VISION

To be the pre-eminent financial institution in Pakistan and achieve market recognition both in the quality and delivery of service as well as the range of product offering.

MISSION

To be recognized in the market place by Institutionalizing a merit & performance culture, Creating a powerful & distinctive brand identity, Achieving top-tier financial performance, and Adopting & living out our core values.

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NBP Performance at a Glance

Editor's Corner

Dear readers,

The twelfth SAARC summit held in Islamabad early January 2004 ended on a positive note with the leaders from Pakistan, India, Sri Lanka, Nepal, Bangladesh, Bhutan and the Maldives agreeing to intensify cooperation to meet the challenges of globalization and making SAARC a more effective body. Regional cooperation is no longer a matter of choice for South Asia. Other regional trade groupings like NAFTA, the EU have helped promote regional trade among their member countries and thereby economic cooperation and development. Better ties within the South Asian region would greatly benefit the countries through access to larger markets and greater competition. As cooperation covers a wide range of issues, its enhancement would contribute to the process of development in the region.

During the summit, member countries reaffirmed their commitment to promote regional cooperation in trade, information and communications, science and technology, poverty alleviation, environment and the fight against terrorism. Islamabad Declaration issued at the end of the summit spelt out the regional collaboration in these areas.

In the economic field, the signing of the Framework Agreement on SAFTA (South Asian Free Trade Agreement), is a major milestone. SAFTA would be implemented in January 2006 and will see a reduction of tariffs between member nations. By removing strong trade policy barriers to intra-regional trade, SAFTA would lead to expansion of intra-regional trade for the benefit of the region's impoverished people. SAARC has in the past made some progress through South Asian Preferential Trading Agreements (SAPTA), which had initiated the process of intra-regional trade. This however, remains small; currently 4.8%, compared to NAFTA's 55.5%, and 61.3% for the EU.

The South Asian countries trade principally with countries outside the region, principally with the countries of the European Union, the US and Japan. Pakistan for instance has a $3 billion two-way trade with the US, $4.0 billion with EEC countries, $686 million with Japan and $804 million with China. Compared to this, trade with India, Sri Lanka, Bangladesh is considerably smaller. Economic cooperation under SAPTA, which aims at the liberalisation of trade by abolishing trade barriers and greater cooperation, intra-regional trade is expected to pick up.

Expansion of trade would act as a stimulus to the development of national economies by expanding investment and production, thus providing greater opportunities of employment and help securing higher living standards for their people.

Under the economic category, commitment was made for, the creation of a South Asian Economic Union; a study to be undertaken for creating a South Asian Energy Cooperation; and prospects for setting up a South Asian Development Bank be examined. Development of tourism could bring about advancement in the economic and social fronts of the entire region. The natural diversity that the countries in the region offer rival to none others. From snow clad mountains to the beaches, to the beautiful valleys, no other regional group is as rich as the SAARC members.

Poverty alleviation is a great challenge facing the SAARC countries, where 1.4 billion people reside and where a vast majority lives below the international poverty line of $1 a day. In countries like Bangladesh, India and Nepal more than one-third of the population lives below $1 a day. Social sector development has not received the emphasis it deserves. There has been deprivation of fundamental economic rights and human well being remains meaningless. What is really needed is a collective effort on the part of each member country to extricate the region from this quagmire of deprivation.

The regional economic integration in South Asia could generate new income, employment opportunities, trade and help the region in its fight against poverty. The summit emphasised the provision of basic needs, promotion of literacy and better healthcare by adopting pro-poor growth strategies. It constituted an independent Commission to prepare a plan for the setting up of SAARC Development Goals for the next five years in the areas of poverty alleviation, education, health and environment by the next SAARC summit to be held in Bangladesh in 2005.

Given the vast potential of the SAARC member, each member nation has a role to play in the development of the region. Natural wealth has to be optimally and efficiently managed and utilised for the benefit of the people.

Ayesha Mahmud

Abstract of the Bulletin

Core Agenda: 2004

- Government of Pakistan would have to give serious thoughts to the challenges imposed by the WTO regime, particularly its implication on local industry, employment and poverty; the new National Finance Commission award and the implementation of the Fiscal Responsibility and Debt Limitation Law.
- A short questionnaire sent out to various associations elicited their views on the challenges they will face in the free trade regime, what they expect from the Government and their restructuring plans.
- APTMA proposed to enhance training capacities, capture niche market, improve design and fashion skills, comply with labour standards as some of the ways to meet the WTO challenges.
- All Pakistan Textile Processing Mills Association seek support from the Government in facilitating their units to get ISO certifications, rationalisation of the Environment Protection Act, cutting utility charges etc.
- Pakistan Leather Garments Manufacturers Association mentions waste management and product certification as the major challenge, while Pakistan Automotive Manufacturers Association says improving quality, cutting cost of locally made parts are some of the ways they plan to meet WTO challenges.
- SME Manufacturers Association has given a number of recommendations to promote SMEs.
- National Finance Commission award is expected to be announced by March 2004.
- Fiscal Responsibility and Debt Limitation Law is to receive Parliament's approval. It would help restrain government spending and provide fiscal space to carry out development work.

Sugar Crisis in Pakistan

- Bumper sugarcane harvest has resulted in huge sugar stocks.
- Sugar prices have fallen in the domestic market.
- Sugar mill owners have decided to produce less sugar this season, because of large carryover stocks.

Current Wheat Situation

- Pakistan is amongst the world's major wheat producers, with a share of around 4% in global output.
- Domestic wheat production averaged 18.5 million tonnes in recent years.
- In FY00, Pakistan had a bumper wheat crop and was in a position to dispense with imports. Wheat was exported in 2001.
- Prolonged dry spell has affected the wheat crop. Delayed cane crushing, better return on cotton has affected the wheat sown area this year. Crop is expected to be about a million tonne less than the target of 20.5 million tonnes.

Market Analysis

- The market rose 18% (693 points) in November and December 2003. The KSE-100 Index gained 65.6% (1772 points) over the course of the year to close 2003 at 4474.
- The steep rise in stock prices over the last two years has been a result of a shift encapsulating the country's changed fundamentals- high capital inflows, low interest rates, better access to EU markets, and improved relations with the world powers (the USA and EU). This shift has been mostly played out and now micro economic, company specific factors such as earnings growth will play an increasingly important role in driving share prices.

Core Agenda: 2004

As the year 2003 draws to a close, and the new year is ushered in, it would be of interest to see what perhaps would be the leading aspects to receive government consideration in the year 2004. Those to be discussed in the following pages include; the WTO challenges, the new National Finance Commission award, the Fiscal Responsibility and Debt Limitation Law, which needs Parliament's approval.

(A) *WTO Challenges/Opportunities*

The changed scenario that will emerge effective January 1, 2005 when free trade regime will offer both challenges and opportunities has great implications for all members. For many developing countries like Pakistan understanding of the implications of WTO agreements is one of the concerns. Such economies are apprehensive of growth in free market environment. Their industrial sector, especially the small & medium enterprises are usually vulnerable to free competition from imports. A large part of the industry in such economies is not geared to take advantage of market access opportunities that the WTO regime is likely to offer.

How to gain from opening of trade?

T.K. Bhaumik in his article "WTO, South Asia and Related Issues", has spelt out the steps the developing countries need to adopt to gain from opening of trade. As markets are opened for their products, the developing countries would need to develop capacities and/or abilities, to be able to access the opportunities in the global markets. What it means is that domestic economies must grow, adequate investment should take place, entrepreneurship needs to be developed, infrastructure needs to be put in place and other facilities/support systems need to be developed. If these things are not in place, no amount of opening up of market access opportunities will help.

In this context, these are the challenges of WTO before the developing countries. Challenges need to be understood not in terms of threat but in terms of capacity building. The imperative of capacity building has been well recognised in the WTO, but it is upto the developing countries to understand what kind of capacities they need to build on. In the same context, of course, one has to also recognise that there has to be other facilitating conditions such as technology transfer, financial assistance etc.

Challenges of WTO for developing countries lie primarily in policy adjustments. Number of policies pertaining to fiscal management and administration, monetary policy, trade laws and practices, etc, would need changes.

In Pakistan, some measures have been adopted to face the forthcoming free trade environment. The Government has set up a WTO Wing at the Ministry of Commerce in 2000, entrusted with the responsibility to:

Respon-sibilities of the WTO Wing

- implement different WTO Agreements/Decisions etc, through coordination with stakeholders;
- prepare Pakistan negotiating strategy and position on various issues of multilateral trade under WTO;
- act as a strategic policy research forum to analyze global trends in the context of national needs in different sectors;
- provide policy inputs to the Ministries/Divisions on WTO issues, and interact with Pakistan's missions abroad;
- arrange lectures and seminars for educating the business community and other relevant people on WTO issues;
- motivate entrepreneurs to raise the quality and standards of their products and services in order to compete in the world market.

Steps taken

The WTO Wing, in their response to our questionnaire, sent us a brief paper on "Implications of WTO", wherein they have stated, Pakistan has been proactive in safeguarding its trade interest and that of other developing countries. Since the creation of WTO, Pakistan has promulgated laws in conformity with WTO Agreements including antidumping and countervailing duties, safeguard measures, etc. In compliance with its obligations under TRIPs, Pakistan has also promulgated legislation of Copyrights, Trade Marks, Patents, Industrial Designs and Layout Designs of Integrated Circuits. The legislation in the area of Plant Breeders and Farmers' Right is being drawn.

