The Ministry would employ the modern logical frameworks to implement and evaluate different interventions and initiatives of the STPF and would be establishing different Implementation Management Units as follows:

IMU I: Policy/Trade Facilitation Implementation Unit

This Unit would be housed in the Ministry of Commerce and would ensure the timely implementation of the procedural, legal, statutory changes, amendments and modifications by relevant organisations.

IMU II: Trade Policy Development Initiatives Management Units

These Units would be housed in the respective implementers' Organisation/Ministry and would be entrusted with an efficient implementation of the development initiatives.

IMU III: Trade Policy Development Initiatives Coordination Unit

This Unit would be based in the Ministry of Commerce and would coordinate the activities of IMU I & II and monitor the progress.

Modern logical frameworks are being employed to implement and evaluate different interventions and initiatives of the STPF

5.3 Financing the Export Competitiveness Development

A chronic problem in Pakistan has been the lack of public and private investment to realise the desired policy impacts. The Planning Commission had conceived the investment requirement of US\$60 to US\$65 billion in early 2007 to enhance the share of manufacturing, with a higher value-added content, to 23% in 2013. However, the necessary investments in infrastructure and in the provision of sectoral public goods could not be materialised. Where there is a need of a national competitiveness development strategy and structure, there is a need of financing the necessary programs and projects to implement the proposed strategies. It is through a quantitative and qualitative tracking of the results of these strategies and expenditures involved that the government would be able to decide about more judicious allocation of resources with a view to enhance competitiveness. Without such a system, we would not be able to overcome the challenge of the "Dispersal of responsibilities for enhancing growth and export competitiveness". The Ministry is hopeful that the objectives of the Strategic Trade Policy Framework and the resultant investment requirements would be mainstreamed with the forthcoming Five Year Development Plan to ensure a sustainable funding for the structural transformation of Pakistan's economy.

There is a need of a national competitiveness development strategy based on judicious allocation of resources to enhance the share of high value-added products in our exports

The objectives of STPF would be realised through an effective public-private dialogue

5.4 Reorienting Relationship Between Government and Industry

A successful implementation of Strategic Trade Policy Framework hinges upon an appreciation of central role being played by STPF in enhancing growth and export competitiveness by all the stakeholders. With STPF finalised after an extensive consultation with all the stakeholders, the government is embarking upon a new era of cooperative action with the Industry. The Ministry hopes that the industry would be able to organise itself more effectively by cementing new solidarities, transcending narrow domains of sectors and regional representations. A weak implementation capacity of the intermediary business support organisations has been a major hurdle in the realisation of common objectives such as skilling, productivity enhancement, scaling, etc. STPF has been prepared in the wake of a realisation that the falling competitiveness of Pakistan's exports is a national challenge, which can inflict huge damage to the business and people in Pakistan if our response is not befitting. The Ministry would lead from the front in shaping much more effective public-private dialogue in the realisation of the objectives of the STPF.

5.5 Performance Evaluation of STPF 2009-12

Pakistan Institute of Trade And Development (PITAD), an independent policy think tank of the government of Pakistan on international trade, would develop and carry out credible monitoring and evaluation plans for each of the implementation mechanisms adopted by respective IMUs

A policy measure, initiative or incentive inscribed in any trade policy, work through an implementation mechanism peculiar to the nature and working of the specific intervention. The Ministry would deploy sufficient resources to develop effective implementation strategies for each of the major interventions with the first quarter with the help of relevant stakeholders. The Ministry would also encourage the relevant Implementation Management Units (IMUs) to establish/produce baseline data to facilitate the evaluation of the output of a specific measure and its relevance and usefulness in contributing to the realisation of broad objectives of Strategic Trade Policy Framework. With the help of this data, Pakistan Institute of Trade And Development (PITAD), an independent policy think tank of the Government of Pakistan on international trade, would develop and carry out credible monitoring and evaluation plans for each of the implementation mechanisms adopted by respective IMUs. PITAD would also undertake a systematic evaluation of the impact of Strategic Trade Policy Framework on the trade performance of Pakistan with a view to enhance the effectiveness of different trade policy interventions, suggest course corrections and lay the scientific foundations for the preparatory work for the next Trade Policy.

