

## **TRADE POLICY SPEECH 2006-07**

Ladies and Gentlemen Assalam-o-Alaikum,

Today I have the great privilege of presenting before you the trade policy for the financial year 2006-07. This is the fourth successive trade policy that I have had the honour to present to the people of Pakistan as your Commerce Minister.

2. Pakistan has been fortunate to have had a period of stability and continuity for almost seven years since President Pervez Musharraf assumed office in October 1999. This was because he at the very outset articulated a clear vision for the future of Pakistan. In this vision the economic reform agenda figured most prominently since this was a necessary prerequisite for improving the lot of the poor people of Pakistan, especially through accelerated economic development. In the process he has taken many bold and visionary decisions, and by doing so, has ensured a bright future for all Pakistanis. As a result of consistent and steadfast policies of the Government, *pursued under the guidance of the President and the Prime Minister of Pakistan* we are all now beginning to see the fruits. The Ministry of Commerce has also fully participated in this national endeavour and has had the privilege of making its contribution. This was done by rapidly propelling Pakistan's exports to unprecedented levels during this period.

### **Export Performance 2005-06**

3. As you are all aware during the previous year the people and government of Pakistan had to face a multiplicity of challenges which created serious difficulties. This was firstly because they were unforeseen and secondly because their magnitude was sizeable. As a result the capacity of the commercial and manufacturing sector to maintain the growth trajectory of exports came under considerable strain.

4. To begin with, on 8<sup>th</sup> October 2005, a massive earthquake rocked northern Pakistan resulting in over 73,000 deaths and more than 135,000 persons being injured. In addition there was widespread destruction of property and infrastructure as a result of which life in the affected areas was totally crippled. This unfortunate occurrence seriously handicapped our export related activity in a variety of ways.

5. Another major negative factor *in the past year* was the rapid increase in the international oil prices *to unprecedented levels of around \$ 70 to 75 per barrel*. As a result, *in the first nine months of last year the petroleum group import bill increased by 64.5 percent*. This fact has had two unpleasant effects. Firstly it has resulted in a dramatic increase in our import bill and therefore our trade gap. Secondly it has meant increase in the cost of production in particular and the cost of doing business in general thereby adversely impacting the competitiveness of our exports.

6. *All this notwithstanding the Ministry of Commerce remained focused during the year in trying to maximize the level of our exports. I would now like to inform you that our exports for the fiscal year 2005-06 amounted to a total of \$16.468 billion. This represents an increase of \$ 2.1 billion or 14.44% over last year's level of \$ 14.391 billion. This increase is slightly more than the growth achieved last year i.e. of \$ 2 billion. It is also noteworthy that despite the challenges we faced during the year our export growth rate of 14.44% this year is substantially more than the world merchandise export growth rate of 13% in 2005.*

7. *At this point I would also like to refer to the services sector which is extremely important for Pakistan's economy for a host of reasons including employment, contribution to GDP, and as a driver of economic growth. Consequently trade in services, which accounts for 20% of world trade, has also assumed critical importance for us. That is why in last year's trade policy I had announced our intention to make this sector the target of continued focus by the Ministry of Commerce, with a view to enhancing its exports. We have therefore been adopting a number of policy measures to facilitate the growth and exports of this sector.*

8. *However, the statistics relating to trade in services, while being reflected in our balance of payments figures, are not fully disaggregated. Resultantly, while it is possible to discern the exports and imports in some service sectors, it is not possible to do the same for others, because they are reflected in too broad a category. This situation makes it difficult for the Government to plan rigorously for the benefit of this sector. It has therefore been decided that the State Bank of Pakistan will immediately start the process of fully disaggregating the services trade figures from the balance of payments statistics, so that by the end of this*

*fiscal year we have more clarity. Nevertheless given the current level of disaggregation, it is clearly evident that in a ten month period i.e. July 2005 to April 2006, export of services in only 3 service sectors i.e. construction services, computer related services and other business services our exports were around \$ 392 million.*

9. *Recently our defence industrial complex has also started contributing significantly to our exports as a result of the special attention of the President of Pakistan. A Defence Export Promotion Organisation (DEPO) has specifically been established for this purpose which also organizes a specialized exhibition titled "IDEAS" every two years. The Ministry of Commerce facilitates the functioning of DEPO including through provision of EDF funds for the IDEAS exhibitions. It is a source of pleasure for me to inform you today that last year our defence related exports were of the order of \$ 275 million, and indications are that this figure will grow rapidly in years to come.*

10. *As you would recall last year we had set for ourselves an export target of \$ 17 billion. At the close of the year I would now like to inform you that our merchandise exports were around 16.5 billion, our defence exports an additional \$ 275 million and services exports in three sectors another \$ 392 million. This is a reasonable achievement in view of the fact that over the last year we were all working in a very difficult environment. **Let me also say that as per current practice, the trade statistics released by the Federal Bureau of Statistics (FBS) only pertain to merchandise exports and imports. It has now been decided that trade figures released by the FBS in future, will also include data on defence exports as well as services exports and imports.***

11. *In terms of sectors, during the period July 2005- May 2006, textile exports increased by \$ 1.39 billion, rice by \$ 178 million, leather products by \$ 152.5 million, petroleum products by \$ 242 million, chemicals by \$ 23.1 million and other miscellaneous items by \$ 888 million.*

