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Introduction

Contents

Introduction 2
Macroeconomic Outlook.....3
Recent Developments 5
Trade Overview 5
Trade in Services..... 6
Import Markets 7
Export Markets.....8
Trade with SAARC..... 9
Trade with CARs..... 10
Sources 12

The Trade Bulletin is a quarterly report prepared by USAID's Pakistan Trade Project to enlighten public and private sector stakeholders on Pakistan's economic performance and international trade environment.

The areas of focus are:
Macroeconomic Outlook: General economic indicators to ascertain the state of the economy.
Developments in the Trade Environment: Trade-related news from the review period that is relevant for Pakistan
Pakistan Trade Overview: Pakistan's primary trading partners, and a regional overview of exports and imports
Trade in Services: Summary of imports and exports in services, a primary contributor to Pakistan's GDP
Import and Export Markets: Analysis of trends to ascertain the value and potential of import and export markets for Pakistan
Export and Import of Goods: Analysis of the value of goods exported from and imported to Pakistan
Specific trade trends of regional trade markets: Pakistan's trade with the South Asian Association of Regional Cooperation (SAARC) members, and with Central Asia. Analysis of developments, trends, and trade expansion measures to Central Asia

The Trade Project collects secondary data from various sources that include the State Bank of Pakistan (SBP), the Pakistan Bureau of Statistics (PBS), and the World Bank. The Trade Project calculates all figures based on SBP data, unless otherwise cited. In some instances, SBP data is provisional and subject to revisions. Additional sources include news sources, local and international journals, research papers and other publications.

The term Fiscal Year 2014 (FY14) refers to Pakistan's fiscal year: the period from July 1, 2013-June 30, 2014. This report is for FY14 Quarter 2 (FY14 Q2) which is the period from October 2013 to December 2013. Fiscal Year 2013 Quarter 2 (FY13 Q2) refers to the period from October 2012 to December 2012, used for year-over-year (YoY) comparisons within this report. Fiscal Year 2005 Quarter 2 (FY05 Q2) refers to the period from October 2004 to December 2004, and is used as the base-year for longer term analysis. Quarter-over-Quarter (QoQ) analysis compares the preceding quarter (FY14 Q1) to the current quarter.

Quarterly Review

October to December, 2013

Pakistan's economy in FY14 Q2 remained vulnerable due to poor fiscal policies, continued security challenges, and political uncertainty. A summary of macroeconomic and trade indicators provide an overview of the country's economic outlook:

- The International Monetary Fund (IMF) expects Gross Domestic Product (GDP) growth to decrease from 3.60% in 2013 to 2.50% in 2014.[i]
- Inflation, or Consumer Price Index (CPI), increased from 7.50% in FY13 Q2 to 9.73% in FY14 Q2.
- The current account balance improved from a deficit of United States Dollar (USD) 522 million in FY13 Q2 to a deficit of USD 385 million in FY14 Q2.[ii] In FY14 Q1 the deficit was 1.21 billion.
- The trade account deficit stands at USD 4.30 billion for FY14 Q2 compared to USD 4.41 billion in FY13 Q2.[iii]
- Foreign exchange reserves decreased from USD 13.86 billion in FY13 Q2 to USD 8.31 billion in FY14 Q2.
- The average month-end floating exchange rate reached a record high of PKR 108.25 to USD 1.00 in FY14 Q2. The exchange rate was PKR 97.79 to USD 1.00 in FY13 Q2.[iv]
- Pakistan's top 5 export destinations accounted for 46.38% of total export value. The top 10 export destinations accounted for 60.88%, highlighting Pakistan's undiversified export markets.
- Pakistan's import sources are similarly undiversified. In FY14 Q2 the top 5 import countries accounted for 58.19% of total import value. The top 10 import countries accounted for 73.67%.
- In FY14 Q2, notable year-over-year increase, by value, of imports was recorded in un-milled wheat (3331000.19%), motor cycles (231.89%), telecom apparatus (121.92%), textile machinery (66.54%) and agricultural machinery (51.93%).
- In FY14 Q2, notable year-over-year increase, by value, of exports was recorded in petroleum products (199.34%), handicrafts (150.66%), gems (143.53%), oil seeds/ nuts (139.96%) and vegetables (43.24%).

*The goal of the **Trade Project** is to collaborate with the Government of Pakistan and the private sector to resolve trade challenges and support 'second generation' trade reform through the provision of technical assistance. Specifically, the project aims to encourage improvements in customs and trade facilitation, eliminate anti-export bias in trade policy and enable increased bilateral and regional trade with Pakistan's neighbors through the facilitation of trade and transit agreements and border improvements.*

Macroeconomic Outlook

In the quarter under review, Pakistan's economy continues to face challenges across all macroeconomic indicators. High inflation, declining foreign exchange reserves, low foreign investments, an unemployment rate of 5.17%[v] and an energy crisis have contributed to a weak Balance of Payments (BoP) position. [iv] The IMF's 2014 GDP growth projection for Pakistan is 2.50%, the lowest among South Asian countries. The low projected economic growth is due to energy constraints and fiscal imbalances. [vii]

Table 1: Forecasted GDP Growth Rate for Developing Asian Countries in 2014

Pakistan	India	Sri Lanka	Bangladesh	Afghanistan
2.5%	5.1%	6.8%	6.0%	3.5%

Source: *International Monetary Fund, calculations performed by Trade Project* [viii]

Doing Business Index: The World Bank ranks countries on their ease of doing business through its annual Doing Business Index. [1] The indicator averages a number of equally weighted topics (e.g., starting a business, construction permits, registering property, access to electricity and credit, investor protections, paying taxes, cross-border trade, contract enforcement, and resolving insolvency). Of the 189 countries surveyed for the 2014 Index, Pakistan was ranked 110.[2] Among South Asian countries, Pakistan was ranked fourth behind Sri Lanka, Maldives and Nepal, and ahead of Bangladesh, India, Bhutan and Afghanistan.

Foreign Investment (FI)

FDI inflows in Pakistan were recorded at USD 450.42 million in FY14 Q2 compared to USD 637.69 million in FY13 Q2, a decrease of 29.37%.[3] This decline was largely attributed to the prevailing security situation, power and gas outages, and macroeconomic conditions. [ix] According to the Overseas Investors Chamber of Commerce, Pakistan's energy prices are the second highest in Asia, after Japan. Domestic manufacturers rely on costly fuel imports to power their operations (electricity generation), which increases the cost of production and puts pressure on foreign reserves, resulting in high inflation rates. [x] Power outages not only deter FDI inflows, they incentivize FDI outflows as well. Mian Mansha, a prominent textile exporter and industrialist, has been threatening to shift his investment to Bangladesh because of power outages in Pakistan. [xi]

Table 2: Top 5 FDI Sources & Destinations (USD millions)

FDI Inflow Sources		FDI Outflow Destinations	
Country	FY14 Q2	Country	FY14 Q2
Switzerland	77.84	UAE	37.53
Hong Kong	52.98	Norway	35.22
United States (US)	48.05	Switzerland	32.52
United Arab Emirates (UAE)	45.43	United States	23.89
United Kingdom (UK)	43.57	Saudi Arabia	19.20
Other	182.55	Rest of the World	116.82
Total FDI inflow	**450.42**	**Total FDI outflow**	**265.17**

Source: *Data from State Bank of Pakistan, calculations performed by Trade Project*

Table 3 provides the top five sectors for Pakistan's FDI inflow and outflow for FY14 Q2.

