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WTO CELL  
PLANNING & DEVELOPMENT DEPARTMENT

**WEEKLY ECONOMIC DIGEST**

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**SMEs seek incentives to increase exports**

World trotters have introduced Sialkot as total export-oriented city of Pakistan. It has developed a remarkable export culture over the period and contributing more than 900 million dollars to the national exchequer annually. Undoubtedly, the Small and Medium Enterprise (SMEs) were playing a significant role not only in strengthening the national exchequer but also providing employment to thousands workers in Sialkot. The development of cottage industries in Sialkot has assumed a model status for the developing world. The city is sprinkled with thousands of small and medium enterprises, which are engaged in honouring their global commitments for export of value-added quality goods such as sports goods, surgical instruments, leather goods, gloves, badges and musical instruments etc. (Business Recorder, May 5<sup>th</sup>, 2008)

**Pakistan to get \$1 billion ADB loans during 2008**

The Asian Development Bank (ADB) has so far given the green light to provide Pakistan with about one billion dollars (648 million euros) in loans this year. Juan Miranda, ADB's Director General for Central West Asia said that these are not new loans; they are disbursements on existing loans. Pakistan was the ADB's biggest borrower in 2007, receiving two billion dollars, or 20 percent of total loans extended by the bank that year. The loans include 200 million dollars to improve access to financial services, 200 million dollars to help develop capital markets and another 200 million dollars for reconstruction efforts following a deadly 2005 earthquake. Another 62 million dollars will go towards aiding small to medium industries while between 300 and 350 million dollars will be dispersed on projects to develop roads, energy and urban services. (Business Recorder, May 5<sup>th</sup>, 2008)

**WTO rules against Japan**

Japan must drop punitive tariffs on imports of semiconductors made by South Korean firm Hynix by September 1, a World Trade Organization arbitrator ruled. The WTO found last year that Japan's punitive tariffs on imports of semiconductors made by South Korean firm Hynix were illegal. Improperly imposed countervailing duties and called on Tokyo to bring its measures into line with world trade rules. (Dawn, May 06<sup>th</sup>, 2008)

### **Shariah Capital Fund launched**

Meezan Bank has launched country's first Shariah-compliant Capital Protected Fund jointly with Al Meezan Investment Management (Al Meezan Investments), the asset management subsidiary of Meezan Bank. Ariful Islam, Chairman of Al Meezan Investments and COO of Meezan Bank and CEO of Al Meezan Investments Mohammad Shoaib, formally announced the launch of Meezan Capital Protected Fund at a press conference. (Dawn, May 06<sup>th</sup>, 2008)

### **Proposal to raise gas tariff opposed**

The Lahore Chamber of Commerce and Industry and All Pakistan Textile Mills Association (APTMA) have cautioned the Oil and Gas Regulatory Authority of the serious repercussions on industry by the proposed 35 per cent increase in gas tariff. LCCI president Mohammad Ali Mian and APTMA zonal chairman Akbar Sheikh said during a discussion on the proposal here that 35 per cent increase in gas tariff proposed by Sui Northern Gas Pipelines Limited (SNGPL) would have devastating effects on the national economy and it would get the export-oriented industry thrown out of the international market. Gas has assumed the status of basic raw material for as many as 450 textile processing units engaged in dyeing, finishing, and printing of fabrics. It accounted for 25 to 30 per cent of their cost of production. (Dawn, May 06<sup>th</sup>, 2008)

### **Two European banks to help ease energy crisis**

Two major European banks -- Nordic Investment Bank (NIB) and European Investment Bank (EIB) -- have agreed to provide adequate financial assistance to help minimize the growing energy crisis in Pakistan. Mr. Dar welcomed NIB's offer and invited them to finance hydel projects. To facilitate their investment, a financing framework agreement will be concluded between NIB and Pakistan. The finance minister asked EIB to finance hydel projects especially Basha Dam in a consortium with other banks and financial institutions. A team of HSBC also met the finance minister and discussed the possibility of HSBC's participation in the government bond issue and operations of HSBC in Pakistan. State Bank Governor Dr. Shamshad Akhtar also joined the meeting. The finance minister appreciated the keenness of HSBC for the future government issues and their operation in the banking sector in Pakistan. (Dawn, May 06<sup>th</sup>, 2008)

