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# USAID TRADE PROJECT

QUARTERLY TRADE BULLETIN  
FY 2011 (APRIL – JUNE 2011)

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Phone +92 51 8438280-to-83 • Fax +92 51 8350150  
Website [www.pakistantrade.org](http://www.pakistantrade.org)

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# CONTENTS

|   |    |
|---|----|
| ACRONYMS.....   | I  |
| INTRODUCTION .....  | 2  |
| MACROECONOMIC OUTLOOK .....   | 3  |
| EXPORT OF GOODS .....   | 6  |
| IMPORT OF GOODS.....  | 9  |
| IMPORT/EXPORT MARKETS.....  | 10 |
| TRADE RELATED PROJECTS IN PAKISTAN BY INSTITUTIONS OTHER THAN THE USAID ... | 12 |
| APPENDIX: GENERAL TRADE RELATED FIGURES OF PAKISTAN .....                   | 14 |

# ACRONYMS

|         |   |
|---------|---|
| ADB     | Asian Development Bank  |
| APCMA   | All Pakistan Cement Manufacturers Association                               |
| APTTA   | Afghan Pakistan Transit Trade Agreement                                     |
| EU      | European Union  |
| FAO     | Food and Agriculture Organization of the United Nations                     |
| FBS     | Federal Bureau of Statistics  |
| FDI     | Foreign Direct Investment   |
| FY      | Fiscal Year   |
| GoP     | Government of Pakistan  |
| ICAC    | International Cotton Advisory Committee                                     |
| IMF     | International Monetary Fund   |
| IPR     | Intellectual Property Rights  |
| KPK     | Khyber Pukhtoonkhwa   |
| LSM     | Large Scale Manufacturing   |
| MoC     | Ministry of Commerce  |
| NHA     | National Highway Authority  |
| NTICP   | The National Trade Corridor Improvement Program                             |
| PFVA    | All Pakistan Fruit & Vegetable Exporters, Importers & Merchants Association |
| PGJDC   | Pakistan Gems and Jewelry Development Company                               |
| PIAF    | Pakistan Industrial and Traders Associations Front                          |
| PITAD   | Pakistan Institute of Trade and Development                                 |
| ROZ     | Reconstruction Opportunity Zones  |
| SBP     | State Bank of Pakistan  |
| SEZ     | Special Economic Zones  |
| TRTA    | The Trade Related Technical Assistance                                      |
| UNESCAP | United Nations Economic and Social Commission for Asia-Pacific              |
| UNIDO   | United Nations Industrial Development Organization                          |
| USAID   | United States Agency for International Development                          |
| WB      | World Bank  |
| WTO     | World Trade Organization  |
| YoY     | Year on Year  |

# INTRODUCTION

## **PROJECT BACKGROUND**

In response to Pakistan's worsening trade situation as indicated by declining exports and low ranking (84 out of 118 countries) in the 2008 Global Enabling Trade Report Index, the USAID launched the USAID Trade Project on June 22, 2009 with three key aims: 1) to improve Pakistan's overall trade environment through improved regulations, policies, systems and capacity; (2) to increase cross-border trade with Pakistan's neighbors, especially with Afghanistan through implementation of the Afghan Pakistan Transit Trade Agreement; and (3) to support the implementation of sustainable and competitive Special Economic Zones (SEZs) and the Reconstruction Opportunity Zones (ROZs) program.

## **HOW THIS REPORT IS STRUCTURED**

The present report's structure begins with the introduction; a brief overview of macroeconomic outlook, export/import of goods, export/import markets, and introduction of trade related projects other than the USAID. This report also includes a series of data tables collected from different sources, primarily the State Bank of Pakistan (SBP) and the Federal Bureau of Statistics (FBS). In addition, various news sources such as the Business Recorder, Dawn, The News, etc. have also been used for background information. The report is required as part of the project work plan to make available up-to-date market information and a current trade scenario in the country to all relevant stakeholders.

# MACROECONOMIC OUTLOOK

In the period under review (Apr-June FY 2011), Pakistan's economy, while being faced with multiple challenges, managed to start moving in the right direction. The Trade Development Authority of Pakistan (TDAP) declared that the country was able to achieve its \$25 billion export target in the Financial Year 2011 (July-June), driven by the lustrous performance of Pakistani export oriented businesses. The government also announced that it is aiming to achieve an export target of \$40 billion in the next financial year.<sup>1</sup> Export of some non-traditional commodities such as mangoes also witnessed a substantial increase in FY 2011 (July-June); however, there still remains great untapped potential in Pakistan to achieve significantly higher export of non-traditional items.

Exports in the period under review (Apr-Jun FY 2011), witnessed an increase of 36.3 percent over the same period last year, crossing the \$7 billion mark. Exports are likely to get a significant boost in FY 2011-12 if the Ministry of Commerce is able to acquire GSP plus status for Pakistan and get an additional 73 commodities approved for export to the European Union.<sup>2</sup> The State Bank of Pakistan (SBP) also reduced interest rate by 50 basis points to 13.5 per cent on 1<sup>st</sup> August 2011, citing lower than expected average CPI inflation recently as one of the major driving factors behind this decision.<sup>3</sup>

The Federal Budget 2011-12 was also unveiled recently. The budget allocates over 50 percent spending on defense and debt servicing; the defense budget has been increased by 12 percent owing to the rising cost of the country's war against terrorism, whereas the amount for debt servicing has been increased by 8.3 percent.<sup>4</sup>

| SN | Indicator                                    | FY10 (Apr-Jun) | FY11 (Apr-Jun) |
|----|--|----------------|----------------|
| 1. | Consumer Price Index % (12mma) [Apr-Jun]     | 13.01          | 13.13          |
| 2. | Current Account Deficit (% of GDP) [Apr-Jun] | -2.54%         | -2.43%         |
| 3. | Exports (fob) US\$ billion [Apr-Jun]         | 5.218          | 7.112          |
| 4. | Imports (cif) US\$ billion [Apr-Jun]         | 9.603          | 11.398         |
| 5. | GDP growth rate (%) [Jul-Jun]                | 4.12           | 2.4*           |
| 6. | Avg Forex Reserves (US\$ billion) [Apr-Jun]  | 15.914         | 17.195         |
| 7. | Foreign Direct Investment [Apr-Jun]          | 646.9          | 450.5          |
| 8. | Remittances (US\$ billion) [Apr-Jun]         | 2.355          | 3.185          |

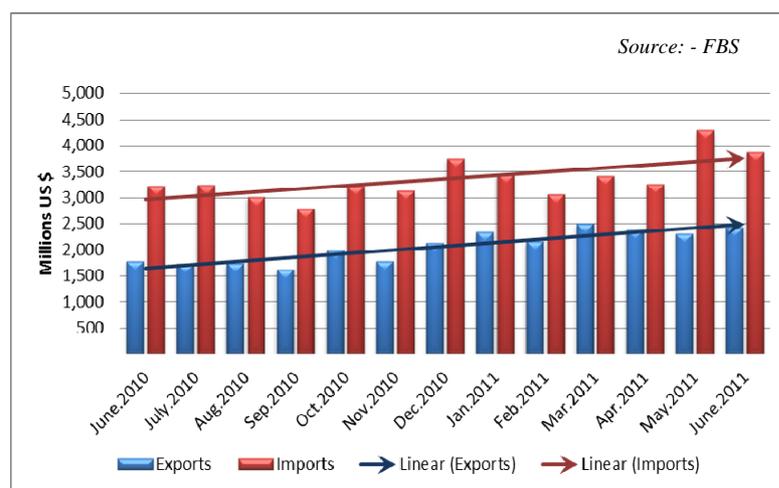
*Source: FBS/SB*  
*\* Estimated for FY2011*