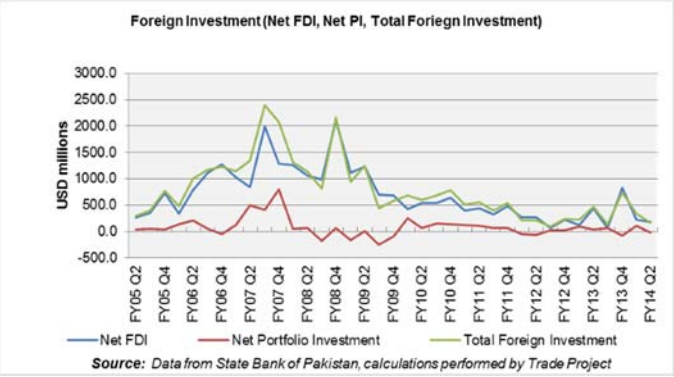
Table 3 : Top 5 Sectors for FDI Inflow & Outflow (USD millions)

FDI Inflow Sectors		FDI Outflow Sectors	
Sector	FY14 Q2	Sector	FY14 Q2
Oil & Gas Explorations	113.45	Communications	99.11
Financial Business	58.41	Power	51.08
Power	49.71	Chemicals	22.14
Communications	44.38	Financial Business	19.83
Chemicals	40.98	Tobacco & Cigarettes	15.00
Total FDI inflow	**450.42**	**Total FDI outflow**	**265.17**

Source: *Data from State Bank of Pakistan, calculations performed by Trade Project*

Pakistan's **Foreign Portfolio Investment** (FPI) [4] recorded a net deficit of USD 21.75 million in FY14 Q2, compared to a surplus of USD 31.08 million in the corresponding period last year, reflecting a year over year decline of 169.97%. Figure 1 provides an overview of Pakistan's foreign investment position since FY05 Q2.

Figure 1: Foreign Investment



Source: *Data from State Bank of Pakistan, calculations performed by Trade Project*

[1] The Doing Business Index can be accessed at http://www.doingbusiness.org/rankings.

[2] Pakistan was ranked 107 (out of 185 countries) and 104 (out of 183 countries) for 2013 and 2012, respectively.

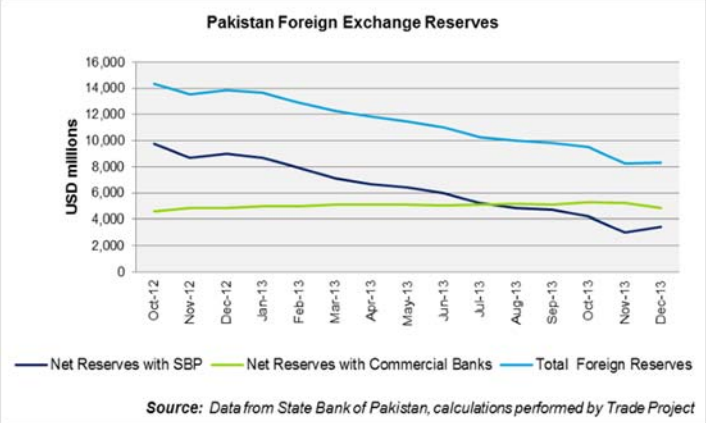
[3] "Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments." The World Bank. *The World Bank - Data.* http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD (accessed February 18, 2014).

[4] "FPI (Foreign Portfolio Investment) equity includes net inflows from equity securities other than those recorded as direct investment and including shares, stocks, depository receipts (American or global), and direct purchases of shares in local stock markets by foreign investors". The World Bank. *The World Bank - Data.* http://data.worldbank.org/indicator/BX.PEF.TOTL.CD.WD (accessed February 18, 2014).

As part of an agreement with the IMF, 31 key Public Sector Enterprises (PSEs) are planned to be privatized within the next 3 to 5 years. [5] A majority of the resulting privatization revenues will come from capital market transactions. These transactions can significantly increase future FDI inflow, easing fiscal financing and improving Pakistan's BoP. [xii]

Foreign Exchange Reserves: Net reserves of foreign exchange with SBP and commercial banks were recorded at USD 8.31 billion in FY14 Q2, compared to USD 13.85 billion in FY13 Q2. Stagnant exports, declining FDI, and debt repayment to the IMF and other international lenders are among the factors contributing to foreign reserve declines in Pakistan. [xiii] On December 5, 2013, Pakistan's Federal Minister for Finance requested the US Ambassador to authorize early disbursement of outstanding Coalition Support Fund[6] dues amounting to USD 900 million. An estimated USD 300 million is expected to be released in FY14 Q3, which will improve Pakistan's foreign reserve position. [xiv]

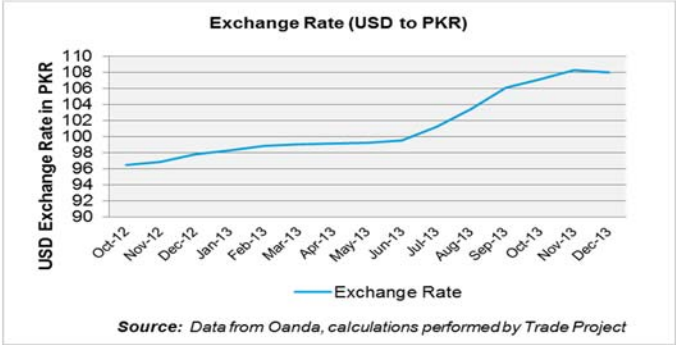
Figure 2: Pakistan Foreign Exchange Reserves



In addition to liquid foreign reserves, Pakistan`s other assets include SDR[7] valued at USD 855 million, gold at USD 2.49 billion, other reserve assets of USD 744 million, and other foreign currency assets of USD 151 million. [xv]

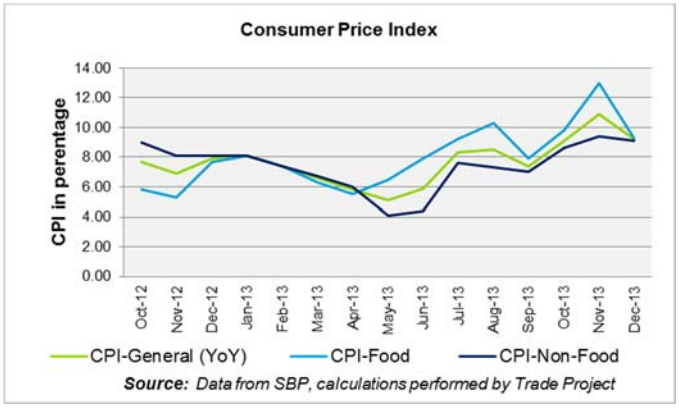
The Value of the **Pakistani Rupee (PKR)** continues to weaken against the USD. According to the SBP, the average month-end market rate reached a record high of PKR 108.25 against USD $1.00 in November 2013 and then stabilized in the month of December 2013.The average quarterly exchange rate for FY14 Q2 was PKR 107.79 to USD $1.00, an increase of 11.09% compared to FY13 Q2. The trade deficit and ongoing debt payments deplete foreign reserves and continue to apply pressure on the PKR.