### **'\$100 billion needed for infrastructure-related projects'**

Pakistan needs around \$100 billion for meeting infrastructure-related challenges, said Ijaz Ahmed Khan, CEO of Infrastructure Project Development Facility (IPDF), an agency working under Finance Ministry to look for public-private partnership in infrastructure development. Ghafoor Mirza, adviser to ministry of finance, said that the government realised the need to fill gaps between the demand and supply in infrastructure projects by involving the private sector. Earlier, the World Bank's Operations Advisor, Said Al-Hasby, highlighted the importance of public-private partnerships as an integral reform policy tool to fund future infrastructure investment in the country. (Business Recorder, May 06<sup>th</sup>, 2008)

### **Increase in exports government's top priority:**

Federal Industries and Production Minister Syed Naveed Qamar said that boosting exports is one of the prime objectives of the new government, as we have to work towards narrowing of the wide trade imbalance, said a press release of the Export Processing Zone Authority (EPZA). Naveed Qamar said that EPZs are the need of the hour to boost our exports and consecutively the economic

development of Pakistan. "EPZA can help the government in achieving its exports targets, however, the overall potential of nearly all the EPZ's has not been utilized properly. EPZA Chairman Kamran Y. Mirza briefed the minister that exports by the EPZA units increased by 18 percent in the first 10 months of the current fiscal year as compared to the same period last year. The increase in exports by EPZ's units in Pakistan is partly attributed to a number of measures taken by EPZA to boost exports by stimulating the units located at the zones. Of the EPZA exports 71 percent was contributed by the garment industry followed by worn clothing, exports of trading goods, chemicals and allied products, PVC plastic/paper and machinery and engineering was 29 percent. (Business Recorder, May 06<sup>th</sup>, 2008)

### **US banks tightening lending standards**

The Federal Reserve reports that more US banks are tightening lending standards on home mortgages, other types of consumer loans and business loans in response to a spreading credit crisis. The Fed reported today that the percentage of banks reporting tighter lending standards were near historic highs for nearly all loan categories. The survey, conducted in April, found that nearly two-thirds of banks surveyed had tightened lending standards on traditional home mortgages with 15 per cent saying those standards had been tightened considerably. (The Hindu, May 6<sup>th</sup>, 2008).

### **A New Deal for Global Food Policy**

The disturbing images should be spurring the global community to action: riots in Haiti, protests in Egypt, and violence in many other countries around the globe, sparked by the rising price of food. Hardest hit by the crisis are the world's poorest people. The World Bank Group estimates doubling of food prices over the last 3 years could potentially push 100 million people in low income countries deeper into poverty. The UN's World Food Program requires at least \$500 million of additional food supplies to meet emergency calls. A shift from traditional food aid to a broader concept of food and nutrition assistance must be part of this New Deal. School lunch programs draw children to classrooms, while helping healthy kids to learn, and some offer parents food, too. Mozambique and Cambodia employ locally-selected public works programs in exchange for food – developing roads, wells, and schools. A New Deal for Global Food Policy will contribute to inclusive and sustainable development. Men, women and children in poor, middle income, and developed countries will benefit together. (Web. Worldbank.org, May 07<sup>th</sup>, 2008)

### **Middle East reels as hunger outgrows oil earnings**

For years, food policy in the Middle East and North Africa was very simple: hydrocarbon exports paid for carbohydrate imports. Rising agricultural commodities prices and a large population increase mean that the traditional policy is now untenable even if crude oil trades at about \$120 a barrel, forcing countries in the region, including Saudi Arabia, to reconsider how it feeds its population. (Financial times, May 07<sup>th</sup>, 2008).