5.6 Export Targets For 2009-12

On the basis of an extensive consultative process, the Ministry believes there is a consensus among all the stakeholders in Pakistan's international trade that the country's exports can become an engine of growth and prosperity in Pakistan if the relevant institutions, both in public and private sector, implement a holistic strategy to enhance competitiveness of exports. However, the growth during 2009-10 would remain rather sluggish partly due to slowdown in global demand and also due to the fact that all the programs and measures of STPF would take a brief time lag before coming into full force. The Ministry therefore has set the export growth target of 6% for 2009-10 and 10% and 13% for each of the successive years.

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The Ministry believes that setting the export targets becomes rather vacuous if the intermediate indicators are not identified, monitored and improved. In case of the export growth, the Enabling Trade Index indicators being used by World Economic Forum can be a useful starting point for STPF. Pakistan has slid from 92 to 101 position if one is to use the conventional indicators such as domestic and foreign market access, efficiency of customs administration, efficiency of import-export procedure, transparency of border administration, availability and quality of transport, infrastructure, availability and quality of transport services, availability and use of ICTs, regulatory environment and physical security. The Ministry anticipates that Pakistan can be brought to a position below 80 with the concerted and coordinated action of all the principal stakeholders. As per the latest available study, Pakistan has come down from 55th to 41st place as far as the level of sophistication of its exports is concerned. The Ministry of Commerce would soon develop a composite Pakistan Export Competitiveness Index, factoring Pakistan's specific supply and demand side indicators to benchmark the progress in the improvements in Pakistan's export competitiveness in different sectors and indicators. Such an indigenous index based on rigorous quantitative and scientific specifications should be able to update all the stakeholders in Pakistan's export competitiveness on their performance every year with a view to enhance the effectiveness of policy and development interventions.

The Ministry of Commerce is developing a composite Pakistan Export Competitiveness Index, factoring Pakistan's specific supply and demand side indicators to benchmark the progress in the improvements in Pakistan's export competitiveness



Trade Policy Initiative 2009-12

The measures to achieve the above objectives are proposed in the following paragraphs; the cumulative estimated expenditure spread over three years is Rs.35.22 billion is expected to be met from Export Investment Support Fund (EISF).

1.1 ADDRESSING SUPPLY SIDE CONSTRAINTS

1.1.1 Financing at Reasonable Markup

Businesses need short to medium term certainty in the interest rate for investment. Currently, there is no policy instrument provided by the government or private sector for providing finance at fixed interest rates for a short to medium term. A fund would be created to hedge markup rate hikes.

1.1.2 Reliability of Electricity Supply

Electricity shortage is adversely affecting industrial productivity. Till the time the Government addresses the full availability of supply, there is possibility for introducing an element of predictability of power supply.

- Electricity Distribution Companies (DISCOs) being corporate bodies should enter into agreements with clusters of industries whereby electricity is supplied at mutually agreed times. The agreements should have punitive and compensation legally enforceable clauses; the compensation could be in the form of electricity charges, credit, etc. and should be underwritten by the Government.

1.1.3 Insurance Cover for Visiting Buyers

Purchasers, inspectors and sourcing agents of overseas buyers are reluctant to travel to Pakistan and the exporters have to meet them in other countries. This increases the cost of doing business. It has been learnt that apart from adverse travel advisories, refusal of insurance companies to cover the period of stay in Pakistan is hindering travel to Pakistan.

- A scheme would be launched for picking up the full cover for stay in Pakistan of buyers/ buyers' representatives for their valid insurance policy.

