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International Trade Activities of Pakistan

Working Paper: Effects of trade agreements of Pakistan

manzil PAKISTAN

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Introduction

Pakistan is constantly binding itself in bilateral and international trade agreements that often seem to be helpful for the economy of the country. But in some cases these trade agreements seem not to be much impactful on the country's economy, cause increased trade deficit than presumed benefits by means of increasing exports. The purpose of this document is to assist trade policy makers in understanding the long term effects of the trade agreements that our country binds itself with.

A trade agreement (also known as trade pact) is a wide-ranging taxes, tariff and trade treaty that often includes investment guarantees. When two or more countries agree on terms that helps them trade with each other they sign trade agreements. The most common trade agreements are of the preferential and free trade types which are concluded in order to reduce (or eliminate) tariffs, quotas and other trade restrictions on items traded between the signatories.

Several rules and regulations have been introduced on international level for the promotion of trade liberalization process. In this regard, **General Agreement on Tariffs and Trade (GATT)** was introduced to facilitate trade by reducing quotas, tariffs and providing subsidies. While, later on in 1995, the World Trade Organization (WTO) was formed for setting out the rules of global trade with objective of having same tariffs and duties in international trade between countries. The analyses of trade agreements show that FTAs and PTAs are usually contracted among the neighboring countries due to low cost of transportation. Afghanistan, India, Iran and China are the neighboring countries of Pakistan with which it already has its PTA, FTA or trade transit agreement. The major trading partners are also the strong candidates with which trade agreements can be signed. In case of Pakistan, the export partners are USA, U.A.E, Afghanistan, China, UK and Germany.

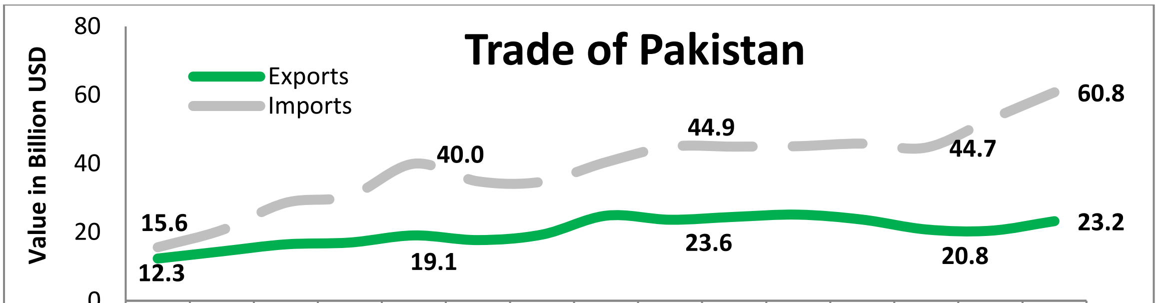
The WTO Trade Facilitation Agreement Facility (TFAF or the Facility) is an organization that was created at the request of developing countries to help ensure that they receive the assistance they need to reap the full benefits of their trade agreements. The Facility was formally launched on 22 July 2014, by WTO Director-General Roberto Azevêdo and became operational on 27 November 2014, when Members adopted the Protocol of Amendment to insert the **WTO Trade Facilitation Agreement** into **Annex 1A of the WTO Agreement. Pakistan is also a member of TFAF.**

This document is an updated version of an info-analysis by KCCI (Karachi Chamber of Commerce and Industry) on trade agreements & their implications on Pakistan's trade, dated, May 2013. The report of KCCI was limited to the data of 2013 while this document contains the annual data of up to 2018.

All trade data used in this report is sourced through published reports of State Bank of Pakistan and Pakistan Bureau of Statistics.

International Trade Activities of Pakistan

The world is becoming increasingly a global village which necessitates enhanced and closed bonded trade relations among the countries on international level. For the purpose of trade enhancement, countries are more and more opting for the trade agreements which may be Free or Preferential in nature. International trade plays an important role in Pakistan's economy with a volume equivalent to about 30 per cent of GDP. However, of this, a large share is accounted for imports of Pakistan, while export sector performance has been subdued over the last one decade or so.

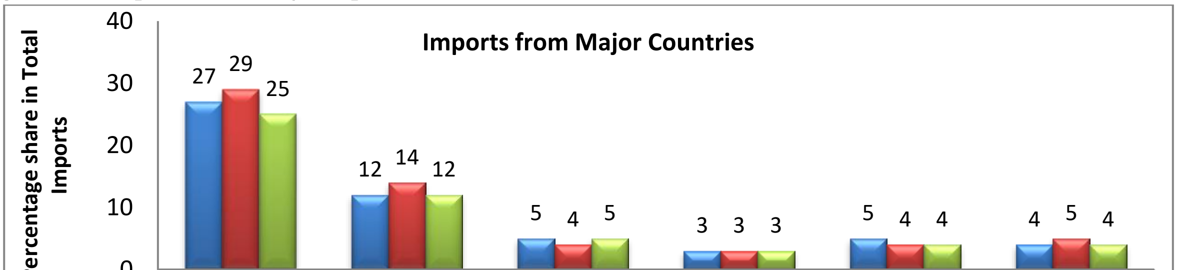


	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Exports	12.3	14.4	16.5	17.0	19.1	17.7	19.3	24.8	23.6	24.5	25.1	23.7	20.8	20.4	23.2
Imports	15.6	20.6	28.6	30.5	40.0	34.8	34.7	40.4	44.9	45.0	45.1	45.8	44.7	52.9	60.8

