GOVERNMENT OF PAKISTAN
MINISTRY OF COMMERCE

TRADE POLICY 2001-2002

SPEECH

BY

MR. ABDUL RAZAK DAWOOD

MINISTER FOR COMMERCE, INDUSTRIES & PRODUCTION

9th July, 2001

Fellow Citizens
Ladies & Gentlemen

It is my privilege to present to you Government of Pakistan's Trade Policy for this year.

2. Last year when I presented to you my first Trade Policy we had been in office for less than nine months. We were determined and exhuberant. We knew things were difficult but not how difficult. We knew there were no quick-fixes but not how long it takes to fix things up when the institutional support system is weak. We knew we faced a challenge but not the enormity of this challenge.

3. Allow me to recall the export goals that we had set ourselves last year. These were

- export target of $ 10 billion.
- Sustainable and consistent growth in export earnings
- Diversification of our export base
- Greater value addition

4. How have we faired ? I think it is only fair that we submit ourselves to your scrutiny; to your judgement.

5. With all the candour at my command, and in all humility, I wish to draw up for you the balance sheet of what we have achieved - and not achieved.

6. Our successes have been

- In the last two years exports have gone up by $ 1.4 billion - from $ 7.7 billion to $ 9.14 billion this year. For the first time in our history we have crossed the $ 9 billion export mark. I would like to congratulate all the stakeholders for this achievement

- There has been a remarkable growth in quantitative terms. For instance during 2000/01

  - Volume of Rice exports went up by 28% to reach record levels,
  - Raw Cotton went up by 90%,
  - Leather by 35%,
  - Towels by 32%,
  - Readymade Garments by 17%,
  - Synthetic Textiles by 35%,
  - Petroleum Products by 87%, and
  - Cutlery by 22%.

- Although in dollar terms our exports this year grew by only 6.7%, in rupee terms the gain was an impressive 21%.

- There was significant growth, in dollar terms, in such non-traditional products as Chemicals & Pharmaceuticals (59%), oil seeds, nuts and kernels (136%), and Gems and Jewellry and fans by more than 100% each. The "miscellaneous" or "others" group's exports went up from $ 550 million last year to $ 676 million this year.

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7. Export performance during the year also needs to be viewed in the context of the following developments

- The exporters faced a serious liquidity crunch, almost through-out the year, due to delayed and held back refunds of Sales Tax and Duty Drawbacks.

- The Real Effective Exchange Rate was not as favourable as it looks. While the Rupee depreciated by about 22% vis-à-vis the dollar, the gain in respect of Euro was only 9%. It needs to be borne in mind that about 30% of our exports go to Europe.

- Draught conditions caused a set back to our Livestock which affected our export of leather. Draught also affected horticulture exports. Similarly, lower catch of fish affected the export of our seafood.

8. When I view our failings clearly the most compelling one is our inability to create the 'export culture'. A major manifestation of this was the stir caused by the infamous SRO 417 and the stuck up refunds. Generally speaking we have not been able to make the overall environment as exporter friendly as we would like it to be.

9. The other failure has been our inability to ensure a greater degree of product and market diversification. Our exports continue to remain concentrated in very few products and markets. However, this is not something that can be corrected over the short term. We have initiated the necessary measures, as I shall elaborate later on, and there has been some improvement, but it will be 2-3 years before we see a meaningful shift.

10. Finally, we have not been able to do much to make the terms of trade more favourable. Per unit prices of most of our exports – especially in the Textile sector – have been falling. While this downward trend is a world-wide

phenomenon it is more pronounced in the case of Pakistan which faces a situation of 'buyers market' in respect of most of its exportable goods. Unless we can check the decline in our unit prices it will be difficult to register significant growth without making costly additions to our production capacities in most sectors of our export interest. I must, however, share with you the encouraging trend of shift towards the higher ends of the value chain. For instance, in the Textile sector the ratio of made-ups has gone up from 35% in 1995/96 to 52% this year.