The government has announced an inflation target of 12 percent for FY 2011-12 (July-June).<sup>5</sup> It is worth mentioning that according to the Federal Bureau of Statistics (FBS), average CPI (Consumer price index) inflation for FY 2010-11 (July-June) stood at 13.92 percent, a significant increase in comparison to 11.73 percent recorded for FY 2009-10 (July-June).<sup>6</sup> Factors responsible for the high inflation figure include rising fuel and food prices, weak rupee, and borrowing by the government from SBP. For the period under review, FY 2010-11 (Apr-Jun), average inflation stood at 13.13 percent, slightly higher than the figure recorded in the same period last year. It is also expected that public borrowing from the country's central bank will fall in the FY 2011-12 (July-June);<sup>7</sup> However, despite the government's optimistic target, the PIDE (Pakistan Institute of Development Economics) Inflation Expectations Survey forecasts that inflation will likely hover above 15 percent in the first half the FY 2011-12.<sup>8</sup> The government has also recently decided to increase gas prices by 13.5 percent for domestic, commercial and industrial sectors, infusing fears that it will not be possible for the administration to contain the rampant inflation.<sup>9</sup> This decision by the government has been met by severe opposition from the local industry, as it comes at a time when economic growth in the country

is already slow and prices of electricity and petroleum products have also been simultaneously hiked.<sup>10</sup> The rising food inflation is a serious concern for the country. According to Oxfam international 36 percent of the nation's population is undernourished; with undernourishment on the rise in the country.<sup>11</sup>

Pakistan's budget deficit for the fiscal year that ended on June 30 was 5.3 percent of GDP (Gross Domestic Product), bypassing earlier estimates of 5.1 percent of GDP. Among other reasons, the delay in some of the funds committed to Pakistan under the coalition support fund has played a role in pushing the budget deficit up.<sup>12</sup>

Services export in Financial Year 2010-11 (July-June) were recorded at \$5.45 billion, demonstrating an increase of 4.28 percent over the \$5.23 billion figure recorded for the same period in the last financial year.<sup>13</sup>



SBP estimates provisional figures for GDP growth for FY 2010-11 (July-June) to be around 2.4 percent. It is worth mentioning here that the government's initial GDP growth rate target was 4.5 percent which was later reduced to 2.8 percent, and eventually to 2.4 percent.<sup>14</sup> The economy continues to be affected by last year's floods and the ongoing energy crisis. The government's Annual Plan 2011-12 has set the target of 4.2 percent GDP growth rate for FY 2011-12.<sup>15</sup> It has been

pointed out that the targeted growth rate will not be sufficient to provide employment required to absorb the projected expansion in the labor force, creating fears that unemployment may surge.<sup>16</sup>

Pakistan's average foreign exchange reserves during FY 2010-11 (Apr-June), in comparison to the same period last year, climbed up by 8 percent. The rise can be attributed to higher remittances sent home by overseas Pakistanis and increased export receipts. Inflows of funds from financial institutions also boosted the country's reserves; the country received inflows of \$411 million in June, which includes loans amounting to \$196.8 million from the Asian Development Bank (ADB), and \$191.9 million from the World Bank.<sup>17</sup> It is also imperative to mention that the country's foreign exchange reserves hit a record high of \$18.30 billion on July 22, 2011.<sup>18</sup> The country's foreign exchange reserves are also likely to receive a boost in the ongoing month of Ramazan as it is expected that remittances in the Islamic month of Ramazan may jump up by as much as 40 percent.<sup>19</sup>

Foreign Direct Investment (FDI) declined by 30.36 percent during the period, in comparison to the

| Month        | Export (Thousands US\$) |                      |               | Import (Thousands US\$) |                       |               |
|--------------|-------------------------|----------------------|---------------|-------------------------|-----------------------|---------------|
|              | FY 2010                 | FY 2011              | Growth        | FY 2010                 | FY 2011               | Growth        |
| Apr          | 1,701,000,000           | 2,377,000,000        | 39.74%        | 3,016,000,000           | 3,247,000,000         | 7.66%         |
| May          | 1,736,000,000           | 2,308,000,000        | 32.95%        | 3,363,000,000           | 4,288,000,000         | 27.51%        |
| June         | 1,781,000,000           | 2,427,000,000        | 36.27%        | 3,224,000,000           | 3,863,000,000         | 19.82%        |
| <b>Total</b> | <b>5,218,000,000</b>    | <b>7,112,000,000</b> | <b>36.30%</b> | <b>9,603,000,000</b>    | <b>11,398,000,000</b> | <b>18.69%</b> |

Source: FBS

same period last year. The worsening law and order situation in the country, ongoing energy crisis, poor infrastructure, and

rising operating costs have all played a considerable role in making the country's business environment less attractive to foreign investors. In particular, FDI from developed countries including the UK, Switzerland, US, Singapore, Netherland and Hong Kong took a serious blow.<sup>20</sup>

For the period under review, the highest amount of FDI originated from UAE, US, Hong Kong, China, and Bahrain.<sup>21</sup> Key sectors of the economy witnessing a decline in FDI include Oil and Gas, Telecommunications, Petroleum, and IT; whereas, the Power, Financial, and Cement industry witnessed an increase in FDI.<sup>22</sup>

Pakistan's energy crisis also continues unabated. At present, the country is facing a shortfall of 5500MW. Power generation plants in the country are also working under capacity due to fuel and gas shortages.<sup>23</sup> The country is also now increasingly relying on oil-based electricity generation, which is putting additional burden on the country's import bill. It is believed that the share of oil based electricity has jumped from 16 percent in 2005 to 38 percent in 2010 in the country's energy mix.<sup>24</sup> Some estimates also suggest that transmission and distribution losses of electricity in the country go up to 40 percent.<sup>25</sup> There is a dire need for the country to consider alternative energy resources in order to find cost-effective and efficient long run substitutes for rental power plants, which the country is increasingly employing. In order to overcome the energy crisis, investments need to be made towards research and exploration of natural resources in the country, such as gas, coal and oil. It is estimated that Pakistan has hydroelectric potential of 60,000 MW that remains largely unutilized, and the country also has 185 billion tons of coal reserves in Thar region of Sindh province.<sup>26</sup>