Figure 3: USD Exchange Rate



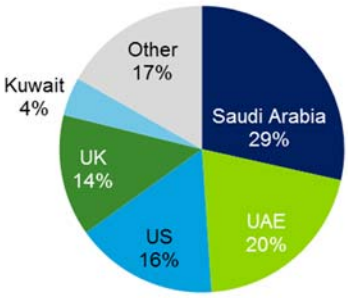
Inflation, measured through the quarterly-averaged CPI[8], increased from 7.50% in FY13 Q2 to 9.73% in FY14 Q2.[xvi] This increase is attributed to a higher electricity tariff and petroleum prices, and PKR depreciation. [xvii] The Government of Pakistan (GoP) has projected an inflation target of 8.00% for FY14. [xviii]

Figure 4: Consumer Price Index



Remittances in FY14 Q2 were recorded at USD 3.85 billion compared to USD 3.51 billion in FY13 Q2. [xix] The top five origins of remittance transfers to Pakistan were Saudi Arabia, UAE, US, UK, and Kuwait, collectively accounting for 83.19% of total remittances to Pakistan. [xx]

Figure 5: Sources of Foreign Remittances



Source: Data from SBP, calculations performed by Trade Project

[5] The list of 31 PSEs targeted for privatization can be accessed at: International Monetary Fund. First Review under the Extended Arrangement. IMF Country Report, Washington DC: IMF Publication Services, 2014. http://www.imf.org/external/pubs/ft/scr/2014/cr1401.pdf.

[6] In FY2002, the United States Congress "began appropriating billions of dollars to reimburse Pakistan and other nations for their operational and logistical support of U.S.-led counterterrorism operations". Epstein, Susan B., and Alan K Kronstadt. *Pakistan: U.S. Foreign Assistance.* CRS Report for Congress, Washington: Congressional Research Service, 2013

[7] "The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies." International Monetary Fund. https://www.imf.org/external/np/exr/facts/sdr.HTM (accessed February 13, 2014)

[8] "Consumer Price Index (CPI) is considered the most common measure of general inflation. It measures changes in the cost of buying a representative fixed basket of goods and services and generally indicates inflation rate in the country." Pakistan Bureau of Statistics. "PBS Price Statistics." http://www.pbs.gov.pk/sites/default/files/price_statistics/methodology_price.pdf (accessed February 17, 2014)

Recent Developments in Pakistan's Trade Environment

Generalized System of Preferences Plus (GSP +)

Pakistan has been granted GSP+ status by the European Parliament effective from January 1, 2014. Under this scheme, more than 90% of Pakistan's exports to the 28 EU member countries will be eligible for duty free access. [xxi] The EU countries account for 25% and 11% of Pakistan's exports and imports, respectively. The initiative will enable Pakistani products to effectively compete in the European markets, providing a sustainable trade mechanism.

The primary beneficiary of GSP Plus will be the textile sector, which accounts for 57% of Pakistan's total exports to the EU and provides employment to 30% of the country's workforce; however its share in the global export of textiles is only 1.5%. [xxii] According to an International Trade Commission (ITC) report, gains from increased exports are estimated at around USD $580 million (approximately USD $280 million in textiles, USD $97 million in leather articles, and USD $203 million for all other products). This estimate by the ITC is modest compared with others that have projected gains in the range of USD $1-2 billion. [xxiii] The expected benefits of GSP Plus include a boost to Pakistan's export environment and investments, employment generation, rural growth resulting from increased cotton growth, and the return of small units of textile buying houses and garment producers to Pakistan from Bangladesh, Malaysia, and other countries. [xxiv] GSP+ will also provide Pakistan's industries with an edge compared to countries such as China, which does not have duty free access to the EU, and India, which has only limited concessions for apparels under the standard GSP.

The coverage of GSP+ is restricted to those countries which are considered to be vulnerable due to a lack of diversification and insufficient integration into the international trading system. In addition, Pakistan had to ratify 27 core international conventions and subscribe to binding commitments to implement them effectively.[10] It has also accepted, without reservation, reporting requirements and monitoring mechanisms imposed by those conventions. GSP+ preferences can be withdrawn partially or fully if the GoP fails to meet its commitments on enforcing the required conventions. The GSP+ status expires in 2024. [xxv]

Bali WTO Ministerial Meeting: Decision on Public Stockholding for Food Security

At the WTO Ministerial Conference in Bali in December 2013, a decision was made to allow developing countries to purchase unlimited food at government-set prices (not market prices) with the objective to build stocks for food security purposes, without this being considered a trade-distorting subsidy under WTO rules. The G33 Group of countries, mainly pushed by India, requested that this facility be available to developing countries permanently. The Bali Ministerial Meeting agreed to an interim arrangement valid until 2017. In the meantime, further negotiations will be conducted to find a permanent solution. [xxvi]

India's declared objective is to purchase staple food such as rice at above-market prices to build up stocks, ensure stable incomes for small-holder farmers, and ensure access to basic foods at affordable prices. Under the arrangement, countries will have flexibility to raise subsidy levels, which may incentivize increased production among farmers benefitting from subsidies. Pakistan's rice exporters opposed this proposal based on concerns that India's accumulation of rice stocks will eventually be sold on the world market at lower prices, taking market share from Pakistan. Pakistan's rice exports accounted for USD 483.31 million in FY14 Q2, and rice is one of the country's major export commodities.

Pakistan Trade Overview

Pakistan's trade deficit remains a challenge for economic stability as it continues to deplete foreign currency reserves. This deficit is mainly attributed to high imports of petroleum products, and limited exports due to energy and security challenges that have diverted some production houses to off-shore locations. Since 2005, Pakistan's total trade has grown from USD 8.43 billion to USD 16.30 billion in FY14 Q2, an increase of 93.25%; however, the trade deficit has also increased by 210% over the same period, from USD 1.38 billion to USD 4.30 billion.

Table 4: Import and Export Growth FY05 Q2 vs. FY14 Q2 (USD billions)

	FY05 Q2	FY14 Q2	% Change from 2005
Imports	4.91	10.30	109.74%
Exports	3.52	5.99	70.26%
Trade Deficit	1.38	4.30	209.99%

Source: *Data from State Bank of Pakistan, calculations performed by Trade Project*

In a YoY comparison for the quarter under review, however, export growth outpaced import growth, creating a reduction in the trade deficit.

Table 5: Import and Export Growth: FY13 Q2 vs. FY14 Q2 (USD billions)

	FY13 Q2	FY14 Q2	% Change from FY13 Q2
Imports	10.02	10.30	2.77%
Exports	5.61	5.99	6.99%
Trade Deficit	4.42	4.30	-2.58

Source: *Data from State Bank of Pakistan, calculations performed by Trade Project*

[10] These are mainly UN and International Labor Organization (ILO) conventions and conventions on the environment and good governance. Examples of such conventions are: the Convention on the Elimination of all Forms of Racial Discrimination, the International Convention on the Rights of the Child, the Freedom of Association and Protection of the Right to Organize Convention, and the Convention on International Trade in Endangered Species.