Preferential Trade Agreement (PTA) provides contracting parties to avail reduced tariff rate for certain trading commodities. On the other hand, ***Free Trade Agreement*** (FTA) incorporates elimination of quotas, tariffs, and other barriers to international trade, allowing contracting parties to specialize in the products that can be produced cost effectively and on mass scale. As both kind of trade agreements are aimed at facilitating trade, there is only a slight difference between the two. The Preferential Trade Agreements are starting point in the process of trade liberalization while Free Trade Agreements works for removal of tariffs altogether. Such trade agreements predominantly improve the trade balance of the countries having specialization in products of interest to each other.

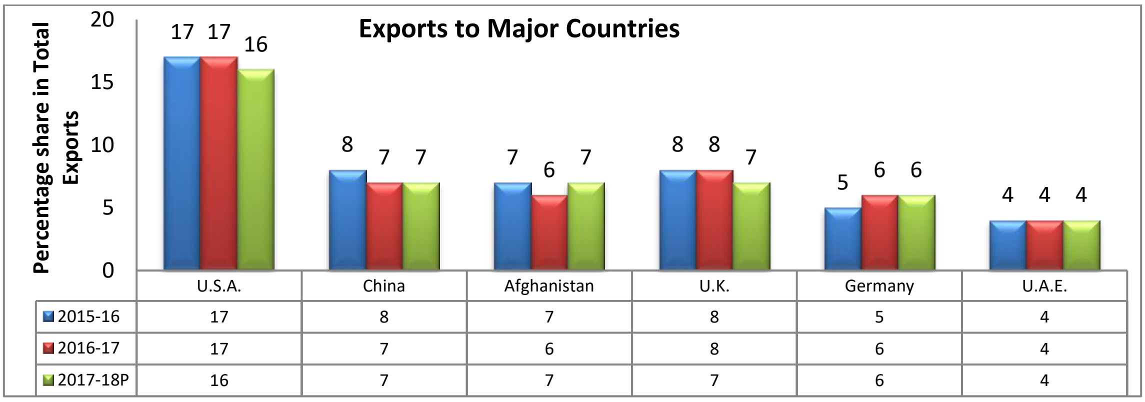
Imports and Exports of Pakistan by Major shareholders

Pakistan imports Machinery, Petroleum, Chemicals, Vehicles & Spare Parts, Edible Oil, Wheat, Tea, Fertilizers, Plastic material,Paper Board,Iron & Steel,Pharmaceutical Products, and etc. Major HS product include Mineral prodcuts including oil (26.1 percent), Machinery and mechanical appliances (15.04 percent) and Produts of Chemical and Allied Industries (10.79 percent).



	China	U.A.E.	K.S.A.	Kuwait	Indonesia	U.S.A.
2015-16	27	12	5	3	5	4
2016-17	29	14	4	3	4	5
2017-18P	25	12	5	3	4	4

The export of Pakistan are largely concentrated in raw ommodities, resource-based and low-technology manufactured goods. These few export products include Textile value added (39 percent), other textile and leather products(25 percent), vegetable products (12 percent), althogheter account for more than 75 percent of the total exports. Beside these major products, Pakistan also exports raw vegetable and fruits (kinnows, mangoes, wheat, other vegetables and processed food items), Construction and housing materials (furniture, cement, tiles, marble, carpets, rugs), live animals, veterinary surgical supplies, sports goods (renowned for footballs/soccer balls), cutlery, surgical instruments, electrical appliances, software, ice cream, livestock meat, chicken, powdered milk, seafood (especially shrimp/prawns), Pakistani-assembled Suzukis (to Afghanistan and other countries), defense equipment (submarines, tanks, radars), salt, onyx, engineering goods, and many other items. Pakistan produces and exports cements to Asia and the Middle East.



P=provisional (July to Jan)

As exhibited in the graph above, the export of Pakistan are largely concentrated in few economies that include Afghanisgtan, China, Germany, the UAE, the UK and the USA – moret han 50 percent of exports are destined for these countries.

Trade Agreements of Pakistan

Since the trade liberalization in Pakistan, the country has entered into several plirilateral preferial schemes along with concluding several multilateral and bilateral trade agreemetns to boost its trade and also to improve and strengthn its economy. Generally, the main objectives of trade agreements have been to increase economic and trade cooperation between stattes, encourage competitiona and also help in addressing trade-barrier issues. The preferentail and the bilateral trade agreemetns are a priotiy under the trade policy of Pakistan and the country is in negotiations for possible preferential trade agreements with several countries, blocs an associations including Thailand, Singapore, Turkey, Japan and with Gulf Cooperation Council.