12. *While the share of the textile sector overshadows other sectors in our exports portfolio, we are nevertheless continuously trying to diversify our product range and thus raise the share of non textile exports. These exports, for the first time in history have exceeded US\$ 6 billion. It is also noteworthy that this year during the period July 2005 to May 2006,*

*the exports of rice have also exceeded one billion US dollars. Till last year only five of our products enjoyed this distinction of being in the billion dollar club, but they were all from the textile and clothing sector.*

13. *As I have already mentioned textile exports during the period July 2005 – May 2006 increased by \$ 1.39 billion when compared to the corresponding period last year. It is worth mentioning that this was achieved despite a number of adverse factors. Firstly due to fierce international competition, unit prices in the textile sector are declining and therefore this growth has mainly been due to export of higher volumes than before. Secondly in the European market our textile exporters were disadvantaged vis a vis their competitors due to the phase out of the drug related GSP scheme and imposition of anti-dumping duty on our bed linen. **The Government however made intensive efforts to neutralize this handicap through trade diplomacy supported by personal interventions by the President and the Prime Minister. Resultantly the European Commission reviewed the anti-dumping duties on bed linen and reduced it from 13.1% to 5.8%. Furthermore Pakistan was also made a beneficiary of the new EU GSP scheme. Under this scheme our textile products imported into the EU will be allowed a 20% concession on the MFN tariff, whereas for non textile items the EU import tariff will be reduced by 3.5%.***

#### **Trade Policy Implementation**

14. Before I go on to spell out the new trade policy measures that we are initiating, I would like to apprise you of the progress we have made on some of the initiatives that we are already pursuing.

#### **Clean Cotton**

15. The Ministry of Commerce has for some time been spearheading the effort to promote the production of standardized and clean cotton in the country, because this qualitative improvement will significantly increase the value of our textile related exports. Subsequently the Ministry of Textile Industry took up this challenge and the Ministry of Commerce continued to lend its full support through the involvement of Trading Corporation of Pakistan. The Ministry of Textile Industry in 2005-06 launched a cash incentive based programme for which ginning factories were selected in Punjab, Sindh and Balochistan. The TCP, given its resources and expertise in this field, distributed the premium to farmers

who supplied clean cotton to Ginnars. Because of the positive impact of this scheme, the TCP will continue to lend its expertise and manpower support to the Ministry of Textile Industry for this purpose.

### **Pakistan School of Fashion Design (PSFD)**

16. As part of our effort to improve the quality and marketability of our textile products, the Ministry of Commerce has been paying special attention to the Pakistan School of Fashion Design. This school established by the Ministry of Commerce in rented premises in Lahore in 1995, has made an appreciable value enhancing contribution to our textile and apparel sector in a short period. We therefore feel that we need to take this school to the next level, so that its benefits can contribute even more to increasing the value of our exports, and therefore we have taken a number of steps in this regard.

17. *Firstly, the scope of the school has been expanded beyond apparel. The school now will comprise four departments, namely: Fashion Design, Textile Design, Accessories and Product Design, and Fashion Marketing and Promotion. These departments will impart training in a broad range of disciplines, including Sports wear, Mens' wear, Gems and jewellery, leather accessories, footwear, ceramics, furniture and carpets. Besides, training will be given to students in marketing, merchandising, media studies, event management and packaging. The school will be upgraded to a degree awarding institution under the Higher Education Commission.*

18. *Secondly for the above initiative to take root, the school has been affiliated with several leading institutes abroad such as La Chambre, in Paris for fashion designing, and Mod'Spe, the Federation of Ready to Wear (Prêt-a-Porter) in France for marketing & merchandising, respectively. For leather accessories and footwear, an MoU has been signed with the Fashion Institute of Designing and Merchandising (FIDM) in Los Angeles. Moreover, for Gems and Jewellery, the school has sent its staff for training to the Gemological Institute of America's branch in Thailand.*

19. Thirdly a project for construction of its campus in Johar Town, Lahore has been approved at a cost of Rs. 669 million, and the construction has begun. Besides the campus construction, another project costing Rs. 475 million is also in the pipeline and it is intended for

purchase of equipment, curriculum development and training of School faculty.

20. Fourthly a decision has also been taken to establish branches of this School in Karachi and Islamabad.

#### **Skill Development Initiative**

21. In the trade policy announced last year, we had proposed a number of initiatives for the textile sector. One of them was to overcome the serious skill deficit in this sector for which a Garments Skill Development Board was proposed. This Board has now been set up and its management has been entrusted to the Ministry of Textile Industry. *In this public private partnership scheme, around 30 selected garment units have been declared as training institutes in Karachi, Lahore and Sialkot. The Government will support the units in their effort to provide internationally recognized training in this field.*

#### **Security Compliance**

22. After 9/11 security related compliance has become an additional burden for our Pakistani exporters. The Ministry of Commerce has been particularly sensitive to this problem and has been working with other foreign Governments as well as our own Ministries and agencies to improve our security compliance, so that Pakistani export cargoes do not face clearance delays at foreign ports due to security concerns. As a result the Government has taken the following measures:

- a) International Ship and Port Security Code (ISPS) of the International Maritime Organisation (IMO) has been implemented by Pakistan.
- b) To minimize difficulties for Pakistani export cargoes at US ports, an agreement on declaration of principles has been signed between Pakistan and the United States for implementation of an Integrated Cargo/Container Control Programme.