Pakistan has liberalized its trade regime, and there are no licensing requirement from the

Government, except for a few items on grounds of health, national security and religious standards. It has low tariffs for imports and no export tariffs.

Over 95% of the import tariff (one of the best for developing countries) are bound in the WTO. Maximum applied rate except for automobiles is 25%.

TRIMS

With respect to Trade Related Investment Measures (TRIMS), Pakistan has made a request for waiver for another 3 years beyond 2003 to enable domestic industry to graduate and be competitive so that massive investment and employment in this sector does not suffer. Also Pakistan has not bound this sector under WTO commitments.

TRIPS

New laws on intellectual property have been promulgated to meet various obligations under Trade Related Aspects of Intellectual Property Rights (TRIPS). Till 2005, Pakistan is not obliged to give product patent protection in respect of pharmaceuticals and agriculture chemicals. Beyond 2005 however, these items will also have to be provided legal patent protection.

Quota restrict-ions to be abolished

As we know trade in textiles and apparels is expected to undergo important changes as all quantitative restrictions on export and import of textiles and clothing will be eliminated from January 1, 2005. This would have a profound impact on our predominant textile sector, which contributes 67% of our exports. The multi-fibre arrangement which had for the last 30 years been regulating global trade in textile and clothing has been phased out in phases. The quota restriction is expected to be gone by 2005 and the relatively secured market access enjoyed by the quota-receiving countries will no longer be there.

So far 51% of all textile items have been taken out of the quota regime, while the remaining will become quota free from January 1, 2005. Substantial investment has been made in BMR and the WTO Cell in the Ministry of Finance while stating that given the quota free market opportunities, "there is no need to be pessimistic as Pakistan is bound to benefit from trade liberalisation in the textile sector", calls for "far increased investment and improvement in productivity and quality standards".

Quality Standards

In order to comply with the standards, Pakistan is required to upgrade its capacity, HRD and seek mutual recognition agreement so that its exports do not suffer in the international market". Pakistan Standards Institution now PSQCA draws standards and arranges accreditation of national entities for ISO certification. So far PSQCA has drawn around 5000 standards in the light of international standards.

In this paper an attempt has been made to elicit the views of Federation of Pakistan Chambers of Commerce & Industry (FPCCI) and different associations, on the challenges the WTO offers, its implications, what kind of support the associations are seeking from the Government of Paksitan (GoP) and what restructuring plans if any, are in the offing. Some responses have been received, which we would like to share with our readers.

Feedback received from Associa-tions

A short questionnaire was sent out to the various associations to elicit their views on the challenges their sector will face in the new trade regime. Those that have responded include All Pakistan Textile Mills Association (APTMA), All Pakistan Textile Processing Mills Association (APTPMA), Pakistan Automotive Manufacturers Association, Pakistan Leather Garments Manufacturers & Exporters Association, Pakistan Hosiery Manufacturers Association and Pakistan Association for Small & Medium Enterprises. The following pages present their views.

Questionnaire

1	2	3	4	5	6
What are the major challenges your sector faces with the free trade regime post 2004?	What kind of support are you seeking from the government?	What is the government doing in response to this?	What kind of restructuring plans you propose, to meet the WTO challenges?	Are industries being prepared to get ISO 9000 certification? If yes, please explain.	A large number of duty free items from China have flooded the market. What do you think has been the impact on industry generally, and on your sector particularly?

All Pakistan Textile Mills Association

1 § To remain an important source for garment buyers.

§ Quota performance monitoring is essential, as countries not able to fulfill their present quota are unlikely to benefit from a market opening.

§ Likely rise in antidumping and countervailing duty cases, will pose a real threat to successful developing country exporters. The use of antidumping measures could sharply reduce the benefits of liberatisation.

§ Concern about enforcing ethical standards.

The All Pakistan Textile Mills Association, talks about development of new products and markets, investment in human capital and machinery and reinforcing sector associations as some of the ways to meet WTO challenges. They propose: -

4 § Avoid mass markets and target niche markets with value added products; design and fashion skills need to be developed to target niche markets with value added products.

§ Investment in human capital and machinery can increase productivity and lead to reduced costs and prices. There is need to enhance training capacities to improve craftsmanship.

§ To ensure practical responses, textile and garment manufacturers associations in agreement with the government will be required to assume more responsibilities such as fulfilling labour standards, taking over quota administration and operation of bonded warehouses.

All Pakistan Textile Processing Mills Association

Nearly 400 textile processing units operating in Faisalabad, Karachi and Lahore-Gujranwala region are engaged in the processing of textile fabrics. Finished fabrics, the end products of the sector account for 65% of Pakistan's total exports of textiles. They are represented by APTPMA. We give below their plans, support they are seeking from the GoP to meet the challenges post 2004.

2 § Facilitating and subsidizing of quality control procedures (ISO 9000 and 14000).

§ Procurement of inexpensive technology for water treatment/recycling and construction of community/individual and solid waste dumping centres.

§ Duty-free import of sophisticated and reconditioned machinery/equipment and testing machines for BMR and in-plant labs.

Assistance sought from the Government

§ Rationalisation of Environmental Protection Act 1997, especially the penalty clauses which are too harsh, while the Act has become outdated and obsolete.

§ Curtailing the cost of production in case of export-oriented industries, especially with regard to electricity and gas tariff.

3 The GoP agrees with our viewpoint in principle but we would like to motivate the GoP further for implementation of these policies/measures. The Federal Ministry of Environment is seriously contemplating to coordinate the $100 million Asian Development Bank's project of Water Treatment and Solid Waste Disposal.

The GoP is setting up Textile Cities, or Textile Processing Zones in Karachi, Faisalabad and Lahore on the pattern of Export Processing Zones. We would like to have further details of the projects.

4 § Holding of Seminars and Training Workshops in Faisalabad and Karachi to create awareness among member units and their technicians.

§ Setting up a full-fledged laboratory for water testing in Karachi in collaboration with the government of Netherlands and a mini pre-testing lab in Faisalabad.

§ Signed a MoU with UNIDO for setting up a project "Cleaner Textile Production in Faisalabad", but the project had to be abandoned due to practical difficulties.

§ Field surveys conducted in Faisalabad to assess the implications of water treatment and purification.

§ Participating in a number of Trade Delegations and Trade Fairs abroad.

§ Participating in export promotion under the aegis of FPCCI and Export Promotion Bureau from time to time.

6 In this regard we suggest that it may be dealt with through rationalisation of import duty on one hand and strict disciplinary and punitive measures on the other. Likewise, anti-dumping duties may be imposed in consultation with the affectee sectors.

Pakistan Automotive Manufacturers Association

1 A setback to progressive local manufacturing programme, which has reached 40%-90% depending on class of vehicle.

2 Protection to the deletion programme of the authorised assemblers.

3 Extension for three years under TRIMS.

4 Improving quality, cutting cost of locally made parts.

5 Almost all OEMs (assemblers) are ISO Certified.

6 Cheap Chinese goods have impelled the local manufacturers to cut their costs. Irksome however, is gross under-invoicing and dumping of auto parts.

The local auto industry would need protection against free, low-duty imports till it reaches a million volume mark. Presently it is less than half a million (including motorcycles and tractors).

Pakistan Leather Garment Manufacturers & Exporters Association

1 § Leather garment industry will not be very much affected by free trade regime post 2004. Presently there are no quantitative quotas like those on textiles. The tariff is also nominal with 4%-8% for most countries. The main challenges will be non-tariff barriers which are mostly general in nature for all export industries of Pakistan. Some challenges pertinent to leather garment industry are given below: -

Waste Management

§ The tanneries generate large amount of solid and liquid waste which not only cause pollution and environment degradation but is also dangerous for people coming in contact with these chemicals. The international buyers are stressing minimum environmental damage from their suppliers. Leather garment units themselves do not generate such toxic waste but their supplier tanneries produce huge waste which is of concern to foreign buyers.

Product Certifications

§ Foreign buyers, mostly Europeans, are demanding a large range of product tests (physical and chemical) to be conducted on leather garments being imported in these countries. Many of these tests are expensive and cannot be conducted in Pakistan. Some tests are also unnecessary for leather garments but still required by exporters.

Some general challenges being faced by Pakistani exporters:

Travel Advisory

§ Many foreign embassies in Pakistan issue a negative travel advisory to visitors seeking visa for Pakistan. This is creating a bad image for Pakistan internationally and majority of buyers are reluctant to come here due to unrealistically risky image being projected by some embassies.

Visa Requirements

§ Many European countries and USA have tightened Business Visa requirements for Pakistani nationals. Now Pakistani nationals have to fulfil stringent conditions and comply with lengthy procedures which are restricting export activities, like participation in Trade Fairs/Delegations.

Inspection

§ Pakistani export consignments to the US are being detained at various ports for unnecessary checkups, causing wastage of precious time at these ports. All US ports now require electronic manifest reporting prior to arrival.Cargo through Air/Courier must be reported 4 hours prior to arrival in the US while vessels are required to report 24 hours prior to lading at foreign port. This requirement is very demanding for Third world countries.

Certification Requirements

§ Many US stores now require that Pakistani exporters get their factories certified from recognized inspection agencies vis-à-vis Application of Labour Laws, Hygiene & Health, Safety of workers and workplace management. The cost of visits and certification of these 'Recognized Agencies' is too much for small & medium scale exporters.

