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Editor's Corner

Dear Readers,

Pakistan Development Forum, an annual even held at the eve of the Federal Budget took place in Islamabad early April '07. The Forum provides the opportunity for the country's development partners to interact, review the economic achievements, the challenges and discuss the future development needs and strategies.

The Demographic Dividend: Unleasing the Human Potential was this year's theme. The people of Pakistan are the country's biggest asset and can contribute to the development process of the economy. Endowed with a large human capital base, where half of the population is below the age of 19, and where the proportion of working age population is increasing, accompanied with a decline in dependent age population, the opportunities --- demographic dividend for the economy is immense.

Pakistan can gainfully utilize this vast human resource appropriately by providing the right kind of education and skills. Looking at the labour force profile in Pakistan, we see that around 30 percent of the labour force is in the age bracket of 15-24 years. If this young population receives education and is provided with opportunities to develop its skills which meets the needs of today's workplace it would be immensely beneficial to the development of the human capital.

Development strategy that the Government pursues must encourage growth of sectors with job potential and where poverty is pervasive, e.g. rural non-farm (livestock, dairy), SMEs, etc. Unlike other economies, which have a large ageing population, Pakistan's young population can contribute more to the development process in the country.

The stakeholders attending the Forum discussed the developments that have taken place and the various reforms undertaken to generate employment and income for the people so to help eliminate poverty in the country. The Government is working towards PRSP II which will replace PRSP I, which has completed three years implementation plan. As countries globally make a transition towards knowledge based economy, a developing country like Pakistan faces new opportunities and challenges. PRSP II will have to align with this change taking place.

Demographic transition taking place in Pakistan, where the share of young people in working age population is growing, necessitates a rethinking of the poverty reduction strategy. Pillar I of PRSP II looks into the demographic dividend and its implications for the country. To provide a strong base for reaping the demographic dividend, the focus is on developing a world class infrastructure, energy and water security. Listed high on the government's agenda is commitment to improve the competitiveness and productivity of enterprises, development of special economic zones and industrial parks and reduction in the cost of doing business. The investment returns to the economy from increased infrastructure spending and improved competitiveness will lead to sustained economic growth which has proven to be effective in poverty reduction and employment generation. As infrastructure develops and costs of doing business gain a competitive advantage more new investment would come in creating thousands of new employment opportunities.

Taking into consideration the deliberations at the Pakistan Development Forum, it is expected that the Public Sector Development Programme of the forthcoming Federal Budget 2007-08 would be framed in the light of these talks.

Given a high poverty ratio in rural areas where 68 percent of the population resides, the burden is borne by the agricultural sector, as the non-farm sector is little developed. As this sector is still a crucial contributor to the national economy, its accelerated growth, especially of high value agricultural activities, will continue to be the cornerstone of government's overall strategy to reduce poverty. There is huge potential for the development of dairy farming, horticulture and agri-business, such as floriculture, fruit processing, and fisheries. This would lend support to rural development, employment generation and poverty alleviation. Opportunities are immense for the development of agri-business in Pakistan, given its large domestic market, strategic location, rising domestic income levels, low cost human capital and a large agriculture resource base.

Major investment projects for the development of dairy farming would help the landless poor, small households and women who play an extensive role in livestock. As the activity is spread all over the country, it would assist in balanced regional development, and gradually turn the sector internationally competitive.

The backward regions of the country pose a challenge for the government. People residing in these areas have poor access to public services, have limited livelihood opportunities, suffer from social disparities, are faced with socio-cultural barriers, have poor access to health facilities, sanitation facilities, clean water supply, women welfare centres, educational facilities, farm to market roads etc. To bring about equal opportunities, the people of such regions need education, provision of health centres, incentives for female teachers, schools, promotion of female literacy among others.

Water management has become important in Pakistan as it irrigates large areas of agricultural land, we need it for our economic activities, livelihood and environment. Surface water has become scarce, storages are depleting in capacity, ground water levels are going down and the quality of water is outdated. Increased public investment would be needed to increase the water reservoir capacity, bring efficiency in water usage and improve irrigation efficiency.

Also discussed at the Forum was the need to move up the global competitiveness curve. This would necessitate improving upon the institutions, infrastructure, education and training, technological readiness, health among others. Higher allocations for social sector would go a long way for improving competitiveness which leads to sustained economic growth which has proven to be effective in poverty reduction and employment generation.

Ayesha Mahmood

South Asia - Regional Integration

Regional trade groupings have now become a part of the global trading system. Though they have existed for many years in various parts of the world, but have risen rapidly only in the last decade. In South Asia, the South Asian Association for Regional Cooperation (SAARC) was founded in 1985, with Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka as its members. Afghanistan joined the regional group at the 14th Saarc Summit held in New Delhi early April. Some members of the regional grouping have bilateral arrangements with other countries within and outside the region.

Rise in regional groupings

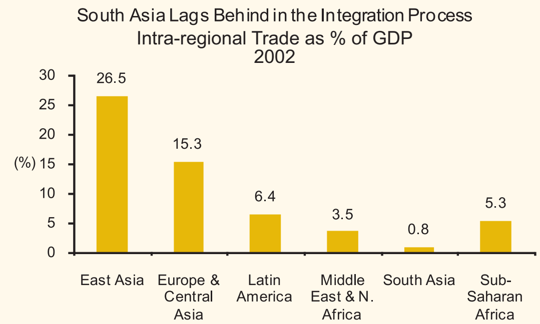
The SAARC region with about 15 percent of the world's arable land has about 23 percent of the world's population, but accounts for only 2 percent of global gross domestic product and 1.2 percent of world trade. Out of the almost 700 million people living in poverty throughout Asia, some 430 million live in South Asia --- that is 40 percent of the world's poor.

Compared to other regions, the trade performance of South Asia has been poor. Intra-regional trade as a percentage of total trade volume is around 4-5 percent. While in some other groups it is much higher: NAFTA 37 percent, EU 63 percent and ASEAN 38 percent. Among all the regions, South Asia is the least integrated when measured as a share of GDP. Intra-regional trade in South Asia is only a fraction of East Asia's over 27 percent of GDP and is even behind Sub-Saharan Africa.

Low intra SAARC trade

While individual members of SAARC have made progress towards integrating with the global economy, integration within the region is limited.

A World Bank report '*South Asia: Growth and Regional Integration*', states, South Asia is the least integrated region in the world, where integration is measured by intra-regional trade in goods, capital, and ideas. Intra-regional trade as a share of total trade is the lowest for South Asia. There is little cross-border movement of people, or the number of telephone calls, or the purchase of technology and royalty payments, are all low for South Asia. In South Asia, only 7 percent of international telephone calls are regional, compared to 71 percent for East Asia. Poor connectivity, cross-border conflicts, and concerns about security, have all contributed to South Asia being the least integrated region in the world.



The paper, *South Asian Regional Trade Agreements: Perspectives, Issues and Options, Jayanta Roy*, writes, 'the low level of intra-regional trade has resulted from several factors. A limited export base, relatively inefficient and uncompetitive production structure in the neighbouring countries, high barriers to investment, large scale informal illegal border trade, poor cross border trading infrastructure and failure of SAPTA.

Factors for low trade

Regional cooperation has eluded SAARC as shown in the book, *'New Life Within SAARC,' edited by Dev Raj Dahal and Nischal N. Pandey*. The regional body has not made much progress even after 20 long years. One of the failures of the regional grouping was its failure in identifying the areas where the countries of the region could cooperate.

Low barriers in the early years

More recently member countries have been able to separate politics from economic cooperation and have identified and agreed on areas where they could cooperate - fighting terrorism and on trade. The recent summits have been able to give some impetus to the Regional Body. *New Life Within SAARC* discusses the new found areas in furthering SAARC and ways to take the process forward in meeting the regional challenges.

Intra-regional trade in South Asia is constrained by high tariff rates and other barriers like poor logistics, ineffective customs, varying standards etc. Were it not for these and other similar constraints, expansion in intra-regional trade could integrate South Asia faster in the global economy.

Historically seen, intra-regional trade among three member of the SAARC, India, Pakistan and Sri Lanka was in double digits as a percentage of their total trade during the early years of their independence. It was a period when developed countries were following protectionist trade regime, while the countries in the subcontinent had low barriers to trade. In later years while developed countries opened their markets and their doors to trade, the countries in South Asia turned inwards. For instance, after 1947, India restricted the imports of raw jute which came from East Pakistan, while East Pakistan established its own jute mills to process jute. Similarly Nepal and Bhutan followed restrictive policies with the other countries.

Highest average tariffs in South Asia

It was a period when the countries of South Asia were pursuing inward looking trade policies. South Asia had the highest average tariffs till 1998. Until the early 1990s, with the exception of Sri Lanka, few recognized that trade could serve as an engine of growth. Policies generally protected local industries, and were not open towards attracting foreign investment whcih would have brought new technology and competition and helped develop their export industries. This took a toll on the economies of South Asian countries, who were left behind and missed the opportunities that other developing countries especially in East and Southeast Asia seized during the 1960s, 1970s and 1980s. As result, intra-regional trade shrank from about 19 percent of total South Asian trade in 1948 to 4 percent by 1974.

1980s saw a change

However, things started to change in the region in the late 1980s, when countries in the region started to open up as they began to see increased cooperation and trade among them as factors of success for their economies. This was reflected in the founding of SAARC in 1985 and some eight years later member countries signed an agreement to forge the South Asian Preferential Trade Area, which became operational in December 1995. Within the region, SAFTA (South Asian Free Trade Agreement) was launched in July 2006, with the hope that it would lead to a much more expanded cooperation in all fields, eliminate barriers to trade, so facilitating the cross border movement of goods and help the South Asian governments to concentrate on further regional cooperation and expand and enhance the mutual benefits, raising the living standards of the people.