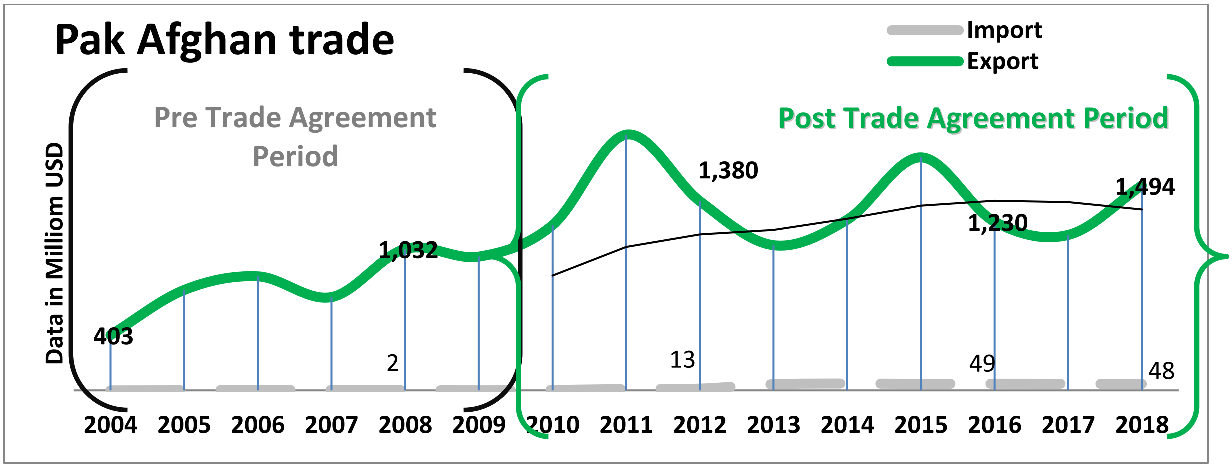
Free Trade Agreement (FTA)		**Preferential Trade Agreements (PTA)**		**Bilateral Trade Agreement (BTA)**	
Agreement Signed-In	**Country**	**Agreement Signed-In**	**Country**	**Agreement Signed-In**	**Country**
2005	Sri Lanka	*2005*	Indonesia	*2003*	USA
2006	SAFTA	*2005*	Iran	*2010*	Afghanistan
2006	China	*2005*	Mauritius		
2007	China (services)	*2014*	GSP+		
2007	Malaysia				

Afghanistan Pakistan Transit Trade Agreement (APTTA)

Afghanistan and Pakistan signed a new transit trade agreement, Afghanistan Pakistan Transit Trade Agreement (APTTA), in 2010 to cover the movement of Afghanistan's external trade through Pakistan. It came into effect in 2011. Since the signing of the APTTA, concerns have been expressed that Pakistan is losing its importance as a transit route for Afghanistan's external trade especially for Afghanistan's imports due to the highly restrictive clauses of the APTTA. However, this Study shows that the bulk of Afghanistan's transit imports are still routed through Pakistan. The overall volume of Afghanistan's imports have progressively decreased in the last few years, Pakistan however continues to be the preferred route for Afghanistan's importers. Another interesting finding of this Study is the unaccounted for transit trade which in 2014 alone was US$1.0 billion – this is the discrepancy between the figures reported by Pakistan Customs as having entered Pakistan as transit trade destined for Afghanistan and the figure reported by Afghan Customs as having entered Afghanistan through Pakistan. A comparison of the declared unit prices of the top Afghan transit trade items (as reported to Pakistan Customs) with the unit prices as reported by Afghanistan's export partners shows that there is considerable undervaluation in items like fabric, glassware, office furniture, soaps, green tea, tires, generating sets etc.

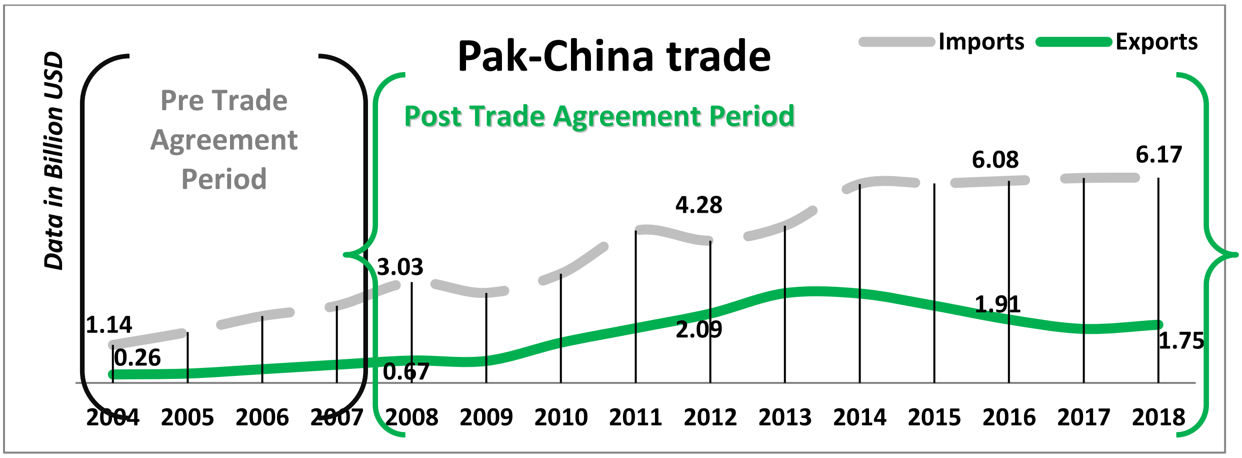
An interesting observation was that when a comparison was done with the prices at which Pakistan Customs was valuing Pakistan's imports, significant undervaluation was found for Pakistan's imports of fabric, tires and soaps.