### **Textile sector biggest beneficiary: SBP: Subsidized loans**

The State Bank of Pakistan said that the textile sector was the biggest beneficiary of the subsidized loans given under export finance scheme denying impression that the SBP was avoiding facilities to the textile sector. The funds so far disbursed under this scheme have been availed by the textile sector. The SBP said that during the period from financial year 2003 to December 2007, the SBP has provided refinance amounting to Rs897.5 billion to the textile sector under EFS at the mark up rates, which were below the ongoing market rates providing sufficient savings to the sector. It is

incorrect to assume that the SBP is not providing long-term financing to the value added textile sector; in fact LTTF is available to the value added sector, including fabrics, garments, made ups, towels, and art silk & synthetic textiles sub sectors of the industry, the SBP said. (Dawn, May 07<sup>th</sup>, 2008)

### **Sri Lanka to import cement from Pakistan**

Sri Lanka will import 10,000 metric tons of cement from Pakistan to meet its growing requirements. Trade and Consumer Affairs Minister, Bandula Gunawardena said a high cement demand has been created in the country with commencement of many construction projects, including buildings and bridges. He said that the consignment will arrive here early this month, which will be distributed by recently set up State Trading Co-operative Wholesale Company Ltd to consumers. (Business Recorder, May 7<sup>th</sup>, 2008)

### **Bangladesh bans export of non-aromatic rice for six months**

The Bangladesh caretaker government imposed ban on export of rice for six months except aromatic varieties to lower prices of rice in the local market, said a senior official here. A spokesman of the Commerce Ministry said that export of all kinds of rice except aromatic varieties has been banned. The ban came after Bangladesh's Export Promotion Bureau (EPB) revealed last week that a group of exporters have cashed in on the government's free rice export policy by shipping in record amount of the staple this fiscal year (July 2007-June 2008) despite scarcity at home. (web.xinhua.net.com, May 7<sup>th</sup>, 2008)

### **Czech-Pakistan JBC formed to boost trade**

The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and Czech Chamber of Commerce formed a Czech-Pakistan Joint Business Council (JBC) to enhance trade cooperation between the two countries. The JBC was established during FPCCI delegation's visit to the republic. The delegation was led by FPCCI President, Tanvir Ahmed Sheikh. The JBC would be responsible for identifying potential sectors for joint venture opportunities, holding of single country exhibition on reciprocal basis and identifying new areas of cooperation. (Business recorder, May 08<sup>th</sup>, 2008)

### **Maybank, IDB plan Takaful business**

Malaysia's top lender Malayan Banking and the commercial arm of the Jeddah-based Islamic Development Bank plan to start a global Takaful (Islamic insurance business), the Malaysian bank said. The holding company will combine Maybank's expertise in the Takaful business and ICD's comprehensive knowledge of the Islamic markets in member countries. Under the pact, the holding company plans to set up Takaful companies around the world, including in ICD's non-member countries. ICB's Director of Investments Abderrazak Luoati said the current penetration of Takaful was extremely low in most Muslim countries. (Dawn, May 08<sup>th</sup>, 2008)

### **American Business Council advocates longer term trade policy**

The American Business Council of Pakistan (ABC) has proposed that the trade policy should be formulated for a minimum period of three to five years, as one year's duration does not allow for longer term planning and investment. On power generation, duties and taxes on co-generation equipment, the ABC said that despite the much publicized claims regarding impending improvement in power generation and distribution by previous and present regimes, power situation in the country is far from improved. Under the existing rules, co-generation imported

presently has a duty component of 5 percent. Prior to Finance Bill 1997-98, customs duty was 15 percent and sales tax 12.5 percent on composite diagnostic reagents. To further this objective, the ABC has suggested lowering of customs duty from 20 percent to 10 percent and with sales tax-free. (Business recorder, May 08<sup>th</sup>, 2008)

### **Early harvest pact with BD sought**

Pakistan has urged Bangladesh to conclude an early harvest agreement, as a fast-track prelude to a free trade agreement. Pakistani imports from Bangladesh include raw jute, jute goods, tea, leather, agri-products and chemical items. Pakistan exports textile and textile products, beverages, tobacco, vegetable products, fruits, processed food and light engineering products to Bangladesh. Both Mr. Qureshi and Dr. Chowdhury stressed the need for enhancing the volume of bilateral trade. The two sides also agreed that the institutional mechanisms to promote bilateral cooperation, such as Joint Economic Commission (JEC), and political consultations between the two foreign offices would be held this year after which both sides would consider the setting up of sectoral working groups to promote bilateral cooperation in various fields, including trade. During the meeting, discussions were held on bilateral relations and regional and international issues of common interest. (Dawn, May 08<sup>th</sup>, 2008)