**Pakistan Horticulture Development and Export Board (PHEDB)**

23. I have always felt that the horticulture sector in Pakistan represents tremendous unrealized potential and what is needed is systematic and focused attention, for Pakistan to carve a niche for itself in this global market of \$ 80 billion. Presently Pakistan annually produces 13 million tons of fruit and vegetables valued at around \$ 2 billion, and out of this only about half a million tons valued at \$ 140 million, is exported. The factors inhibiting export growth include our inability to comply with quality and sanitary/phytosanitary standards and insufficient shelf life of our fresh fruits and vegetables.

24. To rectify this situation, as a first step the Ministry of Commerce set up the Pakistan Horticulture Development and Export Board (PHDEB). Thereafter under its umbrella the following projects have been initiated:

- i) Establishment of four collection points and markets for fresh fruits and vegetables etc equipped with cold storage facilities. This will prevent the tremendous wastage of such products that is taking place presently. Two facilities each are being provided in NWFP and Balochistan.
- ii) Three date processing plants are being set up in DI Khan, Khairpur and Turbat so as to realize the export potential of these areas and thereby help in poverty reduction.
- iii) One apple treatment plant for grading, washing, waxing, and packaging is being set up in Quetta.
- iv) One food irradiation plant is being set up in Lahore for improving shelf life of products such as mangoes, potatoes and onions.
- v) Agro processing zones are being set up for facilitating exports of mangoes in Multan and Mirpur Khas and for citrus in Salem –Sargodha.
- vi) Cool vans are being provided for floriculture.

25. Besides these projects a number of financial incentives are already in place. These include subsidized credit facilities for establishing cold chain infrastructure, subsidies for cost of international standards certification such as ISO, HACCP and EUREPGAP and also for related consultancy services. In the latest budget, tariffs on a large range of relevant machinery and equipment has been zero rated.

26. As a result of support provided by the Ministry of Commerce for obtaining international standards certification and trade diplomacy for this specific purpose, we have been successful in overcoming the sanitary/phytosanitary barriers in countries such as Iran, China and Philippines for export of Kinnow and mangoes from a number of Pakistani processing facilities. Additionally while negotiating various Free Trade Agreements and related Early Harvest Programs, the Ministry of Commerce has given priority to gaining market access for our horticulture products. As a result the Iranian market has been revived with 25000 tons of kinnow being exported this year. The Russian market was also accessed this year and over 30,000 tons were exported to Russia. The overall export of Kinnows this year has been 200,000 tons which is a new record.

### **Preferential Trading Arrangements**

27. In recent years the world trade scene has witnessed a proliferation of preferential trading arrangements, be they in the form of Regional Trading Arrangements (RTAs) Bilateral Free Trade Agreements (FTAs) or unilateral GSP type programmes. As a consequence, Pakistani exporters were increasingly finding themselves at a disadvantage vis a vis their competitors, on account of the preferential access the latter enjoyed in certain markets. The Government therefore decided to initiate a series of preferential trade negotiations designed to neutralize this disadvantage for our exporters. While negotiations with a number of countries are at various stages, some of them have either already begun to yield benefits or are on the verge of doing so.

28. To begin with our first FTA to become fully operational was with Sri Lanka and it has been effective since June 2005. As a result Pakistani exports such as **fruits, vegetables, footwear, engineering products, sanitary goods, chemicals, leather, rice and some textile items enjoy duty concessions in the Sri Lankan market.**

29. Secondly while negotiations for a full fledged FTA with China are progressing well; an Early Harvest Program has already become effective since January 2006. As a result Pakistani exports such as leather articles, some textile items, marble, sports goods, fruits, vegetables and mineral products will have reduced duties and all these items will be exportable duty free by January 2008.

30. Thirdly while FTA negotiations with Malaysia are proceeding at a rapid pace, an early harvest program has become effective since January 2006. As a result Malaysia has allowed export of Pakistani **items such as fruits, vegetables, some textile items and jewellery at concessional rates of duty. We expect these negotiations to conclude by the end of this year.**

31. Pakistan has also recently concluded negotiations on a Preferential Trade Agreement (PTA) with Iran. Under the terms of this Agreement Iran has agreed to grant tariff concessions on 309 tariff lines which include items such as **sea food, fruits, vegetables, rice, marble and granite, textile machinery, wooden furniture, pharmaceutical products, minerals and certain textile items.** This Agreement is expected to become operational shortly.