Strict Security Requirement for Factories

§ The buyers in the US have asked the exporters from Pakistan to implement an active security programme in their factories. The exporters must inform the buyers about the identity of all employees and visitors to the factories. The stringent security requirement are not practical for most small exporters. Consequently they will face additional costs and delays at US ports. This requirement is too harsh for such small and medium exporters.

Trade Related Intellectual Property Rights (TRIPS)

- The software companies are formulating and implementing stricter software anti-piracy laws. Small & medium size companies in Pakistan cannot afford the cost of these ‘Original Licensed Software’.

2 Our industry wants GoP support in the following areas:

- Participation in international fairs and exhibitions.
- Sending trade promotional delegations abroad.
- Advertising in prominent international magazines.
- Reducing tax burden on the industry.
- Expediting Refund/Rebate claims of our exporters.
- Establishing effluent treatment plant in tanneries zone.
- Reducing cost of utilities like electricity etc.
- Ensuring availability of good quality leather.

The leather garment industry seeks GoP support to solve some general problems in the area of marketing.

GOP’s support sought for marketing

- Commercial Counsellors should play a more proactive role. They should provide the Pakistani exporter with upto date information on the market.
- Commercial Counsellors should project a positive image of the country and its products. While the sector is producing good quality leather products for some of the leading international brand names, but they are labelled as low quality products. This perception has to be changed.
- The investment potential that exists coupled with the favourable policies of the GoP for investors, and the government’s efforts to provide protection to foreign buyers must be conveyed.
- The GoP must take up the issue of inspection at various ports and the need for easing of visa requirements with the respective countries.

3 The GoP has given several incentives to exporters to effectively market leather garments, thus enabling the sector to face the competition from other countries. These includes:

- Allocating “Pakistan as Focus” country in Hong Kong Fair in March 2004.
- Approving greater number of Trade Fairs for leather garments for 2004.
- Allowing trade promotional delegations for leather garments.
- Devising schemes like DTRE to eliminate the blockage of funds in Sales Tax or Customs Department (although it is yet to be finalized in light of our suggestions).
- Allocating Capacity Building scheme for up-gradation of industry.
- Developing the livestock sector to ensure steady supply of good quality skins/hides.

4 The leather garment industry mainly requires extensive marketing, quality products and effective costing. Our industry and our Association is undertaking ventures to aggressively market our products through exhibitions, trade delegations, advertising, etc. We have also completed a training programme of employess in leather garment industry with the help of Korean technicians.

Leather industry takes steps

- We are linking our industry with Pakistan Council of Scientific & Industrial Research (PCSIR) for cost cutting and introducing new types of leather.
- We are working with United Nations Industrial Development Organization (UNIDO) for building clusters of small & medium enterprises to enable such organizations to carryout full-fledged marketing and cost-cutting measures.

5 No the industry is not prepared to get ISO 9000 Certification. The Leather Garments industry mostly comprise of small and medium enterprises which cannot avail these expensive certification.

6 Directly our leather garment industry is not affected since leather garments produced here are mostly exported. But China is our main competitor worldwide and has the main market share. We will have to build joint venture/strategies alliance with China to gain mutual advantage.

Box WTO Regime's Effects on Industries in Pakistan

Views of Mr. M. A. Jabbar*

January 1, 2005 will be a momentous milestone in Pakistan's globalization journey. Some eye the fast approaching WTO compliances as a window of opportunity. A key concern is that can an emerging market compete with developed economies of the globe? Conceptually 'survival of the fittest,' fits in the WTO.

Will the developing states get an even playing field in "free and unfettered global market" envisioned by the WTO, given the attitude of the industrialized world on issues like grain subsidy, drug trade and non-tariff barriers like child labour and environment? Bilateral quota and duty free trade and regional trading blocs can also deny access to developed markets. Pakistan has to appraise itself with the emerging situation .

Textiles made-up 67% of our total exports. Internal weaknesses as well as certain external factors may have a bearing in future. Increasing imposition of non-tariff and technical barriers to trade necessitates that we have to improve, adjust and be aware of what we have to do to allow the selling of our textile value added merchandise by complying with the requirements of the importing countries.

The latest addition to the cost of doing business is from the container security initiative measures taken by US policy, asking exporting countries to screen the containers and prove the goods bonafides as declared, with documented proofs within 24 hours of sending of the ship to the USA, direct or in transit. The Government of Pakistan (GOP) must address the issue by increasing the facilities for container security initiatives, by collecting data of all the tariff and non-tariff barriers to be applied on our goods, so advance preparation is made to counter the challenges. The US is one of Pakistan's major trading partners.

The national tariff commission requires complete restructuring so that it becomes capable of taking measures for the imposition of anti-dumping, countervailing duties, safeguards measures to protect the domestic industry. Legal defence before a dispute settlement body is another area of concern. We have almost no professionals who can defend cases of antidumping for the country in a dispute settlement body. Therefore, the adverse effects on our industry can be minimised by activating regulating body to help the domestic industry manufacturing goods from injury in a situation of dumping of similar goods from overseas.

Pakistan's import-substitution industries fear the WTO most. The WTO accord envisages that the deletion programme for automobiles, electronics, electrical products and engineering items will be phased out within five years from the entry into force of the agreement in 1995 with the provision that transition period could be extended in case of difficulties. Pakistan has managed extension upto December 2003 to evade application of TRIMs agreement. Reportedly Pakistan is seeking another extension of two years on the demand of automobile assemblers who are availing protection and policy favors against the promise of indigenous development of motor parts.

The World Bank had authored the theory that the capacity building of developing countries relates to promotion of import substitution industry. The author has changed the theory from import substitution to export led growth in developing countries. The import substitution policy implementation in developing countries was claimed to help in attaining self-sufficiency. In order to do this, Pakistan had been pursuing the indigenization policy in engineering industries through deletion program since 1987. Indigenization refers to the substitution of imported components and sub-components with locally manufactured ones. However, in 1995, the deletion program was reviewed in view of WTO Agreements on TRIMs that gave developing countries a period of five years to phase out deletion programs. Therefore, the deletion program was converted into an Industry Specific Deletion Program (ISDP) on the recommendation of Deletion Committee of the Engineering Development Board (EDB).

Automobile and home electronics were the major industries targeted under ISDP. Under the ISDP, EDB set deletion targets in consultation with manufacturers, which were linked to sales volume of the industries. In order to encourage deletion, the industries were provided heavy protection along with a number of incentives to assemblers and vendors. The rate of custom duty on import of vehicles ranged from 100 to 250 percent depending on various engine capacities. In addition, the import of used cars was also disallowed. Industries other than automobile assembly will face competition by similar products imported at low rate of duties between 5 to 25% now, which could however, be lower in the days to come. However, the automobile industry is protected upto 150 percent with a cushion of value addition of more than 100% with respect to import duties on components and subcomponents. Besides the NTBs are well applied to protect the automobile industry. It is apprehended that engineering manufacturing excluding automobile will shrink, as it cannot survive against cheaper imports from countries including China.

According to the State Bank's Annual Report 2003, the results in terms of localization of parts have been mixed at best. Though electronics & apparatus have achieved relatively higher level of deletion (average was 86.8 percent), electric transformers and electric motors are only two items that could achieve 100 percent deletion (the report of SBP may have ignored the KVA and HP level of the deleted transformers and electric motors). On the other hand, the deletion levels have surpassed 80 percent mark only in some categories of motorcycles and tractors, whereas in cars 60.3 percent and in commercial vehicles 50.1 percent indigenization has taken place (the SBP report might be relying too heavily on the data provided by the industry). The level of deletion achieved in automobile is particularly low; given that as the industry has been enjoying the most protected status, the pace of deletion should have been more. Interestingly, although the deletion targets are linked with industry's sale volume, even the targets set during the last two years do not reflect increased volume.

Our automobile sector has its own reservations on the elimination of deletion policy. They are of the view that the automotive parts deletion programme, which is reward-driven, has made a significant contribution to the development of the engineering industry. It has saved valuable foreign exchange of millions of US$ through import substitution, created jobs, contributed to export of value-added components paid a fair share of taxes and to the extent of deletion levels achieved, contributed to price stability against the vagaries of foreign currencies fluctuations to the small but significant advantage of the consumers.

Pakistan's engineering industry could not progress. The heavy mechanical complex, heavy electrical engineering, Pakistan Steel Mills, machine tool factory and many other industries being classified as heavy industry failed despite government support. This resulted in an increase in imports of capital goods and machinery. There will be no effect on these industries as these are almost shut or with no feasibility to invest and promote. The medium and small engineering industries will have to survive in the new emerging trends in which lower import duties and higher domestic input costs will decide their future. It is also not yet developed to bear the pangs of re-structuring and to take on the might of the multi-nationals who would be offering similar cheaper products for domestic market consumption.

The Pakistan automobile industry is in the hands of Japanese manufacturers aided by Koreans. Yet, how many Japanese companies are engaged in parts manufacturing in Pakistan? Has foreign investment in down-stream industry followed the primary industry? Have the necessary linkages developed? The objective here is not to criticize the Original Equipment Manufacturers (OEMs) but to highlight the fact. The proponents of continuing with deletion programme say that it is necessary to channelize investment in certain areas where foreign investment would be shy not because of economic reasons but due to

* *Vice President & In-charge WTO Resource Centre,*
Federation of Pakistan Chambers of Commerce & Industry

overall strategic global policy requirements. In short, the present policy to protect automobile industry may continue in the interests of car assemblers in Pakistan thereby having the least affect on car assembling industry.

