

STRATEGIC TRADE POLICY FRAMEWORK 2015-18

**Ministry of Commerce
Government of Pakistan**

INTRODUCTION

2015 marks the third consecutive year in which global trade grew less than 3%. In 2013, world trade growth rate remained 0.5% against the WTO prediction of 2.5% and rose to 2.4% in 2014. World Trade Organization recently lowered by 0.5% its estimate for world trade growth from 3.3% to 2.8% for 2015.

Pakistan's exports crossed the US\$ 25 billion for the first time in 2013-14. However, year 2014-15 has experienced decline in exports of about 4.78% due to exogenous shocks coupled with domestic factors. Value added textile has shown some increase due to grant of GSP Plus opportunity. However, world cotton prices went down and Pakistan earned lesser returns on raw cotton, cotton yarn and cotton cloth.

Pharmaceutical products, surgical goods/medical instruments, footwear, furniture, handicraft, gems and some food products' exports have also shown significant improvement. Food group as a whole was not able to perform upto the expectations due to the lost share of the basmati rice market. Item wise details are at Annex - I.

Due to inelastic import demand, Pakistan witnessed an increasing trend in imports. Major contributors to this increase in imports are machinery (14.9%), transport group (21.7%), food group (18.5%), chemical group (11%), metal group (20.3%) and miscellaneous group (18.8%). There has been a significant decline in import of petroleum group by 21.3% and in textile group by 4.4%. Item-wise details of imports are at Annex – II.

STRATEGIC TRADE POLICY FRAMEWORK (STPF) 2015-18

Keeping in view current trends in global trading environment and the trend in Pakistan's exports, the mid-term strategic trade policy framework has been formulated through an extensive consultative process spanning over almost a year. All stakeholders in the public and private sector including Federation of Pakistan Chambers of Commerce and Industry, district Chambers, trade associations, private businesses, academia, think tanks, trade missions, Ministries/Divisions and other government agencies were actively engaged. The process culminated with a day-long Advisory Council meeting, chaired by the Minister for Commerce and attended by said stakeholders as well as by prominent exporters and public sector decision makers.

Learning from the previous two medium term frameworks i.e. 2009-12 and 2012-15, it has been ensured that procedural and budgetary bottlenecks are removed in STPF 2015-18. All business processes have simultaneously been formulated. Budgetary allocation of Rs. 6 Billion has been approved to implement the trade policy initiatives for year 2015-16. Continued budgetary support in FY 2016-17 and 2017-18 will be critical for achieving desired results.

Targets

STPF 2015-18 aims to achieve following targets by June 30, 2018:

- a. Enhancement of annual exports to US\$ 35 Billion
- b. Improve Export Competitiveness
- c. Transition from 'factor-driven' economy to 'efficiency-driven' and 'innovation-driven' economy
- d. Increase share in regional trade

Key Enablers

To achieve the above targets, the key enablers are:

- a. Competitiveness (quality infrastructure, labour productivity, access to utilities, and level of technological development)
- b. Compliance to standards (convergence of local & international standards, protection of intellectual property, and effective and efficient disputes resolution mechanism)
- c. Policy environment (monetary policy, tariff & tax regime, and synergic industrial & investment policies)

- d. Market access (multilateral, regional, and bilateral)

Pillars

STPF 2015-18 has identified four main pillars on the basis of (i) key enablers, (ii) evaluation of STPF 2012-15, (iii) emerging global trade scenario and (iv) extensive consultation with the private sector and other stakeholders. These pillars are as follows:

- a. Product sophistication and diversification (research and development, value addition, and branding)
- b. Market access (enhancing share in existing markets, exploring new markets, trade diplomacy and regionalism)
- c. Institutional development and strengthening (restructuring, capacity building, and new institutions)
- d. Trade facilitation (reducing cost of doing business, standardization, and regulatory measures)

TRADE POLICY INITIATIVES 2015-18

In order to achieve STPF goals, the following measures will be undertaken in each of the four pillars.

Product Sophistication and Diversification

One of the targets of this STPF is transition from ‘factor-driven economy’ to ‘efficiency-driven’ and subsequently ‘innovation-driven economy’. Research & Development, value addition and branding are vital for effecting this transition.