The relationship between the price of oil and Pakistan's import bill is depicted in Figure 6.

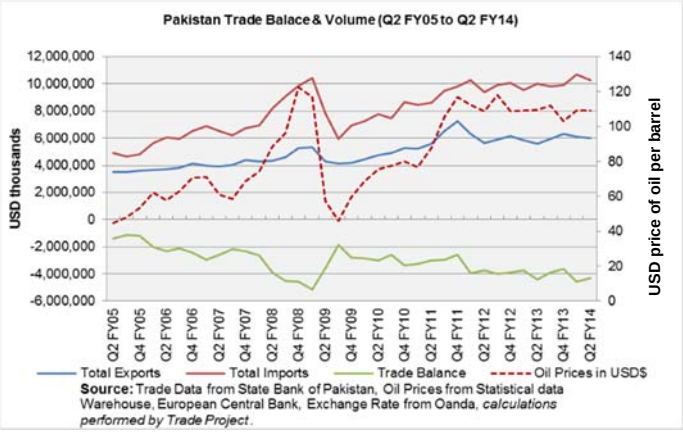


Figure 6: Pakistan Trade Balance

Pakistan's Trade with World Regions

Asia is the largest trading region for Pakistan, with 32.09% share in its total trade volume (exports and imports) for FY14 Q2, followed by the Middle East (28.05%) and European Union (15.92%).

Figures 7 and 8 provide an overview of Pakistan's regional exports and imports, respectively.

Figure 7: Pakistan Exports by Region

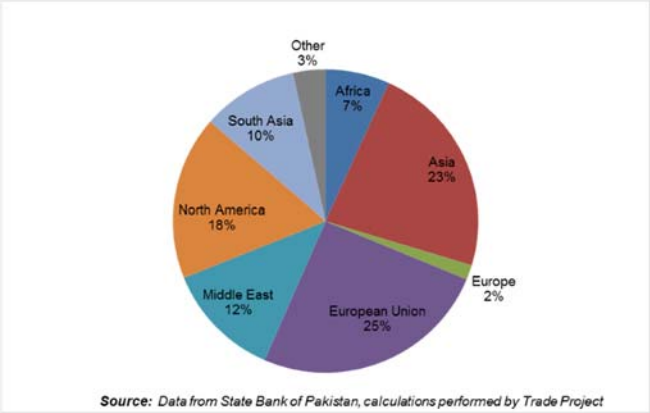
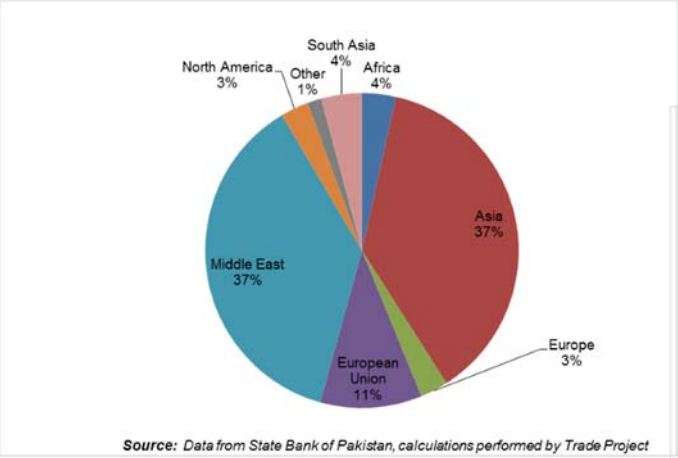


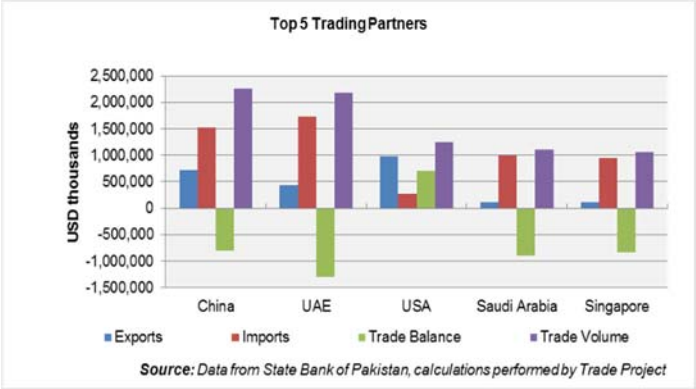
Figure 8: Pakistan Imports by Region



Top 5 Trading Partners

Pakistan's top five trading partners accounted for USD 7.86 billion (48.22%) of the total trade volume in FY14 Q2. China continues to be the largest trading partner for Pakistan with a total trade value of USD 2.26 billion (13.86%) followed by UAE with USD 2.18 billion (13.36%), US with USD 1.26 billion (7.70%), Saudi Arabia with USD 1.11 billion (6.80%), and Singapore with USD 1.06 billion (6.49%). Pakistan has a negative trade balance with all of its top trading partners except the US, with which it has a trade surplus of USD 706.34 million.

Figure 9: Top 5 Trading Partners



Pakistan's Trade in Services

The importance of the services sector is growing globally and its contribution to GDP for many developed and developing countries is greater than 50%.[xxvii] The contribution of the services sector in Pakistan's GDP for 2013 was 57.62% with an annual growth rate of 3.71%. [xxviii]

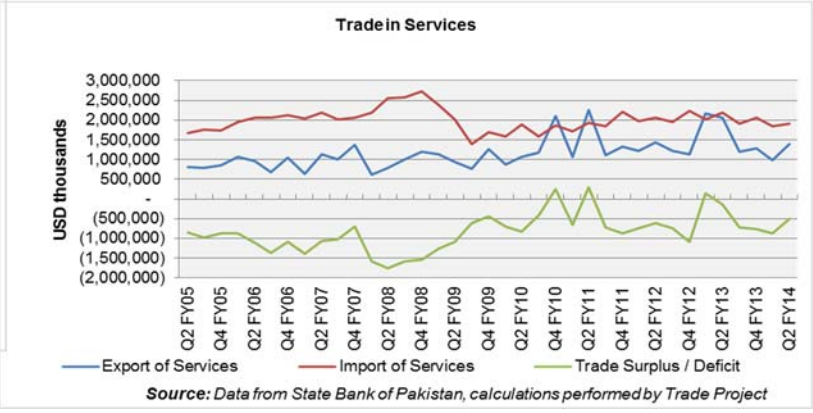
Pakistan's total volume of trade in services has grown over the past ten years. While Pakistan has primarily maintained a trade deficit due to the larger volume of services imports, Table 6 and Figure 10 demonstrate the net growth in exports between FY05 Q2 and FY14 Q2 is more than double that of imports. Between FY13 Q2 and FY14 Q2, the trade deficit in services decreased from USD 514.99 to 138.04 million (273.08%). See figure 10 for growth trend in Trade in Services.