Let us examine if any change in the policy for car assemblers can take place. This over protected issue including non-tariff barriers for car assemblers may be agitated by some interest groups in countries other than Japan and Korea with potential for export of CBUs/Vehicles to Pakistan. EU which sometimes grants favorable policy to our textile and clothing exports can ask for reciprocation to provide market access to EU origin Automobiles. However, as a highly protected sector it is expected that it may be hit adversely if it is put to face the challenges of liberal investment regime and do away with high tariff protection and NTB for this sector.

The Government of Pakistan has taken some measures to face the challenges, in compliance with WTO regulations in its Trade Policy for the year 2003-2004.

RECOMMENDATIONS

I have made a detailed deliberation in the Senate Committee on WTO sometimes back. The members of the committee comprised 17 senators and minister for commerce as ex-officio member. The Chairman of the Committee is senator Dr Abdul Hafeez Sheikh, Minister of Privatisation. Some of the recommendations, which I have given, are as follows:

Consensus on the WTO becomes the law of the land. Therefore, legislators and Senators must maintain a link with the WTO mission in Geneva for consultation as it would affect the trade and industry of the country.

Since the multilateral agreements mandated by the Doha Development Agenda are progressing at a slow pace, it gives Pakistan time to activate regional co-operation agreements. Pakistan must work towards greater co-operation among the ECO, SAARC members as well as promote bilateral trade between Bangladesh, Sri Lanka, India and China. It is good sign that SAFTA accord has been accepted by the members of SAARC in the Islamabad moot.

The Ministry of Commerce must work towards diversification of exports to other destinations by following the example of the changing position of the EU. The EU, incidentally, would follow a different line, with Pakistan and other developing countries, when it takes into its fold less prosperous countries; 30% of Pakistani's exports are directed to the EU and 25% to the USA.

Foreign missions must be activated to anticipate Antidumping measures on the import of Pakistani goods so that the time-gap before the imposition of anti dumping duties could be utilised to seek deferment. To avert the intended antidumping duties, which render our goods uncompetitive for importers in EU and USA, a case would also be made out. Capacity building programmes related to the WTO, uptil now, focused only on the public sector.

Trade related intellectual property rights are important in their implementation in developed countries. However, in Pakistan, the TRIPs laws are split amongst different ministries like the Ministry of Commerce, Ministry of Industries and Ministry of Science and Technology. In 2000, a single umbrella for handling TRIPs was announced in the trade policy. It was known as the Pakistan Intellectual Property Rights Organisation (PIPRO). It was again announced in the trade policy 2003-2004. The private sector still has not seen the draft of the PIPRO. It is time that one umbrella be created from officers from all the ministries, with academia, researchers and businessmen, who, together, can promote trade and business interests, while protecting consumers.

The Trade Related Investment Measures affect the automobile industry, already protected by tariffs and non tariff barriers by the restriction on the import of second hand automobiles. It is time to liberalise the import of raw materials at the lowest rate of duty, against higher slabs for import of finished goods. Steel, plastic, paper and chemicals are raw materials which need to be imported at the minimum possible tariff.

The country has internal weaknesses such as the high cost of doing business, the lack of infrastructure, high energy charges, inadequacy of water

supply for industrial areas and multiple laws for the same purpose such as the labour levy related laws, which add to the cost of doing business, adversely affecting competitiveness.

The local industry has long demanded that the import of machinery and capital goods be zero taxed at the time of import so that the cost of the project and servicing of mark-up are manageable, for better feasibility of the project, as a sustainable and profitable project. This issue needs to be addressed.

The National Tariff Commission requires complete restructuring so that it becomes capable of taking measures for the imposition of anti-dumping, countervailing duties, safeguards measures to protect the domestic industry.

Legal defence before a dispute settlement body is another area of concern. We have almost no professionals who can defend cases of antidumping for the country in a dispute settlement body.

Resources should be strengthened and the private sector must be made equally involved in the administration of the EDF and EMDE with an equal number of directors.

The increase in the number of directors from the private sector would ensure proper spending, as the private sector would through its experience of trade with other countries provide proper guidance.

To meet the challenge of the WTO, an increase in the resource pool was emphasised upon. A considerable amount of money exists, held by the Ministry of Finance as non transferred portion of money, collected on account of the EDS for EDF funding. A possible solution to increase the funding base for combating the WTO challenge would be to ask the Ministry of Finance to transfer the funds so that they could be used for R and D as well as other issues.

To meet the challenges of WTO, as well as the ISO certification, subsidy and accreditation of local institutions with ISO, 17025 class certifications, the Ministry of Science & Technology has initiated an industrial linkage programme for Rs.1.3 billion.

It must be periodically reviewed so that it could also be used for WTO, when challenged by non tariff barriers and tariff barriers to trade.

In order to face the challenges of tariff barriers to trade and non-tariff barriers, the Government of Pakistan should secure information on the standards that are demanded by importing countries.

The GOP be urged to amend policies for the manufacturing of engineering goods to offset the effects of a termination of the TRIMs grace period by end 2003.

One umbrella coverage for intellectual property rights issues must be managed by an examination of the history of the announcement of PIPRO in 2000, repeated in the trade policy of 2003-2004.

The Ministry of Commerce must help in multilateral agreements, in the implementation of those rules seeking concessions of grace period on the basis of the actual level of progress.

Proper capitalisation of S and D treatment within WTO is necessary. It requires exposing the necessary modalities. Pakistan should take more interest with others who raise the same issue.

Pakistan Hosiery Manufacturers Association

1 Our industry shall be exposed to severe open competition in the emerging global market.

2 The industry needs to up-grade infrastructure and technology in addition to induction of professional skill. We expect the government to come forward and provide facilities to industry to achieve this goal. Also a high powered meeting between Economic Managers of the country and trade associations should be arranged to discuss the issues.

3 Unfortunately, response of government agencies is inadequate and below expectations.

4 Our member units are making serious efforts to up-grade the technology in their production facilities within limits of resources available with them.

- Pakistan Hosiery Manufacturers Association is also making collective efforts to create awareness amongst members in particular and business community in general by arranging Seminars and Workshops.
- We strongly recommend the authorities to invite and arrange foreign and local expertise to address such Seminars/Workshops in consultation with respective associations.

6 Low price supplies from China are badly damaging our industry. China will gradually capture the market and establish their monopoly after sabotaging the local industry.

Pakistan Association for Small & Medium Enterprises

The challenges small & medium enterprises (SMEs) face and measures to overcome them plus certain recommendations have been put forward by Pakistan Association for Small & Medium Enterprises.

1
- Increasingly fierce competition among the global and regional economies and enterprises, SMEs included.
- More sophisticated and exacting consumer preferences and market standards.
- Competitive advantage is now determined by several non-price parameters such as quality, social equity in employment and production and ecological compatibility of products and processes.
- Constantly changing market demand.

2 The Association has proposed the following for promoting SMEs:-

GoP support needed

- Governments need to create a more conducive environment for preventing the decline of SMEs and for ensuring their sustained growth and development to become domestically and internationally competitive. All necessary legislative and administrative measures need to be taken expeditiously after taking into consideration several successful models available in a few countries.
- The Government needs to announce properly designed policies and packages of measures to build the economic strength of SMEs after close consultation with the sector to ensure such policies and measures faithfully reflects the need of the SMEs.
- The government should decide to develop the SMEs in Pakistan by providing proper infrastructure facilities and asking the commercial banks and the development financial institutions to extend credit line to them.
- Banking institutions should look afresh at their lending policies to bring about necessary refinement and rationalisation in favour of SMEs to prevent bankruptcies and ensure sustained growth without compromising with efficiency, commercial viability and obligation to depositors.
- Specialized banks or branches of banks may be set up for providing financial and non-financial services to SMEs.
- Collateral and Securities must not be demanded as a rule or practice. However, if the small client can offer collateral without compromising their dignity and future wellbeing, it should not be objected to.
- Serious attention need to be given to reducing the cost of lending to the small borrowers and wherever necessary national exchequers, and international and regional funding agencies should make available financial resources to the banking sector including development financial institutions for supplying need based credit at affordable rate of interest.

- To ensure adequacy of flow of credit, SMEs must develop realistic business plans, maintain cash flow prudently and should be transparent in their financial operation.
- Introduction of new technologies, quality assurance and productivity stimulation are essential for building the competitive strength of SMEs and better consumer acceptability. All measures need to be taken by concerned agencies to create the desired awareness and thus provide the necessary means to SMEs to acquire such capabilities.

On our inquiry as to what are the specific problems SMEs face with trade liberalisation taking place in the international economy the PASME have mentioned certain common problems faced by SMEs in the South Asian region.

Problems SMEs face in South Asian region

- Lack of credit/finance – the cost of capital is often prohibitive.
- Improving access to technological networks of international standard is very expensive.
- Need for human resource development, by improving skills in a number of areas.
- SMEs lack assistance both for developing new ideas and turning these ideas into commercial products.
- Government regulation and compliance costs are at times high. Complying with ISO certification can also prove expensive for SMEs.
- Complying with WTO commitments can be difficult for SMEs.
- A large number of SMEs have little experience in exporting to foreign markets.