1.2 TRADE FACILITATION

Following measures taken in previous trade policies for trade are in line with objectives of STPF:-

1.2.1 Facilitating Presence in International Markets

To encourage local firms to have international presence and thereby increase the profitability, the following initiatives were taken in previous trade policies:

- a. Support for Opening Exporters Offices Abroad
 - b. Support for Opening Retail Sales Outlets Abroad
- Above initiatives would be continued throughout the period of STPF 2009-12.

1.2.2 Warehousing Facility

To make inroads into non-traditional markets and/or to introduce non-traditional products in traditional markets, a warehouse scheme was launched and a warehouse was established in Kenya. The changing patterns of trade require direct-to-store deliveries and thereby need of warehouse even in traditional markets.

- The warehousing scheme would be continued and its scope expanded to include traditional markets and traditional products.

1.2.3 Support for Compliance Certification

In previous years, government announced 50% support for various quality, environmental and social certifications, the support was progressively increased to 100% of the cost of certification when a manufacturing unit gets four of the specified certifications viz. (i) ISO 9000, (ii) ISO 140001, (iii) OHSAS 18001, (iv) SA 8000, (v) WRAP, (vi) EKOTEX, (vii) BSCI and (viii) BRC

- The initiatives would be continued and list of certifications would be expanded by TDAP in consultation with the Industry. The ultimate aim is to develop our own compliance standards.

1.3 SECTOR SPECIFIC - NEW INITIATIVES

1.3.1 Compensating Inland Freight Charges

Extra cost on inland transportation erodes export competitiveness of a range of developmental products.

- A scheme would be launched to compensate inland freight cost to exporters of cement, light engineering, leather garments, furniture, soda ash, hydrogen peroxide, caustic soda, sanitary wares including tiles, finished marble/ granite/ onyx products.

1.3.2 Technology, Skill and Management Up-gradation Fund for Value -Added Products

All final use products do require continuous research and development for enhancing competitiveness either by technology up-gradation, skill development or by improved management systems. A fund dedicated to support these activities is required.



- Technology, Skill and Management Up-gradation fund would be established.

1.3.3 Brand Promotion Support for Surgical Instruments, Sports goods & Cutlery

The manufacturing in these sectors is largely done under the brands of foreign companies resulting in lower prices for manufacturers in these sectors.

- It is proposed that surgical instruments*, sports goods & cutlery sector would be granted 25% subsidy on brand promotional expenses like advertisement in recognised trade journals, certification cost, etc.

** Term Surgical includes surgical, medical, dental, veterinary, beauty care (manicure/pedicure etc.) and like instruments*

1.3.4 Product Development and Marketing Fund for Light Engineering

Engineering sector is dynamic and resilient but is fragmented. This sector has shown promising growth during 2008-09 with an export growth of 26.1%. By enhancing sophistication level, the engineering goods can achieve much higher values.

- In order to increase the sophistication level & realise true potential of this sector, a special fund would be created for product development & marketing for light engineering sector.

1.3.5 Enhancing Sophistication in Surgical Instruments Center of Excellence

Shortage of well-trained skilled manpower is impeding growth of surgical instruments manufacturing industry. Other factors are lack of R&D and design facilities.

- Ministry of Industries and Production would establish a center of excellence for catering to the training, designing, research & development needs of surgical instruments* sector at Sialkot.

** Term Surgical includes surgical, medical, dental, veterinary, beauty care (manicure/pedicure etc.) and like instruments*

1.3.6 Enhancing Sophistication in Leather Apparel

Leather apparel industry needs to adapt to changing trends for which they need expert input for improving quality and efficiency.

- Leather apparel exporters would be provided 50% subsidy for on the floor expert advisory / consultancy and matching grant to establish design studios or design centers in their factories.

- R&D Centers to be established in Karachi and Sialkot by Pakistan Leather Garments Manufacturers & Exporters Association (PLGMEA) for providing R&D support to Leather Garments & Leather Goods Exporters would be fully funded.