32. *Moreover, the South Asia Free Trade Agreement (SAFTA) between Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka has been signed and ratified by all members. It has consequently become operational as of July 1<sup>st</sup> 2006.*

33. ***With Singapore and the Gulf Cooperation Council (GCC) countries, we expect to conclude our FTA negotiations by the end of the year. With the Mercosur countries (i.e. Brazil, Argentina, Paraguay and Uruguay), I am scheduled to sign a framework agreement on 20<sup>th</sup> July in Buenos Aires, Argentina on the occasion of the Mercosur Summit Meeting.***

34. *Lastly, the government has initiated talks with several other countries for preferential market access arrangements. Bilateral negotiations in this regard are underway with Mauritius, Morocco, Russia, and Thailand. Additionally multilateral negotiations are taking place in the context of the Organization of Islamic Countries (OIC), and Group of Developing Eight countries (D-8). Further a joint consultative study group*

*for a potential PTA with Association of South East Asian Nations (ASEAN) has also been agreed.*

35. **While in recent years there has been an intensification in trade diplomacy and preferential trade negotiations, our exporters need to be made more aware of the rapidly emerging new concessional opportunities. The Ministry of Commerce is therefore taking a number of measures in this regard. These include the organizing of informative seminars, dissemination of information through the Ministry's website as well as through the print and electronic media. Also an officer of the rank of Deputy Secretary in the Ministry of Commerce has been specially designated as a focal point to answer queries by interested persons regarding various Trade Agreements.**

#### **Border Infrastructure**

36. Recently over-land trade has been assuming more importance for Pakistan, and the need was increasingly being felt for upgrading the border infrastructure, so that it did not become an obstacle to growth of such trade. As a first step, under the instructions of the Prime Minister, the National Logistics Cell is to establish modern border terminals at Taftan Chaman, Torkham and Wagah. The Secretary Commerce has been assigned the responsibility to chair the Steering Committee which will supervise this important work. These terminals will house all the required facilities such as Customs and Immigration offices, Quarantine facilities, warehouses and display centres, scanners and weighbridges. These terminals will also serve as hubs for multi modal transport since here railway and road transport modes will be integrated.

#### **National Trade Corridor Improvement Program (NTCIP)**

37. **In order to take full commercial advantage of Pakistan's geo economic location the Prime Minister has set up a Task Force on the National Trade Corridor Improvement Program under the Deputy Chairman Planning Commission. This task force is working for the improvement of Ports and Shipping, Highways, Railways, Trucking sector and of course Trade Facilitation mechanisms. Under this program the Ministry of Commerce is working on improvement of the cold chain infrastructure and has initiated feasibility studies for three projects to provide state of the art cool chain facilities for fresh fruits**

and vegetables. Secondly, the Ministry has initiated a feasibility study to ascertain new locations where facilities are needed for dispatch of exports via air cargo. Thirdly, the Ministry of Commerce is working with other Government agencies to arrange the early accession of Pakistan to the International Transport Carnet (TIR) and the ATA Carnet conventions, since this will greatly facilitate the achievement of benefits associated with developing this trade corridor.

#### **Review of Trade Organizations Ordinance 1961**

38. The current law regulating the activities of trade organizations dates back to 1961 and a need has been felt to make changes in it so that it conforms to the challenges of the 21<sup>st</sup> century. The current trading scenario is radically different from the one that prevailed in the 60's when this law was conceived. The requirement of today is to have an effective and synergistic public private partnership so as to facilitate rapid growth in trade and economic development. With this in mind the Ministry of Commerce has reviewed the Trade Ordinance 1961 in close consultation with various trade bodies and associations. As a result of these consultations the Ministry of Commerce **will prepare draft legislation** which we believe will enable the private sector to effectively participate in the national effort to achieve rapid economic growth.

#### **Expo 2006**

39. Encouraged by the successful holding of Expo-2005 for the first time in Pakistan, this year again Expo-2006 was organized in end of March. This mega event helped show case the country's export potential, economic resurgence, robust industrial and agricultural growth and also promote the soft image of Pakistan. The most heartening result of Expo-2006 was the fact that over 1000 buyers from five continents visited it, and witnessed for themselves the high quality goods being produced in Pakistan. Both the President and the Prime Minister of Pakistan also participated in this event with a view to emphasizing the importance the Government of Pakistan attaches to trade promotion and welcoming foreign traders and investors.

### **Domestic Commerce**

40. In last year's trade policy, I had emphasized the importance of internal commerce and indicated the intention of the Commerce Ministry to start working on this neglected area. As a first step therefore a series of ten research studies have been commissioned so as to enable the Ministry to have a better and research based understanding of the dynamics of this sector. These studies are expected to be completed before the end of this year and will contain policy recommendations designed to improve the efficiency of this sector which in turn will translate into significant increase in exports. The areas being studied include competitiveness, protection policy, subsidies and incentive regimes and market regulation. Research will also focus on better understanding the retail, wholesale, construction, transport, storage/warehousing and agricultural commodity sectors.

### **Envoys Conferences**

41. *As part of the effort to focus on the peculiar requirements of export markets in different regions, the Ministry of Commerce has organized a series of six envoys conferences in different regions. Besides concerned officials from the Ministry and the EPB, these conferences were also attended by all our Ambassadors and trade officers stationed in the region. These conferences, held in Kazakhstan, South Africa, Brazil, Russia, Singapore and Abu Dhabi considered issues relating to markets in each region and recommended policy measures to facilitate greater exports. These recommendations proved to be very valuable and some of them have already been adopted, while others have served as an important input for this year's trade policy.*

### **Freight Forwarding Sector**

42. Pakistan urgently needs to develop an efficient "International Freight Forwarding" Industry as Pakistan's progress in logistics has not kept pace with its growth in trade. Therefore, under the Trade and Transport Facilitation Project funded by the World Bank, Standard Trading Conditions, Minimum Qualification Standards, and Code of Conduct for Freight Forwarders have been developed to improve professional competence and performance of the Freight Forwarders. Ministry of Commerce facilitated Pakistan's International Freight Forwarding and logistic sector to be declared as an industry and has also

registered Pakistan International Freight Forwarders Association (PIFFA) as the sole representative organization of freight forwarders. These initiatives will have a positive impact on efforts to upgrade the entire logistics network of Pakistan. PIFFA will also play its due role in the implementation of the quadrilateral Agreement for Traffic in Transit between Pakistan, China, Kyrgyzstan and Kazakhstan, thereby helping to boost trade among these countries.