According to the Federal Board of Revenue (FBR), the provisional figure for total tax collected in FY 2010-11(July-June) is Rs. 1,550 billion (\$18.24 billion).<sup>27</sup> The figure announced by FBR is lower than its initial target of Rs. 1,667 billion (\$19.61 billion).<sup>28</sup> As a result of the lower than expected tax collection figure, the country's tax to GDP ratio is estimated to be 9.1 percent, making it the lowest figure in the South Asian region.<sup>29</sup> However, for the financial year 2011-12, FBR is planning to boost its tax collection efforts in order to increase the country's annual tax collection to Rs. 1,952 billion.<sup>30</sup>

# EXPORT OF GOODS

The table below shows the country's top export commodities for the period under review. It is clear that there is still no sign of any significant export diversification, and the country's traditional export commodities continue to dominate. The textile sector continued to post good export figures despite the fact that the industry has been dealing with persistent electricity and gas cuts. It is estimated that machinery worth \$10 billion is not being utilized as a result of several hours of daily load shedding of electricity and suspension of gas supply for 150 days a year.<sup>31</sup>

In order to assist the country's textile sector, the government has also recently inaugurated the newly built textile city, in Port Qasim, which is expected to bring \$250 million worth of investment. It was noted that Chinese, Turkish and Korean firms have shown interest in making investments in the Textile City.<sup>32</sup> According to the All Pakistan Textile Mills Association (APTMA), the textile sector of the country aims to increase exports to the tune of \$25 billion by 2015, and by \$6 billion in FY 2011-12.<sup>33</sup> Recently, the government also restored duty exemptions on import of textile machinery; a move welcomed by the export-intensive sector.<sup>34</sup>

In comparison to the same period last year, exports of Basmati rice experienced a slight decline in the period

under review. It is worth mentioning that the initial export target of \$3 billion for FY 2010-11 (July-June) set by rice manufacturers was not achieved due to the devastating floods last year, and the late arrival of crop in the market. As a result, prices for Pakistani rice were generally higher than those offered by competitors. In FY 2010-11 (July-June) Pakistan exported a total of 3.7 million tons of rice worth \$2.02 billion, and the Rice Exporters Association of Pakistan has stated that the country aims to increase this figure to \$2.5 billion in FY 2011-12 (July-June).<sup>35,36</sup> Major destinations of Pakistani rice exports include UAE, Saudi Arabia, Iran, Oman, Bangladesh and Afghanistan.<sup>37</sup>

Wheat exports from Pakistan also jumped up significantly after the government's decision to allow resumption of wheat exports late last year.<sup>38</sup> In terms of quantity, Pakistan exported 1.7 million tons mark during FY 2010-11.<sup>39</sup> The key factors behind the impressive wheat export figures include a good harvest and rising global demand.

| Top 10 Export commodities (by value) | Apr-Jun<br>(Thousand US \$) |         | %<br>Increase |
|--------------------------------------|-----------------------------|---------|---------------|
|                                      | FY2010                      | FY2011  |               |
| <b>Cotton Cloth</b>                  | 499,862                     | 721,430 | 221,568       |
| <b>Knitwear</b>                      | 551,785                     | 714,600 | 162,815       |
| <b>Cotton Yarn</b>                   | 320,422                     | 597,527 | 277,105       |
| <b>Bed Wear</b>                      | 437,321                     | 572,731 | 135,411       |
| <b>Rice (Basmati)</b>                | 356,069                     | 329,827 | (26,242)      |
| <b>Readymade Garments</b>            | 244,182                     | 318,717 | 74,535        |
| <b>Petroleum Products</b>            | 323,078                     | 294,492 | (28,586)      |
| <b>Wheat</b>                         | 15                          | 271,896 | 271,880       |
| <b>Rice (Non-Basmati)</b>            | 258,839                     | 235,763 | (23,075)      |
| <b>Solid Fuel including Naptha</b>   | 8,300                       | 203,556 | 195,257       |
| <i>Source: SBP</i>                   |                             |         |               |

Major destinations of Pakistani wheat includes Bangladesh and the Middle East.<sup>40</sup> However, in the future wheat exports may experience a decline due to lower wheat prices, primarily due to Russia's reentry into the wheat export market.<sup>41</sup> Furthermore, India has also recently lifted its four year ban on wheat exports, adding to the competition that Pakistani exporters face.<sup>42</sup>

| Top 10 Rising Export commodities (by value) | Apr-Jun (Thousand US \$) |         | Increase in value | % Increase  |
|---|--------------------------|---------|-------------------|-------------|
|   | FY2010                   | FY2011  |                   |             |
| <b>Cotton Yarn</b>                          | 320,422                  | 597,527 | 277,105           | 86.48%      |
| <b>Wheat</b>                                | 15                       | 271,896 | 271,880           | 1766604.69% |
| <b>Cotton Cloth</b>                         | 499,862                  | 721,430 | 221,568           | 44.33%      |
| <b>Solid Fuel including Naptha</b>          | 8,300                    | 203,556 | 195,257           | 2352.59%    |
| <b>Knitwear</b>                             | 551,785                  | 714,600 | 162,815           | 29.51%      |
| <b>Bed Wear</b>                             | 437,321                  | 572,731 | 135,411           | 30.96%      |
| <b>Readymade Garments</b>                   | 244,182                  | 318,717 | 74,535            | 30.52%      |
| <b>Art, Silk &amp; Synthetic Textile</b>    | 130,177                  | 194,229 | 64,052            | 49.20%      |
| <b>Raw Cotton</b>                           | 4,454                    | 65,227  | 60,773            | 1364.57%    |
| <b>Plastic Materials</b>                    | 110,442                  | 150,303 | 39,861            | 36.09%      |

*Source: SBP*

Export of plastic materials also experienced a significant increase in the period under review. It is worth mentioning that in the year 2010 about 58% exports of the commodity by the country went to Turkey, Afghanistan, Italy, and China.<sup>43</sup>

Export of petroleum products experienced a decrease of nearly 9% in the period under review. Afghanistan remains the key recipient of petroleum products from Pakistan.

Table 3 shows Top Ten Export commodities by percentage increase. Cotton exports saw a significant increase, helped by the rise of cotton prices in the international market.

Export of vegetable products also saw an increase in the period under review. Pakistani potatoes are likely to make their way into the Russian market due to the rising for potatoes in Russia. It is expected that Russia may purchase 120,000-125,000 metric tons of potatoes from Pakistan. The current major destinations for Pakistani potatoes include UAE, Singapore, Malaysia, and Iran.<sup>44</sup>

Pakistan exported about 300,000 metric tons of Kinno (Citrus Fruit) in FY 2010-11, meeting export target for the commodity.