As exhibited in the figure below, the exports of Pakistan has increased in the post trade agreement period. Imports from Afghanistan have also increased; however, the net-flow of foreign exchange is positive and higher for Pakistan, with export increase is 10 fold (400 million USD) vis-a-vis increase in imports (45 million USD).



China Pakistan FTA (CPFTA)

China-Pakistan Free Trade Agreement (CPFTA) on trade in goods was signed on 24th November, 2006 and implemented from 1st July 2007. FTA on Trade in Services was signed on 21st February 2009 and is operational from 10th October 2009.The FTA covers more than 7000 tariff lines at the 8 digit level of HS code. The trend of exports and imports exhibited positive for both countries in the post trade agreement period. However, the increase in imports from China is considerably higher vis-à-vis exports of the country to China.

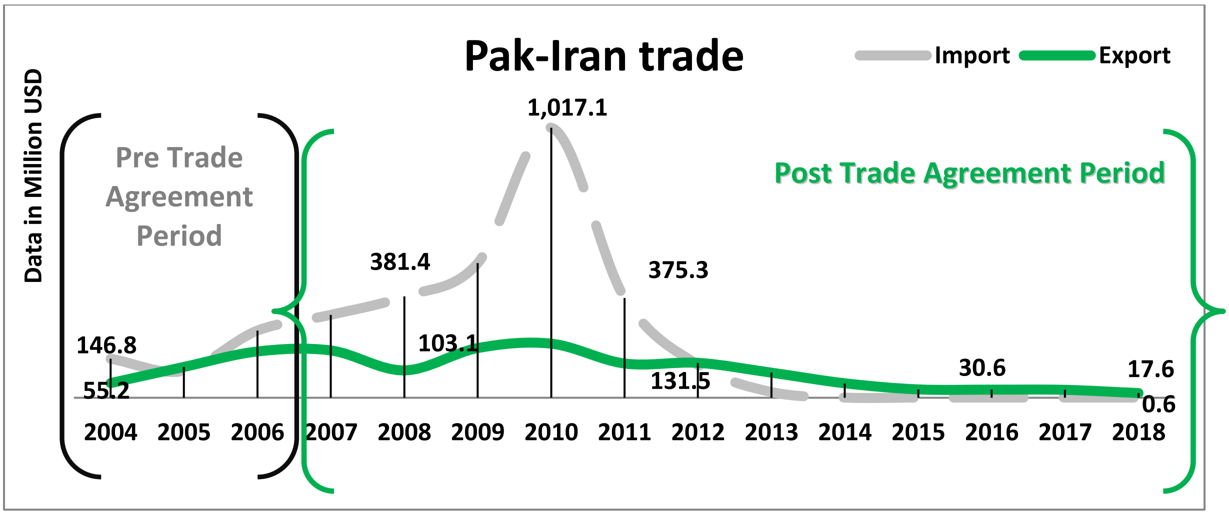


Pak-Iran PTA

Pakistan signed a Preferential Trade Agreement with Islamic Republic of Iran on 4th March 2004. The Cabinet ratified the agreement on 25th May 2005. As mutually agreed the agreement has become operational from 1st September 2006. Under the Agreement, Pakistan offered concessions to Iran on 338 tariff lines, whereas Iran gave concessions on 309 tariff lines. Preferences granted by both countries to each other cover approximately 18% of MFN tariff of both countries. To implement the Pak-Iran PTA the following SROs have been issued:

i. SRO 872(I)/2006 dated 24th August, 2006 (issued by Ministry of Commerce).

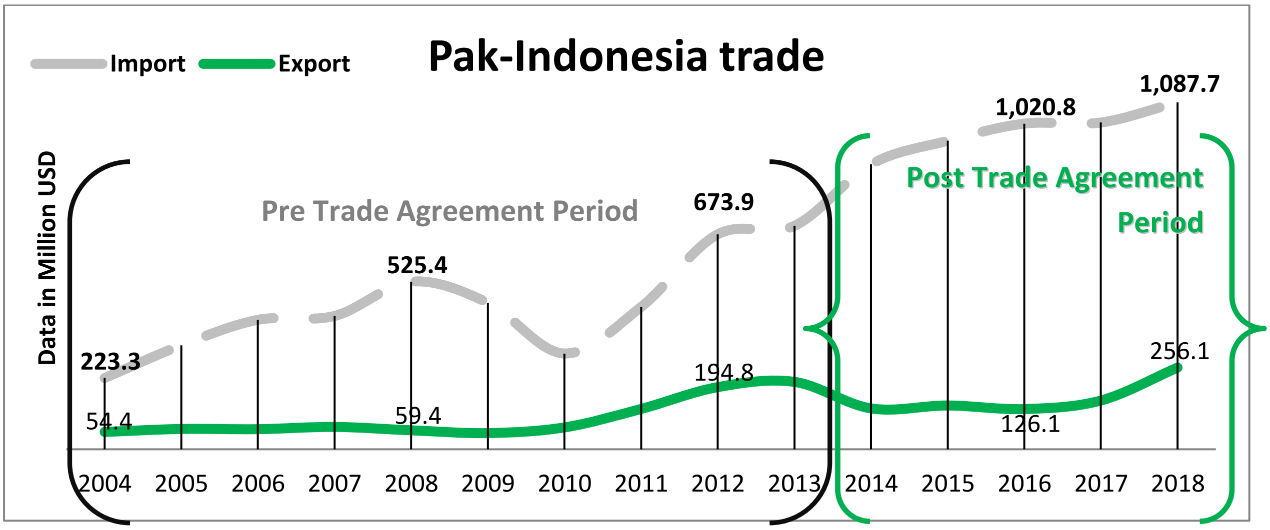
ii. SRO 894(I)/2006 dated 31st August, 2006 (issued by Federal Board of Revenue).