### **Ghani woos Turkish traders to invest in various NWFP sectors**

NWFP Governor Owais Ahmed Ghani has said the economy of the country is in the growing trend providing sufficient sources for making successful entrepreneurship opportunities in both trade and industrial sectors of the country. Talking to a visiting delegation of Turkish businessmen at Governor's House, he said that both Pakistan and Turkey have a long association and there exist vast potential for promotion of relationships especially in the fields of trade and industrialization. Prominent Turkish businessman Rasim Oz was leading the delegation.. (Business recorder, May 08<sup>th</sup>, 2008)

### **Ministries told to prioritize schemes for 2008-09 PSDP**

The Planning Commission (PC) has informed all ministries that the development projects may face resource constraints in the 2008-09 development budget, and has advised them to prioritize their schemes in line with the priorities set by the new government. Sources said that the new government has an agenda of constructing small dams instead of going for building the big dams. A total of 100 small dams will be constructed in the province. The Sindh government is required to go fast on furnishing projects for Thar coal development, they added. The PC has issued instructions to the ministries after priorities committee completed its exercise of consolidating the development allocation. (Business recorder, May 08<sup>th</sup>, 2008)

### **ADB discusses new strategies to fight poverty**

The Asian Development Bank (ADB) governing body met to discuss new strategies to fight poverty and better serve its members in the Asia-Pacific region in the next decade. The plan also highlights environmentally sustainable growth and increased regional integration in Asia. Established in 1966, the ADB is an international development finance institution whose mission is to help its developing members in the Asia-Pacific region reduce poverty and improve the quality of life. "The challenges for Asia's unfinished development agenda are immense," Kuroda said, adding that soaring food prices are hitting the poor very hard. In an urgent response, the ADB announced that it will provide immediate budgetary support to some Asia-Pacific countries hit

hardest by the rising food prices. Infrastructure development forms the single largest share of the ADB's lending operations. (web.xinhua.net, May 08<sup>th</sup>, 2008)

### **India halts futures trade in staple foods**

India's government halted trading in futures contracts for key staple foods and for rubber as it battled to avoid an election drubbing due to high inflation. The government suspended futures trade in basic foods such as chickpeas, soybean oil and potatoes for four months, saying the move was aimed at stopping price rises driven by speculators. It also halted futures trade in rubber. The government said more efforts were also underway to fight inflation in Asia's third-largest economy, as cement producers joined steelmakers in pledging price cuts. Futures contracts involve betting on future price movements of such items as commodities, bonds, currencies and shares. (Dawn, May 09<sup>th</sup>, 2008)

### **Petroleum dealers fleece consumers**

The petroleum dealers have started a new practice of suspending sales or shutting down their outlets ahead of any oil price-hike made by the government to make quick financial gains. As soon as the government alarms consumers about any fresh move for a price-hike a few days ahead of the actual announcement, the petrol stations literally start punishing people. Pump stations usually have a maximum storage capacity of 15,000-25,000 litres in their underground tanks in cities while the highway petrol stations' storage capacity is 35,000 litres. Smelling a sharp increase in prices, clever pump owners have also been demanding higher supplies from oil marketing companies (OMCs) as against their normal supplies, but OMCs usually provide them normal supply instead of bulk. The same was the answer at another petrol station on University Road. Even many OMCs start short supply of diesel and petrol to dealers two to three days ahead of the POL price announcement. The total number of pumps, including the franchise dealers, is 3,700. (Dawn, May 09<sup>th</sup>, 2008)