4
- Maintaining an ongoing access to the available store of global information and knowledge, including market standards, marketing opportunities and innovative technologies.
- Participation in clusters of firms or in networks of inter-linkages backward with suppliers, laterally with other producers and providers, and forward with users and consumers.
- Must continue the learning and improvement process.

Conclusion

The trade bodies who responded to our questionnaire have discussed ways to meet the economic challenges they will face in the free trade regime. While each sector has its own plans, they seek support from the government in critical areas. This calls for coordinated efforts between the government and the private sector to prepare the sector to face the emerging challenges after 2004.

Industry expects the government to create a competitive, supportive environment, reduce cost of basic utilities, provide infrastructural facilities, and allow duty free import of machinery, equipment for BMR.

The also feel that the role of the commercial counsellors posted abroad should be more focused for promoting export of goods from the country, disseminating information about government policies/procedures and giving a feedback on market potential and competition to exporters at home.

ISO Certification is considered to be expensive especially for the small & medium enterprises. Perhaps the government could extend a helping hand. This could be achieved by government facilitating the process through an approach, which is a collective process rather than the existing one-on-one mechanism. This increases the role of the associations themselves to work with the government to achieve this objective.

(B) *NFC Awards*

One major area to receive government attention next year would be the formula of revenue sharing among provinces that has to be evolved in consensus with all the four provincial and federal government. The seventh National Finance Commission (NFC) award has to consider the demand of the provinces who want a bigger share of the divisible pool. Presently the federal share in the net proceeds of divisible pool taxes has been fixed at 62.5%, the remaining 37.5% is shared by the four provinces.

Punjab	57.36%
Sindh	23.71%
NWFP	13.82%
Balochistan	5.11%

The last NFC award 1996, which was effective from July 1997 expanded the divisible pool of taxes but reduced the overall provincial share, resulting in overall contraction of transfers. The overall provincial share contracted from 80% to 37.5%.

Meetings have been held in the four provinces and deliberations are going on to evolve a formula for sharing of revenue which is acceptable to all. At a recent metting, the Centre has indicated its willingness to share net proceeds of the divisible pool of taxes with the provinces on a 50:50 percent basis. On an individual basis, the provinces have demanded varying share of the divisible pool. The subvention pool and the special grants to provinces may be withdrawn.

Provincial Share in Divisible Taxes

2002-2003 (Revised) (Rs.Bn)

	Punjab	Sindh	NWFP	Balochistan	Total
Taxes on Income	28.06	11.60	6.76	2.50	48.92
Capital Value Tax	0.12	0.05	0.03	0.01	0.21
Sales Tax	37.37	15.45	9.00	3.33	65.15
GST (CE Mode)	2.49	1.03	0.60	0.22	4.34
Central Excise (Net of Gas)	8.62	3.56	2.08	0.77	15.03
Customs Duties	14.22	5.89	3.43	1.27	24.81
Total Divisible Taxes (A)	**90.88**	**37.58**	**21.90**	**8.10**	**158.46**
Royalty on Crude Oil	1.38	2.67	-	-	4.05
Royalty on Natural Gas	0.97	5.59	-	1.89	8.45
Surcharge on Natural Gas (Net)	1.05	8.55	-	5.37	14.97
Excise Duty on Natural Gas	0.32	2.28	-	1.60	4.20
GST (Provincial)	1.52	0.63	0.36	0.13	2.64
Total: Straight Trans. (B)	**5.24**	**19.72**	**0.36**	**8.99**	**34.31**
TOTAL (A+B)	**96.12**	**57.30**	**22.26**	**17.09**	**192.77**

2003-2004 (Budget) (Rs.Bn)

	Punjab	Sindh	NWFP	Balochistan	Total
Taxes on Income	31.18	12.89	7.51	2.78	54.36
Capital Value Tax	0.14	0.06	0.03	0.01	0.24
Sales Tax	42.16	17.42	10.16	3.75	73.49
GST (CE Mode)	2.82	1.16	0.68	0.25	4.91
Central Excise (Net of Gas)	8.91	3.68	2.15	0.79	15.53
Customs Duties	15.96	6.60	3.84	1.42	27.82
Total Divisible Taxes (A)	**101.17**	**41.81**	**24.37**	**9.00**	**176.35**
Royalty on Crude Oil	1.50	2.68	0.23	-	4.41
Royalty on Natural Gas	1.17	8.85	0.05	2.32	12.39
Surcharge on Natural Gas (Net)	0.91	9.67	-	4.12	14.70
Excise Duty on Natural Gas	0.31	2.18	-	1.53	4.02
GST (Provincial)	1.69	0.69	0.40	0.15	2.93
Total: Straight Trans. (B)	**5.58**	**24.07**	**0.68**	**8.12**	**38.45**
TOTAL (A+B)	**106.75**	**65.88**	**25.05**	**17.12**	**214.80**

Source: Explanatory Memorandum on Federal Receipts 2003-04 Government of Pakistan

While in Pakistan, provincial shares in federal divisible pool of taxes have been worked out on the basis of their respective population, international experience tells us that though population is an important criterion, countries like Indonesia, Japan, India and Malaysia consider other criterion also and not use population as the single criterion for revenue sharing.

In India, the first six Finance Commissions had used population to distribute 80-90% of the divisible pool of income tax and 75% or even more in the case of Union excise duties among the states. Later multiple criteria was also considered in the redistribution criteria. Countries have assigned weights to population.

In Pakistan, the provinces now want the distribution to be made not only on the basis of population, which has so far been the primary criterion in the previous awards. Efforts are to modify this and include other factors also, like tax collection, backwardness; all to be weighed in a single criteria. Recently the National Reconstruction Bureau proposed to the government that population should not be the only basis of allocating resources from the divisible pool.

It is expected that a consensus would evolve by March 2004, when the NFC award would be announced. It is to be seen what resource distribution mechanism is evolved, will the NFC continue to use population as the sole base for revenue sharing or include several criterion weighed in a single formula.

(C) *Fiscal Responsibility & Debt Limitation Law*

The government has prepared a Fiscal Responsibility and Debt Limitation Law and presented it to the Parliament for approval. It has received the Senate's approval. Once approved the proposed law would acquire a legal status to check federal government borrowing.

Other countries in the world have adopted various approaches to regulate fiscal policies of the government, while in Pakistan there was no law in existence till now. This has resulted in rising public debt which has consumed large resources, thereby constraining allocations for financing public investment; essential for providing a boost to the economy, creating employment opportunities and reducing poverty.

Once the law is enacted it would restrain government spending and provide the much needed fiscal space to carryout other development works by the federal government. It would promote fiscal discipline in the country and would be an instrument of continuity of fiscal reforms being carried out by the Government.

There are four basic principles of the law namely;

i. Reducing revenue deficit to nil not later than June 30, 2007.

ii. Ensuring that public debt is reduced to 60% of the estimated GDP by June 30, 2012.

iii. Reduce public debt by not less than 2.5% of the GDP in every financial year, provided that the social and poverty related expenditures are not reduced below 4% of GDP.

iv. Not issue new guarantees, including those on rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed from time to time for any amount exceeding 2% of the GDP.

During the forthcoming year, when the law receives Parliament's approval and is put in force, not only would the government have fulfilled its constitutional obligation but taken the crucial step necessary to promote fiscal discipline.

Sugar Crisis in Pakistan

Pakistan's sugar industry is the second largest industry after textiles, with 5.8% weightage in large scale manufacturing. The industry has the capacity to produce over 5 million tonnes of sugar, against the annual domestic requirements of 3.1-3.2 million tonnes, which is increasing at 2% per annum. Operating at 67% capacity, it is producing surplus sugar, nearly 16% above the consumption requirements. The industry, however, has the lowest recovery rate. Bumper cane harvests and surplus production in the past three years have resulted in huge sugar stocks, which the industry has not been able to dispose off. This alongwith low international and domestic prices, and high cost of domestic production, has resulted in unprecedented problems leading to crisis like situation for the industry.

Excess production

According to initial estimates for 2003-04 crop, area under sugarcane has reportedly declined over last season, mainly attributable to 7% fall in Punjab, where farmers have shifted to high cash cotton because of non payment by sugar millowners. About 15% damage to crop in southern Sindh has also been reported due to floods and rains during July and August. Growers fear that this season's production target of over 50 million tonnes would be difficult to achieve. Last season a bumper crop of over 52 million tonnes was harvested from sown area of over one million hectares. A record harvest of over 55 million tonnes was obtained in 1998-99.

Bumper harvests

The current crop is ready for harvest since August. This however, has not been lifted by the millers due to delay in the crushing season. There is a row between sugar mill owners and growers over the price at which millers had offered to purchase and what growers are demanding. The growers claim that they are neither getting fair returns of their produce nor have the millers paid them quality premium. The situation is likely to have an adverse impact on next season's crop.