Presently, the fruit is mainly exported to Middle East, Indonesia, Philippines and Sri Lanka.<sup>45</sup> There is also a great need to find new markets for export of Pakistani fruits and vegetable which remain centered around traditional markets, for e.g. 90% of the country's apple exports go to Sri Lanka.<sup>46</sup> It is also worth mentioning here that the agriculture sector of Pakistan makes up about 21% of the country's GDP (Gross Domestic Product), and employs 44% of the work force.<sup>47</sup>

Mango exports from Pakistan made their way into the large US market for the first time recently<sup>48</sup>. Pakistan can greatly increase its agriculture export if efforts are made to deploy modern technology and adopt efficient crop management practices. Lack of storage facilities is also a great challenge being faced by the agriculture industry.<sup>49</sup> The government removed tax exemptions on agricultural

| Top 10 Rising Export commodities (by % increase) | Apr-Jun (Thousand US \$) |         | Increase in value | % Increase |
|--|--------------------------|---------|-------------------|------------|
|  | FY2010                   | FY2011  |                   |            |
| <b>Solid Fuel including Naptha</b>               | 8,300                    | 203,556 | 195,257           | 2352.59%   |
| <b>Raw Cotton</b>                                | 4,454                    | 65,227  | 60,773            | 1364.57%   |
| <b>Guar and Guar Products</b>                    | 8,063                    | 17,863  | 9,800             | 121.54%    |
| <b>Onyx Manufactured</b>                         | 4,939                    | 10,014  | 5,075             | 102.74%    |
| <b>Vegetables /Leguminous Vegetable</b>          | 29,679                   | 59,515  | 29,836            | 100.53%    |
| <b>Jewelry</b>                                   | 26,241                   | 48,985  | 22,744            | 86.67%     |
| <b>Cotton Yarn</b>                               | 320,422                  | 597,527 | 277,105           | 86.48%     |
| <b>Leather Gloves</b>                            | 9,887                    | 17,697  | 7,810             | 78.99%     |
| <b>Yarn Other than Cotton Yarn</b>               | 12,673                   | 22,081  | 9,409             | 74.25%     |
| <b>Auto Parts</b>                                | 3,104                    | 5,370   | 2,266             | 73.01%     |

*Source: SBP*

machinery and imposed a 16 percent G.S.T (General Sales Tax) on locally made and imported agricultural machinery.<sup>50</sup>

Export of Jewelry products grew significantly in the period under review. The rising price of gold in the international market is a major factor behind this increase. Additionally, initiatives to impart training for Gem and Jewelry processing have enhanced acceptability of Pakistani Jewelry in the international market.<sup>51</sup> Training centers established by Pakistan Gems and Jewelry Development Company (PGJDC) have successfully trained over 3000 individuals so far.<sup>52</sup> The Ministry of Industries and Production (MoIP) estimates that Jewelry exports from the country are expected to increase to \$1.5 billion by 2017.<sup>53</sup> It is also worth mentioning that USAID's FIRMS project is also working with PGJDC for value enhancement in the industry.<sup>54</sup>

The period under review also saw an increase in the export of leather products, in comparison to the same period last year. However, the Pakistan Tanners Association (PTA) has informed that the recent lack of availability of raw hides and skins, owing to export and smuggling, is putting the industry at risk.<sup>55</sup>

Exports of Auto parts, although still not very significant, have been witnessing a rise for some time now. At present, Pakistan also exports bikes, although not in significant quantities, to Afghanistan, Bangladesh and some African countries.<sup>56</sup> In order to facilitate auto exports, the government should take steps to remove bureaucratic hurdles faced by exporters. It is also worth mentioning that recently the Japanese auto maker Yamaha announced that it is contemplating establishment of a motorcycle manufacturing plant in Pakistan at a cost of \$150 million.<sup>57</sup> The entry of a new assembler in the market will provide new opportunities to Pakistani auto part manufacturers, in addition to bringing the much needed FDI (Foreign Direct Investment) in the country.

# IMPORT OF GOODS

Table 4 below shows the Top 10 imported commodities for FY 2010-11 (Apr-Jun). Petroleum products continue to remain the most imported commodity by the country. The country relies on imports to meet about 85 percent of its total oil demands.<sup>58</sup> The rise in petroleum import figures can be attributed to rising prices in the international market. It is important to mention here that average crude oil prices in Apr-Jun 2011 stood at \$110.12/barrel, climbing nearly 41 percent from an average price of \$78.14/barrel in Apr-Jun 2010.<sup>59</sup>

Reliance on furnace oil based power generation plants in the face of rising electricity demand in the country is also increasing the country's petroleum import bill. In addition, the ongoing shortage of consumer CNG

(Compressed Natural Gas), used extensively by automotive vehicles in the country, has also increased the demand for petroleum based fuels in the country.<sup>60</sup>

Palm oil imports also witnessed an increase in the period under review; the rise was influenced by higher prices of the commodity in the international market. Pakistan imported \$2 billion (1,943,894 tons) worth of palm oil in FY 2010-11 (July-June), in

comparison to \$1.3 billion (1,702,196 tons) imported in FY 2009-10 (July-June).<sup>61</sup> In the future, however, the country's palm oil import burden may ease a little as prices of the commodity have recently started to decline.<sup>62</sup> Malaysia and Indonesia are the two major suppliers of palm oil to Pakistan.<sup>63</sup> It is important to mention here that the country's total annual edible oil production stands at 740,000 tons, which is sufficient to meet only about 30 percent of local demand, making the country dependent on imports for the remainder.<sup>64</sup>

Import of iron and steel products saw a decline in the period under review. According to the Engineering Development Board (EDB), the local shipbreaking industry currently meets 70 percent of the country's iron and steel requirements.<sup>65</sup> It is noteworthy to mention that the country remains one of the lowest per capita consumers of steel at 37kg, against a global average of 181.5kg. However, demand for steel is expected to grow by of 5.3 percent in the future.<sup>66</sup> In 2010, China was the top supplier of iron and steel products to Pakistan.<sup>67</sup>

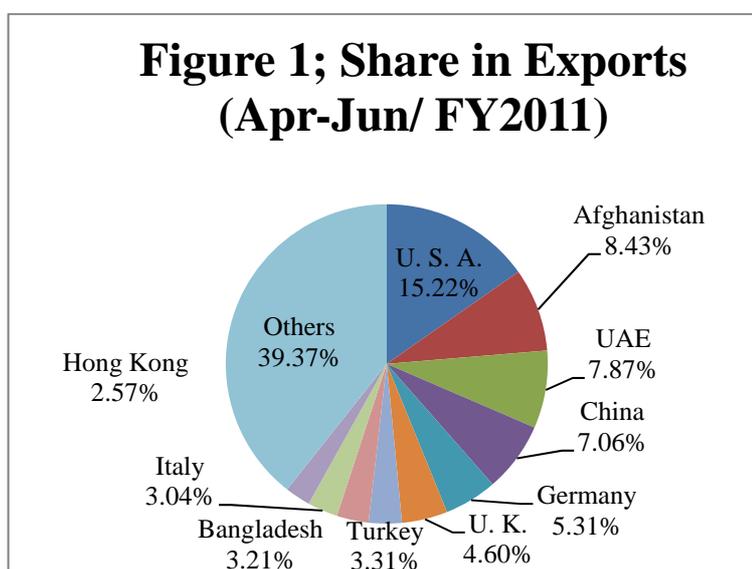
Import of mobile phones also saw a significant increase in the period under consideration (See Appendix, Table C). It is believed that the rising popularity of low cost Chinese made handsets in the country have contributed to this growth.<sup>68</sup> It should be mentioned here that Pakistan is a large market for the telecom sector, with over 108 million cell phone users as of June 2011, making the country's teledensity stand at an impressive 65.4 percent.<sup>69</sup>