### **SBP warns Exchange firms against speculation**

State Bank of Pakistan Governor Dr. Shamshad Akhtar has directed the exchange companies to keep dollar-rupee parity differential between the inter-bank and kerb markets at rational levels, restrain from speculation and focus on bringing in home remittances into the country. Dr Akhtar said instead of curbing speculative trends, some exchange companies are playing a role in the speculation that is totally unacceptable. The SBP governor said the whole idea behind setting up exchange companies was that these companies would play a pivotal role in attracting home remittances and in curbing activities of illegal operators. "Any evidence obtained against any exchange company would be sufficient to suspend or cancel the licence of that company," she warned. The SBP governor further stressed upon the exchange companies to focus on bringing in more and more home remittances and added that "this should be the primary target of the exchange companies." (Dawn, May 09<sup>th</sup>, 2008)

### **SMEDA, CPI sign Memorandum of Understanding for conducting energy audit**

The Small and Medium Enterprise Development Authority (SMEDA) and the Cleaner Production Institute (CPI) have entered into an agreement and signed a memorandum of understanding to conduct energy audit of the textile processing industry while the authority is planning to expand energy audit to top 10 important sectors. The authority and the institute have agreed to jointly conduct energy audits in the textile's sub-sector like processing under a programme for the Industrial Sustainable Development. A team of international energy experts along with local

experts from CPI, Smeda and NPO conducted detailed energy audits in these units. The outcomes of energy audits showed great potential for energy efficiency. (Business recorder, May 09<sup>th</sup>, 2008)

### **IMF Calls for Higher Rates**

The International Monetary Fund urged central banks in developing nations to raise interest rates to fight inflation caused by rising fuel and food costs. The message was aimed particularly at Russia, Saudi Arabia, China and countries in Eastern Europe where inflation has picked up substantially. "For emerging economies with currencies closely linked to the dollar that are fighting overheating concerns, macroeconomic policies need to be tightened in response to generalized inflation pressures," said John Lipsky, the IMF's deputy managing director. For China, that meant moving to a flexible exchange rate, he said. (Web. Wall street journal, May 09<sup>th</sup>, 2008)

### **State Bank warns of direct intervention**

The State Bank of Pakistan has warned that it may impose severe administrative control over foreign exchange market 'if the market fails to discipline itself'. The warning was issued in a meeting between SBP Governor Dr Shamshad Akhtar and heads of commercial banks. "The central bank is in no mood to apply direct administrative control over the foreign exchange. The SBP also held a meeting with the exchange companies to save the weakening exchange rate system. "Current rupee volatility is not reflective of the macro-economic fundamentals," she said, adding she was perplexed over recent inter-bank market behaviour and urged banks to play a proactive role to kill negative sentiments in the market. The SBP governor urged banks to increase their deposit rates and said banks should also focus on increasing private sector credit disbursements as it would help the country remain on a high GDP growth trajectory. (Dawn, May 10<sup>th</sup>, 2008)

### **KCCI preparing five-year export roadmap for Pakistan**

The Karachi Chamber of Commerce and Industry (KCCI) is formulating five-year export roadmap for Pakistan. KCCI Export Sub-committee Chairman Shariq Vohra has initiated work on the five-year export roadmap. The chamber will collect information of goods produced, raw material available and required to produce export surplus, demand of goods in various countries, information about new markets where goods can be exported, production cost of goods as compared to its competitors in world market, prepare essential statistical data for the Pakistan export market, infrastructure requirements, information about demands of non traditional items in world market and propose amendments in export policy order etc. Pakistan's export trade is largely dependent on imported raw materials and components. (Business recorder, May 10<sup>th</sup>, 2008)

### **Wrong response aggravates Asia food crisis: ADB**

Asia's response to tightening global grain supplies has aggravated food price inflation and uncertainty, according to an Asian Development Bank report released. Among the importers, "precautionary demand for food stocks in many countries is contributing to food grain price increases," said the report, which cited "sustained procurements" in international markets by Bangladesh and the Philippines. The report, "Soaring Food Prices: Response to the Crisis," said "strong political and economic factors " were at play in the food policies of most developing Asian countries, "so that the effect of sharply higher international prices has not been fully transmitted to domestic prices." (Business recorder, May 10<sup>th</sup>, 2008)