Table 6: Trade in Services FY05 Q2 to FY14 Q2 (USD billions)

	FY05 Q2	FY14 Q2	Net Change from FY05 Q2	% Change from FY05 Q2
Imports	1.67	1.91	.25	14.74%
Exports	0.81	1.40	.59	72.41%

Source: *Data from State Bank of Pakistan, calculations performed by Trade Project*

Figure 10: Trade in Services

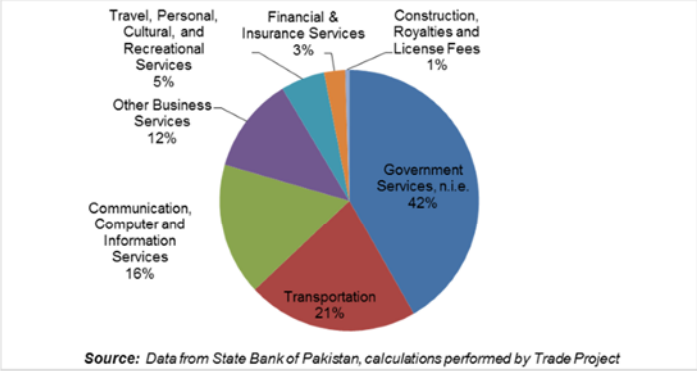


Export of Services:

Pakistan exported USD 1.39 billion in services in FY14 Q2, primarily:

- Government Services: USD 583.84 million
- Transportation: USD 297.90 million
- Communication, Computer and Information: USD 230.29 million
- Other Business: USD166.80 million

Figure 11: Exports in Services



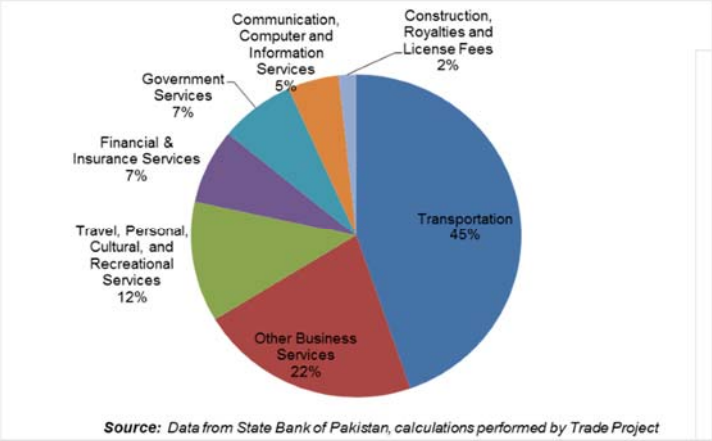
Source: Data from State Bank of Pakistan, calculations performed by Trade Project

Imports of Services:

In FY14 Q2, Pakistan imported USD 1.91 billion worth of services, primarily:

- Transportation: USD 855.65 million
- Other Business: USD 413.57 million
- Travel, Personal, Cultural and Recreational: USD 231.97 million
- Financial & Insurance: USD 143.31 million

Figure 12: Import of Services



Source: Data from State Bank of Pakistan, calculations performed by Trade Project

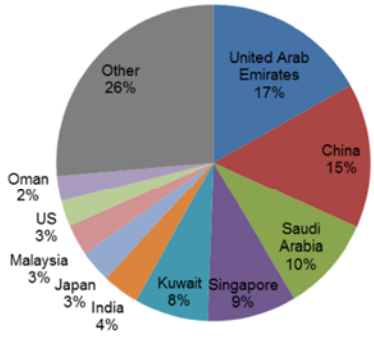
Pakistan Import Markets and Product Groups

Imports by Country

Pakistan's import portfolio remained undiversified in FY14 Q2: five countries accounted for 58.19% of total imports and the top 10 countries accounted for 73.67%.

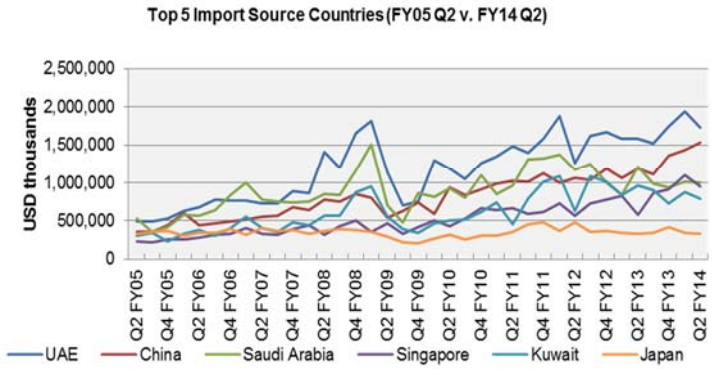
Pakistan's reliance on a small number of countries for imports has increased over time. Currently, Pakistan's top five trading partners, in order of volume, are UAE, China, Saudi Arabia, Singapore, and Kuwait. Together, these countries constitute 58.19% of Pakistan's total import bill, or USD 5.99 billion for FY14 Q2. This is an increase of 212.05% compared to FY05 Q2, when Pakistan's top five trade partners accounted for 40.97% of its import bill (at that time, Japan was a top five partner, Singapore was not).

Figure 13: Top 10 Countries of Imports



Source: Data from State Bank of Pakistan, calculations performed by Trade Project

Figure 14: Pakistan's Imports from Top 5 Source Countries



Source: Data from State Bank of Pakistan, calculations performed by Trade Project

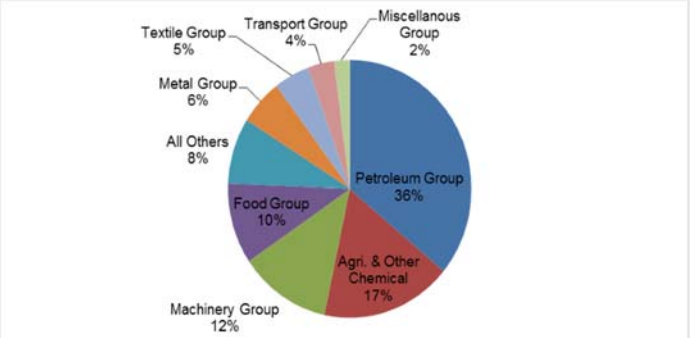
Table 7: Top Five Import Source Countries: FY13 Q2 v. FY14 Q2 (USD billions)

Country	FY13 Q2 % Import Share	FY14 Q2 % Import Share	YoY % Change	FY13 Q2 Value	FY14 Q2 Value	Notable Commodities
UAE	15.79%	16.85%	9.69%	1.58	1.74	Petroleum, precious stones and metals, plastic products, iron and steel
China	11.82%	14.85%	29.16%	1.18	1.53	electrical equipment, machinery, organic chemicals and iron & steel
Saudi Arabia	12.06%	9.71%	-17.27%	1.21	1.00	Petroleum, plastic products, organic chemicals, fertilizers
Singapore	5.76%	9.18%	63.77%	0.58	0.95	Petroleum, plastic products, organic chemicals, chemicals
Kuwait	9.59%	7.61%	-18.47%	0.96	0.78	Petroleum, ferrous waste & scrap, organic chemicals, plastics products
Total	**55.01%**	**58.19%**	**-----**	**5.51**	**5.99**	

Imports by Commodity: Groups

Petroleum, Agriculture and Chemical, Machinery, and Food groups are Pakistan's top imports, constituting 75.62%, or USD 7.79 billion, of Pakistan's total USD 10.30 billion import bill. The share of these groups in total imports has been growing since FY05 Q2 when it was 71.41%. Compared to the base-year FY05 Q2, Petroleum group has witnessed the highest growth rate of 253.68%, Agriculture and Chemical group at 88.61%, Machinery group at 26.76% and Food group at 99.70%.