Sugar Industry at a Glance

	Sugarcane Production (Mn. Tonnes)	Sugarcane Crushed (Mn. Tonnes)	Sugar Production (Mn. Tonnes)	Recovery (%)	Cane Utilisation by Mills (%)
1994-95	47.2	34.2	3.0	8.8	72.5
1995-96	45.2	28.2	2.4	8.5	62.4
1996-97	42.0	27.4	2.4	8.8	65.2
1997-98	53.1	41.1	3.5	8.5	77.4
1998-99	55.2	43.0	3.5	8.1	77.9
1999-00	46.3	29.0	2.4	8.3	62.6
2000-01	43.6	29.4	2.4	8.2	67.4
2001-02	48.0	36.7	3.2	8.7	76.5
2002-03	52.1	41.9	3.7	8.8	80.4

Source: All Pakistan Sugar Mills Association

Bumper harvests in the preceding years, enabled the sugar mills to produce surplus sugar. But the inability on the part of the millers to dispose off surplus sugar, has created huge unsold stocks of over a million tonne. In the open market, mills are selling sugar at below production cost since the past three years. In view of the prevailing situation, sugar millowners have decided to delay current cane crushing season till the disposal of unsold stocks.

Exportable surplus

Crushing season normally commences in October, but this season it started late December, after the government decided to lift 0.200 million tonnes through Trading Corporation of Pakistan (TCP) from the unsold stock. TCP has already lifted 0.100 million tonne in the first phase, on condition that sugar mills will start crushing from December. The balance 0.100 million tonne will be picked up by the Corporation in January 2004. This has resulted in loss of sucrose content. The recovery rate is already the lowest.

Even after the government decision to procure 0.200 million tonne of sugar, millers will still be left with half a million tonne in stocks. Despite delayed crushing, sugar millowners anticipate a production of 3.7-3.9 million tonnes during the current season, which would lead to addition of another 0.7-0.8 million tonnes to the stock. In view of this, sugar millowners have decided to produce only 3.1 million tonnes of sugar, which is the consumption target for this year, and then suspend crushing by mid-March. This means shutting the mills at 75% production. The decision has worried cane growers, who are of the view that in such a case, 25% of cane would be left with them. This will add to their financial burden, at a time when they are already facing a cash crunch. If this situation arises they will be faced, with a difficult situation to harvest next seasons crop.

Crushing delayed

Sugar mills are also facing a severe liquidity crunch. Due to huge unsold stocks they are not in a position to make timely payments to the growers. Depressed international and domestic prices, and high domestic production cost would add to their worries, making it difficult for them to operate in time next season. Currently, while sugar production cost is around Rs.21000 per tonne, the export price is down to $195-$198 per tonne, while in the domestic market the price is around Rs.17 to Rs.20 per kg. The sugarcane production cost is Rs.16000 per acre. The industry problems are likely to intensify further next season.

Crisis ahead

Meanwhile, the global sugar production is poised to remain high in 2003-04, with consumption continuing to trail supplies. The world sugar market is unlikely to get out of the low-price syndrome. Prices are expected to continue to be under pressure in the coming months, making exports from origins more challenging. The sugar production is forecast to reach 144.6 million tonnes. (raw value) in 2003-04. The US Department of Agriculture has raised the production by some 6 million tonnes compared with the forecast made earlier. This follows greater production in Brazil and Asia (mainly India).

Global market

World consumption, on the other hand, is expected to grow at a slow pace. Consumption is forecast to be down in the US, Western Europe, Eastern Europe, West Asia and Africa. In Central and South America, sugar use will be steady, while it is poised to rise in Asia. For 2003-04, USDA has placed global sugar consumption at 139.3 million tonnes, up from the revised 137.7 million tonnes for 2002-03, while exports are estimated at 45.1 million tones for the current year.

With world sugar prices facing pressure of large supplies and sluggish demand growth, Pakistan's export prospects do not seem bright on current reckoning. A major factor in the recent weakness in sugar prices has been the acceleration in sugar exports from Brazil. With nearly 17% of world output. Brazil is now the world's largest sugar producer. The table below sets Brazil in the context of the world's top ten sugar producers and exporters.

Main Suppliers to the Sugar Market

Country	Production (Mn. metric tonnes)	Rank	Exports (Mn. metric tonnes)	Rank
Brazil	22.2	1	12.7	1
India	19.8	2	0.8	9
European Union	17.4	3	5.3	3
China	9.1	4	0.5	10
USA	7.5	5	0.1	-
Thailand	6.6	6	4.8	3
Mexico	5.1	7	0.2	-
Australia	5.0	8	3.9	4
Pakistan	3.6	9	0.1	-
South Africa	2.7	10	1.4	6
Cuba	2.7	-	2.3	5
Colombia	2.5	-	1.3	7
Guatemala	1.8	-	1.1	8

Based on USDA data for US fiscal years to 30 September –3 year averages, (2002 actuals, 2003 estimates and 2004 forecasts)

Current Wheat Situation

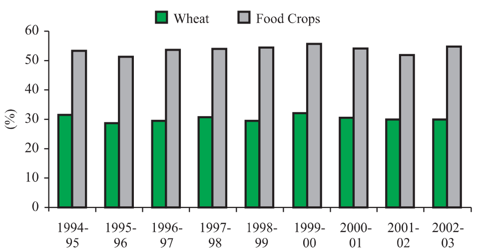
6-months maturity required

Wheat, the staple food for the vast majority in Pakistan, is a winter crop, sown in October-November and harvested in April-May, with a maturity period of 6 months. Early sowing between November 10-15 is the best period for optimum yield. Late sowing results in a 15%-40% decline in wheat yield. In fact, wheat yield starts declining if sowing takes place after November 20. In Pakistan, about 37% of the total cropped area is under wheat cultivation, or nearly 4% of the world wheat area. It is largely (about 90%) cultivated in irrigated areas. Some 10% crop is sown in rain-fed areas.

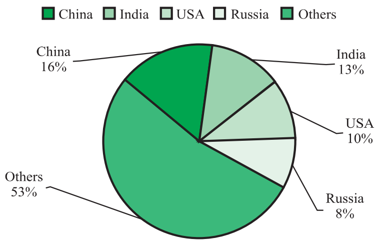
Amongst the major producers

Wheat is among the four major crops of Pakistan (other being rice, sugarcane and cotton) contributing the largest share (30%) in the value added of major agricultural crops, 13% of value added in total agriculture and 3% of GDP. The country is also amongst the world's major wheat producers with a share of around 4% in global output. It however, ranks 59th in terms of yield per hectare. Over 80% of the crop is produced in Punjab, nearly 12% in Sindh and the remaining 8% in NWFP and Balochistan.

Value added share in major crops



World's major wheat producers 2003-04



Erratic production trend

Domestic production has increased erratically over the years. With the exception of one or two years, production has been persistently below domestic requirements. Per capita consumption is estimated at 135 kgs, on the basis of which annual consumption comes to over 20 million tonnes. Another one million tonne is needed to maintain wheat reserves. Against this, domestic production has averaged 18.5 million tonnes in recent years. The production and consumption gap widens further after allowing for 10% wastage. The government has to import wheat to meet the gap and to maintain sufficient stocks.

Record harvest

In 1999-00, growers managed to harvest a bumper crop, as favourable weather conditions and timely wheat policy announced by the government, provided an incentive to the farmers to boost production and enjoy fair returns on their produce. The support price was also raised by Rs.60 to Rs.240 per 40 kgs after a lapse of 3 years. The bumper harvest exceeding 21 million tonnes, enabled the government not only to dispense with wheat imports but at the sametime allowed the export of surplus.Pakistan commenced wheat exports for the first time in 2001, and found a significant market in Middle East, Africa and in some European and South Asian countries. It reportedly exported 0.6 to 0.7 million tonnes during 2001-02.

Production/Import of Wheat

	Production		Import	
	Quantity Mn. Tonnes	Value Bn. Rs.	Quantity 000 Tonnes	Value $ Mn.
1994-95	17.0	67.6	2617	413
1995-96	16.9	67.5	1968	444
1996-97	16.6	85.7	2500	477
1997-98	18.7	110.6	4088	709
1998-99	17.9	103.9	3240	407
1999-00	21.1	141.6	2006	284
2000-01	19.0	127.2	Neg	**
2001-02	18.2	120.2	Neg	**
2002-03	19.3	129.1*	Neg	**
2003-04	19.0*	N.A	1000*	200*

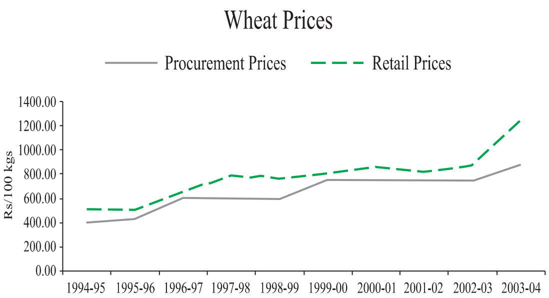
* Estimates
** Less than $50 million

However, prolonged dry spell and water shortages since 2001, together with increased production cost adversely affected the wheat crop. Production assumed a falling trend, declining by 8.6% in the three years to FY03. In these three years, production averaged 18.6 million tonnes, and support prices also remained unchanged at Rs.300 per 40 kgs. The growers are now apprehensive that the country is heading for an acute wheat crisis emerging from delayed start of cane crushing season, late announcement of support prices, better returns on cotton and increased cost of production. Cane crushing normally starts in October-November. Early start of crushing enables farmers to vacate fields for wheat sowing. Due to delay in crushing until mid-November, major portion of the area could not be brought under early wheat sowing. Growers fear that the 8.2 million hectares sowing target for this year will be difficult to meet.