Liberal-isation initiatives

Sri Lanka was among the first South Asian country to start with the trade liberalisation reforms, the others followed. 1980s and 1990s saw reduction in tariffs and other liberalisation initiatives. By the mid 1990s, while Sri Lanka and Nepal had relatively open and low to moderate protection requires, the other members still remained protected. It was only after 1997 that Pakistan embarked on a trade liberalisation programme, which was consistently followed for the next 6 years. Tariffs which had been as high as 65 percent were reduced to 45 percent in the first year only. These have since come down to 25 percent. The objective of the reforms was to convert the economy from a relatively closed, inward looking with high tariffs to an open and outward looking with low tariff.

Bangla-desh high tariffs

In Bangladesh, modest attempts were made towards trade liberalisation in the early 2000. Earlier many of the manufacturing industries were heavily protected, tariffs of 50 to over 100 percent were common. Prior to 2000 while customs duties were reduced but they were offset by the use of a variety of other protective import taxes. Local industries, particularly textile fabrics were protected through quantitative restrictions. Between 2002-04, there were some reductions in customs duty. Bangladesh was the most protected of the South Asian economies.

In India, while reforms towards trade liberalisation were initiated in the 1990s, it was in 2002-03 that it announced tariff cuts with promise of future reductions, with the exception of agricultural tariffs. More reductions were announced in 2003 budget with a reduction in the maximum customs duty from 35 percent to 30 percent and subsequently to 20 percent by January 2004. This drastically reduced India's average tariffs on manufactured and other non-agricultural goods by almost half compared to their level five years ago.

SAFTA Accord

Under the SAFTA accord, member countries agreed to eliminate trade barriers and bring down their tariffs. The Accord envisages reducing tariffs over a timeframe of 2 to 11 years, with the least developed countries being allowed the concession of a slower pace of tariff reduction.

The non less Developed Countries, i.e. Pakistan, India and Sri Lanka will scale down tariff rates to 20 percent within a timeframe of 2 years from January 2006, while Bangladesh, Nepal, Maldives and Bhutan will curtail their tariff rates to 30 percent.

The subsequent tariff reductions by non less developed countries from 20 percent or below to 0-5 percent shall be carried out within the second timeframe of five years, beginning from January 2009, except Sri Lanka which has been granted a six-year period for this purpose. For the less developed countries, reduction from 30 percent or below to 0-5 percent shall be done within eight years, starting from the third year from the date of coming into force of the Agreement.

Both the less developed countries and non less developed countries will be permitted to draw up a Sensitive List, which will be subject to a maximum ceiling to be mutually agreed among the contracting states with flexibility to less developed countries to seek derogation in respect of the products of their export interest. The Sensitive List shall be reviewed after every four years or earlier by SAFTA Ministerial Council, established under Article 10, with a view to reducing the number of items in the List.

Source: Implications of Liberalilzing Trade & Investment with India, State Bank of Pakistan

Non-tariff barriers

While tariffs have been reduced twice within SAARC there are a number of non-tariff barriers, which are being applied and they continue to represent challenges for exporters and policymakers. These include among others, quotas, export restrictions, customs fees and charges, standards, technical certification etc. The South Asian Yearbook 2006 of Trade and Development says non-tariff measures are there and will continue to deter exports.

Non-tariff barriers are restrictions to imports and have been criticized as a means to evade free trade rules such as those of the WTO. Their use has risen sharply after the WTO rules led to a very significant reduction in tariff use. The Wikipedia states, non-tariff barriers to trade can be: state subsidies, quota shares, unfair customs procedures, restrictive licences, inadequate infrastructure, intellectual property laws, foreign exchange controls among others.

Non-tariff barriers include

An article *'Non-tariff barriers in the neighbouring countries,'* posted on the website of The Ministry of Textile Industry, Government of Pakistan shows how the neighbouring countries protect their local industry through non-tariff barriers. These non-tariff barriers include; barriers related to process standards (many countries link up quality of the product with the production processes); to certification (importing countries at times ask for different types of certificates to support the quality system of the product); to registration (time involved for the exporter to register with the customs is high); to testing; to packaging (countries are asked that packaging should be such that the product does not get damaged during transportation or storage; to labeling; to licensing; to prohibition; anti-dumping duties and other barriers and constraints.

It may be mentioned that the SAFTA Ministerial Council directed the sub-group on non-tariff measures to examining the non-tariff barriers and para tariff maintained by all the SAARC countries and submit their recommendations. By maintaining tariff and quantitative restrictions, a country restricts market access to other countries. The sub-group of non-tariff measures would help remove these trade barriers.

In an article, '*A Framework of Barriers*', *Dr. Abid Qaiyum Suleri* says, the hopes for SAFTA were never too high as far as the trade liberalisation between Pakistan and India was concerned. Political differences between the two countries would render SAFTA meaningless. While India gave MFN status to Pakistan in 1996, it makes use of non-tariff barriers. On the other hand, Pakistan limits Indian imports to a positive list (that now contains more than 1000 items).

Bilateral trade between India & Pakistan

The State Bank of Pakistan in a study, '*Implications of Liberalizing Trade & Investment with India*', says official bilateral trade remains negligible and neither country falls in the category of top ten trading partners of each other, partly due to their history of being relatively closed economies. Comparatively high trade restrictiveness is partly a regional feature. The study estimates the potential of bilateral trade between the two countries at $5.2 billion.

Pakistan has liberalized its trade and currently operates with a relatively simple structure, i.e. 25 percent, 20 percent, 10 percent and 5 percent. In India, trade liberalization started much earlier in 1991-92. The general maximum customs duty was reduced from 25 percent to 20 percent in January 2004. The agricultural tariffs remain substantially higher than non-agricultural tariffs. Despite liberalisation, India's trade regime still remains more restricted than Pakistan in terms of both tariff and non-tariff barriers. There is substantial scope for improving trade between the countries.

Countries of South Asia have been using quota restrictions of all kinds to control imports and protect local industry. These vary from country to country but includes among others, import licensing, import quotas, and other non-tariff barriers.

The reforms introduced in India in 1991-92 removed most but not all quota restrictions from manufactured intermediate goods and machinery and equipment. But nearly all consumer goods remained subject to import licensing. It was in the later half of the 1990s that these restrictions were gradually removed. It started with removing restrictions on selected textile products.

Pakistan had used import incensing during its early substitution period. These began to be removed during the 1980s with progress continuing steadily into the 1990s. With the liberalisation programme begun in 1997-98, Pakistan had with some exceptions eliminated the traditional quantitative restrictions and other import monopolies. In the agricultural sector, government trading monopolies were abolished and other government interventions reduced.

Meanwhile, Bangladesh has made progress in reducing the use of quantitative restrictions. Trade liberalisation in the early 1990s was characterized by reduction in tariffs as well as significant removal of trade (protecting) as well as non-trade quantitative restrictions. Trade restrictions still apply to agricultural products, packaging materials and textile products.

Box

SAARC Summit

Afghanistan joins SAARC

The 14th Summit of the South Asian Association for Regional Cooperation (SAARC) a community that was formed in 1985 with Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, was held in New Delhi early April 2007. A notable feature of the Summit was the formal induction of Afghanistan as the 8th member of the regional grouping. The country had so far been enjoying the status of a special invitee. Five countries from outside the region, China, Japan, South Korea, the US and the EU attended the summit as observers.

30 point Declaration

A 30 point declaration was issued at the end of the two day summit. According to the declaration issued, the leaders reiterated their commitment to work towards shared economic cooperation, regional prosperity, a better life for the people of South Asia. They recognised the importance of connectivity within South Asia first and then with the rest of the world. The summit agreed to improve intraregional connectivity. They agreed to the vision of a South Asian community, ensuring smooth flow of goods, services, peoples, technologies, knowledge, capital, culture and ideas in the region. They reaffirmed their commitment to combat terrorism, narcotics. They called for enhancing investment in human capital and infrastructure, increasing budgetary allocations for relevant sectors and improved delivery of services.

MDGs

There was regional determination to make progress towards attaining the Millennium Development Goals (MDGs), which seek to eradicate poverty and improve lifes. To achieve this, there was commitment at the highest level for creating opportunities for productive employment and greater access to resources for the poor.

The eight goals seek to reduce by half the proportion of people who suffer from hunger, achieve universal primary education, promote gender equality, reduce child mortality, improve maternal health, combat HIV/AIDS and other diseases, ensure environmental sustainability and develop a global partnership for development.

Infrastructure poorly developed

Transport and communication systems are not so well developed in the member countries of SAARC, conditions are worse in rural areas, where poor transport and communi-cation still hinder their integration into the wider economy. Access to infrastructure has been cited as the number one problem faced by the firms in South Asia. For instance, the Colombo Port, a natural transshipment hub for South Asia has lost market share because it does not have the operating capacity required to berth the latest generation container ships. Improvements in roads and transport services generally have significant positive effects. If communication facilities are better developed it would facilitate interregional trade.

The Summit recognized the need to develop an integrated multi-modal transport system in the region. This could only be possible if physical infrastructure and matters relating to customs clearance and other facilitation measures were comprehensively addressed.

SDF to be set up

Member governments at the Summit focused on the setting up of the SAARC Development Fund, for which resources would be mobilised both from within and outside the region. Under the SDF, implementation of regional and sub-regional projects would help bring benefits to the people of the region.