Fellow Citizens

11. We like to think we have learnt a lot from our successes as well as our failures and that we are building on the experience that we have gained. I would like to identify at least two areas, where we used this experience to correct things. One area is the direction of our exports and the other reduction of the anti-export bias. For geographical diversification serious efforts were made, with the full involvement of our Embassies. Some results, even if small, are beginning to come our way: our exports to China went up by 75%, to UAE and S. Arabia by 25% each, to Bangladesh by 20%, to Indonesia by 161% and to Korea and Australia by 9% each. Other than UAE and Saudi Arabia these are all what we refer to as 'non-traditional' markets. Impressive gains – in percentage terms though not in over all value terms – have also been made in Kenya, Nigeria, Iraq and Syria. The point that I wish to make in this regard is that we have recognized the importance of spreading out into new markets, and, slowly but surely, we are beginning to achieve this objective, although, I repeat, we can not expect immediate gains.

12. The second area is the anti-export bias. High incidence of import levies has two somewhat pernicious effects on exports: first, it becomes more profitable to do business within the country than abroad; second, high level of

protection induces an across the board cost-spiralling effect that obviously undermines the competitiveness of our exports. We, therefore, undertook a massive tariff revision exercise. Every single one of the over 6000 tariff lines was examined and intensively reviewed in a three month exercise carried out by the Commerce Division. The Industries Division then held exhaustive discussions with trade and industry to address their legitimate concerns. Finally, we took it to the CBR and the Ministry of Finance in order to ensure that the Government's revenue imperatives were not unduly compromised. I am glad to be able to report that the final outcome has been generally well received. We now have a tariff structure that will lead to productivity gains that will clearly help our exports. Here I would be failing in my duty if I do not recognize the highly professional work done by the officers of the Commerce and Industries Divisions and the CBR in the completion of this enormous exercise.

13. I would like to announce here that this effort to reduce the anti-export bias shall continue this year. Our maximum tariff will be lowered to 25% next year. I think we have given sufficient warning, and time, to our industry to become more efficient. They should not link their profitability to protection at levels that not only hurt exports but also make the consumers pay for their profits.

14. At the same time I am fully mindful of the legitimate expectation of our Industry to be protected against unfair competition. To this end we have put in place the anti-dumping, countervailing and safeguards laws. National Tariff Commission, who will administer these laws, are being equipped better, in terms of quality manpower as well as autonomy of operations. The new National Tariff Commission Act, that will cover both these aspects, has been drafted and will be submitted for Cabinet approval early next month.

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15. After this somewhat detailed prelude I now turn to the contours of this year's Trade Policy.

16. This year we are departing from tradition. Traditionally, Trade Policy has almost always been perceived as an occasion for the Commerce Minister to arrive with a bag full of gifts. We are departing from this tradition for two good reasons.

17. First, in our view, Trade Policy should confine itself to the strategic aspects. It should seek to give a clear signal to the producers and the exporters of the policy direction of the Government. It should signify durability, consistency and predictability; and this is just what we are doing. We are building on past year's work and keeping the strategic direction the same; only changing tactics and area of emphasis.

18. Second, and I had emphasized this in my speech last year, specific issues and remedial measures pertaining to exports can not afford to wait for the next year's Trade Policy. Clearly, if these are important enough they ought to be resolved promptly.

19. For a quick and effective resolution of sector-specific and all export related issues we have found a highly useful platform in the Federal Export Promotion Board. This Board, headed by the President and Chief Executive, has started to meet regularly. It has met five times already and has amply demonstrated its ability to take on-the-spot decisions. During the coming year

we propose to strengthen this process and take up all tactical and micro-level issues in this forum.

Ladies and Gentlemen

20. Let me now share with you our objectives, forecasts, and major focus of our Policy

21. Our objectives for this year are:

- Achieve our export forecast of $ 10.1 billion
- Continue previous year's objective of greater value addition and diversification of products and markets
- Reduce anti-export bias and improve the export culture
- Achieve greater market access

22. In the pursuit of these objectives we will continue to be guided by the demand led strategy developed last year by the Export Promotion Bureau, namely to get a greater market share in our major products, like Textiles, Leathers and Rice.

23. The focus to develop certain sectors like fishery, fruit and vegetables, gem & jewellry will continue. However, in the light of the tariff reforms greater focus will be placed on engineering, chemicals and ceramics.

24. We will build on the geographical success, I talked about earlier, in Africa and China, while looking for opportunities in South America & Eastern Europe. The EPB has set country-wise target for each product sector.