Pak-Indonesia PTA

Trade between Pakistan and Indonesia has witnessed growth where Pakistan is increasingly importing from Indonesia. In efforts to improve trade relations, the two countries signed a Preferential Trade Agreement (PTA) on February 3, 2012 which became operational in September 2013 after many rounds of negotiations. Under the PTA, Indonesia offers market access along 232 tariff lines, of which 103 are zero rated. Items in the preferential list include fresh fruits, cotton yarn, cotton fabrics, ready-made garments, fans, sport goods, leather goods and other industrial products. 0% market access is offered to Kinnow (mandarin) and oranges from Pakistan providing a level playing field to this product in the Indonesian market.

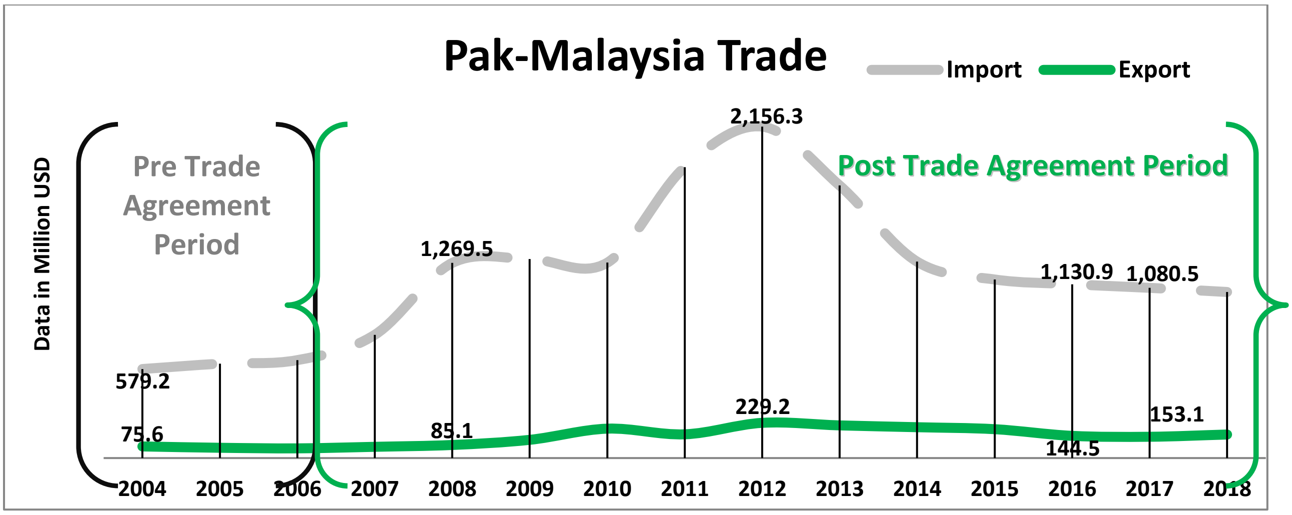
Pakistan's offer to Indonesia includes 313 tariff lines that include items such as edible palm oil products, sugar confectionary, cocoa product, chemicals, kitchenware and rubber, wood, glassware and electronic products. Pakistan has offered the same preferential treatment on edible palm oil products from Indonesia as provided to Malaysia under Pakistan Malaysia Free Trade Agreement. Since the implementation of the trade agreement, Indonesia has taken considerable benefits by almost doubling its exports to Pakistan. Whereas Pakistan's exports to Indonesia have increased by only 25 per cent to 256 million USD in 2018 vis-à-vis 194.8 million USD reported in 2012 (pre trade agreement period).