Issues addressed

Environmental issues were addressed; the need to develop energy sources; the global climatic changes; the need for regional cooperation in the field of information and communication technology. Both India and Pakistan have decided to rationalise their national telecom tariffs. The national and regional telecom infrastructure will be upgraded to boost people to people connectivity in the region.

Trade facilitation measures to be adopted

The need for ensuring effective market access through smooth implementation of trade liberalisation programme was emphasised at the Summit. There was now a stress that to realize its full potential, SAFTA should integrate trade in services. The member governments underlined the importance of implementing trade facilitation measures, especially standardisation of basic customs nomenclature, documentation and clearing procedures. They emphasised the need to develop a roadmap for a South Asian Customs Union and South Asian Economic Union in a planned and phased manner.

SAARC Food Bank

It was decided to establish the South Asian University in India. Member governments of SAARC decided to establish the SAARC Food Bank. The Food Bank would help manage emergencies caused by natural and man-made calamities and food shortages. Millions of the inhabitants of SAARC region suffer from malnutrition and live on less than a dollar a day. The region is also affected by natural disasters. The Food Bank would help tide over different times.

At the Summit, India proposed direct air services to all capitals of SAARC countries, unilateral liberalisation of visas to SAARC citizens and duty free access to India for Least Developed Countries exports which will be allowed before the end of 2007. With Pakistan calling for promotion of an environment of genuine peace and security in South Asia, upholding the principles of coexistence, the 1.5 billion people of SAARC are looking forward to positive developments to the decisions taken at the recent SAARC Summit.

During the 1977 reforms Sri Lanka abolished most of its quantitative restrictions and continued to remove others during the 1980s and 1990s. Since 1998 Sri Lanka has not been operating any non-tariff import restrictions except those justified under other GATT provisions. There are two principal exceptions; import banks on tea and certain types of spices.

In Nepal import licensing and other non-tariff measures have never been widely used. Presently there are no government import monopolies, except for petroleum products and an import ban on machine made wool yarn. The later has been imposed on the grounds that if imports were allowed, the machine made yarn would be incorporated in export hand-woven artisanal carpets, thereby undermining their handmade reputation and the price premium at which they sell.

Bhutan has no explicit quantitative restrictions, but it does have various health and safety and technical regulations. In Maldives, a number of imported products were subject to non-tariff barriers and most of these restrictions have been removed recently.

A World Bank Report, '*Trade Policies in South Asia: An Overview*', recommends that given the past history of the region and still strong protectionist impulses, policymakers should undertake objective analysis of the costs and benefits of applying these measures for much longer.

During the last decade there has been a simplification in the structure of tariffs, as most countries in the region have brought down the rates and there are far fewer tariff banks --- 3-5 of them as opposed to 15 or more in the early 1990s. The Report recommends a reform agenda for the future, which should include reduction in maximum tariffs, containing the pressure for high agricultural tariffs (pressures more apparent in India and to some degree in Bangladesh and Sri Lanka); more uniform tariff structure, reduce and if possible eliminate the use of exemptions and partial exemptions from standard tariff rates (a major problem in India and Pakistan), use WTO tariff bindings to tie in liberalizing reforms and int he interests of transparency, and efficiency, eliminate protective import taxes (other than customs duties) applied in India, Bangladesh, Sri Lanka and Nepal.

Countries of South Asia are opening up their trade, while the state of progress varies in the region. Sri Lanka is relatively low tariff country by the standards of developing countries. Most quantitative restrictions have been scrapped and the protective tariffs that prevail are markedly lower than those in India and Bangladesh.

Trade Liberalisation was the theme of the Social Policy and Development Centre's Annual Review 2005-06. Pakistan had been pursuing high tariffs and non-tariff barriers in the 1970s and 1980s. The reforms introduced in the late 1980 and early 1990s promoted general liberalisation of the economy. There was a move towards greater trade liberalisation as well as some decline in tariff rates. Number of items on the restrictive list were reduced and industrial licensing was abolished.

The process of trade liberalisation gained momentum in 1991. The average tariff rate declined from 77 percent in 1985 to 65 percent in 1990 and to 17 percent in 2004. Similarly import taxes have shown a downward slope, with overall import duty fallilng from 40 percent in 1990 to 10 percent by 2004.

The reforms undertaken in the 1990s also eliminated many of the SROs and dismanting many non-tariff barriers. While comparing with some SAARC members like Bangladesh, India and Sri Lanka the average tariff rates came down quite significantly in Pakistan. In the early to mid 1990s, Bangladesh and India decreased their tariff rates more than Pakistan, but later tariff reduction continued and even accelerated in Pakistan, whereas tariff rates flattened out in Bangladesh and India during the late 1990s. Thus Pakistan and Bangladesh now have about equal average tariff rates, while India's rates are significantly higher. Sri Lanka where tariff reductions were initiated much earlier, has rates much below Pakistan, India and Bangladesh.

The findings of the SPDC Annual Review are consistent with the World Bank report on trade policies in South Asia. Reports the Review, in particular, according to the study, Pakistan's performance has been better than that of India and Bangladesh in several respects. First, Pakistan eliminated quantitative restrictions on imports (lessening NTBs drastically) much earlier than the other two countries, but imports from India are banned with the exception of items on the positive list. Second, Pakistan largely uses only customs duties as the instrument of taxing imports, whereasBangladesh and India (and some other South Asian countries as well) have other protective import taxes as well. Third, both Bangladesh and India backtracked on trade policy reform to an extent during the late 1990s, which did not happen in Pakistan.

Regional integration has been slow in the South Asian region. Reviewing some economic literature we see high tariff rates in South Asia is one of the major reasons for low integration. There are other explanation also, but we have discussed the tariff barriers and non-tariff impediments. Though these countries have been reducing tariff barriers, these are still higher than in other regions of the world. While progress has been achieved toward opening long protected markets, maximum benefits from SAFTA can be derived if member countries reduce trade barriers for each other. Further the political differences between Pakistan and India are a major trade barrier; which has retarded progress towards free trade in the region. Resolving their differences would also help the other countries in the region to realize the potential trade benefits due to geographical proximity.

Pakistan's Trade with SAARC Members

($ Mn)

Countries	2003-04			2004-05			2005-06		
	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance
Bangladesh	195 (49.4)	46 (9.6)	149	206 (31.4)	61 (9.2)	145	268 (36.9)	66 (7.0)	202
Bhutan	0.38 (0.10)	0.16 (0.03)	0.2	0.11 (0.02)	0.5 (0.1)	-0.4	0.2 (0.03)	0.3 (0.032)	-0.1
India	94 (23.8)	382 (79.6)	-288	288 (43.9)	547 (82.8)	-259	293 (40.4)	802 (85.1)	-509
Maldives	2 (0.5)	0.2 (0.04)	1.8	3 (0.5)	3 (0.5)	-	2.6 (0.4)	0.15 (0.016)	2.5
Nepal	5 (1.3)	3.4 (0.7)	1.6	2.7 (0.4)	4 (0.6)	-1.3	3.1 (0.4)	3 (0.3)	0.1
Sri Lanka	98 (24.8)	48 (10)	50	156 (23.8)	45 (6.8)	111	159 (21.9)	71 (7.5)	88
Total SAARC	394 (3.2)	480 (3.1)	-85	656 (4.6)	661 (3.2)	-5	726 (4.4)	942 (3.3)	-217
Pakistan Total	12313.3	15591.7	-3279	14391.1	20598.1	-6207	16451	28581	-12130

Figures in parenthesis is % share in SAARC Total

Source: Economic Survey 2005-2006

The table above shows the low level of trade that takes place between Pakistan and the other SAARC members. While Pakistan has a favourable trade balance with Bangladesh and Sri Lanka as exports to both the countries have picked up during the last 3 years, with India the deficit has widened. As a proportion of Pakistan's total trade with SAARC has been around 3-4 percent.

The low level of intra-regional trade has contributed to weak export performance in South Asia. Despite geographical proximity and some common cultural affinity integration within the region has remained limited. This is attributable among others to restrictive policies within the region. Tariff rates are one of the highest among developing countries. They have been reduced in the past decade, however, and are not the only constraint to growth. This implies the presence of other obstacles to trade liberalization and non-tariff barriers.

The World Bank Report, *South Asia: Growth and Regional Integration*, states, specifically, constraints in supply chains and trade logistics include a number of increasingly important barriers to exports for South Asian countries.

The lack of harmonized transport systems, frequent reloading of goods, port congestion affecting turnaround time for ships, complicated customs-clearance procedures, and non-transparent administrative procedures at the customs are often at the center of trade constraints. These constraints are often more serious in developing countries than in developed countries.

Studies have shown that eliminating non-tariff barriers contributes to trade integration. Until recently, trade facilitation generally referred to policy measures that targeted at reducing costs in transportation. It now encompasses a set of interrelated factors that reduce non-tariff barriers in order to lower cost of moving goods between destinations and across international borders.

South Asia

Some Facts

- South Asia is the least integrated region in the world.
- Intraregional trade is less than 2 percent of GDP, compared to more than 20 percent for East Asia.
- The cost of trading across borders in South Asia is one of the highest in the world.
- Energy trade in the region is low. Only India, Bhutan and Nepal currently trade electricity.
- Only 7 percent of international telephone calls are regional, compared to 71 percent for East Asia.
- A substantial share of South Asia's labour force is relatively low skilled, living in rural areas and involved with agricultural activities.
- The manufacturing sector in South Asia has to grow more rapidly to become more competitive. India's and Bangladesh's share of industry in GDP is around 20 percent, in Korea its 41 percent, in China, 48 percent.
- South Asia ranks the last among all world regions in terms of road density, raid lines, and mobile tele-density per capita.
- Many of the region's competitors have dramatically reduced customs and port clearance times. South Asia risks being left behind.
- Poor transport and communications skill hinder the integration of many rural areas into the wider economy.
- An important impediment to both regional and international trade has been the regulatory constraints introduced at the gateways and border crossing.
- South Asian countries, with the exception of Sri Lanka, have costly domestic transport owing to the distance between the production area and the major ports.
- In South Asia, demand for infrastructure, particularly electricity is growing rapidly.
- Electricity is still not available to about half of the region's 1.5 billion population, especially in rural areas.
- Electricity services to the connected customers, are often unreliable and of poor quality.