25. Before I give you the overall trade forecasts for the fiscal 2001-02 I find it pertinent to share with you an overview of the factors that are likely to impinge upon our trade performance during the year.

26. On the global scene we see a continuation, for some more time, of the slow down in the U.S., with its fall-out effect on the other major markets. Given the time lag between external developments and their effect on Pakistan we feel that the full impact of the slow down will be faced this year.

27. We also anticipate a stable to soft trend in the prices of primary commodities, including oil. While this will have a benign effect on our import bill it will adversely affect export of our Rice, Cotton, Petroleum products, and, to a certain extent, synthetic textiles.

28. For Raw Cotton the pundits are forecasting a bearish trend in international prices as the demand is falling short of the supply position. While generally speaking our textile exports do well in years of low cotton prices, our per unit prices will come under increased pressure. Although import of textile machinery these last two years has been quite encouraging we need to do much more in terms of capacity additions - and productivity gains - to compensate for per unit losses.

29. On the domestic front the roll back of subsidies on export finance and rationalization of drawback rates will require an adjustment effort.

30. **Keeping these and other factors in view we are pitching our exports forecast at $ 10.1 billion this year. With projected imports of $ 11 billion we expect the trade deficit to stay below one billion Dollars.**

31. In designing this year's Trade Policy the question that we put to ourselves was: what will it take to facilitate a quantum jump, and then sustain it. In our pursuit for this quest we have closely studied the policies and experiences of several countries around the world. We have come to the conclusion that before anything else the 'structural weaknesses' need to be corrected.

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32. Let me submit to you what in my view are the five major 'structural weaknesses' or the 'fault lines' of our export effort.

- First and foremost it is the exporter profitability. It is axiomatic that if adequate profits are not there the desired effort will not be there either.
- The entire export infra-structure has to be smooth and free of irritants so that exporters can devote themselves to production and marketing rather than waiting outside Government offices.
- Our competitiveness has to be improved through adequate availability of export finance, greater productivity, and lower tariff – induced costs.
- Barriers to entry of new exporters need to be lowered. In every country with significant export growth the main thrust, particularly for product and market diversification, has been led by an emerging generation of exporters, often from the ranks of small and medium enterprises.
- Easier and more meaningful access for our products to our main markets abroad.

33. To improve exporter profitability we are taking the following measures.

- Delayed refunds have become a matter of acute embarrassment for the Government. It has created serious liquidity problem for our exporters and has hampered growth of exports. We are determined to correct this. We will make sure that the system neither provides for any abuse by the unscrupulous parties nor brooks any delays.

  In the meanwhile we will actively market the Duty and Tax Remission for Export (DTRE) rules. Before we do so we will ofcourse remove some of the procedural snags inherent in these rules that have been identified by the Trade. We feel exporter – friendly remission rules will enormously help the exporters as their funds will not be tied up in the duty, excise, and sales tax elements of their input goods. It will also "debug" the refund system by eliminating, quite substantially, the need to seek refunds.

  To supplement the DTRE rules it is important that the scheme of Common Bonded Warehouses is immediately revived and put into place. This will reduce the 'carrying costs' of exporters as they will not need to stock up on a large array of raw materials and accessories. The Common Bonded Warehouses will work as a virtual Duty Free Shop for their inputs.

  As you are aware the duty drawback rates have been revised. We are not in favour of artificially high drawback rates as such subsidies create a moribund cartel of beneficiaries and discourage the entry of new comers. Having said this, I am informed by several exporters that these revised rates have not been correctly worked out. I have had a word with the Finance Minister and the Chairman CBR who have assured me that all legitimate objections will be fully redressed within the first quarter of this financial year. If Commerce, Industries and CBR can work well together to tackle tariff restructuring, I am sure we can solve refund and rebate issues as well. Inshallah we will.

34. In addition, we are providing the following facilities to exporters

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i. An exporter who posts atleast a ten percent growth over his last year's exports will be allowed to retain 50% of his **additional** exports in his local foreign currency account. He may use this amount for purchase of machinery and equipment and raw materials and payment of commission, promotional expenses etc.

ii. Export Development Surcharge will be waived on the **additional** exports.

iii. Exporters who show better performance will be given monetary rewards. An **'incentivization scheme'** that seeks to reward three categories of exporters (large, medium and small) for increase in overall exports, new markets, value addition etc. has been devised. An amount of Rs. 2 billion has been allocated for this scheme.