1.3.7 Freight Subsidy on Export of Live Sea Food

Live sea food fetch very high prices in international markets as compared to frozen products, minimum price ratio is 1.10. In fact, maximum value-addition is through export of live sea food. This product offers immense potential in export markets.

- A freight subsidy at 25% would be extended on air shipments of live seafood products. This will also compensate exporters to overcome losses incurred due to mortality.

1.3.8 Support on Export of Processed Food

Raw and semi-processed agricultural products being currently exported can get higher values if exported as processed food. However, Technical Barriers to Trade (TBT) on processed food require compliance to more sophisticated standards and thereby higher cost of production.

- Processed food exports would be supported initially by reimbursing R&D cost at 6% of the exports; the quantum & mode of support to be adjusted after a detailed study.

1.3.9 Introduction of PAKGAP Standard

Good Agricultural practices are essential to ensure food safety both locally and in export markets and thereby better acceptability; our agricultural sector is lacking recognised agricultural practices standards.

- Pakistan Good Agricultural Practices (PAKGAP) standards initially for five major horticultural exports (citrus, mango, date, potato and onion) should be worked out by Ministry of Science & Technology in consultation with Ministry of Food & Agriculture (MINFA) and would be implemented by MINFA in collaboration with Pakistan Horticulture Development & Export Board (PHDEB).

1.3.10 Conversion of PHDEB into a Company

Pakistan Horticulture Development & Export Board (PHDEB) is an Export Development Fund (EDF) funded project of the Ministry of Commerce. Due to its undefined status, it could neither seek international assistance which is otherwise available nor could contribute fully to the development of the sector. It has therefore been changed into a corporate body.

- It is proposed that, on incorporation, O&M expenses of PHDEB would be funded for a period of three years.



1.3.11 Improving Supply Chain of Leather Sector Exports Flaying Machines

Minimum of 25% hides and skins are estimated to be rendered useless from butcher cuts. There is an imminent need to introduce flaying machines in abattoirs but local governments have limited resources to install and run flaying machines.

- Matching grants to district governments for installing flaying machines would be provided.

1.3.12 Improving Supply Chain of Leather Sector Exports Finished Leather

Finished leather is not only one of the major export products but also an intermediate product in which substantial value-addition can be achieved by adopting modern production processes and creating trendy finishes. There is a need to encourage tanneries to upgrade production and designing facilities and to facilitate them for complying with international standards.

- For enhancing competitiveness of leather sector, the following measures would be implemented:-
 - a. Sharing 25% financial cost of setting up of design centers and labs in the individual tanneries.
 - b. Matching grant for setting up of effluent treatment plants in individual tanneries.

1.3.13 Services Export Development Fund

Services sector has immense potential for earning foreign exchange however high pre-project costs are a deterrent to its expansion. Support to Services Sector in tendering process and preparing pre-feasibility / feasibility studies shall be instrumental in helping the sector to achieve its potential.

- A Services Export Development Fund would be established to provide assistance in the form of reimbursable and other grants, to Pakistan service exporters for tendering or negotiating for international projects, for conducting pre-feasibility or feasibility studies for international projects and like activities.

1.3.14 Halal Products-Cost sharing of Halal Certification

Halal Products (Food & non-food) is an over trillion dollar market. Pakistan, despite being a Muslim country, is being left behind. One of the major reasons is lack of recognised halal standards. Ministry of Science & Technology (MoST) is charged with working out the standards and setting up a Halal Certification Board.

- Till the Halal Certification Board is set up, the cost of Certification should be subsidised by 50%.

1.3.15 Compliance with Safety Standards

Safety Standards Certification by Underwriters Laboratories (UL) increases the level of acceptability of manufactured products particularly domestic electrical appliances in international markets.

- To encourage the exporters, 50% cost of UL certification would be subsidised.