SAARC

Key Indicators

	Unit	Latest Year	India	Pakistan	Bangladesh	Sri Lanka	Nepal	Bhutan	Maldives
Environment									
Land Area	000'sq.km	2005	2973.2	770.9	130.2	64.6	143	47	0.3
Forest Area	% land area	2005	22.8	2.5	6.7	29.9	25.4	68	3.0
Agricultural Land	% land area	2003	54.0	25.2	61.3	14.2	16.5	2.3	13.3
Irrigated Land	%cropland	2003	60.8	34.4	69.5	36.4	29.5		
CO2 Emissions	mt per capita	2003	1.2	0.8	0.3	0.5	0.1	0.2	1.4
Energy use	oil equivalent Kg per capita	2003	324	282	103	184	44	59	510
Net energy import	% Energy use	2003	18	20	19	47	11		
Electric power consumption	Kwh per capita	2003	594	493	145	407	91	218	490
Population	**Mn**	**2005**	**1107**	**154**	**137**	**20**	**25**	**0.8**	**0.3**
Urban	%		29	34	25	15	16	21	30
Rural	%		71	66	75	85	84	79	70
Below Poverty Line									
National	Headcount Ratio %	1990-2003	28.6	38.6	49.8	25.0	30.9	25.3	21.0
International (<$2/day)	% population	1990-2004	79.9	74.1	82.8	41.6	23.8	---	---
Population Growth (Annual)	%	2000-2005	1.7	2	1.4	1.3	2.3	2.4	1.6
Crude birth rate	per 100 people	2004	24	31	27	16	30	30	31
Crude death rate	per 100 people	2004	9	8	8	6	8	8	6
Density	per sq.km.	2005	368	202	1090	303	190	16	979
Income Inequality Ratio	Richest 20% to Poorest 20%	2004	4.3[1]	5.4[2]	4.6[1]	5.1[1]	7.0	7.4	---
Employment									
Labour Force	% population	2005	41.6	37.8	49.6	47.0	44.8	---	33.3
Economically Active Population	% working age population	2004							
Male			84.4	48.7[4]	87.4[3]	67.1[4]	80.6	91.5[1]	71.1[1]
Female			36.1	11.2[4]	26.1[3]	30.9[4]	52.3	59.51[1]	37.4[1]
Agriculture			5	43[4]	52[3]	31[4]	---	---	3[1]
Industry			26	14[4]	10[3]	18[4]	---	---	13[1]
Services			69	43[4]	38[3]	514	---	---	84[1]
Unemployment Rate		2003	7.3	8.3[4]	3.6	8.4	1.8	---	2.0
Economic Indicators									
GDP									
Size	Rs Bn.	2005	801	110	57	23	8.0	0.852	0.753[a]
Growth Rate*	%	2000-05	6.5	5.0	5.5	4.3	3.4	8.0	4.6
Income Per Capita	$	2005	723	715	418	1197	295	760	2601[a]
Sectoral Composition	% GDP	2005							
Agriculture			19.7	22.5	22.3	17.2	39.1	22.9	10.3
Industry			26.2	26.2	28.3	27.0	22.2	37.6	16.7
Services			54.1	51.3	49.4	55.7	38.8	39.5	73.0
Sectoral Growth*	%	2000-2005							
Agriculture			2.5	2.9	3.3	0.6	3.7	2.8	6.2
Industry			7.1	6.6	7.2	4.2	2.5	8.4	7.3
Services			8.0	5.2	5.5	7.9	3.4	10.6	4.0
Inflation Rate*		2000-05							
Consumer Prices	%		4.6	4.7	4.0	8.6	4.0	3.7	1.2
GDP Deflator	%		3.8	6.0	4.3	8.7	4.3	5.5	-0.8
Money Supply (M2)	%		16.0	16.0	19.0	14.8	8.8	15.0	15.1
Consumption & Investment		2002-2005							
Private Consumption	% Growth		5.3[b]	6.7	4.0	5.2	7.5	3.8[a]	4.0[b]
Public Consumption	% Growth		3.7[b]	7.8	13.1	8.3	7.6	9.1[a]	10.1[b]
Gross Capital Formation	% Growth		15.0[b]	16.8	8.6	11.1	6.6	8.1[a]	17.7[b]
Savings & Investment		2005							
Gross Domestic Savings	% GDP		29.1[a]	12.2	20.2	17.2	12.5	44.4[a]	47.6[a]
Gross National Savings	% GDP		28.5[a]	14.1	26.5	15.9	14.5	---	---
Gross Domestic Capital Formation	% GDP		30.1[a]	16.8	24.4	26.5	25.6	61.0[a]	36.1[a]

	Unit	Latest Year	India	Pakistan	Bangladesh	Sri Lanka	Nepal	Bhutan	Maldives
Government Finance		2005							
Total Revenue	%GDP		12.9	13.7	15.8	16.1	13.2	16.8	34.8[a]
Tax	%Revenue		60.0	73.3	81.5	88.7	77.7	53.7	49.1[a]
Non Tax	%Revenue		40.0	26.7	18.5	11.3	22.3	46.3	50.9[a]
Total Expenditure	%GDP		14.4	17.9	13.8	24.7	16.6	41.4	39.2[a]
Current Expenditure	%Total Expenditure		86.6	80.5	63.2	76.0	71.5	41.8	73.8[a]
Overall Budgetary Deficit/Surplus	% GDP		-4.1	-4.1	2.0	-7.3	-1.1	-13.1	-1.6[a]
Financing :	%								
Domestic Borrowings			59.3	44.5	---	68.7	49.1	84.4	57.5
Foreign Borrowings			5.1	35.6	---	27.7	47.8	20.3	20.6
Balance of Payments		2005							
Trade Balance	$Mn.		-51554	-4514	-2951	-2516	-1190	-224	-493
	%GDP		-5.0	-6.0	-8.2	-10.7	-15.9	-26.4	-69.0[a]
Services	$Mn.		16666	-5679	-1543	38	-6	-27	90
Current Transfers	$Mn.		24276	8659	4128	1827	1356	64	116
	$Mn.		-10612	-1534	-366	-651	160	187	-287
Current Account Balance	%GDP		-2.5	-1.4	-0.6	-2.8	2.1	-22.0	-17.8[a]
Direction of Trade		2005							
Total Exports	**$ Bn.**		**104.8**	**14.5**	**8.4**	**6.3**	**0.8**	**0.2**	**0.16**
of which:	%								
Asia			32.0	23.6	7.4	16.1	59.3	98.6	62.1
Europe			23.7	26.9	47.8	32.9	18.0	0.9	25.6
North & Central America			20.2	24.9	27.8	33.1	18.4	0.3	4.1
Middle East			14.7	15.3	1.6	8.2	0.2	---	0.2
South America			1.6	0.9	0.1	0.7	---	---	---
Africa			5.3	6.8	0.5	0.9	0.1	0.1	7.9
Rest of the world			2.5	1.6	14.8	8.1	4.0	0.1	0.1
Total Imports	**$ Bn.**		**156.3**	**19**	**11.3**	**8.9**	**2.0**	**0.4**	**0.7**
of which:	%								
Asia			26.1	38.8	56.8	57.7	67.8	62.5	65.3
Europe			26.7	22.4	11.7	16.7	6.7	35.9	12.1
North & Central America			7.2	6.5	2.7	3.2	1.7	1.5	1.9
Middle East			7.1	26.9	12.1	11.6	18.9	---	15.7
South America			1.5	0.6	1.7	1.3	0.2	---	0.2
Africa			3.0	2.4	0.4	0.8	0.3	0.1	1.0
Rest of the world			28.4	2.4	16.3	8.7	4.4	---	3.8
External Debt & Debt Servicing		2004							
Total Debt Outstanding	$ Bn.		122.7	35.7	20.3	10.9	3.4	0.59	0.34
Public & publicly guaranteed			88.7	31.1	19.2	9.8	3.3	0.59	0.3
Private Non-guaranteed			26.5	1.5	---	0.3	---	---	---
Short-term debt			7.5	1.2	0.94	0.5	---	---	0.04
Use of IMF credits			---	1.9	0.23	0.3	0.1	---	---
External Debt Ratio	% GNP		17.9	36.4	34.2	56.6	48.5	90.3	47.9
External Debt Servicing	$ Mn.		19096	4285	674	766	114	12	32
	% Exports		---	21.2	5.2	8.5	5.5	---	4.6
Banking		2005							
Bank capital to asset ratio	%		6.3	7.7	3.8	6.7	---	---	---
NPLs to Gross Advances	%		5.2	10.6	15.3	9.6	2.0	---	---
Domestic Credit	% GDP		60.4	43.6	43.9	44.3	52.5	14.4	---
Interest Rates:	per annum	2001-2005							
Saving Deposits			3.7	2.6	4.3[x]	5.9	3.3	5.1	3.5
Time Deposits (12 month)			6.1	5.3	8.6[x]	9.4	4.2	7.6	5.8