Delayed sowing

For 2003-04, the government had planned to harvest a crop of 20.5 million tonnes. It increased the support price by Rs.50 per 40 kgs to Rs.350 to provide an incentive to farmers. It had also planned to export 0.5 million tonnes of wheat. But due to delay in wheat sowing, insufficient increase in support price and reportedly high cost of production, growers have lost hope of a good crop this season. They are anticipating a shortfall of over one million tonnes, with production ranging between 18.5-19.5 million tonnes. This would lead to resumption of wheat imports after a year. The government has decided to initially import 0.5 million tonne and also withdrawn the entire import duty.

Production shortfall



While wheat stocks are reported to be sufficient this year, Sindh, NWFP and Balochistan are expected to face a huge deficit early next year, as new crop would arrive in the market after April 2004.

Pressure on prices

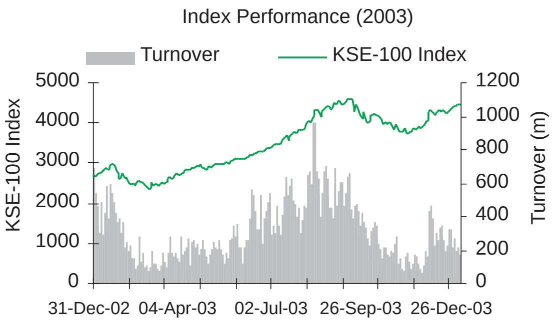
Anticipated shortfall in production and the looming wheat crisis particularly in Sindh has built up pressure on wheat and flour prices in the open market. Currently prices of wheat and wheat flour vary from Rs.12.50 per kg to Rs.14.50 per kg. In the first five months of the current fiscal year, 20% increase in wheat prices has reportedly been registered. Due to price rise, some traders in the private sector have started hoarding wheat, interrupting smooth supplies and creating artificial shortage.

Market Analysis

Market Outlook

The market rose 18% (693 points) in November and December 2003. The KSE-100 gained 287 points in November, recovering from the technical correction of September and October, and consolidated those gains with a 406 point rise in December. The market had been expected to improve, and was given impetus by positive developments in relations with India, the SAARC summit in January 2004, stability of interest rates, and an absence of negative news.

The top performers in this period were Dewan Motors, Nishat Mills and Pakistan Oilfields. These stocks out performed because their shares had grossly under performed during the market correction earlier.



The Year (2003) in Review

The KSE-100 Index closed 2003 at 4474, it gained 1772 points (65.6%) over the course of the year. By late January 2004 the Index had surpassed 4700 points, breaking its previous high of 4604 (Sep.12, 2003). The market PEx (trailing) was 9.9 at the end of the year. The average daily market turnover was 308.6m shares.

Positive trend despite two corrections

During the year, the market trend was very steadily upwards with the exception of two short-term corrections both of which lasted approximately 6 weeks (late-January to end-February, and mid-September to end-October). In each case, the market had become overheated and highly leveraged. The January correction saw the market shed 16% (474 points) till its low. In the September correction, the market shed 18.7% (861 points) till its low. Recovery was fairly swift in both cases.

The KSE-100 index took just under 3 months to recover and come back to its past high after the January correction, and 4 months to do the same after the September correction. Recovery in the September correction was delayed because of concerns over the interest rate trend, and new SBP rules which placed a limit on bank investments in the equity market.

The two corrections may be part of a more general market boom and bust pattern in which speculative interest causes the market to over extend itself and pull back sharply every few months within the context of an overall positive trend. Whether this really is a pattern will only be proven over time. This market does have a tendency to get ahead of itself however, and as long as the underlying fundamentals support growth, short-term technical corrections from time to time should be expected.

Top Performers – 2003

Out of the 30 most heavily traded stocks, the top performer in 2003 was Maple Leaf Cement. Its share price rose 279% from Rs8.25 at the start of the year to Rs31.3 at the end of the year. This was followed by DG Khan Cement (248%), and Dewan Motors (182%). The worst performer was Hubco. Hubco shares closed the year 4% lower than at the start of the year. This reflects the fact that the market values Hubco in terms of its dividend yield (earnings growth is not expected), and the share has been effectively priced to maintain a dividend yield of approximately 10%.

Looking Ahead

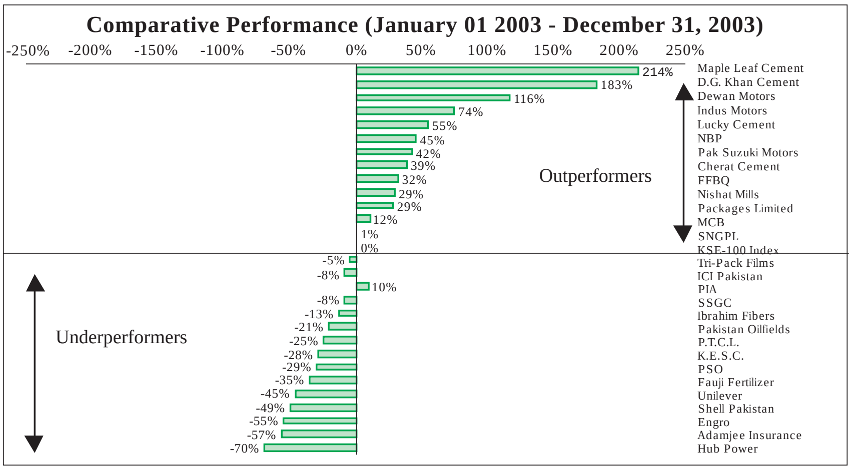
The steep rise in stock prices over the last two years has been a result of a shift encapsulating the country's changed fundamentals- high capital inflows, low interest rates, better access to EU markets, and improved relations with the world powers (the USA and EU). This shift has been mostly played out and now micro economic, company specific factors such as earnings growth will play an increasingly important role in driving share prices.

For sustained long term growth, the country needs to have peace with its neighbours. In 2004, a burgeoning peace with India is looked forward to; this will go a long way towards improving foreign investor interest in Pakistan. Internally, the law and order situation is critical.

There is also the issue of sustainability of reforms. The attempts on the President's life in December 2003 show how susceptible this government and all its associated reforms are.

An important area of improvement is the increasing depth of the market. With the listing of OGDCL in January 2004, the KSE market capitalization crossed US$20b. More offerings in the pipeline that will add further depth to the market include Sui Southern Gas Company (SSGC), Pakistan International Airlines (PIA), Pakistan Petroleum Limited (PPL) and Kot Addu Power Company (KAPCO). This will increase the market's suitability for foreign investors.

The market is expected to continue to rise in the foreseeable future, but the steep growth trajectory seen in 2002 and 2003 should not be expected in 2004.



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

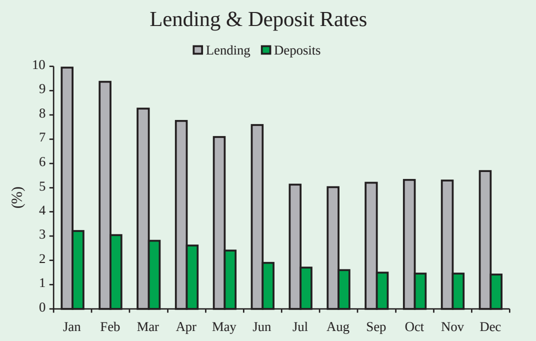
SAARC Countries - Key Statistics

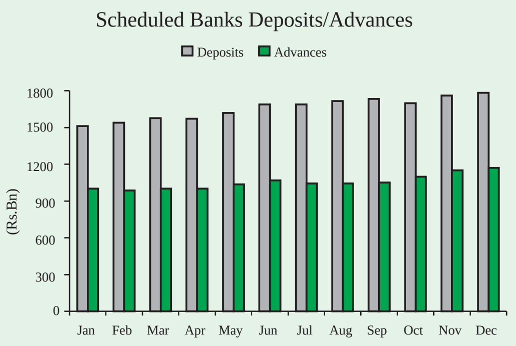
		Pakistan	India	Bangladesh	Sri Lanka	Nepal	Bhutan	Maldives
Area (000 Sq km)	2001	796	3287	144	66	147	47	0.3
Density (Per Sq km)	2002	181	321	889	303	161	15	935
Population (Million)	2002	144	1055	131	19	24	0.7	281*
Crude Birth Rate (Per 1000)	2001	37	25	31	17	35	35	36
Crude Death Rate (Per 1000)	2001	10	9	9	6	10	9	6
Life Expectancy (Years)	2001							
Male		62	60	62	67	59	61	64
Female		65	62	62	74	58	63	64
Labour Force (Million)	2002	53	460	71	8.3	11	-	88*
Unemployment Rate (%)	2002	7.8	-	3.6	9.1	1.8	-	2.0
Literacy Rate (%)	2001							
Male		57	68	49	94	59	61	97
Female		28	45	30	89	24	34	97
Population (%) (below national poverty line)	2002	32.2	26.1	49.8	25.2	42.0	25.3	43.0
GNP ($ Billion)	2001	60	477	49	16	6	0.5	0.6
Per Capita GNP ($)	2001	420	460	360	880	250	640	2000
GDP (Growth %)**	1998-2002	3.5	5.4	5.1	3.3	3.5	6.7	5.9
Gross Domestic Savings (% of GDP)	2002	13.6	24.0	18.2	14.6	11.6	27.9	45.8
Gross Investments (% of GDP)	2002	13.9	22.4	23.1	21.3	24.4	48.1	24.1
Exports ($ Billion)	2002	9.9	49.2	4.6	4.8	0.7	0.1	0.1
Imports ($ Billion)	2002	11.2	56.6	7.9	6.0	1.5	0.2	0.4
Foreign Direct Investment ($ Billion)	2001	630	3445	251	246	11	-0.1	14
Official Flows ($ Million)	2001	2039	1185	1214	360	358	121	24
External Debt ($ Billion)	2001	32	97	15	8.5	2.7	0.3	0.2
Debt Servicing (% of Exports)	2001	25.8	11.7	7.3	9.7	4.9	3.3	4.6
Gross Reserves ($ Billion)	2001	4.3	69.9	1.6	1.7	1.1	0.3	0.1
Education Expenditure (% of GDP)	2001	1.8	4.0	2.5	3.0	3.7	5.2	3.9
Fiscal Deficit (% of GDP)	2002	5.1	10.3	4.3	9.0	3.3	6.8	7.4