1.4 SECTOR SPECIFIC - CONTINUING INITIATIVES

1.4.1 Cluster Development

It was decided in last year's Trade Policy that Trade Development Authority of Pakistan (TDAP) will establish 11 new clusters such as surgical/sports wear/gloves/leather, etc to facilitate small units.

- Since export clusters are essential for development promotion of non-traditional products, STPF would continue with this initiative in current trade policy to gain maximum benefit from establishment of these clusters.

1.4.2 Support on Export of Motorcycles

Export of Motorcycles was facilitated through R&D support of US\$50 (Rupee Equivalent)/Unit. However the disbursement was started in end of FY 2008-09.

- The support of Rupee equivalent of US\$50/Unit on export of motorcycles would be continued till June 2010.

1.4.3 Pharmaceutical

Pharmaceutical sector was given the following incentives in previous years:

- a. Support for hiring medical representatives abroad
- b. Support for registration of pharmaceutical products abroad
- c. Support for bio-equivalence certification

- The sector has responded well and continued support is needed. Therefore, the above initiatives would be continued throughout the period of STPF 2009-12.

1.4.4 Matching Grant for Paddy Harvesters and Paddy Dryers

A large number of export consignments of rice are being rejected due to aflatoxin infestation, a condition attributed to



high moisture contents of paddy. The possibilities of aflatoxin infestation can be minimised by introducing paddy harvesters and paddy dryers. The farmers however, are reluctant to procure these due to high cost. Last year's trade policy envisaged exploring possibility of providing matching grant from Agribusiness Support Fund but technical reasons precluded that possibility.

- Rice farmers / rice millers would be given matching grants from EISF for purchase of paddy harvesters and paddy dryers.

1.4.5 Markup Subsidy for Cool Chain Projects

In Trade Policy 2008-09, establishment of cold storages and cool chain processes by horticultural exporters was supported by allowing markup subsidy at 8% or 50%, whichever is lower.

- The horticultural exporters would continue to be given markup subsidy on loans for establishing cool chain processes at 8% or 50% of the markup, whichever is lower.

1.4.6 Zero Rating of Exports and Adhoc Relief at 1%

Exporters are forced to export indirect taxes, estimated to be around 9% of the cost of production. Trade Policy 2008-09 proposed a study to calculate the burden of these taxes and pending that to give interim relief to fourteen sectors in shape of additional duty drawback at 1% of export value. Though the proposal was approved by the Cabinet, FBR did not allow additional duty drawback.

- The exports should be completely zero rated. Till such time, the decision to give additional duty drawback to the specified sectors can be implemented, an amount equivalent to 1% of C&F value of exports would be reimbursed as an interim relief measure; the sectors are tents & canvas, electric machinery, carpets, rugs and mats, sports goods, footwear, surgical/ medical/ veterinary/ beauty care instruments, cutlery, onyx products, electric fans, furniture, auto parts, handicrafts, jewellery and pharmaceuticals.

1.5 MISCELLANEOUS - NEW INITIATIVES

1.5.1 Greening of Industry

Energy Efficiency of the boilers being used in by our industries can be increased by 30% thereby reducing cost of production. Service providers for conversion of boilers are available but are reluctant to come to Pakistan.

- To encourage conversion of boilers for increasing energy efficiency, the government should underwrite the agreements between the service provider and the industry.

1.6 PROCESS RE-ENGINEERING

1.6.1 Reducing Cost of Doing Business

1.6.1.1 Import of Used Drilling Rigs

Oil and gas and petroleum sector companies are allowed import of second hand plant and machinery equipment required for their project in Pakistan subject to pre-shipment certification to the effect that such plant, machinery and equipment are in good working condition and are not older than 10 years.

- Since drilling rigs usually have a useful life of more than 20 years, it is proposed that the age limit for them would be enhanced to 20 years subject to PSI certification.