Pakistan Malaysia FTA

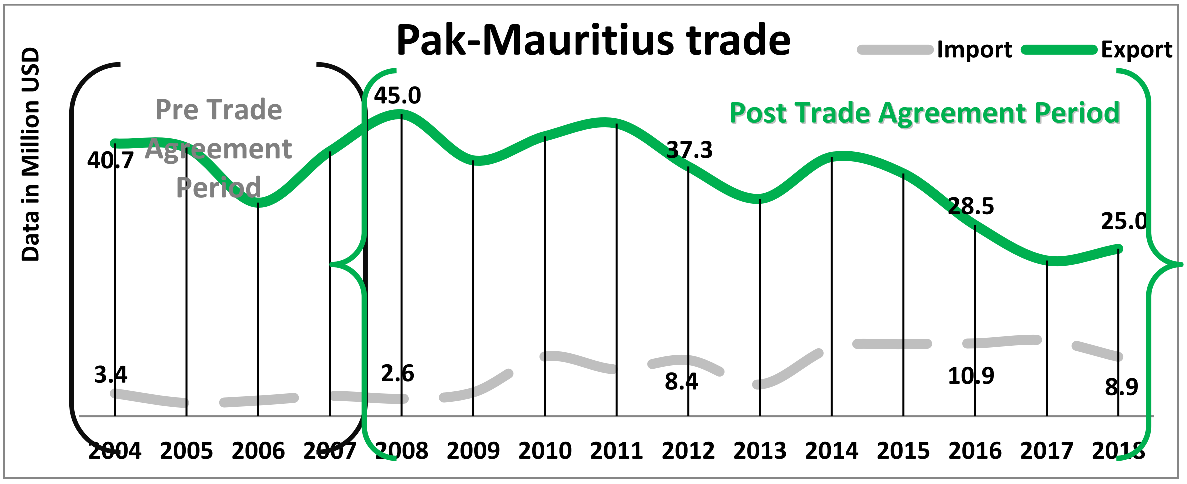
The Comprehensive Free Trade Agreement (FTA) for Closer Economic Partnership between Pakistan and Malaysia was approved by the Cabinet on 6th November, 2007. It was signed on 08-11-2007 at Kuala Lumpur Malaysia. ***This Agreement is the 1st bilateral FTA between two Muslim Countries – members of OIC.*** Beside this, the agreement is Pakistan's first comprehensive FTA incorporating trade in goods, trade in services, investment and Economic Co-operation and Malaysia's first bilateral FTA with any South Asian country. The negotiations with Malaysia on a comprehensive FTA started in early 2005. The Early Harvest was successfully negotiated and signed in December 2005; both countries provided market access to a limited number of products. After the implementation of the Early Harvest, Pakistan continued the negotiation to conclude the Agreement. The trade agreement between the two countries benefits both countries by the increasing the trade activities during the post trade agreement period. However, Malaysia has reaped the benefits higher than Pakistan. In the post trade period the exports of Malaysia has increased to

2.15 billion in 2012, however declined to just above 1 billion in 2018, still higher than 0.6 billion USD reported in 2006 (the pre trade agreement period). On the other hand, the exports of Pakistan have also increased to 229.2 million USD in 2012, however declined to around 153 million USD in 2018, still higher than 65 million USD reported in 2006 (the pre trade agreement period). Overall, the net-flow of foreign exchange is negative and has increased by 2(x) during the post trade agreement period.



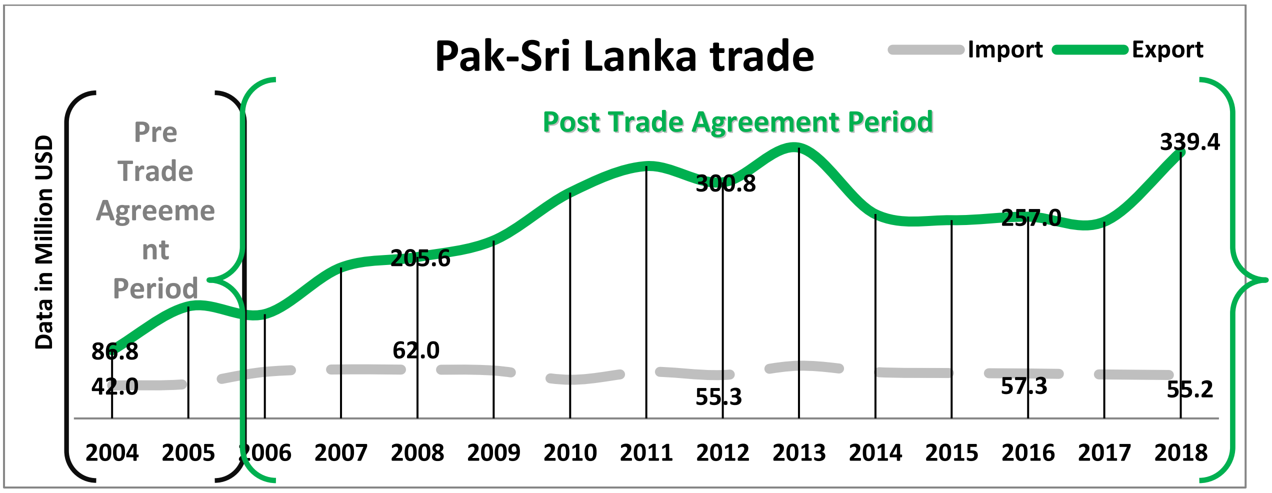
Pakistan Mauritius PTA

Pakistan signed Preferential Trade Agreement with Republic of Mauritius on 30th July 2007 at Port Louis Mauritius. The Cabinet ratified the agreement on 30th October 2007. As mutually agreed the agreement has become operational since 30th November 2007. 2. Under the Agreement, Pakistan offered concessions to Mauritius on 130 items / tariff lines i.e. 1.9% of its total existing national tariff lines, whereas Mauritius has given concession on 102 items / tariff lines i.e. 1.64% of its total existing national tariff lines.