	Unit	Latest Year	India	Pakistan	Bangladesh	Sri Lanka	Nepal	Bhutan	Maldives
Capital Market									
Market Capitalization	$ Bn.	2006	819	46	4	8	1	---	---
Market Liquidity	% GDP	2005	55.0	127.3	1.7	4.8	0.3	---	---
Value of Shares Traded	% Market capitalisation	2006	96.4	251.4	31.7	14.8	2.4	---	---
Listed Companies (Domestic)	Nos.	2006	4796	652.0	269	237.0	105	---	---
Education Indicators									
Literacy Rate (15 yrs and above)	%	2004	61	50	---	91			96
Male			73	63	52	92	49	61	96
Female			48	36	33	89	63	34	96
Female to Male rate Ratio			65	57	63	97	35	56	100
Enrollment Ratio	%	2004							
Primary Schools									
Male			120	95	107	102[3]	118[4]	23[1]	105
Female			112	69	111	101[3]	108[4]	19[1]	102
Gender Disparity Ratio		2002	0.94	0.71	1.04	0.99[3]	0.89	---	0.98
Secondary Schools									
Male			59	31	49[3]	82	49[4]	49[1]	68
Female			47	23	54[3]	83	42[4]	54[1]	78
Gender Disparity Ratio	Gender Parity Ratio	2002							
Primary			0.94	0.71	1.04	0.99[3]	0.89	---	0.98
Secondary			0.80	0.71	1.12	1.06[3]	0.78	---	1.15
Primary Student/Teacher Ratio	pupils per teacher	2004	41	47	54	23	40	---	---
Expenditure on Education	%GDP	2005	3.7	2.3	2.5	---	3.4	---	8.6
Health & Nutrition									
Access to improved water sources	% population	2004	86	91	74	79	90	62	83
Urban			95	92	82	98	96	86	98
Rural			83	48	72	74	89	60	76
Access to improved sanitation	% population	2004	33	59	39	91	35	70	59
Urban			54	92	51	98	62	65	100
Rural			22	41	35	89	30	70	42
Physicians	per 100000 people	2004	60	74	26	55	21	5	92
Infant mortality rate	per 1000 live birth	2004	62	80	56	12	59	67	35
Life expactancy at birth	years	2000-05	63.1	62.9	62.6	73.9	61.4	62.7	66.3
Age Dependency Ratio	%	2004	62	83	69	45	72	82	82
Expenditure on Health	% GDP	2004	5.0	2.2	3.1	4.3	5.6	3.1	6.2
Food Supply	**Daily Per Capita**	**2003**							
Calorie	calories		2473	2316	2193	2416	2483	---	2558
Protein	Gms		59	59	47	55	63	---	106
Information Technology									
Personal Computer	per 1000 people	2004	12	5	12	27	4	---	---
Internet Users	per 1000 people	2004	32	13	2	14	7	22	59
Households with Television	per 1000 people	2004	37	39	29	32	---	---	---
Telephone mainlines	per 1000 people	2004	41	30	6	51	16	13	98
Cellular subscribers	per 1000 people	2004	44	33	31	114	7	20	353
Expenditure on IT	% GDP	2004	3.8	7.1	2.9	5.9	3.4	---	8.1
Miscellaneous									
Export Growth	%	2002-2006	23.1	13.2	10.7	7.5	-0.8	26.3	16.6
Import Growth	%	2002-2006	29.1	20.7	10.0	11.6	7.6	19.4	17.3
Foreign Direct Investment	$ Mn.	2006	7661[4]	3451	675	480	-6	6	14
International Reserves	$ Mn.	2005	137	11	2.8	2.7	1.6	---	0.2
Ratio of Reserves to imports	months	2005	13[a]	7	3	4	9	---	3
Exchange Rates (Average)	per US dollar	2006	44.7	59.9	67.1	104.0	72.3	44.7	12.8

* Average [a]As of 2004 [b]2002-04 [c]2005 [x]2001-2004 (U) Urban (R) Rural [1]2000 [2]2002 [3]2003 [4]2005 [5]1995 [6]1990

Source: Asian Development Outlook & World Development Indicators 2007, ADB Key Indicators 2006 & Human Developement Report 2006

Liberalization of Services in Pakistan: Opportunities, Challenges & Cooperation in South Asia

Engr. M. A. Jabbar
Life Member FPCCI

Rising share of services sector

The process of liberalization of services in Pakistan was initiated in the 1990s with a policy package covering privatization, deregulation, liberalization and structural reforms adjustment arrangements under IMF structural reforms agenda. The liberalization of services has been independent of any commitments made under the general agreement on trade and services (GATS) in 1994. In simple words, almost all the sub-sectors of services stand deregulated and liberalized on account of the policy being pursued. The opportunities and risks that trade and development might incur have to be taken into consideration. Cooperation in South Asia is another facet being looked into.

Services sector, a promising area of investment and employment generation is contributing 53.2 percent to the country's GDP and even more if construction is included. The sector's share in GDP is on an upward slope since the 1980s. In the last five years, the growth in share has outpaced the rise in the percentage share of agriculture and manufacturing. Growth rates in GDP, services and commodity producing sectors during the last five years are given below.

Growth in GDP, Services and Commodity Producing Sectors

(%)

Fiscal year (July-June)	GDP	Services Sector	Commodity Producing Sector	Share of Services in GDP
2001	2.0	3.1	0.8	51.3
2002	3.1	4.8	1.4	52.1
2003	4.7	5.2	4.3	52.3
2004	7.5	5.9	9.2	51.6
2005	8.6	8.0	9.2	51.3
2006	6.6	8.8	4.3	52.3
2001-2006	5.4	6.0	4.9	51.8

Source: Economic Survey 2005-06

Overview of services sector

Wholesale and retail trade constitute 36 percent of the services value addition; transport and communication 21 percent, public administration 13 percent, ownership of dwelling 6 percent, banking and finance 6 percent, household services 6 percent and education 4 percent. The balance is shared by other services like, hotel and restaurants, healthcare, real estate and social and culture. The growth rates in major services sub sectors during last five years are shown below:-

Growth Rate in Services

(%)

Sector	2001	2002	2003	2004	2005	2006
Transport, storage, communications	5.3	1.2	4.3	3.5	3.6	7.2
Wholesale & retail trade	4.5	2.8	5.9	8.4	11.1	9.9
Finance and insurance	-15.1	17.2	-1.3	9.0	29.7	23.0
Ownership & dwelling	3.8	3.5	3.3	3.5	3.5	3.5
Public administration	2.2	6.9	7.7	3.2	0.6	4.7
Others	5.6	7.9	6.1	5.6	5.9	6.5
Services	3.1	4.8	5.2	5.9	8.0	8.8

Source: Economic Survey 2005-06

Investment in the services sector is expected to show a continuous growth and its share in GDP will grow. Import of services have risen in the last few years. The import of services in dollar terms is twice the level of exports of services. This is not a comfortable picture for Pakistan, which is striving for sharing the increased opportunities in the increasing world trade of services.

Import of services grow

The country recorded import of services at over $ 8 billion in 2006 against exports slightly short of $4 billion in the same period. There has been a sharp increase in the deficit of trade in services during the last three years. The deficit recorded on account of services was $ 1.3 billion in 2004, $3.2 billion in 2005, and $4.4 billion in 2006. Under Mode 4 of GATS, the earnings by non immigrant workers abroad on temporary stay also contribute towards remittances of about $5 billion in the year 2006 which is not being detailed here due to weak datas about the geographical positioning of workers and nature of their living status.

The research based approach to arrive at any firm position is constrained by non- availability of data on transaction of services. Given data limitations one can only attempt to understand the situation for future indications. The analysis of co-operation amongst south Asian countries requires reclassifications and improved systems of reliable statistics. This is the area, working of which would suggest the cross border movements of identified areas of services. Liberalization of the sub-sectors will be to the mutual benefits of the member countries of Saarc.

A conducive environment for investment in services has resulted from the liberalization of the investment policy in Pakistan. It has opened opportunities for entry of services from overseas. Privatization and opening of major sectors like energy and telecom have exposed them to competition from overseas investors and service providers. The energy policy announced in 1994 has brought in the Independent Power Producers. The Telecom is free and agreement related to keeping it a monopoly expired much earlier. The Government of Pakistan issues advance ruling on taxes and welcomes the entry of investment oriented services, which is totally immune from any check on the repatriation of profits and principal.

An investment portfolio of upto $1.2 billion is expected in year 2007 in stock market. Capital gains are free from tax liability and the facility would continue upto 2008 (as announced by PM before budget 2006-07) The MFN is available on investment in services, no restrictions on repatriation of capital, dividend, profit, royalty, franchise, technical fees and any other part claimed out of business service. Full foreign equity is stated to be hurting construction and consultancy though in the post Doha Round, it offers some percentage which appears as share for locals.

Postal services is now affected by entry of foreign based courier services which now operate in the country. Ports and shipping being liberalized, Gwadar operations have been offered on 30 year basis with complete concessions not limited to but including taxations. Private and foreign airlines can operate domestically and outside the country. The cargo service is also being handled by foreign based companies.

Banking and Insurance has also been liberalized. No specific conditions are attached with regard to extending facilities to the rural areas, where the immediate non available profit for foreign service providers is the main reason to stay away from developments of the future- profits.

Education

The mushrooming growth of non-accredited Universities has already been taken notice by the Higher Education Commission. This would suggest that liberalization without first putting in the regulatory system maybe counter productive.

Electronic Media

The investments by domestic service providers is now being extended by joining of foreign origin service providers. The level playing field maybe made focal point for progress of both by striking balance as to the shareholding between local and overseas partner. We have already seen some reservations from Pakistan Broadcaster Associations in this regard.