### **Doha trade talks: India, US agree to work together**

India and the United States have agreed to resolve the divisive issues for an early conclusion of the Doha round of trade negotiations. It would send a "strong message" of global unity and resolve in the face of increasing uncertainties in world economy due to rising food and energy prices and turmoil in financial markets in several countries, an official statement issued on the talks between Commerce and Industry Minister Kamal Nath with United States Trade Representative Susan Schwab said. During the talks, Nath told Schwab that India would not accept any constraints or restrictions on its ability to provide assistance to its poor fishermen as it is a question of their livelihood. The Agriculture negotiation, they agreed, pose the greatest challenges as they involve complex issues of subsidies and sensitivities on market access, especially in developing countries, in relation to food security and livelihood concerns of poor farmers. (The Times of India, May 10<sup>th</sup>, 2008)

### **July-April trade deficit rises to \$16.08 billion**

The country's trade deficit rose to an all time high of \$16.08 billion in the first 10 months of FY08, mainly because of sky rocketing prices of crude oil and dwindling exports, bringing foreign exchange reserves under enormous pressure. The imports - \$32.061 billion against \$15.255 billion exports during July-April point towards the fragility of the economy. Trade deficit for last fiscal year stood at \$13 billion. Increasing crude oil prices as well as luxury items in the import bill and dwindling exports have pushed the trade deficit to an all time high during the period under review. Official statistics released by the FBS on Saturday showed \$32.061 billion imports, which were twice the total exports, \$15.255 billion, during the period under review with 50.78 percent trade deficit. Rising oil and energy costs rendered Pakistani exportable goods less competitive in comparison with those coming from other countries. (Business recorder, May 11<sup>th</sup>, 2008)

### **Economist: No post-Olympic recession for China**

China, with a large economic size, would not face recession after the Olympic Games, the World Bank's new chief economist Justin Yifu Lin said. Some Olympics hosts experienced post-Olympic decline because investment dropped. The size of Chinese economy dwarfed the investment on building venues and infrastructure for the 2008 Beijing Olympics, he said. China had plenty of investment prospects as the country was to host the World Expo and the Asian Games in 2010, and a few other important international events after the Olympic Games. (web.xinhua.net, May 11<sup>th</sup>, 2008)

### **Food crisis is all manmade**

The world is bracing for a worst kind of food crisis, witnessed in recent memory. In the global village, Pakistan cannot escape the impact. The Sindh Chamber of Agriculture chief said that Pakistan had harvested bumper crops of wheat and rice last year, but the lack of storage facilities and wheat smuggling to Afghanistan, India and Central Asian states created shortage of food grains in the country. Offering a solution to the problem, Mr. Nizamani said that the government should increase wheat support price to at least Rs1,100 per 40kg and give a subsidy of Rs400/500 to consumers. Rice Exporters Association of Pakistan Chairman Mohammad Azhar said that the country had produced 5.5 million tons of rice, but hoarders captured a major chunk of the produce. Mr. Azhar dispelled the impression that the fixation of minimum export price of rice had benefited the local consumers. Rice prices have been surging worldwide as governments and importers rushed to stock up the grain on growing fears that the food staple will get to be increasingly in short supply. (Dawn, May 11<sup>th</sup>, 2008)



### **The maze of food subsidy**

With the rising food prices having made more than 77 million Pakistanis vulnerable to economic shocks, the issue of subsidizing the country's agricultural sector has once again come to the centre stage. As a matter of policy, international lenders and development agencies, including the World Bank and the Asian Development Bank, are normally against government subsidies, but they are reluctant to reiterate their policy in the current environment. Some officials of such institutions here don't think that the lack of government support is responsible for low productivity in the agriculture sector. Several food committees, both occupied by parliamentarians and experts, have suggested strong government support in providing cheaper seeds, fertilizer, electricity and other agricultural inputs to the farmers. In one instance, the government, faced with pressure from these financial institutions and proponents of free trade, did not ban the export of rice despite a worldwide shortage of the commodity. Pull away the subsidies from the US agriculture sector and it will fall. Similarly, in Japan agriculture subsidy is considered a cultural phenomenon. (Dawn, May 11<sup>th</sup>, 2008)