**TABLE 4: Top 10 Import commodities (by value)**

| Top 10 Import commodities<br>(by value)     | Apr-Jun<br>(Thousand US \$) |           | Difference | % Increase |
|---|-----------------------------|-----------|------------|------------|
|   | FY2010                      | FY2011    |            |            |
| <b>Petroleum Products</b>                   | 1,966,328                   | 2,367,509 | 401,181    | 20.40%     |
| <b>Petroleum Crude</b>                      | 1,065,650                   | 1,283,988 | 218,338    | 20.49%     |
| <b>Palm Oil</b>                             | 311,181                     | 495,157   | 183,976    | 59.12%     |
| <b>Plastic Materials</b>                    | 300,486                     | 377,631   | 77,146     | 25.67%     |
| <b>Iron and Steel</b>                       | 357,323                     | 317,856   | -39,467    | -11.05%    |
| <b>Aircrafts, Ships and Boats</b>           | 172,720                     | 231,400   | 58,680     | 33.97%     |
| <b>Raw Cotton</b>                           | 209,512                     | 223,273   | 13,761     | 6.57%      |
| <b>Power Generating Machinery</b>           | 174,232                     | 170,002   | -4,230     | -2.43%     |
| <b>Synthetic Fibre</b>                      | 114,101                     | 144,270   | 30,169     | 26.44%     |
| <b>Synthetic &amp; Artificial Silk Yarn</b> | 108,705                     | 142,035   | 33,330     | 30.66%     |
| <i>Source: SBP</i>                          |                             |           |            |            |

# IMPORT/EXPORT MARKETS

For the period under consideration (FY 2010-11 Apr-June), the major receipts of Pakistan's exports largely remained same as before. The United States was the top destination for Pakistani exports, accounting for 15.22 percent of the country's total exports. Exports to the US stood at \$1.1 billion for FY 2010-11 (April-June), witnessing a rise of nearly 12 percent in comparison to the figure recorded for the same period last year. Exports to the United States mainly comprise of textile products.<sup>70</sup>



Afghanistan was the second major export destination; exports to Afghanistan increased an impressive 67.34 percent in FY 2010-11 (April-June), in comparison to the same period last year. Pakistan exports a wide variety of products to Afghanistan, including petroleum products, cement, rice, edible oils, iron/steel products, etc.<sup>71</sup> The lack of industrial development, coupled with rising consumer demand in Afghanistan has provided various opportunities to Pakistani exporters.

Exports to UAE also increased in the period under review. Major commodities exported to the country include jewelry, petroleum products, rice, and textile products.<sup>72</sup> Pakistani exports to China increased to nearly half a million in the period under review; however, they were outpaced by imports, which have reached nearly \$1.12 billion (See Appendix, Table J). The trade deficit with China now stands at \$608 million. It is worth mentioning that the two countries have set a bilateral trade target of \$15 billion to be reached in the next two years.<sup>73</sup> The Pakistan-China FTA (Free Trade Agreement) is considered one of the key reasons behind the growing trade deficit with China.<sup>74</sup>

**Table 5: Pakistan's Top 10 Export Destinations (by value)**

| Pakistan's Top 10 Export destinations (by value) | Apr-Jun (Thousand US \$) |           | Difference | % Increase |
|--|--------------------------|-----------|------------|------------|
|  | FY2010                   | FY2011    |            |            |
| U. S. A.   | 986,412                  | 1,101,784 | 115,372    | 11.70%     |
| Afghanistan                                      | 364,923                  | 610,644   | 245,721    | 67.34%     |
| UAE  | 368,239                  | 569,624   | 201,385    | 54.69%     |
| China  | 327,438                  | 510,858   | 183,420    | 56.02%     |
| Germany  | 218,327                  | 384,749   | 166,422    | 76.23%     |
| U. K.  | 285,759                  | 333,001   | 47,243     | 16.53%     |
| Turkey   | 136,033                  | 239,695   | 103,662    | 76.20%     |
| Bangladesh                                       | 131,495                  | 232,599   | 101,104    | 76.89%     |
| Italy  | 166,842                  | 220,041   | 53,199     | 31.89%     |
| Hong Kong  | 154,397                  | 186,175   | 31,778     | 20.58%     |

*Source: SBP*

With regards to imports (See Appendix A, Table J), nations from the Middle East maintained their domination due to Pakistan's increasing demand for, and the rising prices of oil. Besides from China, Pakistan also continued to significantly import from other Asian countries such as Japan, Singapore and Malaysia. It is also imperative to indicate that the country had a considerable trade imbalance with Asian countries in FY 2010-11 (July-June); imports from Asia comprised of 76 percent of the country's total imports, whereas exports to Asian countries made up only 43 percent of the country's total exports.<sup>75</sup>

While Pakistan's import from India witnessed a decline in the period under review compared to the same period last year, there is hope that if the ongoing trade talks between the two countries are successful, bilateral trade between the two countries may increase significantly in the future. A boost in Indo-Pak trade can also result in significant freight savings for both the countries.<sup>76</sup> In 2010, Pakistan's imports from India stood at \$1.56 billion, whereas exports to India stood at \$275 million.<sup>77</sup>

# TRADE RELATED PROJECTS IN PAKISTAN BY INSTITUTIONS OTHER THAN THE USAID

## **1 European Union (EU) - Trade Related Technical Assistance (TRTA)**

The Trade Related Technical Assistance (TRTA) is being provided by the EU in the amount of €13 million with the objective to build capacity of the relevant stakeholders to benefit fully from County's participation in the World Trade Organization (WTO), improving quality, metrology, standards and accreditation systems of Pakistan and strengthening the Intellectual Property Rights (IPR) systems in country. Status - A follow-on project is being prepared. The follow on project in the amount of €4.5 million, focuses on providing technical assistance to selected exporters in Sindh and Punjab. The Ministry of Commerce with assistance from the European Union (EU) and United Nations Industrial Development Organization (UNIDO) is currently working on a Co-operation program on Trade Related Technical Assistance (TRTA II). The TRTA II program started implementation on 01 January 2010. The initial period of 6 months was devoted to elaboration of the Inception Report, which was successfully accomplished. (*Status – Active*)

## **2 The World Bank - National Trade Corridor Improvement Program (NTCIP)**

The National Trade Corridor Improvement Program (NTCIP) aims to enhance export competitiveness and industrialization in the country. The program has a budget of US\$ 6-10 billion, which includes an investment program and reform/restructuring financing. The program focuses on improving infrastructure and services (incl. highways, road transport, ports and shipping, civil aviation, railways, customs and trade logistics) to develop the trade corridor linking Pakistan's major ports in the south with its major cities in the North. The NTCIP aims to provide technical assistance worth US\$19 million over four years as well. (*Status – The project remains on hold but its resumption is planned*)