Technology Up-gradation

On the basis of research and consultations with stakeholders, it has been identified that use of inefficient technologies is the principal constraint in exports of selected sectors i.e., fans, home appliances, rice, cutlery and sports goods. In order to increase the sophistication level and to realize true potential of these sectors, following incentives for technology up-gradation will be provided in the shape of investment and mark-up support:

- a. 20% investment support upto a maximum of Rs. 1 (one) Million per annum per company will be available for import of new plant and machinery.
- b. 50% of markup support on up-gradation of technology will be provided for import of new machinery/plant, subject to a maximum of Rs. 1 (one) Million per annum per company

Product Development

Leather, pharmaceutical, fisheries and surgical instruments are sectors with higher export potential. These sectors can lead to a quantum jump in total exports. In order to further boost export in these sectors, following incentives will be undertaken:

- a. Matching grant upto a maximum of Rs. 5 (five) Million for specified plant and machinery or specified items to improve product design and encourage innovation in SMEs and export sectors of leather, pharmaceutical and fisheries
- b. Common Facility Center for surgical sector will be established

Brand & Certification Development Support

The manufacturing in surgical instruments, sports and cutlery sectors in Pakistan is largely done under the brands of foreign companies, resulting in lower prices for manufacturers in these sectors. Brand development needs special attention. Currently, there is no policy instrument provided by the government or private sector for providing finance for this purpose. The Government will, therefore, provide matching grant to facilitate the branding and certification for faster growth of the SME and export sector in Pakistan's economy through Intellectual Property Registration (including trade and service marks), Certification and Accreditation.

Drawback of Local Taxes and Levies

To reduce the cost of doing business and increase the competitiveness of the value added non-textile selected sectors*, draw-back for local taxes and levies will be given to exporters on free on board (FOB) values of their enhanced exports if increased by 10% and beyond (over last year's exports) at the rate of 4% on the increase. This is an ongoing initiative announced in the Budget 2014-15 which will be continued for STPF 2015-18.

** The selected sectors are fish and fish preparations, meat and meat preparation, spices, gloves, football and other sports goods, leather garments, other leather manufactures, footwear, surgical goods/medical instruments, cutlery, electric fans, transport equipment, auto parts, machinery specified for particular industries or other machinery and other electric equipment, furniture and pharmaceutical.*

Plant and Machinery for Agro Processing SMEs

Raw and semi-processed agricultural produce being currently exported can get higher values if exported as processed food. Lack of necessary processing facilities result in the wastage of large quantities, thus restricting the income of farmers.

To reduce the wastage of produce, increase income of the farmers and foreign exchange earnings, following measures will be undertaken in the selected agriculture sectors*:

- a. 50% support on the cost of imported new plant and machinery for specified under-developed regions**
- b. 100% mark-up support on the cost of imported new plant and machinery on all Pakistan basis

** Meat, fruits, vegetables, dates, olives, guar gum*

*** Rural Sindh, KPK, FATA, Baluchistan, Southern Punjab and GB*

Market Access

Enhancing Share in Existing Markets

Sustaining GSP Plus in European Union

Pakistan's exports have sustained despite all the challenges due to the market access in EU countries after the grant of GSP Plus. Pakistan is complying with the mandatory 27 conventions relating to environment, narcotics control, drugs, human rights and labour to retain this market access. In the wake of upcoming review of the GSP Plus in 2016, the Ministry of Commerce will launch a robust public information campaign to disseminate and sensitize stakeholders and the public on compliance issues.

Extensive information dissemination on opportunities available under market access secured by Pakistan, and other export promotional activities like exhibitions and delegations, will continue to be an integral part of the strategy for sustainability and enhancement of share in the existing markets.

Exploring New Markets

In order to diversify our export markets, an outreach strategy for Africa, Commonwealth of Independent States (CIS) and Latin America is being adopted. As part of the market penetration/outreach strategy, these new markets will be explored through the following initiatives:

- a. Market Research
- b. Opening of new Trade Missions
- c. Exhibitions and Delegations
- d. Linkages through Export Import Bank [EXIM Bank]

Trade Diplomacy

The Ministry of Commerce will continue working on its three-pronged strategy of trade diplomacy in the multilateral, regional and bilateral arenas for increasing market access.