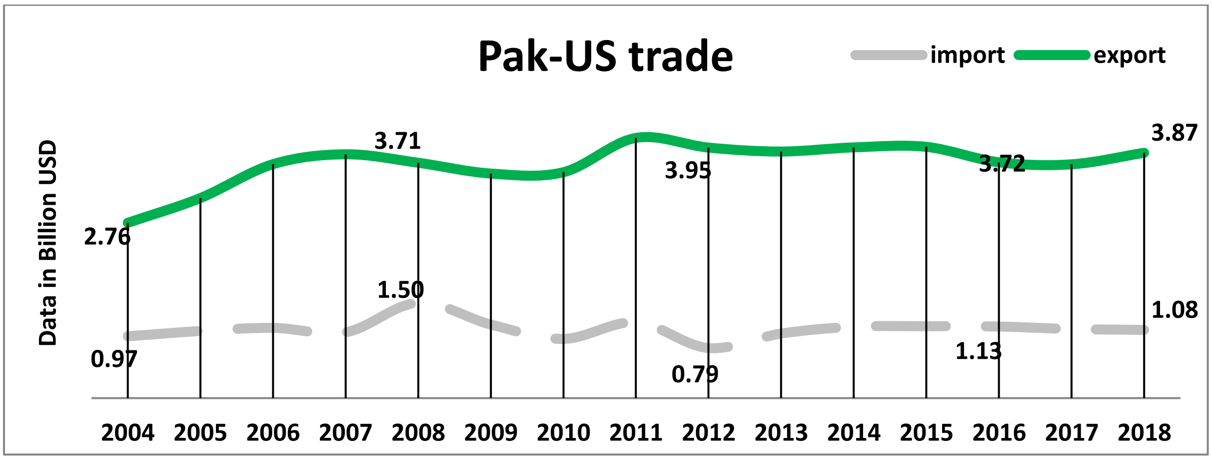
Pak-Sri Lanka FTA

FTA between Pakistan and Sri Lanka is operational from June 12, 2005. Under the Free Trade Agreement, Sri Lanka and Pakistan have agreed to offer preferential market access to each other's exports by way of granting tariff concessions. Sri Lanka would be able to enjoy duty free market access on 206 products in the Pakistani market including tea, rubber and coconut. Pakistan, in return, would gain duty free access on 102 products in the Sri Lankan market. These products include oranges, basmati rice and engineering goods. Comparing the two periods (pre and post trade agreement periods), Pakistan has reaped the benefits much higher by increasing its exports by almost 4(x) to 339 million USD in 2018 (86.8 million USD 2004). On the other hand, the imports from Sri Lanka has increased by a mere 25 percent to 55.2 million USD in 2018 (post trade agreement period) vis-à-vis 42.0 million USD in 2004 (the pre-trade agreement period).



Trade& Investment Framework Agreement (TIFA) between Pakistan and USA

Current agreement was signed on 25 June 2003 and bilateral trade has since grown drastically in the last few years. The United States is Pakistan's largest exports destination and of its largest source of foreign direct investment. The net-flow of foreign exchange for Pakistan is negative and has shown increasing trend since 2004. The net-flow of foreign exchange was negative 2 billion USD reported in 2004, has increased by 50 percent to almost 3 billion USD in 2018.

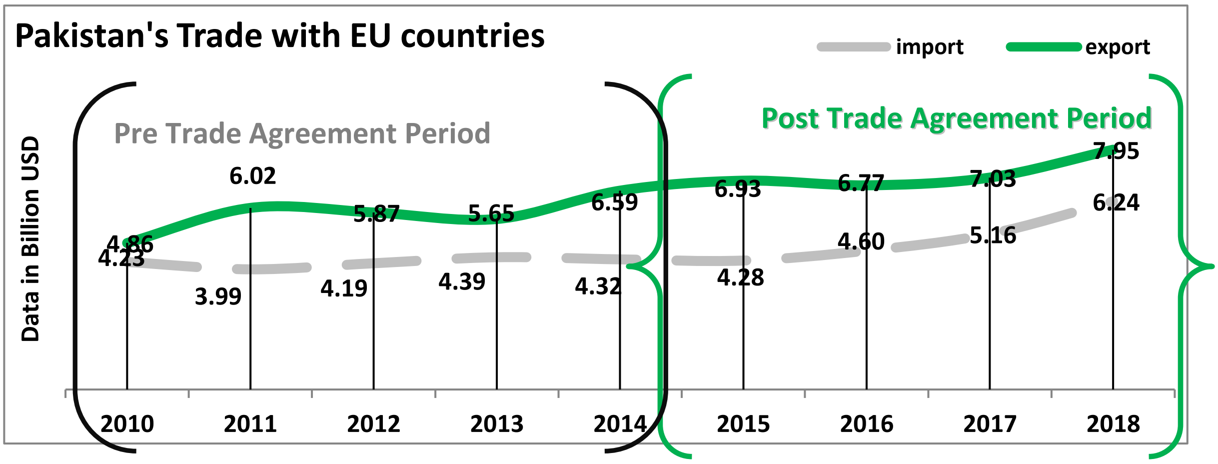


Generalized Scheme of Preferences (GSP+) of European Union

The philosophy of the GSP+ is that of an incentive based mechanism. It fosters the achievement of its goals by offering the "carrot" of preferences, which it provides when the relevant conventions are ratified and effectively implemented. Thereafter, preferences are used as a lever to ensure that implementation (i) does not deteriorate and (ii) improves over time. A regular dialogue with beneficiaries provides the necessary follow-up, which includes temporary withdrawal mechanisms. This approach of progressive improvement is considered the most appropriate given that the changes that need to take place to fully implement the conventions are of a complex, structural nature and involve high economic costs. Thus, they will not happen overnight, and need to be accompanied of support over longer periods. The GSP+ currently covers 13 beneficiaries: Armenia, Bolivia, Cape Verde, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Mongolia, Pakistan, Panama, Paraguay and Peru.