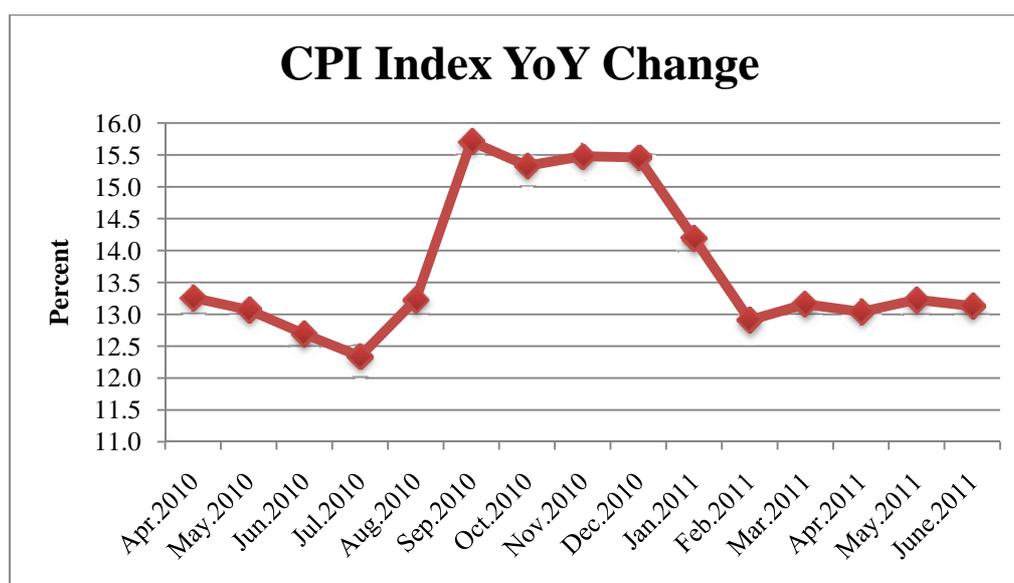
## **3 The World Bank - Trade & Transport Facilitation Program (TTFP-2)**

The Trade & Transport Facilitation Program (TTFP-2) with a total funding of US\$ 25 million to improve Pakistan's international competitiveness through simplified export and import documentary procedures, modernization of related legislation and creation of a national capacity to solve potential problems between the transport users and providers. The project is planned to continue operating till the end of 2013. (*Status – Active*)

## **4 Asian Development Bank (ADB) – National Highway Sector Development Program**

The National Highway Sector Development Program with the 2nd tranche of US\$ 230 million aims at reduction of transport costs for goods and passengers and to improve the regional connectivity to the country's main economic centers. It will lead to the improvement of road sector efficiency on the main transport corridor in Pakistan and institutional capacity building of National Highway Authority (NHA). The project is scheduled to operate till the end of 2013. (*Status – Active*)

# APPENDIX: GENERAL TRADE RELATED FIGURES OF PAKISTAN



**TABLE A: Declining Export Commodities (by % decrease)**

| Top 10 Declining export commodities (by % decrease) | Apr-Jun<br>(Thousand US \$) |         | Decrease<br>in value | %<br>Decrease |
|---|-----------------------------|---------|----------------------|---------------|
|   | FY2010                      | FY2011  |                      |               |
| Handicrafts   | 91                          | 0       | -91                  | -100.00%      |
| Molasses  | 17,295                      | 298     | -16,996              | -98.27%       |
| Fertilizer Manufacture                              | 145                         | 32      | -114                 | -78.28%       |
| Canvas Footwear                                     | 539                         | 240     | -299                 | -55.46%       |
| Sports Goods (Footballs)                            | 56,114                      | 45,515  | -10,598              | -18.89%       |
| Rice (Non-Basmati)                                  | 258,839                     | 235,763 | -23,075              | -8.91%        |
| Petroleum Products                                  | 323,078                     | 294,492 | -28,586              | -8.85%        |
| Rice (Basmati)                                      | 356,069                     | 329,827 | -26,242              | -7.37%        |
| Furniture   | 1,770                       | 1,667   | -102                 | -5.78%        |
| -   | -                           | -       | -                    | -             |

Source: SBP

| Top 10 Declining export commodities (by value) | Apr-Jun<br>(Thousand US \$) |         | Decrease<br>in value | %<br>Decrease |
|--|-----------------------------|---------|----------------------|---------------|
|  | FY2010                      | FY2011  |                      |               |
| Petroleum Products                             | 323,078                     | 294,492 | -28,586              | -8.85%        |
| Rice (Basmati)                                 | 356,069                     | 329,827 | -26,242              | -7.37%        |
| Rice (Non-Basmati)                             | 258,839                     | 235,763 | -23,075              | -8.91%        |
| Molasses                                       | 17,295                      | 298     | -16,996              | -98.27%       |
| Sports Goods (Football)                        | 56,114                      | 45,515  | -10,598              | -18.89%       |
| Canvas Footwear                                | 539                         | 240     | -299                 | -55.46%       |
| Fertilizer Manufacture                         | 145                         | 32      | -114                 | -78.28%       |
| Furniture                                      | 1,770                       | 1,667   | -102                 | -5.78%        |
| Handicrafts                                    | 91                          | 0       | -91                  | -100.00%      |
| -  | -                           | -       | -                    | -             |

Source: SBP

| Top 10 Rising import commodities (by value) | Apr-Jun (Thousand US \$) |           | Increase<br>in Value | %<br>Increase |
|---|--------------------------|-----------|----------------------|---------------|
|   | FY2010                   | FY2011    |                      |               |
| Petroleum Products                          | 1,966,328                | 2,367,509 | 401,181              | 20.40%        |
| Petroleum Crude                             | 1,065,650                | 1,283,988 | 218,338              | 20.49%        |
| Palm Oil                                    | 311,181                  | 495,157   | 183,976              | 59.12%        |
| Plastic Materials                           | 300,486                  | 377,631   | 77,146               | 25.67%        |
| Aircrafts, Ships and Boats                  | 172,720                  | 231,400   | 58,680               | 33.97%        |
| Paper & Paper Board & Manf.                 | 77,226                   | 112,729   | 35,503               | 45.97%        |
| Synthetic & Artificial Silk Yarn            | 108,705                  | 142,035   | 33,330               | 30.66%        |
| Synthetic Fibre                             | 114,101                  | 144,270   | 30,169               | 26.44%        |
| Telecommunications (Mobile Phone)           | 44,622                   | 63,467    | 18,845               | 42.23%        |
| Medicinal Products                          | 108,719                  | 126,759   | 18,040               | 16.59%        |

Source: SBP

| Top 10 Rising import commodities (by % increase) | Apr-Jun<br>(Thousand US \$) |         | Increase<br>in Value | %<br>Increase |
|--|-----------------------------|---------|----------------------|---------------|
|  | FY2010                      | FY2011  |                      |               |
| Wheat Unmilled                                   | 0                           | 113     | 113                  | -             |
| Gold   | 90                          | 656     | 566                  | 628.43%       |
| Construction & Mining Machinery                  | 5,446                       | 9,074   | 3,628                | 66.62%        |
| Palm Oil   | 311,181                     | 495,157 | 183,976              | 59.12%        |
| Worn Clothing                                    | 5,617                       | 8,922   | 3,304                | 58.82%        |
| Motor Cycles (CKD)                               | 20,785                      | 30,972  | 10,187               | 49.01%        |
| Milk and Cream including for Infants             | 27,195                      | 40,338  | 13,143               | 48.33%        |
| Paper & Paper Board & Manf.                      | 77,226                      | 112,729 | 35,503               | 45.97%        |
| Telecommunications (Mobile Phone)                | 44,622                      | 63,467  | 18,845               | 42.23%        |
| Rubber Crude Incl. Synth/Reclaim                 | 41,263                      | 56,907  | 15,644               | 37.91%        |