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35. Now a word about export infrastructure. While there are many areas that come in the way of flow of goods and services from the production point to destination, we first want to attack the systemic obstacles in our procedures and processes. Outdated laws and regulations, and the plethora of procedural 'formalities' have become a key constraint to accelerating trade. They also impose high compliance costs. Delayering of this multitude of regulations is being consistently cited as a priority reform area.

36. It is proposed to set up a **Deregulation Committee** consisting of representatives from the concerned Ministries and Provinces with the following specific task:

- Review commercial regulations and laws constraining competition and/or imposing high and unnecessary compliance costs.
- Reduce the public-private interface (reporting requirements, permissions, record keeping, discretionary authority of public officials in granting approvals. etc.) to a minimum.
- Identify and remove entry barriers where they exist.

37. Alongwith the deregulation committee we need to improve certain critical areas of Trade and Transport Facilitation viz

- The standardization, simplification and harmonization of commercial trade and transport aspects
- Customs processing procedures.
- Ports procedures.
- All aspects of inland transportation, including multimodal.

38. We have already started to work on this and the **National Trade and Transport Facilitation Committee** has become functional. The Secretariat of this Committee is in FPCCI (Pakistan Shippers Council).

EXPORT FINANCE

39. In the area of enhanced export competitiveness export finance occupies a central position. While the 'subsidy' on export finance has been withdrawn as part of the commitment with the IMF – henceforth interest rates will be linked to Market-based Treasury Bills (MTB) – we have been working with the State

Bank to put together new instruments that will facilitate easier and greater access to export finance.

40. The main elements of the new export finance package are:

- **Greater availability.** With the subsidy element gone more funds have been 'unlocked' to make it possible for SBP to provide to the Banks greater funds for export finance; a kind of an "open line of credit". This will enable the banks to get SBP to reimburse to them the credit extended to exporters, without the restrictions of deposit ratio requirement etc. Separately, SBP has set up Credit Advisory Committees in various cities to facilitate lending to exporters, especially Small, Medium, and Emerging exporters.
- **Pre-shipment export finance guarantee**. A new agency in the private sector (Pakistan Export Finance Guarantee Agency – PEFGA) has been set up that will facilitate SME's to access bank financing for working capital. PEFGA will provide bankable guarantees that may be used as collateral. PEFGA will start its operations during the current month. It is also in the process of finalizing arrangements with international credit insurers to provide post-shipment cover. I will formally launch this scheme on 16th July, inshallah, when PEFGA opens its doors for business.

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- **Foreign currency export finance facility(FCEF)**. This $ 150 million facility will enable exporters to meet their import requirements by borrowing from this facility (in US dollars) at LIBOR $\pm 2\%$. Repayment will be made from their export proceeds. ADB has already released the first tranche ($ 30 million) to the SBP. If there is adequate additional demand for this facility it will be enlarged.

- **Political risk guarantee(PRG)**: This facility seeks to convert Pakistan's triple C country risk into triple A risk. The PRG facility will effectively transfer key Pakistan country risk into ADB risk, helping to
  - Keep Pakistan country limits open for international banks confirming eligible import L/C's;
  - Ensure continued access to finance and effectively reduce the cost of imports for export production.

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The political risks covered will include inconvertibility, debt moratorium, change of law, expropriation and political violence. This facility, due to be launched this month, will help exporters achieve better terms in negotiation of their import L/C's.

NEW GENERATION OF EXPORTERS

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41. It is important to facilitate entry of new exporters and encourage the emerging ones. As I said earlier it is an established fact that the strongest impetus to export growth comes from the small and medium emerging exporters. Pakistan's subsidy regime and lack of a proactive policy for the promotion of SME's has contributed to raising of barriers for the entry of new comers. This fact atleast partly explains our failure to achieve the desired product and geographical diversification.

42. During the year we propose to induct a large number of new/emerging exporters through a "hand-holding" exercise. Major components of the scheme will be:

- **Capacity building** of identified SME's that will cover product development, quality upgrade, cost reduction measures and sale promotional efforts through private sector professionals. For the first year estimated expenditure of Rs. 20 million shall be provided from the Export Development Fund.