Figure 15: Pakistan Imports by Group



Source: Data from State Bank of Pakistan, calculations performed by Trade Project

Petroleum Group

In FY14 Q2, Pakistan's total imports under the Petroleum group decreased by 4.11% to USD 3.71 billion compared to FY13 Q2. Petroleum Products imports increased by 2.42% and import of crude petroleum decreased by 14.05% when compared to FY13 Q2, amounting to USD 2.39 billion and USD 1.32 billion, respectively.

Agriculture and other Chemical Group

A YoY increase in this group was recorded at 9.76% compared with FY13 Q2. YoY import of insecticides has increased by 30.16% to USD 241.80 million in FY14 Q2 due to increasing demand. Other notable FY14 Q2 imports include plastic materials valued at USD 371.08 million and medicinal products valued at USD 127.99 million.

Machinery Group

In FY14 Q2, import of machinery increased by 21.84% to USD 1.26 billion compared with FY13 Q2. Major imported products include telecom equipment (USD 345.59 million), textile machinery (USD 181.23 million) and power generating machinery (USD 164.61 million).

Food Group

In FY14 Q2, Pakistan's total food import was USD 1.04 billion, an increase of 15.02% from USD 903.14 million in FY13 Q2. This was driven by increased imports of un-milled wheat from USD 20 thousand in FY13 Q2 to 65.06 million in FY14 Q2 due to insufficient wheat production in 2013. [xxix] Other notable imports include palm oil (USD 509.65 million) and tea (USD 62.51 million).

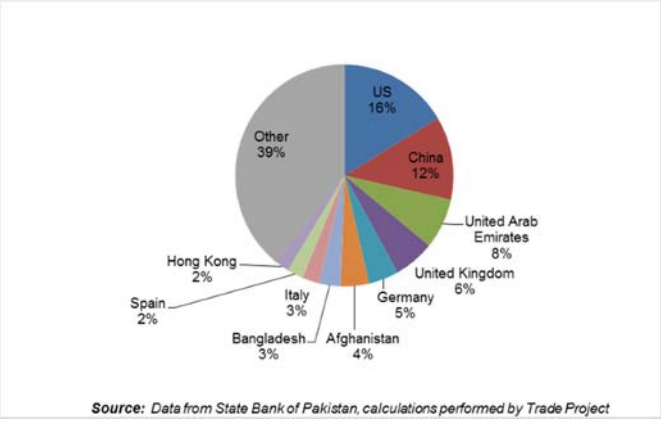
Pakistan Exports Markets and Product Groups

Exports by Country

Pakistan's exports remain undiversified with top 5 destination countries contributing 46.38% and top 10 countries contributing 60.88% to Pakistan's total exports for the period of FY14 Q2. Pakistan's reliance on a small number of countries for the majority of its exports increases its vulnerability to external shocks as economic performance of these countries can adversely affect Pakistan's exports.

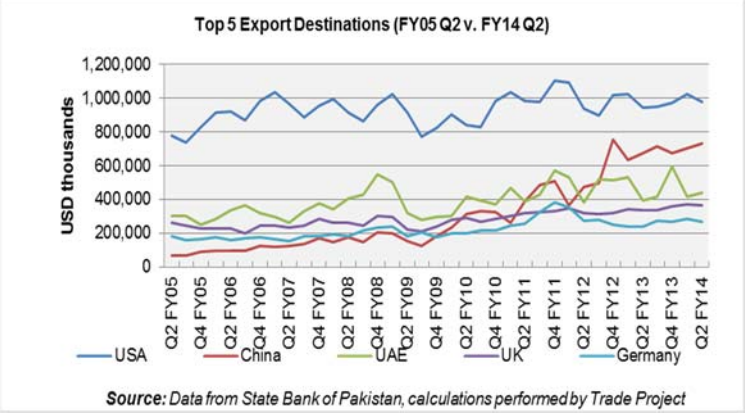
Pakistan's exports in FY14 Q2 increased by 6.99% compared with FY13 Q2, from USD 5.61 billion to USD 5.99 billion. Since FY05 Q2, total exports have increased 70.26%, from USD 3.52 billion in FY05 Q2 to USD 5.99 billion in FY14 Q2. Exports to Pakistan's top five destination countries accounted for 46.38%, or USD 2.78 billion, of the total export bill in FY14 Q2, an increase of 74.39% compared to FY05 Q2 at USD 1.60 billion.

Figure 16: Top 10 Destinations of Pakistan's Exports



Source: Data from State Bank of Pakistan, calculations performed by Trade Project

Figure 17: Top 5 Export Destination Countries



Source: Data from State Bank of Pakistan, calculations performed by Trade Project

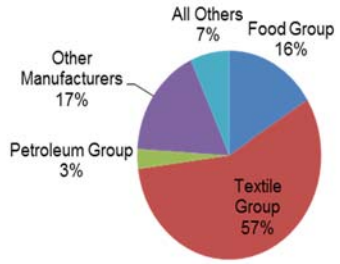
Table 8: Top Five Export Destination Countries: FY13 Q2 v. FY14 Q2

Country	FY13 Q2 % Export Share	FY14 Q2 % Export Share	YoY % Change	FY13 Q2 Value	FY14 Q2 Value	Notable Commodities
USA	16.81%	16.35%	4.10%	0.94	0.98	Petroleum, precious stones and metals, plastic products, iron and steel [xxx]
China	12.01%	12.16%	8.31%	0.67	0.73	Cotton, cereals, slag& ash and leather products [xxxi]
UAE	7.06%	7.37%	11.74%	0.40	0.44	Precious stones / metals, mineral fuels /oils, cereals and textile products [xxxii]
UK	5.95%	6.04%	8.72%	0.33	0.36	Textile products, cotton and leather products [xxxiii]
Germany	4.29%	4.45%	11.07%	0.24	0.27	Textile products, leather products, cotton [xxxiv]
Total	**46.11%**	**46.38%**	**-----**	**2.59**	**2.78**	

Export by Commodity Groups

Textile is the largest export sector, and composed 56.75% of Pakistan's total exports for FY14 Q2, followed by the Food group which contributed 16.16%.

Figure 18: Pakistan Exports by Group



Source: Data from State Bank of Pakistan, calculations performed by Trade Project

Textile: The textile sector continues to dominate Pakistan's export portfolio. Sector exports have increased 53.77% since FY05 Q2, from USD 2.21 billion to USD 3.40 billion in FY14 Q2. Between FY13 Q2 and the period under review, the increase was recorded at 8.34%.