- a. Multilateral
 - Entering into multilateral arrangements for better market access such as Trade Facilitation Agreement (TFA), Information Technology Agreement (ITA), Government Procurement Agreement (GPA)
- b. Regional
 - Enhancing access to regional markets such as GCC, ASEAN, SAARC, Afghanistan and CARs
- c. Bilateral
 - Negotiating bilateral preferential access with Thailand, South Korea, Turkey, Iran, China, Malaysia, Indonesia, Nigeria and Jordan

Regional Connectivity

Despite immense potential, the regions of South and Central Asia are amongst the least integrated regions of the world with intra-regional trade less than 5% primarily caused by high costs due to infrastructure, missing links and lack of transit agreements. Opportunities are, therefore, immense for greater regional connectivity and enhanced cooperation through transit trade agreements. The Ministry of Commerce is working on achieving shared prosperity through better connectivity and transit trade through the following initiatives:

- a. Resolution of outstanding issues in Afghanistan Pakistan Transit Trade Agreement (APTTA)
- b. Negotiation and early conclusion of Afghanistan, Pakistan and Tajikistan Transit Trade Agreement (APTTTA)
- c. Effective implementation of Transports Internationaux Routiers (TIR) Convention
- d. Reactivation of Quadrilateral Transit Trade Agreement (QTTA) among Pakistan, China, Kyrgyz Republic and Kazakhstan
- e. Taking institutional lead on formulation of a Pakistan-Afghanistan-Central Asia regional economic integration framework through a Regional Trade Office, established at the Ministry of Commerce

Institutional Development and Strengthening

Restructuring/ Reorganization of Ministry of Commerce and Trade Promotion Organizations

In a highly competitive environment of international trade, the Ministry of Commerce and its attached organizations are challenged to adopt professionalism, specialization, agility and pro-activeness for an effective service delivery. In order to address these challenges, an exhaustive performance review and organizational

analysis of the Ministry of Commerce and its trade related attached organizations have recently been carried out.

The need assessment of human resource for the Ministry has established that almost 80% of positions of officers in the Ministry are of technical nature which require professional expertise and experience in trade promotion, international trade law and trade diplomacy. Administrative anomalies impede the Ministry from developing and deploying professional human resource in the Ministry. For instance, Commerce & Trade Group officers are posted on deputation in Ministry of Commerce i.e., Ministry of Commerce cannot post to its own offices the C&T Group officers who are under its administrative control. Similarly, unlike Foreign office, MOC has administrative limitations in management of trade offices abroad.

An inter-ministerial Committee headed by the Secretary Establishment with Secretaries of Commerce, Finance and Foreign Affairs as members will be set up for restructuring, professionalization and empowerment of Ministry of Commerce. The Committee will finalize its recommendations within 60 days.

Trade Development Authority of Pakistan (TDAP) and Pakistan Horticulture Development and Export Board (PHDEC) are our main trade promotion organizations. However, they are under-resourced and are not geared to face export promotion challenges. To boost their performance, restructuring of these organizations will be done in consultation with relevant stakeholders on modern lines to cater for export promotion needs.

Placement of Intellectual Property Organization–Pakistan (IPO-P) in Ministry of Commerce

The current core work of IPO-P is Intellectual Property (IP) legislation and enforcement of Intellectual Property Rights [IPR]. However, due to its detachment from the Ministry of Commerce, the most important function of a national IP organization i.e. innovation and creation of marketable and exportable IP products and services does not exist. It is for these reasons that countries like United States of America, China, India, and Thailand etc. have placed their Intellectual Property Offices under the Ministry working on trade and commerce. Accordingly, IPO-P will be placed under the administrative control of Ministry of Commerce. Accordingly, a separate summary for the Prime Minister shall be moved to amend the Rules of Business.

Export Development Surcharge to Export Development Fund (Prospective)

Currently, only around 20% of the total annual receipts from Export Development Surcharge are being transferred each year by Ministry of Finance to Export Development Fund (EDF). Beginning from FY2015-16 and henceforward, the entire amount of Export Development Surcharge will be transferred to the EDF.