- Organically grown **"industrial clusters"** (Sialkot, Gujranwala, Faisalabad, Korangi etc. etc.) have enormous locked-in potential that can be unleashed by creating the necessary synergy among them. By providing common facilities through collaborative interaction not only will cost reducing economies of scale be generated but the backward linkages will also be strengthened. The basic concept, based on international experience, is being developed in collaboration with UNIDO and shall be launched by the end of the year.
- EPB will sponsor **special delegations** abroad of the selected SME's to explore market prospects. Special facilities will also be provided to these SME's in the overseas **trade fairs** sponsored by the EPB.
- It is proposed to **exempt** exporters with total export of less than dollar one million from the **Export Development Surcharge.**
- In the context of exports it has long been said that we should produce what the markets want instead of trying to market what we produce. Unfortunately, this has not been possible for want of organizational support through the entire production and supply chain. The linkage between production and markets has been a weak one. To counter this it is proposed to set up special organizations that will be responsible for the furtherance and development of the entire range of activities from production to export marketing. To begin with, **organizations for Rice, Engineering, Horticultural, Plastics and Leather products** shall be set up. These organizations will be autonomous and run by experts hired from the market, and where-ever we find a willing and institutionally well organized Trade Association we will

be happy to entrust it with the responsibility of overall management of the organization.

MARKET ACCESS

43. I look upon providing unhindered access for our exports to world markets as the primary responsibility of the Government. If we can not ensure this the noble philosophy of WTO shall be reduced to nought. WTO will then be looked upon as an instrument of neo-imperialism. I sincerely hope this does not happen and that the whole debate does not degenerate into a North – South battle of attrition of the 60's.

44. To provide effective market access Ministry of Commerce has already compiled a comprehensive list of all kinds of barriers that our products are faced with in the various markets. Necessary remedial measures are now being initiated.

45. On a more pro-active side, we propose to undertake the following specific measures to facilitate effective market access.

- **Preferential tariffs.** Pakistan is placed at a disadvantage in major markets of its export interest (USA, EU, ASEAN) who have regional trading blocks/preferential tariff rates for some of our competitors. Unfortunately, the two regional trading blocks that Pakistan belongs to (SAARC and ECO) do not provide any meaningful opportunities for Pakistan's exports. We wish to seek, both multilaterally and bilaterally, a more meaningful access to our major markets. Towards this end we are already in negotiation with some of our major trading partners. Lower tariffs for our products will give the desired impetus to our export drive.

- **Creation of equity assets abroad.** One of the weaknesses of our export drive has been our inability to effectively counter buyer perception that Pakistan is an unreliable supplier, especially in terms of quality and "in-time" delivery. To counter this a major scheme is being introduced for **warehousing** of Pakistani products abroad. Under this scheme groups of exporters will be encouraged to set up a company in major cities around the world to market their products through 'bonded stores' in these cities. Partial funding will be provided from the EDF.

  This facility will not only reassure the buyers regarding the quality of the products but the 'just in time' delivery will also cut down their carrying costs.

  - **Social compliance.** There is an increasing buyer emphasis on the suppliers meeting social, environmental and labour standards. This is in response to strong consumer demand. Barring the major ones our exporters are not geared to meet these requirements and to this extent lose out on significant marketing opportunities.

    We are setting up a scheme, through funding from the EDF, to help exporters acquire **SA 8000 certification** that will clear them for purchases by major buying houses.

  - **Export to Afghanistan.** Currently zero rating of dollar exports to Afghanistan is available on only six items (Cement, Rice, Pharmaceuticals, Glass sheets, G.I. Pipes and Hardware items). It is proposed to expand this list to include the following products (subject of-course to existing safeguards on zero-rated exports to Afghanistan):

    1. Safety Matches;
    2. Furniture (wood, plastic, metal & fibre glass);
    3. Water Storage Tanks (fibre glass, plastics, and metal);

4. Tobacco leaf (in crates/cartons);
5. Gur;
6. Agricultural machinery, electric motors, pumps, fans, transformers;
7. Leather manufactures and footwear; and
8. Confectionery items, jams, juices, pickles.

This will not only expand our exports but also help redress a long standing demand of the NWFP government.