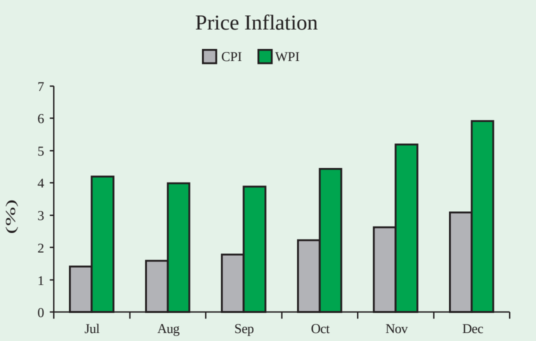
* *In Thousands*
** *Five Years Average*

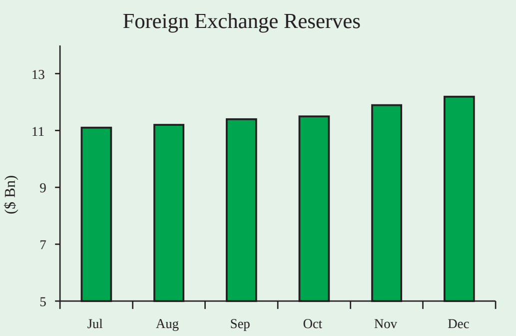
Source: Asian Development Outlook - 2003
ADB Key Indicators - 2003

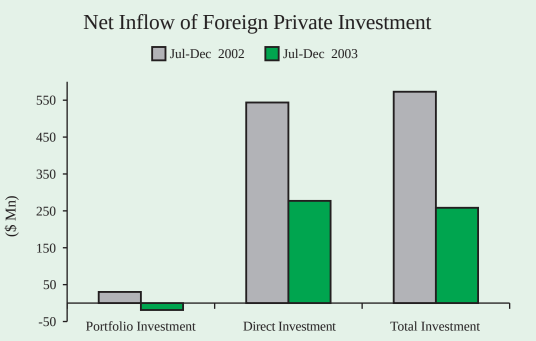
The Year 2003 at a Glance

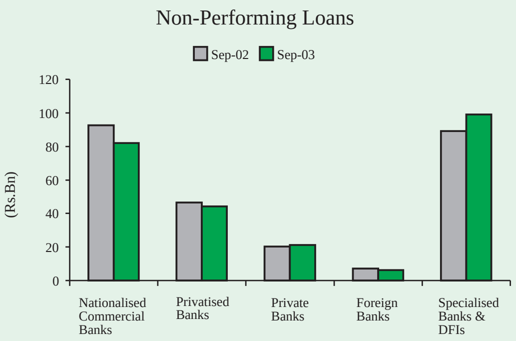


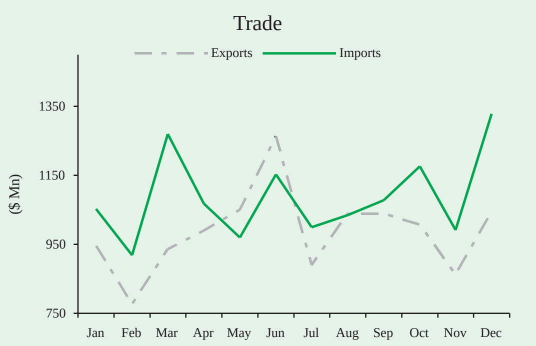


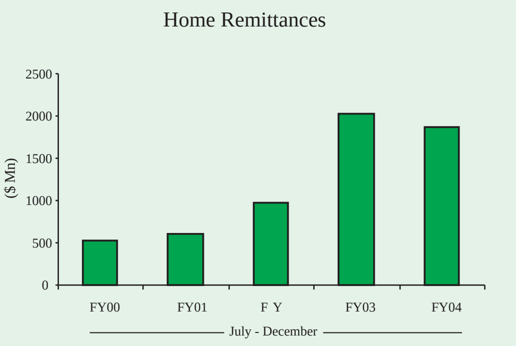












Key Economic Indicators

Economy Size & Growth		1999-00	2000-01	2001-02	2002-03
GNP - Market Prices	Rs bn	3132.3	3372.4	3660.7	4201.7
GDP - Market Prices	Rs bn	3177.2	3423.1	3628.7	4021.1
Per Capita Income	Market Prices Rs	23031	24248	25767	28945
	Market Prices US $	441	415	419	492
Growth*					
GDP	%	3.91	2.09	3.49	5.08
Agriculture	%	6.09	-2.74	-0.07	4.15
Manufacturing	%	1.53	8.21	5.00	7.67
Wholesale & Retail trade	%	1.92	5.37	2.28	7.32
Rate of Inflation	%				
Consumer Price Index**		3.6	4.4	3.5	3.1
GDP Deflator		2.8	6.0	3.2	4.5
Balance of Payments	$ mn				
Exports (f.o.b.)		8190	8933	9140	10889
Imports (f.o.b.)		9602	10202	9434	11425
Trade Balance		-1412	-1269	-294	-536
Services Account (Net)		-2794	-3142	-2617	-2173
Private Transfers (Net)		3063	3898	4249	5737
Current Account Balance		-1143	-513	1338	3028
Fiscal Balance	% of GDP				
Total Revenue (Net)		16.3	16.2	17.2	17.7
Total Expenditure		22.5	21.0	22.8	22.1
Overall Deficit		6.6	5.2	5.2	4.4
Domestic & Foreign Debt					
Domestic Debt	Rs bn	1579	1731	1718	1852
As % GDP		50.2	50.6	47.3	46.1
Total External Debt	$ bn	32.3	32.2	33.4	33.4
As % GDP		53.1	54.9	56.6	48.5
As % Export Earnings		395.1	360.0	365.7	364.7
Investment & Savings	% of GNP				
Gross Investment		16.2	15.8	14.6	14.8
Fixed Investment		14.6	14.1	13.0	12.5
National Savings		14.3	14.9	16.8	18.5
Domestic Savings	% of GDP	15.8	16.5	16.9	16.2
Foreign Investment (net)	$ mn	543	182	475	820
Portfolio (net)		73	-140	-10	22
Direct (net)		470	322	485	798
Monetary Aggregates	%				
M1		14.9	3.0	15.2	26.2
M2		9.4	9.0	15.4	18.0
Interest Rates (Weighted Average)	%				
Deposits		5.47	5.27	3.60	1.61
Advances		13.52	13.61	13.19	9.40
Foreign Exchange Reserves^	$ mn	2163	3244	6398	10747
Exchange Rate++	Rs./$				
Official Rate		52.16	64.40	60.07	57.81
Open Market Rate		54.82	66.70	60.20	57.80

Source: SBP Annual Report 2002-03

* Constant Factor Cost of 1980-81
** Base 2000 - 01
^ Excludes FE 13/CRR and includes Indian pending transfers, new FCA and Trade Nostro.
++ End-June Buying Rate

NBP Performance at a Glance

(Rs. Bn)

Items	1998	1999	2000	2001	2002
Net Fund Based Income	8.9	10.4	8.8	12.4	12.8
Non Fund Based Income	2.7	4.0	4.0	4.5	4.8
Administrative Expenses	6.2	7.9	8.0	8.6	9.1
Pre-Tax Profit	2.14	0.52	1.03	3.02	6.04
After-Tax Profit	0.53	0.03	0.46	1.15	2.25
Total Assets	325.1	350.4	371.6	415.1	432.8
Deposits	273.4	294.8	316.5	349.6	362.9
Advances	109.5	122.6	140.3	170.3	140.5
Investments	103.0	91.5	72.6	71.8	143.5
Shareholders' Equity	10.0	10.4	11.4	12.0	14.3
Number of Branches	1434	1431	1428	1245	1204
Number of Employees	15785	15541	15351	15163	12195

Core Values That Define Us

We aim to be an organization that is founded on...

Growth through creation of sustainable relationships with our customers.

Prudence to guide our business conduct.

A national presence with a history of contribution to our communities.

We shall work to…

Meet expectations through Market-based solutions and products.

Reward entrepreneurial efforts.

Create value for all our stakeholders.

We aim to be people who…

Care about relationships.

Lead through the strength of our commitment and willingness to excel.

Practice integrity, honesty and hard work. We believe that these are measures of true success.

We have confidence that tomorrow we will be…

Leaders in our industry.

An organization maintaining the trust of our stakeholders.

An innovative, creative and dynamic institution responding to the changing needs of the internal and external environment.