In order to qualify for the GSP+, a country must meet the following criteria:

1- It must be considered vulnerable.
2- Must have ratified the 27 core international conventions in the fields of human and labor right, the environment and good governance listed in Annex VIII to the GSP Regulation and the monitoring bodies under these conventions must not identify a serious failure to its effective implementation of any of these conventions.
3- Must give the following binding undertakings:
   i. to maintain the ratification of these 27 conventions and to ensure their effective implementation,
   ii. to accept without reservation reporting requirements and monitoring imposed by those conventions,
   iii. to accept and cooperate with the EU monitoring procedure.



Exports to EU countries accounts for one-third of the total Pakistan's export in 2018, whereas the imports from EU countries accounts for only 11 percent of the total imports in Pakistan. Some of the top export partners of Pakistan in the EU are Germany, Italy, the Netherlands, Spain , Belgium, France and the United Kingdom. Total exports of Pakistan to the top seven countries account for almost 85 per cent of the Pakistan's export to EU member countries. Of this, the share of United Kingdom is about 23 percent, which is in process of finalizing the **BREXIT** deal. In such case, Pakistan may no more benefiting from the GSP plus opportunity in the UK. Pakistan should enter in to some BTA or FTA with the UK as well to tap the ever growing potentiality of its market.

Epilogue

Pakistan has entered into many BTAs and FTAs after year 2000. These agreements allow nations to build strong trade relationship and bear the fruits of mutually beneficial trade. However, these agreements serve as a stepping stone and require different supporting measure to achieve its objective.

Implementing such a high level agreement with a diverse broad trade dimension for different industries and countries has its own challenges. Countries enter into these agreements with the intention of improve trade but faces the challenges of protecting their own industries in the process. Due to this, these agreements must be constantly reviewed and monitored to examine its impact. There are examples of badly negotiated agreements which skewed the scale towards the partner country or didn’t achieve its objective due to other reasons.

With the tactful and long persuasive efforts by Commerce Division of Pakistan, Indonesia has accepted an amendment in Preferential Trade Agreement on 20 tariff lines which constitutes over 33% of Pakistan’s bilateral exports to Indonesia. This amendment was a result of a long consultative process where Pakistan considered that this agreement was skewed more towards the favor of Indonesia and needs a revisit.

Pakistan-Sri Lanka is capable of being a major trading partner. Tariff and Para-tariff complexities distort the trade potential between these two nations. Tariff concessions counter balances the concessions given in FTA. For ex. Sri Lanka grants a duty free entry to Pakistan’s export to shelled almonds and pistachios when as MFN gets 30% duty for these products. However they impose para tariff of 40% at combined rate which absolutely negates zero duty treatment. Negotiating trade agreements are highly technical subject and these technical complexities deviates the objective of harnessing the trade.

Pakistan has an opportunity of negotiating FTA with US. US is already Pakistan`s biggest trading partner and entering into an FTA Pakistan can increase its export in a very short time. Pakistan has a strategic significance as US is negotiating its exit from Afghanistan. It is therefore necessary that Pakistan should not miss this opportunity and develop a comprehensive preparatory plan for these negotiations.

Pakistan must critically review the trade agreements by identifying the potential, achievement and the revision of these agreements along with engaging with other trading partners for BTAs and FTAs.

Pakistan's trade activity with countries with B/F/PTAs signed (in Million USD)

	2013		2014		2015		2016		2017		2018	
Country	**Import**	**Export**	**Import**	**Export**	**Import**	**Export**	**Import**	**Export**	**Import**	**Export**	**Import**	**Export**
Afghanistan	44.9	1,058.6	49.9	1,244.8	47.4	1,699.3	48.6	1,230.2	48.1	1,133.6	47.6	1,494.4
China	4,726.1	2,698.9	5,979.6	2,687.5	5,996.8	2,321.1	6,077.8	1,905.5	6,162.6	1,624.3	6,172.2	1,750.4
Indonesia	700.3	211.3	893.1	128.1	966.9	137.3	1,020.8	126.1	1,054.2	152.9	17.6	246.1
Iran	21.6	94.5	0.6	54.5	0.5	31.4	0.7	30.6	0.6	29.8	0.6	17.6
Malaysia	1,772.8	212.5	1,277.6	200.7	1,161.8	187.8	1,130.9	144.5	1,107.3	138.6	1,080.5	153.1
Mauritius	4.7	32.4	10.2	38.7	10.8	36.2	10.9	28.5	11.3	23.2	8.9	25.0
Sri Lanka	67.1	344.9	59.0	260.2	57.8	252.5	57.3	257.0	56.0	250.7	55.2	339.4
U.S.A.	1,018.0	3,887.3	1,125.6	3,952.5	1,133.1	3,960.9	1,128.1	3,717.5	1,089.4	3,685.5	1,075.1	3,867.1
European Union	4386.7	5654.5	4316.7	6595.0	4276.2	6925.2	4602.8	6770.9	5157.1	7028.2	6241.6	7952.7
UK	825.6	1370.2	800.9	1600.0	771.5	1637.7	652.7	1628.0	762.4	1619.8	1026.4	1773.5