46. Having deliberated upon the structural weaknesses and our policy response to them, let me assure you I am not suggesting for a moment that this is an exhaustive list of weaknesses; nor that we are the first ones to have stumbled upon them. All I want to say is that we will relentlessly pursue this five point agenda all through the year. To ensure that we do not let this agenda get lost in the maze of government routine I am setting up an Implementation Task Force headed by the Commerce Secretary. I shall personally review the progress of the Task Force every second month, and where necessary take the matter up to the Federal Export Promotion Board for resolution and direction.

Ladies & Gentlemen

47. Despite all the rhetoric surrounding it there is one important sector that Pakistan has not so far capitalized upon. This is the export of services. The General Agreement on Trade in Services recognizes 161 services that are globally traded. Except for some attention to I.T. Services the sector has been largely neglected. We are looking upon a one billion dollar accretion to our export in this sector that can be achieved over the short term.

48. It is proposed to take the following measures to promote the export of services.

- **Institutional Support.** It is important to set up an organization that caters to the export needs of all these services and is dedicated to the following objectives:-
  - Provide advice and guidance to service providers,
  - Interact with the Government agencies to 'debug' the system and seek appropriate remedies and facilities,
  - Take all measures necessary to promote exports, and
  - Adjudicate of default cases

49. This organization will be professionally managed with the stakeholders having the main say in the running of this body. Initial funding shall be provided from the EDF.

50. While this organization will take some time to get operationalised, we are providing the following facilities to the export of entire range of 'services'

i. Retention from export proceeds for commission etc. @ 35%, as is the case with I.T.

ii. Permission to export equipment from Pakistan, without a bank guarantee, and its free re-import upon conclusion of contract.

iii. Facilities from banks for bonds, performance guarantees and advance payments. Details will be worked out in consultation with State Bank of Pakistan/Banks/Insurance Companies.

iv. Work actively to provide Technical Assistance to friendly countries for this sector.

51. Of the many different service categories we hope to see Financial, Architectural, Educational, Engineering, Construction and Technical Services to be among the first to take advantage of the facilities being provided

Ladies & Gentlemen

52 It is also important that we prepare the ground work in new sectors for further exports. A new area started a few years ago was local assembly of Televisions. The encouragement given last year has enabled this activity to progress substantially. Encouraged by the success we have now finalized what is known as the Emerging Electronic Products Assembly Scheme (EEPAS). Under this scheme we have expanded the range of products to include mobile phones, cassette players, electronic calculators, DVD players etc.

53. Objective of this scheme is to become a recognized world class assembler of local and foreign branded goods. It will encourage investment and create employment, especially for women. Once adequate experience has been gained we hope these products will become export earners.

54. In order to enable investors to chart out their own course the following main facilities are announced:-

i. EEPAS is an ongoing scheme and there shall be no deletion programme for the next 5 years.

ii. CKD kits would attract customs duty of 5%.

iii. EDB and CBR will work together with stakeholders for necessary survey reports etc.

iv. There will be no limit on number of units any assembler may like to assemble.

55. With the formulation of this policy we hope investment and job creation will start and locally assembled products will be available in the market.

56. To sum up, Ladies and Gentlemen, the focus of this year's policy is on correcting the fundamentals. Yes, it is short on incentives and rewards, but having carefully studied the last five or so 'incentive-studded' Trade Policies, I am convinced the way forward is in visiting and resolving the key constraints to a sustainable export growth. The basic export strategy has been developed together with the stakeholders and this is being maintained and you will agree that long-term thinking is setting in. The fundamentals to correct our refund, rebates, export finance, less government and market access. We are determined to resolve these, and as always in full consultation with the exporters.

57. In my speech last year I had said "things today are more challenging than yesterday". The emerging world environment obliges me to add that things will be even more challenging next year. However, we have all worked hard together and achieved a record figure. Let us resolve to maintain this tempo, and build on our successes and release our full potential.

58. We may have missed the 10 billion dollar mark but I draw sustenance from the $ 1.4 billion increase during these last two years and the significant volumetric increases posted by us. This is a tribute to the determination of our exporters. I have no doubt the same determination will help them prevail against all odds. We can do it and Inshallah we will.

Pakistan Zindabad.