Food: Sector exports have increased 174.52% since FY05 Q2, from USD 353.07 to USD 969.25 in FY14 Q2. Between FY13 Q2 and the period under review, the increase was recorded at 7.88%. Rice and fish products are among the top performing exports from this sector.

- Rice exports increased by 16.67% from USD 413.92 million in FY13 Q2 to USD 483.31 in FY14 Q2.
- Fish exports increased by 14.18% from USD 89.81 million in FY13 Q2 to USD 102.55 in FY14 Q2.

Other Manufacturers: This category includes cement, carpets, leather products, sports goods, chemical and pharmaceutical products, and engineering goods, among others. Overall, exports from this sector increased by 51.93% from USD 676.39 million in FY05 Q2 to USD 1.03 billion in FY14 Q2. A YoY comparison reveals a decrease of 1.33% from 1.04 billion in FY13 Q2. A decrease of 15.39% was seen in Chemical and Pharmaceutical products, from USD 278.24 million in FY13 Q2 to USD 235.43 million in FY 14 Q2. Cement exports also declined from USD 134.23 million to USD 112.67 million.

Trade overview with South Asian Association for Regional Cooperation (SAARC)

SAARC member countries include Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The region covers 5.13 million square kilometers of land with a population of 1.66 billion people and a combined GDP Purchasing Power Parity (PPP) [11] of USD 5.77 trillion, exports of USD 1.09 trillion and imports of USD 609 billion. [xxxv]

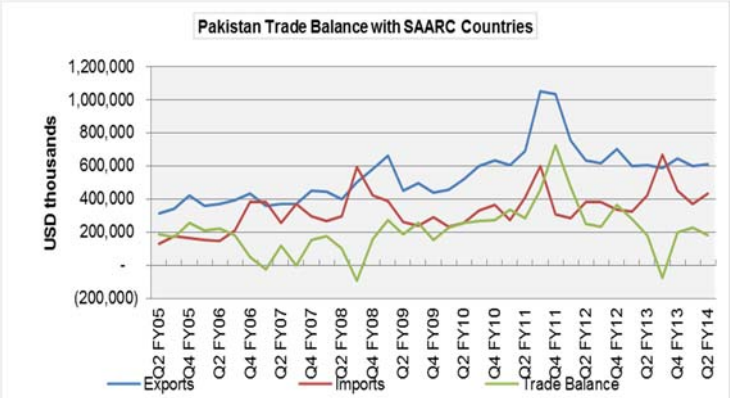
Pakistan's trade with the region has increased in the last ten years. The total trade volume has increased by USD 601.70 million (136.17%), from USD 441.88 million in FY05 Q2 to USD 1.04 billion in FY14 Q2.

Pakistan's exports have increased by USD 297.44 million (94.58%) from USD 314.47 million in FY05 Q2 to USD 611.92 million in FY14 Q2.

Pakistan's imports from the region increased by USD 304.26 million (248.82%), from USD 127.40 million worth of imports to USD 431.66 million. As seen in **Figure 19**, Pakistan's trade with SAARC countries has exhibited volatility since FY05 Q2. The volatility is partly a result of the low trade volumes. As trade with SAARC countries increases and bi-lateral relations strengthen, levels are expected to stabilize.

Pakistan's existing trade with SAARC countries accounts for 6.40% of its total trade volume. Trade value increased by 1.56% YoY, from USD 1.03 to USD 1.04 billion in FY14 Q2. Pakistan's exports to SAARC countries totaled USD 611.91 million and imports accounted for USD 431.66 million, a trade surplus of USD 180.26 million.

Figure 19: Pakistan Trade Balance with SAARC Countries



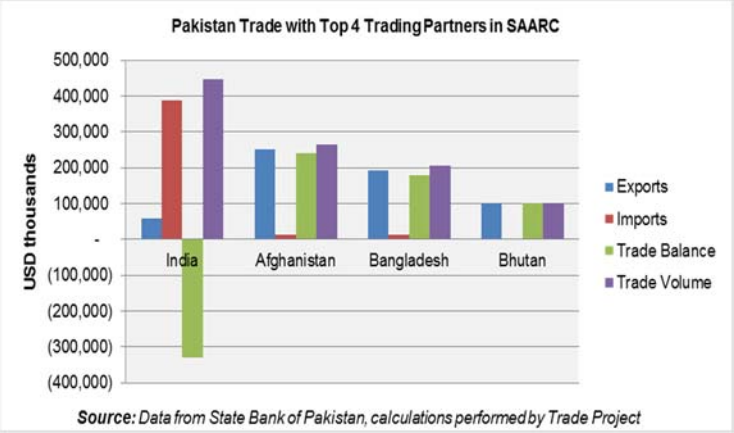
Source: Data from State Bank of Pakistan, calculations performed by Trade Project

[11] "This entry gives the gross domestic product (GDP) or value of all final goods and services produced within a nation in a given year. A nation's GDP at purchasing power parity (PPP) exchange rates is the sum value of all goods and services produced in the country valued at prices prevailing in the United States in the year noted." CIA World Factbook https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html (accessed February 10, 2014).

Table 9: South Asia Trade Summary (USD thousands)								
	Exports		Imports		Trade Balance		Trade Volume	
Country	**FY13 Q2**	**FY14 Q2**	**FY13 Q2**	**FY14 Q2**	**FY13 Q2**	**FY14 Q2**	**FY13 Q2**	**FY14 Q2**
Afghanistan	264,749	252,804	8,147	11,983	256,602	240,821	272,896	264,786
Bangladesh	179,282	191,687	16,894	13,105	162,388	178,582	196,176	204,793
Bhutan	78,930	102,386	0	0	78,930	102,386	78,930	102,386
India	73,304	58,428	376,237	389,194	-302,933	-330,766	449,542	447,622
Maldives	4,625	3,215	0	0	4,625	3,215	4,625	3,215
Nepal	2,116	2,856	186	70	1,930	2,786	2,302	2,925
Pakistan-EPZ[12]	396	359	4,333	4,583	-3,937	-4,225	4,728	4,942
Sri Lanka	33	184	18,283	12,720	-18,250	-12,536	18,316	12,905
Total South Asia	**603,435**	**611,919**	**424,080**	**431,656**	**179,354**	**180,263**	**1,027,515**	**1,043,575**
Total from the world	**5,606,390**	**5,998,177**	**10,021,997**	**10,299,883**	**-4,415,607**	**-4,301,706**	**15,628,387**	**16,298,059**
Source: *Data from State Bank of Pakistan, calculations performed by Trade Project*								

India, Afghanistan, Bangladesh and Bhutan are the top four SAARC trading partners for Pakistan, collectively accounting for 97.70% of the total trade volume between Pakistan and SAARC countries.