### **Export Strategy**

43. In last year's trade policy statement, I had articulated the Rapid Export Growth Strategy (REGS) that the Ministry of Commerce is following in coordination with other government agencies, to facilitate a quantum jump in the level of our exports. This strategy is based on the following five pillars:

- i) Resort to trade diplomacy to increase market access.
- ii) Regional diversification of export markets.
- iii) Strengthening of trade promotion infrastructure.
- iv) Skill development.
- v) Early provision of modern infrastructure.

44. ***I had said this last year and I reiterate the same today that the Ministry of Commerce by itself cannot ensure export growth or contain the trade deficit within certain limits. This is because the Commerce Ministry functions within the overall economic environment of the country and its performance is therefore constrained by the impact other economic policies of the Government have on our trade. Here I am referring to monetary and exchange rate policies and of course other policies affecting our GDP growth rates.***

45. The Ministry of Commerce has been able to work successfully with our partners in the government as well as the private sector to improve our efficiency within our existing constraints. As a result we were able to virtually double our exports compared to the level existing seven years ago.

46. Further export growth is facing serious supply side constraints and this makes it much harder to achieve export growth targets. This fact can be better appreciated when one sees that during the past year, the growth in the large scale manufacturing sector was 9% and that in agriculture was less than 3%. This means that we are facing a shortage of exportable surpluses and this is proving to be a major obstacle in the effort to rapidly increase our exports. The Government as a whole is cognizant of this problem and is moving rapidly to address the causes of supply side constraints under the direction of the President and Prime Minister of Pakistan.

47. The Prime Minister has tasked the Deputy Chairman Planning Commission to develop Sectoral development strategies for our traditional or core industrial sectors, as well as the developmental ones with good potential. In addition such strategies are also to be prepared for the agriculture and services sectors. The present multilateral trade negotiations on the Doha Development Agenda in the WTO will result in liberalization of the agriculture, industrial and services sectors and will therefore give rise to new opportunities for our exporters. However optimum benefit from these opportunities can only be availed if sound sector strategies are prepared and they succeed in generating exportable surpluses which are competitive both in terms of price as well as quality.

48. The prime responsibility of the Ministry of Commerce traditionally has been export promotion, and in support of this objective, trade diplomacy and trade facilitation. Recently however the Ministry has also begun focusing on domestic commerce in view of its crucial importance to export as well as economic growth. As for human and physical infrastructure the Ministry has, with the help of stakeholders identified the problems, suggested solutions and provided financial and other support for implementing the same.

49. Within the framework of the REGS, from this year we plan to introduce a certain target oriented focus whereby special attention will be paid to the export promotion of a few selected product groups. This is being done with a view to facilitate annual exports of each of these products to a level in excess of a billion dollars within three years. The product groups selected for this purpose include leather products,

engineering goods, chemicals and pharmaceuticals, towels, denim and services.

### **Export Projections for 2006-07**

50. Coming to the export target for next year, we propose to fix it at \$ 18.6 billion. This will represent an increase of around 13.0% on the export level attained this year.

51. Having outlined our export promotion approach during the current year, I now propose to describe some of the important export related measures we plan to implement from this year.

### **Export Measures**

#### **Trade Development Authority of Pakistan**

52. In view of the rapidly changing international trading environment, it has been decided to establish the Trade Development Authority of Pakistan (TDAP). ***The Federal Cabinet has approved the Draft TDAP Act.*** This Authority will replace the Export Promotion Bureau which has been responsible for trade promotion for the last 43 years. TDAP will be equipped with the necessary resources and autonomy so that it can effectively exploit opportunities for increasing Pakistan's prosperity through enhanced trade. TDAP will be supervised by a Policy Board chaired by the Commerce Minister and its members will represent both the public and private sectors. It will be staffed by highly qualified professionals who will be paid market based salary packages. The first phase of transition from EPB to TDAP will be completed in 6-12 months. Consequently it is expected that this state of the art trade promotion organization will be effective in ensuring a quantum jump in our exports.

#### **Carpet Cities**

53. Carpets have been one of Pakistan's significant export products, but currently their export growth is not satisfactory. It has therefore been decided to give specific attention to this sector and develop an appropriate strategy to remedy this situation. Consequently the Ministry of Commerce will plan the setting up of carpet cities in Lahore and Karachi. These cities will help to make our carpets more competitive in terms of price as well as quality and other standards.