Domestic regulations in South Asia

Most of the countries are in the process of fine tuning of domestic regulations in line with commitments they are offering under GATS. Pakistan is/has already liberalized services covered by its investment policy, with very little protection for domestic commerce in the regulatory controls. It is suggested that some restructuring maybe made of the Regulatory Authorities in the wider interest of consumers. They should be equipped with the required expertise to act as facilitators rather than controller. They should take on the responsibility of providing services to the satisfaction of the consumer. Any existing weaknesses may have to be removed with respect to regulation of trade in services.

This is a subject to be dealt separately. Pakistan made initial offers in May 2005 in which

GATS and member country Obliga-tions

certain exemptions from MFN are given. Horizontal commitments are made like doing away with restrictions with non-Pakistanis to acquire real estate. In sector specific commitments certain equity limits have been raised and certain exemptions have been disclosed. Few new sub sectors have been defined and added. In overall the investment policy, taxation policy and taxation measures are already mandating the continuation of our liberalized position in services, so the obligations under the GATs may not merit much for its pleading or confronting exercise.

PTAs and FTAs

Pakistan has not gained in the Saarc Regional Trade Agreement with respect to trade in services. The Safta relates to trade in goods and does not specifically pressurize to go forward in services trade. Even in case of Pak-China free trade agreement signed in 2006, the trade in services is to be taken-up after conclusion of the FTA relating to goods. The Sri Lanka-Pakistan FTA does not contain any provision for trade in services. Pakistan has not offered any concession on any services trade in any FTA, it is/has pursued.

Libera-lization and coopera-tion in South Asia

The best way for Pakistan would perhaps be to exploit the potential available in the Saarc countries by identifying possible areas for cooperation. The bilateral principles transformed to plurilateral in services can be the basic instrument for promoting trade in services in South Asia under regional trade agreements. The Mode 4 is the best to start with.

South Asian countries have to strengthen the system of trade data bank in services as presently only major commercial services in Mode 1 are measured and no reliable system is available to gauge the transactions made in Mode 4 and 3.

The details of home remittances under Mode 4 based in specific on division of temporary and permanent residences are hardly available for making proposals based suggestions in South Asia for checking the areas in which the cross borders may be helping the Saarc economies. In principle it appears to be convincing that by this, we can conduct large level of trade in services at affordable costs to commensurate with purchasing power parity in the Saarc countries. The Saarc countries can easily find solutions as to the extent of safeguards, subsidies and level of local regulations which will help them in also moving to benefit from GATS as outcome of experiences in South Asia under Saarc framework of Governments.

Safta is focused on trade in goods. However, at the Saarc Ministerial meeting last year, consideration was given to examining feasibility of opening trade in services. This is a good sign and needs to be accelerated, as the services share in GDP is large in Saarc economies. The regional trade bodies, associations can help in further identifying the areas of co-operation for their proposed startup/setup.

Saarc countries under RTA extending to trade in services can club together to export services to third countries. Few examples of which can be consultancy, IT, construction, and tourism to name a few.

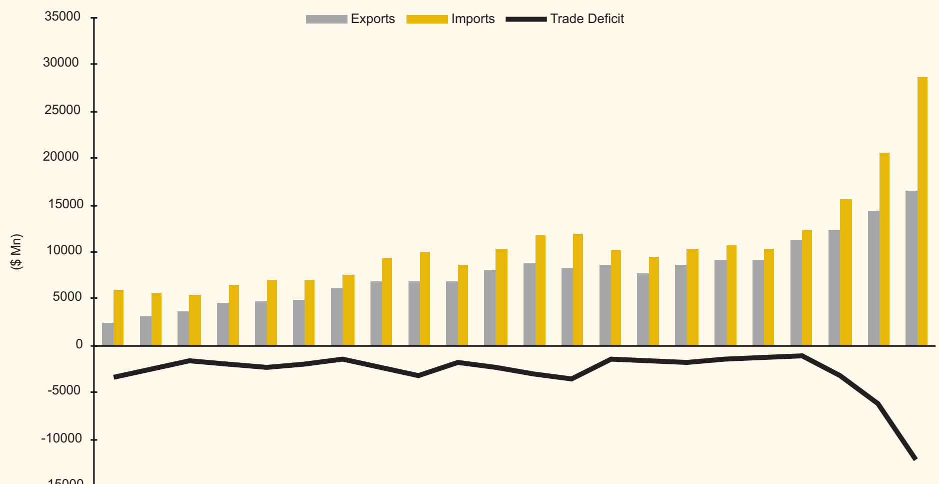
The regulatory mecha-nisms

The framework of regulations in Saarc countries can be exchanged amongst them for formation of better regulations. The Saarc countries can build their capacity by helping each other in up-gradation of educational skills, improving vocational trainings and enhancing imparting knowledge needed for meeting the objective of exports of services and providing better quality services to the locals.

Research and study conducted through research institutes in South Asia can promote the objectives of required promotion trade in services in South Asia/Saarc. This can be served by holding Workshops/Seminars amongst research institutions with the collaboration of stakeholders.

Pakistan: Rising Trade & Current Account Deficit

Balance of Trade
A Historical Perspective



	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
Exports	2491	3070	3686	4455	4661	4954	6131	6904	6813	6803	8137	8707	8320	8628	7779	8569	9202	9135	11160	12313	14391	16451
Imports	5906	5634	5380	6391	7034	6935	7619	9252	9941	8564	10394	11805	11894	10118	9432	10309	10729	10340	12220	15592	20598	28581
Trade Deficit	-3415	-2564	-1694	-1936	-2373	-1981	-1488	-2348	-3128	-1761	-2257	-3098	-3574	-1490	-1653	-1740	-1527	-1205	-1060	-3279	-6207	-12130

Pakistan's trade deficit has surged in the last two years, primarily due to large import payments. In FY05, it had risen to $6.2 billion as higher oil prices in the international markets persisted, as well as the increasing activity in the domestic economy led to a significant increase in the import of machinery and raw material. The sharp increase in import payments overshadowed the 16 percent growth in exports.

In fact, Pakistan's exports performed fairly well during FY05 despite the rising global competitiveness in the post MFA regime. At 5.6 percent of GDP, the FY05 trade deficit was the largest in almost two decades. Pakistan suffered large trade deficits in FY93 and FY97 due to sharp rises in imports. In FY07 (July-March), exports earnings declined because of a fall in the exports of raw cotton, cotton yarn and rice.

In FY06, the trade deficit was a record $12.1 billion nearly twice the $6.2 billion seen during FY05. The higher growth in imports nearly 39 percent was due to large oil payments as oil import bill jumped from around $4.0 billion in FY05 to $6.7 billion in FY07 (unit value had risen from $293.9 to $450.1) higher import of machinery (40.6 percent rise) (mainly road motor vehicles, and other machinery) and rising import of food items. Oil imports alone accounted for 33.5 percent or one third of the rise in exports.

Components of Rise in Trade Deficit

FY06 (Rs Bn)

Exports		*Imports*	
Primary Commodities	0.2	Food	0.7
Textile Manufactures	1.4	Machinery	2.4
Other Manufactures	0.5	Petroleum	2.7
Total Rise	2.1	Textile	0.2
		Chemicals	0.6
		Metals	0.6
		Other	0.8
		Total	8.0

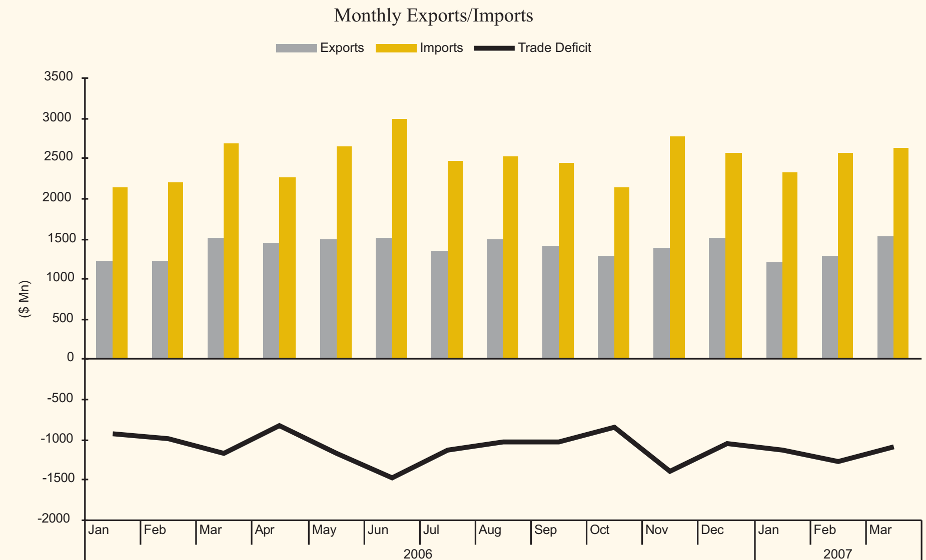
FY07 (July-March) (Rs Bn)

Exports		*Imports*	
Food	(-)0.09	Food	0.11
Textile	0.5	Machinery	0.5*
Petroleum	(-)0.009	Transport	0.2
Other Manufactures	(-)0.3	Petroleum	0.6
Others	0.3	Textile	0.2
Total	0.4	Agri & Other Chemicals	0.1
		Metals	0.3
		Other	0.6
		Total	1.7

* primarily telecoms

During July-March 07, the trade deficit widened to nearly $10.0 billion against $8.6 billion in the corresponding period a year earlier.