1.6.1.2 Import of Specialised Machinery

There are age based and user based restrictions on import of specialised machinery and transport equipment (Concrete Transit Lorries, Concrete Pumps, Crane Lorries, Concrete Placing Trucks, Dump Trucks, Waste Disposal Trucks, cement bulkers and Prime Movers, etc). These restrictions would be replaced with standards based restrictions.

- Import of specialised machinery/ transport equipment by actual users (construction companies, etc.) in used condition irrespective of the age would be allowed provided they fulfill emission and efficiency standards and have sufficient productive life.

1.6.1.3 Trade-in of Machinery

There is a possibility for Industrial Users to trade-in new, refurbished or up-graded machinery with their obsolete machinery. Current import and export regimes do not provide for trade-ins whereas if allowed, it could reduce the expenditure on Balancing Modernization and Replacement (BMR).

- Industrial importers would be allowed to import new, refurbished and upgraded machinery on the basis of trade-in with their old, obsolete machinery. Likewise, export of their old/obsolete machinery for trade in with new, refurbished or upgraded machinery would also be allowed.

1.6.1.4 Advance Remittance for Expeditious Imports

State Bank of Pakistan has discontinued the facility to remit US\$10,000 per invoice, as advance payment, for import of spare parts, consumables/ raw materials, etc. The discontinuation of the facility has increased the cost and time to effect urgent imports.

- Facility to remit US\$10,000 per invoice, as advance



payment, for import of spare parts, consumables/ raw materials etc would be restored by State Bank of Pakistan.

1.6.1.5 Waiver of Size Restrictions on Import of Secondary Quality Iron & Steel Plates/Sheets/ Coils

Import of secondary quality iron and steel sheets/plates / coils is allowed provided the sizes are minimum "48 (length) x 20 (width)". The minimum size restriction is irrational and difficult to implement. The industrial users face difficulties in getting clearance of such material which adds to the cost of doing business.

- Minimum size restrictions on import of secondary quality iron and steel sheets/ plates / coils would be waived off.

1.6.2 Sector Specific

1.6.2.1 Gems & Jewellery Sector

To promote Gems and Jewellery sector, the Cabinet in Trade Policy (2008-09), approved waiver of customs duties and sales tax on import of Gold, Diamonds, Silver, Platinum, Palladium and precious stones. Further, FBR didn't comprehensively implement the decision.

- Implementation of Cabinet decision would be expedited. Further as natural pearls and other synthetic or reconstructed precious or semi precious stones are being increasingly used in jewellery products, they would also be exempted from customs duty and sales tax.

1.6.2.2 Pharmaceuticals

Marketing of pharmaceutical products involve a number of complexities in the international territory, including the need for extensive sampling at product launching stage.

- Limit for physicians' samples would be enhanced to 20% (current limit 10%) at the time of launch with first shipment.

1.6.2.3 Special EOU Status to Engineering Units

Currently, units that export 100% of their production enjoy the status of Export Oriented Units and the benefits thereof. Since, engineering industry, particularly auto motive parts manufacturing industry has vast export potential but cannot export all of its production in initial stages, it needs special treatment.

- Engineering units would be allowed EOU facility on export of 50% of their production for the first three years. After that, engineering units would be allowed this facility on export of 80% of their production.

1.6.3 Export Related

1.6.3.1 Export of Indigenous Edible Oil in Bulk

At present, export of indigenous edible oil from Pakistan is allowed in retail packs only. There have been export demands for domestic edible oils like sun flower, canola and cotton seed.

- Export in bulk of these indigenous oils (sun flower, canola and cotton seed) would be allowed.

1.6.3.2 Export of Pulses

Currently, exports of all types of pulses are banned due to domestic supply reasons. There is a growing international demand for pulses. Opportunities exist for exporting pulses obtained on processing of imported inputs.

- Exports of pulses obtained on processing of imported inputs would be allowed subject to necessary safe guards against export of indigenous pulses.