### **Dazzle Park**

54. Gems and Jewellery is a sector which we feel has enormous potential. However it is also a sector that needs and deserves specific support from the Government. Accordingly an integrated facility to be known as the “Dazzle Park” is being established on 16 acres of land next to the Karachi airport, so as to minimize security costs associated with this high value trade. This one window type facility will have all the required state of the art processing facilities for this sector. Additionally it will contain training facilities for workers. It will also be declared as an export processing zone so that the facilities located in the Park can enjoy the standard tax and procedural relaxations associated with such zones.

### **Expo Centre**

55. At present we have a fully functional EXPO Centre in Karachi and another one nearing completion in Lahore. It has now been decided to set up three more EXPO Centres i.e. in Islamabad, Quetta and Peshawar. The ones in Quetta and Peshawar particularly will have modern warehouse facilities and will play an important part in promoting exports to Iran, Afghanistan and the Central Asian States.

### **Cool Chains for Horticulture Exports**

56. The increase in export of horticulture products is one of the priorities of the Ministry of Commerce, as evidenced by the existence of the Pakistan Horticulture Development and Export Board. In the previous trade policy it had been decided that in order to encourage setting up cool chains and cold storages the first 6% of the mark up for any credit obtained for the purpose by an **export oriented** company would be picked up by the Export Development Fund (EDF). However the access to this facility by a limited number of companies was not resulting in the desirable support for horticulture exporters. It has therefore been decided ***that this facility will no longer be restricted to export oriented companies and instead any company setting up such facilities will be eligible for this support from the EDF. This is the only way such facilities can become widespread enough to facilitate our exporters of perishable horticulture products.***

### **Freight Subsidy Scheme**

57. In the year 2002-03, government announced 25% freight subsidy on exports of new products and to new markets, with the objective of achieving geographic and product diversification in our exports. This subsidy scheme was extended in 2003-04 and 2004-05. In 2005, a separate freight subsidy scheme was announced for leather garments upto 31<sup>st</sup> December, 2005. I am happy to inform you that the freight subsidy scheme has been eminently successful in attaining the objectives of diversification in exports. The scheme is now being continued in a modified form to cover products and countries for which the need for subsidy is established. Accordingly the following modifications are being made in this scheme:

- i) Export of all items except those which will be notified separately will now be able to avail a 25% freight subsidy, provided they are being exported to Africa, Pacific Islands, Eastern European countries that are not in the EU and Central Asian Republics.
- ii) Export of products falling in the developmental category will be entitled to 25% freight subsidy even if they are going to one of the top 20 export destinations.
- iii) Any individual exporter, firm or company will not be entitled to a freight subsidy in excess of five million rupees in a single year.

### **Skill Development in textile sector**

58. In last year's Trade Policy the Ministry of Commerce had initiated the establishment of a Textile Skill Development Board, the administration of which was entrusted to the Ministry of Textile Industry. This Board is assisting in training of garment workers in partnership with selected garment units. It has now been decided to widen the scope of this initiative to also include training of workers producing terry towels and bed linen.

### **Research & Development Support for the Textile Sector**

59. Given the particular needs of the textile garments sector last year, the Government decided to allow a 6% compensatory rebate to ready made garments and knit wear as research and development support, and this scheme continued upto end of June this year. It has now

been decided to continue this support till end June 2007 at the rate of 6% and thereafter till end June 2008 at the rate of 3%. In addition Dyed/Printed Fabrics and white home textiles, both woven as well as knit will be eligible for R&D support at the rate of 3% whereas Dyed/Printed home textiles, woven and knit, will avail similar support at the rate of 5%.

### **Quality Standards Certification**

60. In present day international trade, standards certification and quality concerns are becoming increasingly important. Ministry of Commerce has therefore put in place various measures to facilitate our exporters in this regard, including the provision of 50% subsidy for the cost of obtaining certain specified certifications. It has now been decided to extend this facility to four additional kinds of certifications i.e. ISO-22000, Eco-labeling, Conformity Europea, and Organic Food product certificate.

### **Simplification of temporary export procedure**

61. At present specific sanction has to be obtained from the Ministry of Commerce for temporary export and subsequent duty free import of goods sent abroad for exhibitions, repairs, testing and other business process requirements. The sanctioning process can sometimes be time consuming and therefore onerous for exporters. It has therefore been decided to dispense with the sanction requirement from the Ministry of Commerce and instead temporary export cum import will be permissible on provision of an appropriate indemnity bond and undertaking to the relevant customs authorities.

### **VVIP visits and Exhibitions**

62. An official visit by the President or Prime Minister of Pakistan to a foreign country is a good opportunity for promoting the exports of Pakistani products. It has therefore been decided that in future, on such official visits to countries that are good potential markets, a single country exhibition show casing Pakistani products will also be organized.