During the first 9 months imports grew by 8.4 percent, while exports showed a 3.5 percent increase. Oil imports constitutes 23.3 percent of the import bill, followed by machinery 21.6 percent, agricultural and chemical group 13.8 percent. Growth in fuel and machinery imports was lower.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	2006												2007		
Exports	1225	1229	1513	1443	1484	1510	1342	1499	1413	1282	1380	1517	1197	1296	1533
Imports	2144	2210	2682	2259	2648	2986	2460	2525	2443	2131	2774	2564	2330	2572	2623
Trade Deficit	-919	-981	-1169	-816	-1164	-1476	-1118	-1026	-1030	-849	-1394	-1047	-1133	-1276	-1090

The monthly trend in exports and imports show some tapering off in the growth of imports. Subsequently the monthly trade deficit fell in March to \$1.0 billion against \$1.4 billion in November '06.

The narrowing of trade deficit in March is attributable to lower import bill of transport vehicle, petroleum crude, chemicals among some others. Exports rose by 18 percent in March '07 over a month earlier because of large earnings accruing from export of textiles, carpets, rice, etc.

The current account balance which had remained in surplus for four consecutive years FY01-FY04, turned into a deficit in FY05 and has deteriorated since.

Current Account Balance

	($ Mn)
1998-99	(-)1856
1999-00	(-)217
2000-01	326
2001-02	2833
2002-03	4203
2003-04	1812
2004-05	(-)1534
2005-06	(-)4999
2006-07 (July-March)	(-)6015

Source: State Bank of Pakistan, Annual Reports, various issues

The deterioration in the current account balance was primarily due to the widening trade deficit and higher payments outflow for shipment freight charges, as well as the higher direct investment income outflows (due to large payments made by the government against the purchase of crude oil and gas from foreign companies operating in Pakistan.

The current account balance continued to deteriorate into FY06, with the deficit rising substantially to \$5 billion or 3.9 percent of GDP from a modest 1.4 percent of GDP in FY05. This deterioration is due to the continued upsurge in imports, (and accompanying rise in shipment freight charges) that overshadowed the reasonably strong growth in exports, remittances and other government receipts. The annual FY07 current account deficit is still likely to be substantially higher than FY06 and is likely to breach the Annual Plan target of 4.3 percent of GDP for FY07.

Performance of Islamic Banking in Pakistan

The process of Islamizing the financial system dates back to the late 1970s, when a beginning was made to transform the loans and deposits of the banking sector into non-interest bearing activities. Real impetus was given to the system in early 2000, when separate rules and regulations for Islamic banking parallel to interest based banking activities were formulated. Last few years have seen a rapid growth in the Islamic banking sector.

Today there are six full fledged Islamic banks; Meezan Bank Limited, Al Baraka Islamic Bank, Dubai Islamic Bank, Bank Islami Pakistan Limited, First Dawood Islamic Bank Limited and Emirates Global Islamic Bank Ltd operating alongwith conventional banks. The numbers of licensed conventional banks to conduct Islamic banking business through Islamic Banking Branches has grown. National Bank of Pakistan has also established a stand alone branch for Islamic Banking. A full fledged Islamic banking department has been created in the State Bank of Pakistan that serves as a focal point for all matters relating to Islamic banking and finance in the country.

With an expansion in the network, the balance sheet of the Islamic Banking system has grown. There has been a significant growth in assets, which surged from Rs.6.9 billion in 2002 to Rs71.5 billion in 2005 and by December 2006 it had risen to Rs 118.1 billion. The deposits base increased from 5.0 billion in 02 to Rs.50.0 billion in 05, and further rose to nearly Rs.83.7 billion by December 06.

Islamic Banking in Pakistan

Structure	Unit	End-December			
		2003	2004	2005	2006
Islamic Banks Operating in Pakistan	Nos.	1	2	2	6
Branches Opened by Islamic Banks	Nos.	10	23	37	99
Pakistani Conventional Banks Operating Islamic Banking Branches	Nos.	3	7	9	12
Islamic Banking Branches Opened by Pakistani Conventional Banks	Nos.	7	21	33	58
Islamic Banking Branches Operating in Pakistan (Total)	Nos.	17	44	70	70
Key Indicators					
Assets	Rs.Bn.	12.91	44.14	71.49	118.18
Growth	%		241.91	61.96	65.31
Share	%	0.53	1.49	2.0	2.9
Deposits	Rs.Bn.	8.4	30.18	49.93	83.74
Growth	%	64.6	259.5	65.4	67.71
Share	%	0.43	1.26	1.76	2.8
Financing	Rs.Bn.	8.65	27.54	45.79	65.14
Growth	%	147.0	218.2	66.3	42.26
Share	%	0.83	1.82	2.37	2.9
Investment	Rs.Bn.	1.24	2.01	1.85	7.05
Growth	%		62.1	-7.96	281.08
Share	%	0.16	0.3	0.24	0.91
Markup Income	Rs.Bn.	406.4	1081.0	3164.3	6381.9*
Growth	%		165.99	192.72	101.68
Share	%	0.39	0.97	1.52	
Markup Expense	Rs.Bn.	188.5	483.7	1542.3	3545.5*
Growth	%		156.6	218.85	129.88
Share	%	0.51	1.44	2.08	
Non markup Income	Rs.Bn.	287.4	596	1206.6	1063.6*
Growth	%		107.38	102.45	-11.85
Share	%	0.6	1.26	2.23	
Gross Income (net)	Rs.Bn.	505.3	1193.2	2828.6	3900.0*
Growth	%		136.14	137.06	37.88
Share	%	0.43	0.95	1.5	
Profit (BT)	Rs.Bn.	245.0	378.2	1242.6	756.1
Growth	%		54.37	228.56	-39.15
Share	%	0.52	0.72	1.3	0.6

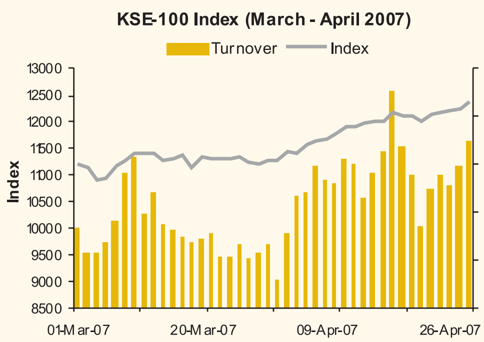
Share is in total banking industry. *Source: State Bank of Pakistan*

Market Analysis

Market review

The market continued to rise gradually during the March – April 2007 period as the KSE-100 Index gained 1,189 points or 10.6 percent to close at 12,369 points, an all-time record high closing. The average daily turnover during the period was 213.9m shares as compared to 225.4m during the January – February 2007 period. The beginning of March saw the market in the grips of a technical correction that began in February, however, from March 5 to March 9, the market staged a brief recovery as the KSE-100 Index increased by 513 points or nearly 5 percent to close at 11,413 Technically, the market was in the oversold region and so a rebound was due at any time.

The release of the February cement sales data depicted strong sales growth in both domestic and export markets with export sales recording an all-time month high volume of 320k tons. This led to institutional buying interest in cement scrips especially the large players such as Lucky and DG Khan. In addition there was buying interest in petroleum and banking stocks from both local and foreign investors. However, the recovery stalled and the market entered into a consolidation phase for the remainder of March due to the judicial dispute and geopolitical situation vis-a-vis Iran.



The KSE-100 Index gained nearly 1,100 points or 9.7 percent during April 2007 to close at 12,369, an all-time record closing while the KSE-30 Index increased by almost 1,400 points or 9.8 percent to 15,390. The average daily turnover during April was 261.6m shares compared to 160.0m shares during March 2007. The market broke out of its sideways pattern that was evident throughout March and staged a strong rally with healthy daily turnover from the beginning of April to cross and close above the 12,000 psychological barrier on April 16. The following are the main factors behind the rally:

- Record cement sales during March 2007 of 2.1m tons led to a buying spree in cement scrips.
- PSO privatization developments including events such as 7 parties qualified to bid by the Privatization Commission and the bidding date set for May 19, 2007 led to positive sentiments.
- SECP announced on April 3 that it would take a lenient view in the March 2005 crisis and would not take punitive action against brokers involved in the crisis.
- There was renewed interest in the E&P sector because of positive response by investors to the draft Petroleum Policy 2007 which abolishes the cap on wellhead gas prices (US$ 36 a barrel in Petroleum Policy 2001) and allows for minor increases beyond US$ 45 a barrel.
- There were positive expectations among market participants about quarterly results for both banking and cement sectors.
- Continued foreign buying and local buying (due to the influx of new funds) and ample liquidity (although CFS value close to its cap but rates are extremely low).

During the last 2 weeks of April, the market experienced a minor correction and then quickly entered into a consolidation phase because of the CFS reaching its limit of PKR 55bn which led to reduced activity by punters and retail investors and also, investor reaction to quarterly corporate results of major sectors that were heavily packed during this period. The KSE requested the SECP to raise the CFS ceiling above PKR 55bn but the SECP fired back a letter containing 7 issues relating to risk management measures that the bourse has not implemented and so the request for a raise in the CFS limit can not be entertained until there is action by the bourses on these 7 points.