Source: SBP

| Top 10 Declining import commodities (by % decline)  | Apr-Jun<br>(Thousand US \$) |         | Decrease<br>in Value | %<br>Decrease |
|---|-----------------------------|---------|----------------------|---------------|
|   | FY2010                      | FY2011  |                      |               |
| <b>Sugar</b>  | 150,564                     | 4,132   | -146,432             | -97.26%       |
| <b>Soyabean Oil</b>                                 | 8,772                       | 934     | -7,838               | -89.36%       |
| <b>Motor Cycles (CBU)</b>                           | 1,160                       | 127     | -1,034               | -89.08%       |
| <b>Buses, Trucks &amp; Oth. Heavy Vehicle (CBU)</b> | 15,117                      | 4,846   | -10,271              | -67.95%       |
| <b>Office Mach. Incl. Data Pros. Equip.</b>         | 79,046                      | 36,552  | -42,493              | -53.76%       |
| <b>Fertilizer Manufactured</b>                      | 143,773                     | 79,433  | -64,341              | -44.75%       |
| <b>Agricultural Mach. &amp; Implement</b>           | 45,402                      | 27,164  | -18,238              | -40.17%       |
| <b>Buses, Trucks &amp; Oth. Heavy Vehicle (CKD)</b> | 55,707                      | 39,901  | -15,806              | -28.37%       |
| <b>Iron and Steel Scrap</b>                         | 119,255                     | 87,566  | -31,689              | -26.57%       |
| <b>Electrical Machinery &amp; Apparatus</b>         | 154,673                     | 114,458 | -40,215              | -26.00%       |

Source: SBP

| Top 10 Declining import commodities (by value decline) | Apr-Jun<br>(Thousand US \$) |         | Decrease<br>in Value | %<br>Decrease |
|--|-----------------------------|---------|----------------------|---------------|
|  | FY2010                      | FY2011  |                      |               |
| <b>Sugar</b>   | 150,564                     | 4,132   | -146,432             | -97.26%       |
| <b>Fertilizer Manufactured</b>                         | 143,773                     | 79,433  | -64,341              | -44.75%       |
| <b>Office Mach. Incl. Data Pros. Equip.</b>            | 79,046                      | 36,552  | -42,493              | -53.76%       |
| <b>Electrical Machinery &amp; Apparatus</b>            | 154,673                     | 114,458 | -40,215              | -26.00%       |
| <b>Iron and Steel</b>                                  | 357,323                     | 317,856 | -39,467              | -11.05%       |
| <b>Iron and Steel Scrap</b>                            | 119,255                     | 87,566  | -31,689              | -26.57%       |
| <b>Textile Machinery</b>                               | 116,991                     | 88,155  | -28,836              | -24.65%       |
| <b>Agricultural Mach. &amp; Implement</b>              | 45,402                      | 27,164  | -18,238              | -40.17%       |
| <b>Buses, Trucks &amp; Oth. Heavy Vehicle (CKD)</b>    | 55,707                      | 39,901  | -15,806              | -28.37%       |
| <b>Buses, Trucks &amp; Oth. Heavy Vehicle (CBU)</b>    | 15,117                      | 4,846   | -10,271              | -67.95%       |

Source: SBP

| Top 10 Top 10 Rising Export Destinations (by value increase) | Apr-Jun<br>(Thousand US \$) |           | Increase<br>in Value | %<br>Increase |
|--|-----------------------------|-----------|----------------------|---------------|
|  | FY2010                      | FY2011    |                      |               |
| <b>Afghanistan</b>   | 364,923                     | 610,644   | 245,721              | 67.34%        |
| <b>UAE</b>   | 368,239                     | 569,624   | 201,385              | 54.69%        |
| <b>China</b>   | 327,438                     | 510,858   | 183,420              | 56.02%        |
| <b>Germany</b>   | 218,327                     | 384,749   | 166,422              | 76.23%        |
| <b>U. S. A.</b>  | 986,412                     | 1,101,784 | 115,372              | 11.70%        |
| <b>Turkey</b>  | 136,033                     | 239,695   | 103,662              | 76.20%        |
| <b>Bangladesh</b>  | 131,495                     | 232,599   | 101,104              | 76.89%        |
| <b>South Korea</b>   | 66,290                      | 146,233   | 79,943               | 120.60%       |
| <b>Kenya</b>   | 32,438                      | 102,322   | 69,884               | 215.44%       |
| <b>Sri Lanka</b>   | 64,084                      | 119,334   | 55,250               | 86.22%        |

Source: SBP

| <b>Table H: Top 10 Rising Export Destinations (by % rise)</b> |                             |        |                      |               |
|---|-----------------------------|--------|----------------------|---------------|
| Top 10 Rising export destinations (by % rise)                 | Apr-Jun<br>(Thousand US \$) |        | Increase in<br>Value | %<br>Increase |
|   | FY2010                      | FY2011 |                      |               |
| Zaire   | 1                           | 136    | 134                  | 9137.41%      |
| Kiribati  | 2                           | 117    | 115                  | 7519.27%      |
| French Guinea   | 14                          | 744    | 730                  | 5072.04%      |
| Liberia   | 58                          | 2,430  | 2,372                | 4123.88%      |
| Tonga   | 3                           | 69     | 66                   | 2279.10%      |
| St. Kitts-Nevis   | 16                          | 343    | 327                  | 2066.98%      |
| Laos  | 1                           | 12     | 11                   | 1791.59%      |
| Sao Tome & Principe   | 33                          | 404    | 371                  | 1109.67%      |
| Guadeloupe  | 21                          | 218    | 197                  | 948.12%       |
| Chad  | 3                           | 27     | 24                   | 840.85%       |

Source: SBP

| <b>Table I: Top 10 Declining Exports Destinations (by value of decline)</b> |                             |        |         |            |
|---|-----------------------------|--------|---------|------------|
| Top 10 Declining export destinations (by value)                             | Apr-Jun<br>(Thousand US \$) |        | Decline | % Decrease |
|   | FY2010                      | FY2011 |         |            |
| Iran  | 91,594                      | 34,376 | -57,218 | -62.47%    |
| Switzerland   | 71,555                      | 41,286 | -30,269 | -42.30%    |
| Singapore   | 100,040                     | 80,183 | -19,857 | -19.85%    |
| Sudan   | 19,565                      | 10,185 | -9,381  | -47.95%    |
| Philippines   | 25,783                      | 18,116 | -7,667  | -29.74%    |
| Mozambique  | 19,243                      | 12,145 | -7,098  | -36.89%    |
| Guinea  | 16,475                      | 10,582 | -5,893  | -35.77%    |
| Mauritius   | 13,354                      | 9,273  | -4,081  | -30.56%    |
| India   | 72,049                      | 68,141 | -3,908  | -5.42%     |
| Nigeria   | 13,320                      | 10,215 | -3,105  | -23.31%    |