### **Facilitation of SME Exports**

63. *A strong and dynamic Small and Medium Enterprise (SME) sector is an essential pre-requisite for rapid export growth. While we have a large SME base, these enterprises lack the capacity to export. It has therefore been decided to establish a specialized SME Export House as a*

*corporate entity with public private partnership and run by professional management. Such an arrangement I believe will be a strong catalyst to boost SME exports.*

### **Warehouse City**

64. *For Pakistan to join the rank of leading exporters, we need to ensure the availability of adequate and modern warehouse facilities within the country. We have therefore decided to explore setting up a modern warehouse*

*city in Karachi by a corporate entity with public-private partnership and run by professional management.*

### **Cement and Clinker terminal**

65. *Presently the cement industry is undergoing major expansion and we expect to have an exportable surplus in cement by end 2007 of around 10 million tonnes. In order to facilitate the export of cement, a specialized coal, clinker and cement terminal is planned to be set up in Port Qasim Karachi.*

### **Support for footwear sector**

66. *Our leather footwear sector has significant export potential but it needs to make some improvements in its processes and products. Accordingly it has been decided to provide this sector with 6% Research and Development support on the same lines as is presently available to the textile garments sector.*

### **Promotion of Meat Exports**

67. *The potential of meat exports from Pakistan has not been fully realized. It has therefore been decided to target export markets in the Islamic World where there is a demand for "Halal" meat. Towards this end halal meat export zones will be established in Karachi, Lahore, Peshawar and Quetta and therein state of the art infrastructure including for health safety will be provided to facilitate exporters that opt to work in these zones. Additionally the first 6% of the mark up rate for credit utilized in setting up cool chain facilities for this purpose, will be picked up by the Export Development Fund and subsidy will also be provided for refrigerated transportation of such meat to export markets. Similarly*

*specialized poultry export zones will be set up in Karachi, Faisalabad and Hazara.*

### **Long Term Financing for Export Oriented Projects**

68. *In order to encourage the rapid establishment of export oriented projects, the Ministry of Commerce proposed the setting up of a special Long Term Financing facility on concessionary terms with fixed interest rates. Thereafter the details of this scheme were worked out in consultation with the State Bank of Pakistan and I informed the nation about it in my trade policy speech in 2004. During implementation we discovered that while it was the most attractive project financing scheme available, it needed some modification for its potential to be fully realized. Consequently the areas of difficulty were identified by the Ministry of Commerce and after consultation with the State Bank of Pakistan this scheme has been revamped as follows:*

- i) The banks will be entitled to a maximum spread of 2% instead of 3% thereby reducing the cost of borrowing by 1%.*
- ii) Banks will be allocated separate limits aligned to their demand rather than linking them with disbursement under the Export Refinance Scheme.*
- iii) Allocation of separate amounts for SMEs and non-SMEs has been dispensed with. However banks will give preference to the needs of SMEs.*
- iv) SME borrowers have been allowed to purchase plant, machinery, equipment and accessories through commercial importers.*
- v) The borrowers can import plant & machinery required for their projects under the scheme irrespective of whether it is being locally manufactured or not.*
- vi) The Banks and DFIs have been authorized to sanction and disburse loans without prior approval of the State Bank of Pakistan.*

## **Import Strategy**

69. At this juncture I would like to emphasise that in order to achieve good growth in exports it is very important to have a sound import policy. It is also true that countries that are leading exporters also have very liberal import policies, because that is necessary to fuel export growth. Our import strategy is therefore determined by the following considerations.

70. Firstly the emphasis is on import liberalization with a view to ensuring an economical supply of machinery and raw material to our industry, so that the exportable surpluses they produce are internationally competitive, both in terms of price and quality. Secondly import of those items is being facilitated which are required for enhancing public welfare at affordable cost. Thirdly essential items especially food stuffs are imported in order to assure their availability to the public at reasonable prices.

71. During the period July 2005 to May 2006 the total value of imports was \$ 25.6 billion which was 39.4% higher than the import bill of \$ 18.4 billion for the corresponding period last year. The bulk of this increase was due to the higher prices paid for oil imports and the higher demand for machinery and raw materials stemming from increased economic activity. The imports of petroleum products increased by 64%, machinery by 35%, metals by 52%, chemicals by 17.2% and food products by 36% during this period. It is also worth mentioning that during the period July 2005 – March 2006 the import of cars in CBU condition amounted to \$ 230 million whereas the value of imports by local car assemblers in CKD form was \$ 430 million.

### **Zero rating of Tariff on sector with Export Potential**

72. In line with the policy of trade facilitation, deregulation and tariff rationalization, the Government on the recommendation of the Ministry of Commerce announced in the national budget 2005-06 the zero rating of customs duty and sales tax in marble and granite, poultry and meat, gems and jewelry, horticulture and pharmaceuticals sectors. This year also the Government on the recommendations of the Ministry of Commerce announced in the national budget 2006-07, the reduction of

custom duty on some marble and granite machinery, and on horticulture and floriculture machinery to zero percent and reduced duty on horticulture raw material from 25% to 5%, on complete rice par boiling plant from 25% to zero percent, on pharmaceutical heat ventilation air-conditioning units from 25% to 5%, and on imported raw material for footwear from 10% to 5%. These sectors have significant export potential and reduction of these duties will incentivise investment in them.