Capacity Building

In compliance with the decision of the Cabinet on STPF 2012-15, new institutions like Domestic Commerce Wing, Trade Dispute Resolution Organization, and Services Trade Development Council have been established. These newly created institutions require technical support and training to build their capacities in order to become fully functional and cope with the upcoming challenges. The capacity building of these institutions will further improve the various perception based competitiveness indices/ ranking of Pakistan. A detailed assessment of their capacity building needs has already been carried out and the organizations will be strengthened by meeting their needs.

Apart from these newly created institutions, existing institutions such as Pakistan Institute of Trade and Development (PITAD), National Tariff Commission (NTC) and Trade Missions' Support system require strengthening. NTC has been restructured to make its role more effective in administering trade remedy laws and functioning as a think tank on matters related to competitiveness of industry. PITAD is being re-engineered as a think tank and as a regional hub for human resource development in trade-related disciplines.

Shortage of well-trained skilled manpower is impeding growth of our manufacturing industry. A detailed performance diagnostics of the 11 training and product development Institutes, running under MOC/TDAP have been conducted. These institutes will be strengthened in the light of the performance audit report. This would help these institutions produce better quality human resource for our industry. As a first step the strengthening of skill development institutes of fan, cutlery and leather industry will be carried out. Capacity building programs to cater for the needs of all the above institutions is being designed in line with the modern demands.

Creation of New Institutions: Export Development Councils

After successful establishment of Services Export Development Council and Leather Export Development Council, Ministry of Commerce intends to venture into

non-traditional export sectors where value-addition and product diversification can be achieved. Accordingly, following two new export development councils will be established:

- a. Pharmaceutical & Cosmetics Export Promotion Council
- b. Rice Development & Export Promotion Council

Trade Facilitation

Reducing Cost of Doing Business

Railway Services

Extra inland freight costs erode export competitiveness on a range of exports. The cost of transport through roads is expensive as compared to rail and water. Therefore, a task force will be established to conduct expeditious work on improving railway services for exports. The task force will be headed by Secretary Railways and will comprise Secretaries Commerce, Planning & Development and Board of Investment. While the Secretariat of the task force will be in the Ministry of Railways, the funds required for studies/consultancies shall be met from the STPF allocations. Task Force will submit its report to the Cabinet Committee on Production & Exports, along with an action plan.

Inland Water Navigation

A task force will be setup to conduct expeditious work on improving inland water navigation for exports. This task force will be headed by the Secretary Water & Power and comprising Secretaries Ports and Shipping, Commerce, Planning & Development, Communication, Chairman WAPDA, respective provincial Departments of Irrigation and Chairman Inland Water Transport Development Company. The Secretariat of the task force will be in Ministry of Water & Power. The task force will submit its report to the Cabinet Committee on Production & Exports, along with an action plan.

Exporters' Tax Refund

Lengthy delays and administrative hurdles in refunds of sales tax as well as other taxes and levies are cited by exporters as the principal cause of liquidity crunch and increasing their financial cost of doing business. Accordingly, the payment of all tax refunds in full will be made expeditiously.

Regulatory Measures

The regulatory amendments in the Import and Export Policy Orders 2013 have been developed after extensive consultation with private sector and relevant ministries and government organizations. These amendments would further facilitate Pakistan's trade and contribute to the ease of doing business by simplifying the procedures and strengthening the regulatory processes.

a) Import of Plastic Waste And Scrap

Procedure for import of the Plastic Scrap is subject to the conditions laid down in the Import Policy Order 2013 including, inter alia, submission of environmental audit report which is not possible for the units importing for the first time. The aforementioned condition will, therefore, not apply in case of units importing plastic scrap for the first time.

b) Import of Shredded Tyres

Import of waste and scrap of second-hand/used tyres is allowed in favor of industrial consumers subject to fulfilment of environmental requirements of using tyres as a fuel as prescribed by the Federal/Provincial Environmental Authorities. Existing facility is not extended to Pyrolysis plants. The pyrolysis plants, which are duly registered with the respective EPAs and FBR, will also be allowed now to import such scrap subject to the same terms and conditions as are prescribed for industrial consumers plus environmental audit report.

c) Import of Air Pistols

Import of air guns is presently allowed. The import of Air Pistols, and slugs, will also be allowed now.

d) Import of Aerial Vehicles and Night Vision Goggles

At present, there is no restriction either on the import of the aerial vehicles with HD Camera and having high-speed WIFI Transmission capability with ground station or on Night Vision Goggle. Since these articles could be misused, the import needs to be regulated. The import of the above mentioned equipment will, therefore, be allowed subject to the NOC from Ministry of Defence.