1.6.3.3 Enactment of GI Law

Absence of sui generis law on Geographical Indication (GI) has exposed Pakistani GI products particularly Basmati rice to infringements. The draft GI law is under preparation by Intellectual Property Organisation (IPO).

- GI law would be enacted on fast track basis and Trade Development Authority of Pakistan (TDAP) would be given the mandate to apply for and to hold GI registration of Pakistani products.

1.6.4 Import Related - Regulatory

1.6.4.1 Controlling Import of Opium Poppy Seeds

Presently, there is no restriction on import of opium poppy seeds as far as the origin is concerned. Single convention binds the signatories to import opium poppy seeds only from the countries where it is legally produced.

- In view of the international commitments, the source of import of opium poppy seeds would be restricted to the countries where it is legally produced.

1.6.4.2 Controlling Import of Scrap/Waste Plastics

Presently, import of waste, parings and scrap of polyethylene and polypropylene is restricted to industrial consumers while import of other plastics is allowed on commercial basis.

- To regulate import of such scrap, import of all types of



plastic scrap would be allowed to industrial consumers only and strictly in accordance with the provisions of the Basel Convention.

1.6.4.3 Import of Used Computer Components

Old and used computers and peripherals thereof are freely importable but the import of used components (RAM, Casing, Motherboard, Processors, etc) is banned. The restriction on import of used computer components is limiting access to computer usage by low income segment of population.

- In order to encourage use of computers by low income segment of population, the import of old & used computer components would be allowed.

1.6.4.4 Restricting Import of Used CRT Monitors

Second hand Cathode Ray Tubes (CRT) monitors are being imported and used as televisions, thereby posing a threat to local television industry; unhindered import of first world's e-waste is also a threat to the environment.

- Import of CRT monitors would not be allowed unless imported along with used computers.

1.6.4.5 Protecting Local Vaccine Producers

Local manufacturing of vaccines is of strategic importance and now local companies have started venturing into this high tech segment. Unhindered import of vaccines, particularly of low quality, is likely to discourage them.

- To encourage local manufacturing, import of vaccines would be allowed only from World Health Organization (WHO) approved plants. Accordingly, S.Nos. 694, 695 and 698 of Appendix G to the Import Policy would be deleted.

1.6.5 Import Facilitation

1.6.5.1 Import of Donated Ambulances

Only such used ambulances (not more than 15 years old) that are donated by "reputable organisations" are allowed for imports by charitable organisation/ trusts/ hospitals.

- It is proposed that import of used ambulances that fulfill certifiable standards and have minimum 10 years of useful life would be allowed when donated by any organisation / individual to a charitable or nonprofit organisation, trust or hospital.

1.6.5.2 Disabled Persons Import of Motorised Wheel Chairs

Secondhand / used motorised wheel chairs are presently importable only by charitable institutions and hospitals whereas actual users cannot do so.

- To facilitate disabled persons, import of one Secondhand / used motorised wheel chair would be allowed to actual users without payment of duties and taxes.

1.6.5.3 Disabled Persons - Import of Duty Free Cars

Disabled persons are allowed waiver of import duty which is in excess of 10% on CKD kits that are imported for assembling of car for them. Restricting disabled persons to use locally assembled cars limits the choice to few makes; there have been persistent complaints of non-availability of customised vehicles among the local makes. Previously, duty free import of customised cars by disabled persons was allowed.

- To facilitate disabled persons to actively participate in economic activity, the facility to import duty free customised cars, not above 1350cc of engine capacity, would be allowed on the recommendation of 'Federal Board for Disabled Persons' already established in Ministry of Commerce.

1.6.6 Import Related - Liberalisation

1.6.6.1 Transfer of Residence (TR) Rules Amendment

In case a passenger who brings/imports vehicle under TR scheme dies before the issuance of TR, there is no provision in Import Policy Order for the release of such vehicle.

- Vehicle imported by an overseas Pakistani, under TR rules, would be released to legal heir(s) in case of his / her death.

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