### **Import Projection for 2006-07**

73. It is estimated that in the year 2006-07 imports would be around U.S \$ 28.0 billion

### **Import Measures**

74. I will now inform you about the import measures we have decided to take:

#### **Import of used machinery**

75. There are a number of manufacturing and services industries in the country which rely on imported machinery for their operations. In some cases imported new machinery is far too expensive for such industries if they want to retain their competitiveness. On the other hand the remedy lies in being able to import serviceable second hand machinery. Accordingly from time to time our import policy is liberalized to permit import of specified used machinery subject to certain conditions. This year it has been decided to allow import of certain kinds of used machinery, the precise details of which are given in an annexure of the trade policy document. However the salient features of these changes in policy are as follows:

- i) Certain used machinery for construction and petroleum sectors provided it is not older than ten years.
- ii) Used parts and accessories of machinery for the construction, mining and petroleum sector.
- iii) Used cargo handling equipment for airports, seaports, land border stations or inland container depots provided it is not older than ten years.

- iv) Used electroplating, electrolysis and electrophoresis equipment for industrial units provided it is not more than ten years old.
- v) Used mobile cranes for industrial units.
- vi) Used spare parts for industrial units where production of new spare parts is no longer taking place.
- vii) Used equipment needed by licensed call centers required for their own use only.
- viii) Used waste disposal trucks and fire engines not older than fifteen years provided they are imported by municipal bodies directly or through their nominated agents for their own use only or as donations and gifts.
- ix) Used mobile clinics and medical equipment subject to internationally recognized certification regarding its safety. Overseas Pakistani doctors will also be able to avail this import facility under the transfer of residence scheme. This measure will facilitate cheaper medical treatment for the public at large.
- x) Used security and surveillance equipment so as to be able to ensure better public safety against terrorism.
- xi) For the transportation of fruits, vegetables, meat and flowers, used refrigerated lorries not older than 10 years have been allowed upto a maximum of 1500 units for the year 2006-07. The policy will be reviewed next year.

76. Besides these changes regarding import of used equipment the following amendments are being made in the import policy in view of the public interest involved:

- i) Government organizations will now be able to import items in accordance with their requirements directly and without recourse to the Ministry of Commerce provided they have a foreign exchange allocation from the Ministry of Finance for this purpose.
- ii) Public and private limited companies will be able to import new or used aircraft subject to fulfillment of relevant licensing formalities.
- iii) Besides industrial concerns, research laboratories and educational institutions will also be able to import acetone, sulphuric acid and hydrochloric acid after an NOC from the Ministry of Narcotics Control.

- iv) Only vehicle assemblers registered with the Ministry of Industries will be allowed to import CKD kits.
- v) Pharmaceutical raw materials will be importable subject to their conformity with the Drugs Imports and Exports Rules 1976.
- vi) Import of palm stearin will be allowed subject to its conformity with certain technical standards being specified.
- vii) Import of air guns, their parts and slugs etc will be permissible for specialized sporting clubs and associations subject to the procedure being notified by the Ministry of Commerce.

## **CONCLUSION**

77. The continued stability in the fiscal position of Pakistan has helped increase exports considerably over the last six years. The exports have more than doubled. New Policies under trade diplomacy were initiated which helped to improve Pakistan's market access internationally. To restructure the EPB the Cabinet today passed the Trade Development Authority of Pakistan Act.

78. When economies grow rapidly like ours has grown, certain challenges are faced and ours has been inflation. Future challenges lie in striking the right balance between economic policies to achieve exports growth, control inflation and narrow the trade gap. In addition to that we need to have special focus on human resource development, infrastructure, reducing the cost of doing business, and giving our exporters a level playing field relative to their competitors.

79. To increase the country's exports, is a comprehensive effort involving many Government divisions. The sectoral vision desired for industrial, agriculture and services areas will be a significant exercise for us to be able to make use of future opportunities that will be available to us.

80. On our part I assure you that Ministry of Commerce will not lag behind to meet its obligations to fulfill the vision presented by President Musharraf.

**ANNEX****LIST OF MACHINERY AND EQUIPMENT ALLOWED  
FOR IMPORT IN SECONDHAND/USED CONDITION****I. CONSTRUCTION MACHINERY.**

- a) Machinery/plant for screening, sorting separating or washing;
- b) Machinery/Plant for crushing or grinding;
- c) Mixing machine/concrete batching plant;
- d) Concrete transit mixers;
- e) Machines for mixing mineral substances with bitumen irrespective of capacity; and
- f) Asphalt plant, irrespective of capacity.

**II. GROUND HANDLING EQUIPMENT**

- a) Air start unit
- b) Ambu-lifter
- c) Baggage tractor
- d) Baggage trolley
- e) Cherry picker
- f) Conveyor belt
- g) Towing tractor
- h) Container dolly
- i) Coaster (AC)
- j) Hilift loader

Contd..

- k) Lower lobe loader
- l) Main deck loader
- m) Passenger steps
- n) Catering vans
- o) Tow bar
- p) Passenger bus
- q) Pallet dolly
- r) Pickup
- s) Push back tractors
- t) Transporter
- u) Toilet car

### **III. MEDICAL EQUIPMENT.**

- a) X-Ray machine.
- b) Dialysis machine.
- c) Anesthesia apparatus.
- d) Reverse Osmosis equipment.
- e) Ophthalmic instruments and appliances”

### **IV. SECURITY EQUIPMENT:**

- a) X-Ray Machine for screening/scanning purpose.
- b) Close circuit TV Cameras.
- c) Surveillance Cameras.



GOVERNMENT OF PAKISTAN  
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Speech

By

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Minister for Commerce

17<sup>th</sup> July, 2006