e) Import of 3D Printers

At present there is no restriction on the import of 3D Printers. To check the misuse of 3D Printers, the import will, thus, only be allowed with prior permission from the Ministry of Interior.

f) Import of Mobile Phones

In compliance to the Supreme Court of Pakistan order in suo-moto case No. 16 of 2011, the terminal equipment such as mobile hand sets and tablets will not be allowed to be imported without PTA's Type Approval Certificate.

g) Import of Security Papers

Pakistan Security Printing Corporation (PSPC) will be exempted from taking NOC from Security Paper Limited (SPL) for importing security papers for its own requirement.

h) Import of Inputs by Manufacturer-Cum-Exporters

The import of inputs reflected in the restricted list will also be allowed to be imported by manufacturer-cum-exporter under DTRE, Temporary importation, Bonded Warehouses, Common Bonded Warehouses and Export Oriented Unit Schemes subject to conditions mentioned therein.

i) Import of Specialized Vehicles including Transit Mixer

The import of second hand/used specialized vehicles mentioned in the Import Policy Order will be allowed subject to pre-shipment inspection in the exporting country from any of the internationally recognized companies listed in the said Order to the effect that such vehicles are (a) Euro-II compliant, (b) manufactured as such by the original equipment manufacturers (OEM) and (c) not older than five years.

j) Import of Pesticides

The import of pesticides will, inter alia, be allowed subject to prior Pre-shipment Inspection (PSI) certification issued by the recognized PSI agencies to be specified by the Department of Plant Protection.

k) Import of Digital Enhanced Cordless Telecommunication (DECT) 6.0 Phone

Digital Enhanced Cordless Telecommunication Phones (DECT) 6.0 are causing interference in frequencies allocated with recently launched 3G/4G services across Pakistan. The import of such phones will be banned to ensure compliance to provisions of the PTA Act 1996.

l) Import of Poultry and Poultry Products

The ban on import of poultry and poultry products will be lifted from South Korea, Russia, Kazakhstan, Mongolia, Turkey, Greece, Croatia, Italy, Azerbaijan, Ukraine, Iraq, Bulgaria, Slovenia, Slovakia, Austria, Bosnia and Herzegovina, subject to certification from respective veterinary authority of the exporting country that birds are only from such flocks where no incidence of Bird-Flu has been reported for the last eleven years.

m) Import of Plug Wrap Paper

The import of plug wrap paper will also be allowed to manufacturer of cigarette filter rods, duly registered with the Federal Board of Revenue. Presently it is only importable by cigarette manufacturers.

n) Import of Mercury and Mercury Compounds

At present there is no restriction on the import of mercury and mercury compounds. Pakistan as signatory to Minamata Convention on mercury has to phase out its use in the manufacturing processes till 2020. Its import will be restricted to industrial consumers having valid environmental approval from the concerned Federal/ Provincial Environmental Protection Agency/Department.

o) Import of Two or Three Wheeler Auto Vehicles

At present import of two or three wheeler vehicles is allowed subject to one time certification of each model by PSQCA that the vehicle conforms to the prescribed Pakistan Standard. The condition of Euro-II compliance will, therefore, be put in place for import of these vehicles.

p) Import of Ozone Depleting Substances

Obtaining authorization for import of ozone depleting substances from Ministry of Commerce will be dispensed with. Ministry of Climate Change will however, continue to determine the quota policy in this regard.

q) Import of cars under Disabled Persons Scheme

The words “duty free” will be replaced with the words “exempt from customs duty” provided in the disabled scheme for import of cars. Furthermore, new three wheeler motor cycles will also be allowed under the Scheme.

r) Allowing the re-consignment

The goods rejected or denied import will be allowed to be re-consigned or returned to the foreign exporter subject to the laws and regulations pertaining to the trade of contraband goods.

s) Fireworks

While import of explosives is allowed on the restricted list of Import Policy Order, import of fireworks is banned. To remove this anomaly, fireworks will be placed on the restricted list, with the conditions of compulsory physical examination by explosives expert and that Department of Explosives of Ministry of Industries shall allow import only to applicants and companies having valid licenses under the Explosives Rules, 2010.

t) Export of Gift Parcels

The export of gift parcels will not include items borne on the banned list of exports.

u) Export of Relief Goods to Afghanistan

The humanitarian relief organizations will be allowed to export goods (excluding banned/ restricted) to Afghanistan without form-E subject to the provision of encashment certificate of foreign exchange from authorized dealers.