Source: SBP

| <b>TABLE J: Top 10 Import Countries (by value)</b> |                             |           |            |          |
|--|-----------------------------|-----------|------------|----------|
| Top 10 Import Countries (by value)                 | Apr-Jun<br>(Thousand US \$) |           | Difference | % Change |
|  | FY2010                      | FY2011    |            |          |
| U. A. E.   | 1,261,396                   | 1,585,228 | 323,833    | 25.67%   |
| Saudi Arabia                                       | 1,099,142                   | 1,327,382 | 228,240    | 20.77%   |
| China  | 908,450                     | 1,119,096 | 210,646    | 23.19%   |
| Kuwait   | 614,945                     | 1,008,301 | 393,356    | 63.97%   |
| Singapore  | 665,261                     | 615,716   | -49,545    | -7.45%   |
| Japan  | 307,511                     | 477,949   | 170,438    | 55.43%   |
| Malaysia   | 325,354                     | 476,700   | 151,346    | 46.52%   |
| U. S. A.   | 257,220                     | 295,275   | 38,055     | 14.79%   |
| India  | 327,302                     | 266,992   | -60,311    | -18.43%  |
| Germany  | 253,461                     | 253,702   | 242        | 0.10%    |

Source: SBP

| Top 10 Rising import countries (by value) | Apr-Jun<br>(Thousand US \$) |           | Increase in Value | % Increase |
|---|-----------------------------|-----------|-------------------|------------|
|   | FY2010                      | FY2011    |                   |            |
| <b>Kuwait</b>                             | 614,945                     | 1,008,301 | 393,356           | 63.97%     |
| <b>U. A. E.</b>                           | 1,261,396                   | 1,585,228 | 323,833           | 25.67%     |
| <b>Saudi Arabia</b>                       | 1,099,142                   | 1,327,382 | 228,240           | 20.77%     |
| <b>China</b>                              | 908,450                     | 1,119,096 | 210,646           | 23.19%     |
| <b>Japan</b>                              | 307,511                     | 477,949   | 170,438           | 55.43%     |
| <b>Malaysia</b>                           | 325,354                     | 476,700   | 151,346           | 46.52%     |
| <b>Morocco</b>                            | 47,690                      | 100,944   | 53,253            | 111.66%    |
| <b>Netherlands (Holland)</b>              | 75,338                      | 114,306   | 38,968            | 51.72%     |
| <b>U. S. A.</b>                           | 257,220                     | 295,275   | 38,055            | 14.79%     |
| <b>Indonesia</b>                          | 92,096                      | 122,561   | 30,465            | 33.08%     |

Source: SBP

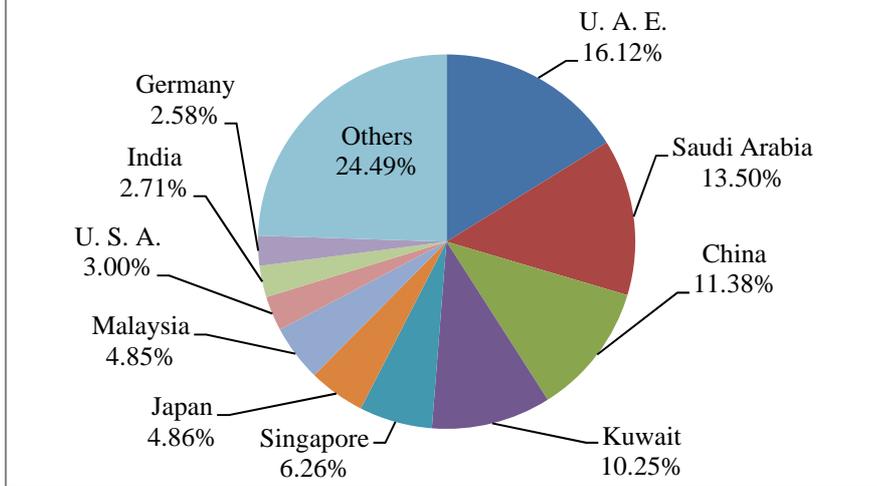
| Top 10 Rising Import countries (by % increase) | Apr-Jun<br>(Thousand US \$) |        | Increase in Value | % Increase |
|--|-----------------------------|--------|-------------------|------------|
|  | FY2010                      | FY2011 |                   |            |
| <b>Antigua &amp; Barbuda</b>                   | 4                           | 468    | 464               | 12235.78%  |
| <b>Venezuela</b>                               | 2                           | 64     | 62                | 2860.14%   |
| <b>Belize</b>                                  | 1                           | 26     | 25                | 2283.96%   |
| <b>Cyprus</b>                                  | 1480                        | 30249  | 28,769            | 1943.67%   |
| <b>Tunisia</b>                                 | 42                          | 693    | 651               | 1564.15%   |
| <b>Windward Islands</b>                        | 38                          | 620    | 582               | 1552.54%   |
| <b>Senegal</b>                                 | 38                          | 617    | 578               | 1502.70%   |
| <b>Greece</b>                                  | 768                         | 7892   | 7,124             | 927.37%    |
| <b>St. Lucia</b>                               | 35                          | 338    | 303               | 872.85%    |
| <b>Namibia</b>                                 | 39                          | 344    | 305               | 785.95%    |

Source: SBP

| Top 10 Declining import countries (by value) | Apr-Jun<br>(Thousand US \$) |         | Decrease in Value | % Decrease |
|--|-----------------------------|---------|-------------------|------------|
|  | FY2010                      | FY2011  |                   |            |
| <b>Iran</b>                                  | 256,382                     | 51,155  | -205,227          | -80.05%    |
| <b>Switzerland</b>                           | 218,111                     | 120,496 | -97,616           | -44.76%    |
| <b>India</b>                                 | 327,302                     | 266,992 | -60,311           | -18.43%    |
| <b>Bahrain</b>                               | 81,074                      | 26,197  | -54,877           | -67.69%    |
| <b>Singapore</b>                             | 665,261                     | 615,716 | -49,545           | -7.45%     |
| <b>Finland</b>                               | 90,970                      | 42,244  | -48,725           | -53.56%    |
| <b>Sao Tome &amp; Principe</b>               | 36,726                      | 126     | -36,601           | -99.66%    |
| <b>Liberia</b>                               | 36,617                      | 4,928   | -31,689           | -86.54%    |
| <b>Yemen Arab Republic</b>                   | 31,390                      | 397     | -30,993           | -98.74%    |
| <b>South Africa</b>                          | 68,797                      | 46,312  | -22,485           | -32.68%    |

Source: SBP

**Figure A; Share in Imports  
(Apr-Jun/ FY2011)**



Source: SBP

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