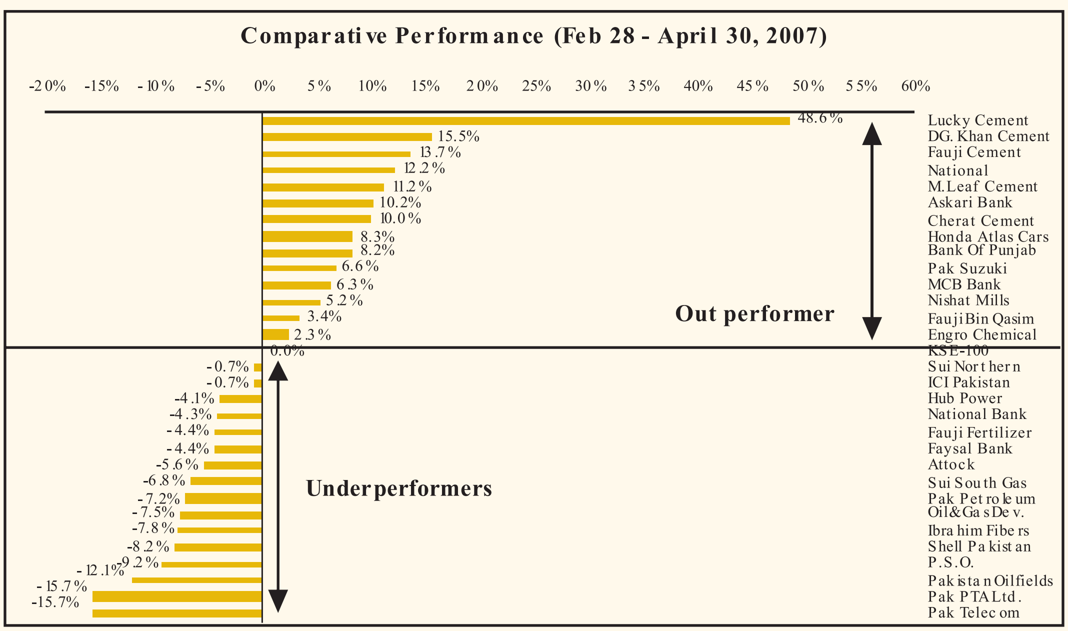
Corporate Results

Generally, most of the major corporate results were in line with market expectations. As expected, the commercial banking sector depicted robust earnings growth on YoY basis due to a combination of higher spreads and balance sheet growth. The cement sector continued to depict falling profits on a YoY comparison albeit higher volumetric sales because of dramatic drop in retention prices but core earnings improved on a QoQ basis and we expect 4QFY07 to show further improvement due to higher sales and recovery in retention prices. The E&P sector showed decelerating earnings growth in the 9m07 results mainly due to the decline in international oil prices. Refinery and OMC sectors reported QoQ growth in the bottomline but negative growth on YoY basis because of declining volume and margins.

Looking Ahead

With quarterly results out of the way, the market's focus during the next month will now turn to the 2007-08 federal budget expected to be tabled in June. We expect that the market movement and sentiments to be influenced by pre-budget speculation especially measures regarding the capital markets such as CVT, further extension of capital gains tax exemption and lower corporate tax rates for listed companies. Looking at the past 5 year trend of the KSE-100 Index during May, the market has been bearish to lackluster at best during the run up to the budget announcement. The average return during May over the last 5 years has been -351 points or -4.3%. During 2003 and 2004, the Index recorded a positive return.

The market performance so far this year (January to April 2007) has been quite impressive as the KSE-100 Index has surged by 23% and so a correction could occur at anytime. We would advise investors to sell on strength and wait for a correction to re-enter the market.



(Contributed by Taurus Securities Ltd, a subsidiary of National Bank of Pakistan)

Book/Report Reviews

Pakistan:
Promoting Rural Growth and Poverty Reduction
World Bank, March 2007

The rural poor in Pakistan suffer from deep poverty. Around 35 million rural people remain poor, as majority of them are neither tenant farmers nor farm owners. Non-farm households account for slightly more than half (52 percent) of the poor. This is mainly because of the prevailing highly unequal distribution of land and access to water. Low access to usable water is a major cause of lower productivity in the dry lands, land oat the tail end of water courses and areas with saline groundwater.

The Report analyzes the major constraints to rural income growth and poverty reduction in Pakistan and offers specific policy recommendations for achieving these objectives. While the Report's focus is on agriculture, the rural non-farm economy is also examined at length.

Pakistan's rural economy involves much more than just agriculture. Agriculture accounts for only 40 percent of rural household incomes and the majority of the rural poor in Pakistan are not farmers. Secondly, household welfare involves more than just income and Pakistan's rural poor are particularly disadvantaged in non-income measures of welfare. Third poverty reduction is ultimately about people.

The Report has suggested policy reforms for accelerated rural growth and poverty reduction. With respect to agriculture, it suggests for; increase agriculture productivity: improve efficiency and sustainability of water use; improve efficiency of agricultural markets.

Rural non-farm

Provide adequate rural infrastructure; facilitate market linkages; increase access to credit.

Public Service Delivery

Increase flow of resources to local government for rural development; improve administrative efficiency; enhance sustainability of RSPs.

Empowering the Poor

Promote social mobilization; increase efficiency of microfinance programmes.

Social Protection

Increase coverage of social protection programmes; address problems related to hevily indebted labour.

Pakistan:
Millennium Development Goals Report 2006
Planning Commission
Center for Research on Poverty Reduction and Income Distribution
Islamabad

Pakistan, a signatory to the Millennium Development Goals is fully committed to achieving them by 2015. This is reflected in its development strategy as embodied in the Medium Term Development Framework (2005-10). This commitment is also reflected in the Fiscal Responsibility and Debt Limitation Law which mandates certain pro-poor budgetary outlays.

This report, the third in the series is a self evaluation on the progress of selected MDG indicators. The present report evaluates the progress made at national/provincial level during the last five years in alleviating consumption and non-consumption based poverty and inequalities. At district level, it is a self evaluation of progress made, for seven selected indicators under Goal 2, 3, 4 and 7.

It is now increasingly recognized at a policy level that poverty can only be reduced permanently if income/non-income inequalities in a society are seriously addressed and reduced. Moreover, sustained growth may be necessary, but is not a sufficient condition for poverty reduction. Distribution of income also determines the level of poverty for a given level of average per capita income in a country. In this context, the Report has suggested enforcement of the redistributive functions of the fiscal policy i.e. expenditure and taxation instruments.

With respect to MDG 2, achieving universal primary education, the Report shows that in terms of attainment of net primary enrolment, district of Punjab continue to dominate while many districts in Balochistan still have lowest attainment level. None of the districts have yet attained the MDG target of 100 percent for 2015.

Pakistan Economy - Key Economic Indicators

Economy Size & Growth			FY '03	FY '04	FY '05	FY '06
GNP - Market Prices		Rs. bn	4974.6	5765.1	6715.6	7864.5
GDP - Market Prices		Rs. bn	4822.8	5640.6	6581.1	7713.1
Per Capita Income	Market Prices	Rs.	33899	38524	44028	50618
	Market Prices	US$	579	669	742	847
Growth*						
GNP		%	6.3	7.3	8.3	6.4
GDP		%	4.7	7.5	8.6	6.6
Agriculture		%	4.3	9.2	9.2	4.3
Large-scale manufacturing		%	7.2	18.1	15.6	9.0
Services Sector		%	5.2	5.9	8.0	8.8
Rate of Inflation[x]		%				
Consumer Price Index		%	3.1	4.6	9.3	7.9
Wholesale Price Index		%	5.9	7.9	6.8	10.1
Balance of Payments		$mn				
Exports (f.o.b)			10974	12459	14482	16506
Imports (f.o.b)			11333	13738	18996	24948
Trade Balance			(-)359	(-)1279	(-)4514	(-)8442
Services Account (Net)			(-)2	(-)1316	(-)3293	(-)4402
Income (Net)			(-)2211	(-)2207	(-)2386	(-)2671
Current Transfers (Net)			6642	6114	8659	10516
Current Account Balance			4070	1812	(-)1534	(-)4999
Fiscal Balance		% of GDP				
Total Revenue (Net)			14.9	14.3	13.7	14.0
Total Expenditure			18.6	16.7	17.0	18.2
Overall Deficit			(-)3.7	(-)2.4	(-)3.3	(-)4.2
Domestic & Foreign Debt						
Domestic Debt		Rs. bn	1854	1979	2133	2293
As % GDP			38.4	35.1	32.4	29.7
Total External Debt & Liabilities		$bn	35.47	35.26	35.83	37.27
As % of GDP			42.5	36.4	32.5	29.1
As % of Foreign Exchange Earnings			180.5	164.3	134.0	120.5
Investment & Savings		% of GDP				
Gross Investment			16.8	16.6	18.1	20.0
Gross Fixed Investment			15.1	15.0	16.5	18.4
National Savings			20.6	18.3	16.7	16.1
Domestic Savings			17.4	16.2	15.1	14.7
Foreign Investment		$mn	816.3	921.7	1676.6	3872.5
Portfolio			18.2	(-)27.7	152.6	351.5
Direct			798.0	949.4	1524.0	3521.0
Monetary Aggregates		%				
M_1			26.2	24.0	18.4	13.3
M_2			18.0	19.6	19.3	15.2
Literacy Rate		%	51.6	53.0	53.0	53.0
Foreign Exchange Reserves		$mn	10719	12328	12623	13137
Exchange Rate		Rs./$	58.4995	57.5745	59.3576	59.8566
Stock Market Growth Rate		%				
SBP General Index of Share Prices[x]			91.9	57.8	12.2	17.7
KSE 100 Index[a]			92.2	55.2	41.1	34.1
Aggregate Market Capitalisation			119.9	88.0	45.2	35.8

* Constant Factor Cost of 1999-2000 [x] 2000-01 base [a] Nov.1991=100

Source: Annual Survey FY'06
SBP Annual Report FY'06