1.1.1 Standardization

An inter-ministerial working group comprising Ministries of Science & Technology, Commerce and National Food Security & Research will be constituted to work on quality standardization and harmonization of Pakistan standards besides, revision of list of pre-shipment inspection companies in the Appendix D and H of IPO.

SHORT-TERM EXPORT ENHANCEMENT MEASURES

The Short Term Export Enhancement Strategy includes the identification of focus products, focus markets and market linked focus products.

Focus Products

For short-term export enhancement, the following four product categories would be focused: (i) Basmati rice, (ii) horticulture, (iii) meat and meat products; and (iv) jewellery. The selection of products has been made on the basis of the availability of export surplus and potential for growth with short-term policy intervention and support.

Basmati Rice

Iran and Saudi Arabia jointly constitute 55% of total import market of Basmati rice in the world. Pakistan's share in these markets is 0.52% and 4.4% respectively. There is a preference for parboiled basmati rice in these markets. The support for import of parboiling machinery has been included in the Technology Upgradation Support envisaged in the STPF. Besides the incentive for branding and certification, support will be provided for development of warehousing facilities for rice in Iran and Saudi Arabia. "Pakistani Basmati Rice" will be branded in both the markets to generate consumer preference.

Horticulture

Pakistani horticulture products have already created a niche in global market. In view of the short shelf life the most feasible markets for horticulture products due to manageable sailing time are Middle East and South East Asia. The focus products in horticulture sector will be kinnow, mango, potato, onion and fresh vegetables. The short term strategy measures will include the institutional strengthening of PHDEC, support for international certifications, packaging, development of common facility centres e.g. Pack Houses and Vapour Heat Treatment facilities and development of market linkages with the outlets of international chain stores in Pakistan.

Meat Products

There is considerable potential for enhancement of export of meat products in Iran and Middle East. Under the STPF 2015-18, support for certification and approval of processing facilities by the authorities of importing countries will be provided. Besides, the exporting concerns will be facilitated in establishing market linkages through Pakistan's trade offices abroad.

Jewellery

Pakistan's Jewellery exports have shown a sharp decline since the amendment in regulatory regime for jewellery imports and exports in 2013, which was introduced to check the malpractices in Jewellery exports. The regulatory regime will be reviewed to ensure that the legitimate exports of Jewellery are not damaged due to over-regulation.

Focus Markets

The Focus Markets for short-term export enhancement will be (i) Iran, (ii) Afghanistan, (iii) China, and (iv) European Union. These markets have been selected on the basis of potential for enhancement of Pakistan's market share in the short term.

Iran

The economic sanctions on Iran are being eased and there is a likelihood of normalization of trade channels with the neighboring country in the next 6-12 months. In view of the emerging opportunities, under the market-linked focus product strategy, basmati rice, kinnow and meat products will be promoted in Iran. The strategy would be to support the warehousing and branding of basmati rice, certification of kinnow, meat products and rice, development of border markets and development of infrastructure for approach to the Iranian market through land routes.

China

There is considerable potential for increase in export of rice, cotton yarn, fabrics and garments in China in the short-term through strategic interventions. The stakeholders in export sectors will be informed, through a series of seminars and information events, of the available concessions under the China Pakistan FTA. The review of FTA and conclusion of 2nd Phase of FTA will be fast-tracked.

Afghanistan

Under the market-linked focus product strategy, the export of wheat, rice, meat products and cement can be increased in the short term. Strategic measures would be the opening of rail linkage with Afghanistan at the earliest.

European Union

Pakistani products are benefitting from the GSP Plus status in European Union. Currently only two fisheries establishments are approved for export to EU. The process for approval of five more fisheries processing facilities will be fast tracked. Mango exports to EU during the last two years have been held back due to the voluntary restraints imposed by Pakistan in view of fruit fly infestation in mangoes. The certification of mango farms and pack houses will be supported to increase the availability of produce according to the SPS requirements of EU.