Figure 20: Pakistan Trade with Top 4 Trading Partners in SAARC



Trade overview with the Central Asian Republics (CARs)

The Central Asian Republics (CARs), which include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, cover 4 million square kilometers with a population of 64.97 million. [xxxvi] In 1997, the Central Asian Regional Economic Cooperation (CAREC) program, an initiative of the Asian Development Bank (ADB), was established to promote regional economic cooperation across the areas of transport, trade facilitation, energy, and trade policy. Pakistan joined CAREC in 2010. [xxxvii] The initiative will give Pakistan improved access not only to the CARs but also the Eastern European markets. The GoP's Strategic Trade Policy Framework 2012-2015 cites enhanced regional trade and diversification of markets as priorities, both of which can be supported through expanded exports to Central Asian markets. Although individually the CARs are small markets, collectively the region offers significant potential for trade. Combined GDP (purchasing power parity) is USD 411.71 billion, with exports of USD 119.54 billion and imports of USD 81.18 billion in 2012. [xxxviii]

Exports to and imports from CARs account for less than 1% of the total imports and exports of Pakistan. In FY14 Q2, Pakistan's exports to CARs totalled USD 7.33 million and imports accounted for USD 4.54 million, resulting in a trade surplus of USD 2.79 million. Pakistan exports include leather goods, pharmaceutical products, fruits, medical equipment and textiles, mainly apparel. Imports from CARs include iron & steel, cotton, zinc and chemicals. [xxxix]

There is a large potential for energy exports (electricity and gas) from CARs to Afghanistan, Pakistan and India. Central Asia South Asia 1,000-megawatt (CASA-1,000) is a power import project for which World Bank and Islamic Development Bank (IDB) have agreed to provide USD 1 billion funding for implementation. The project will enable Kyrgyzstan and Tajikistan to export their surplus electricity to Afghanistan and Pakistan, both of which face energy deficits. [xl]

The ADB is helping to coordinate the Turkmenistan Afghanistan Pakistan India (TAPI), a 1,700 kilometer gas pipeline project which is estimated to cost approximately USD 7.60 billion. [xli] The TAPI pipeline will enable Turkmenistan to export its natural gas through Afghanistan to Pakistan and India. Afghanistan has assured the participating countries of adequate security for the pipeline, which is projected to enable Pakistan and India to respectively import 1.365 billion cubic feet of gas per day . [xlii]

[12] To facilitate the investors and exporters, Pakistan has established ten export processes zones across the country. These EPZs offers duty free imports of machinery, equipment and materials. EPZs allow exemption from sales tax and duties on inputs and facilities like electricity, gas, water, and telecommunications for a certain period. All the imports and exports from these EPZs are recorded separately while compiling Trade Statistics. **Source:** Export Processing Zone Authority, Web: http://www.epza.gov.pk/incentives.html. (accessed on February 7, 2014).

Table 10: Central Asian Republics Trade Summary								
	Exports (USD thousands)		Imports (USD thousands)		Trade Balance (USD thousands)		Trade Volume (USD thousands)	
Country	**FY13 Q2**	**FY14 Q2**	**FY13 Q2**	**FY14 Q2**	**FY13 Q2**	**FY14 Q2**	**FY13 Q2**	**FY14 Q2**
Kazakhstan	1,133	755	494	0	640	755	1,627	755
Kyrgyzstan	177	55	0	0	177	55	177	55
Tajikistan	1,802	5,045	7,686	3,659	-5,884	1,386	9,488	8,704
Turkmenistan	198	131	298	874	-100	-743	495	1,005
Uzbekistan	797	1,349	0	10	797	1,339	797	1,359
Total Export to the Region	**4,107**	**7,334**	**8,478**	**4,544**	**-4,371**	**2,790**	**12,584**	**11,878**
Source: *Data from State Bank of Pakistan, calculations performed by Trade Project*								

Figure 21: Pakistan Trade with CARs (FY14 Q2)

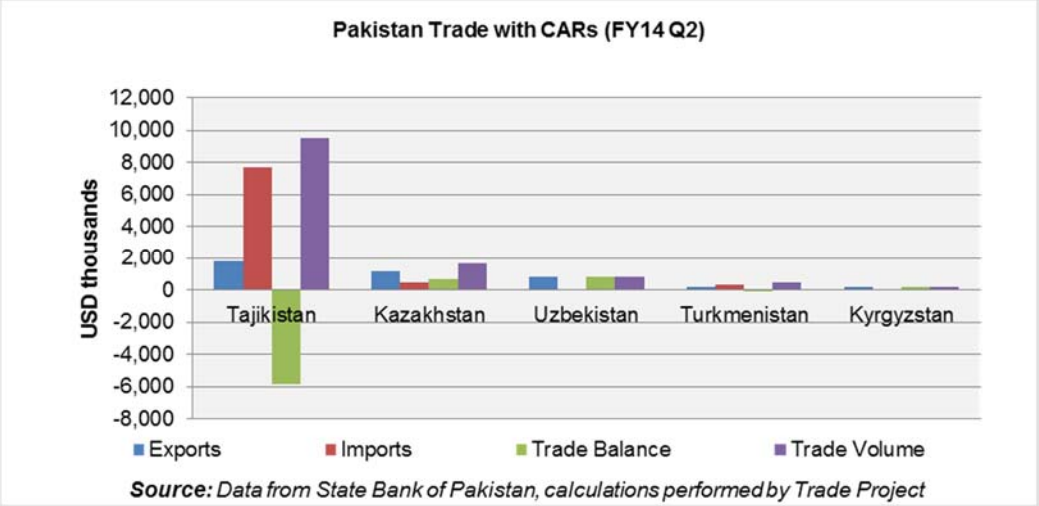
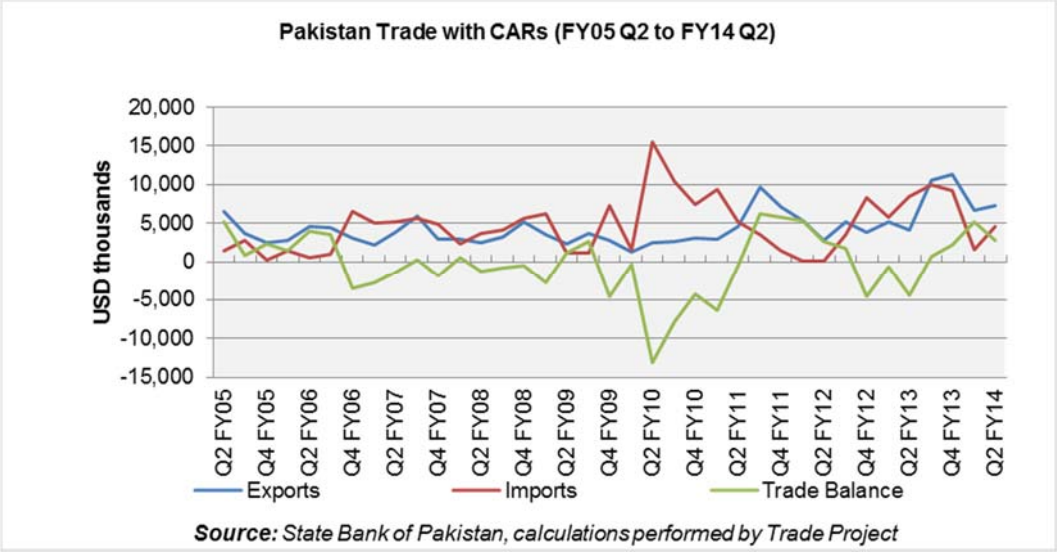


Figure 22: Pakistan Trade with CARs (FY05 Q2 to FY14 Q2)



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