Research Proposal:
Potential of Export Growth in Pakistan

Manzil Pakistan is a national non-profit think tank dedicated to developing and advocating public policy that contributes to the development of Pakistan. Our aim is to shape Pakistan to a country where policies on decisions of national interest are driven by non-partisan strategic thinking and implemented through consensus in the best interest of the people of Pakistan.

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Introduction and Background

In today's open and globalised economy, international trade is vital for survival and persistence. Governments are now occupied in managing their balance of payments by increasing export and reducing import values. International trade is further made complicated by advancement in technology and increasing influence of socio-political influences over economy.

Currently, Pakistan's economy is in turmoil seemingly because of mislaid trade directions. Over the time government of Pakistan has taken a number of measures to increase exports which among other things include providing raw materials to export industries at zero tariffs (world prices), sharing inland freight with exporters, providing cheap running finance through export refinance schemes and exemption from all taxes and duties to exporters located in export processing zones, providing market excess through Free Trade Agreements (FTAs), Preferential Trade Agreements (PTAs), Generalized System of Preference (GSP), giving a long term trade policy (STPF 2009-12, STPF 2012-15 and STPF 2015-18) etc. It was expected that the exports would increase due to the above-mentioned measures but results show that achievements are well behind desired level.

Manzil Pakistan's Role

Building on government's intention and action Manzil Pakistan has made an elementary effort to identify and highlight potential sectors for export growth. In this regards, short term, medium term and long term strategies are proposed. However, these strategies are subject to detailed study as recommended in the methodology of this proposal. Thus, Manzil Pakistan acknowledge that further due diligence is required to drive any policy recommendation, which can be carried out with anticipated support from Trade Development Authority of Pakistan.

The current document entails and focused on the key export sector of Textile. Besides proposing the recommendations, suggestion and strategies, a brief on the Pakistan's export performance and sectorial performance is also presented in this proposal.

Pakistan's standing in World Trade

Export led growth have been one of the strategies for high economic growth by developing and less developing countries. It is a main source of earnings and foreign exchange; vital to attract foreign investment and create domestic employment opportunities; and enable the country to achieve strong and sustainable growth. As aptly put,

"Trade can lift people of poverty and put them into the middle class"[1]

In developing economies, Export led growth is dependent on resource based export-oriented industries along with the comparative advantage of cheap labour force. However, the scenarios are now changed in highly technological era. Historically, Pakistan has faced intense competition with other developing economies in order to increase its share in world trade.

Table A1
Composition of Export by Technological Classification

Share (%)

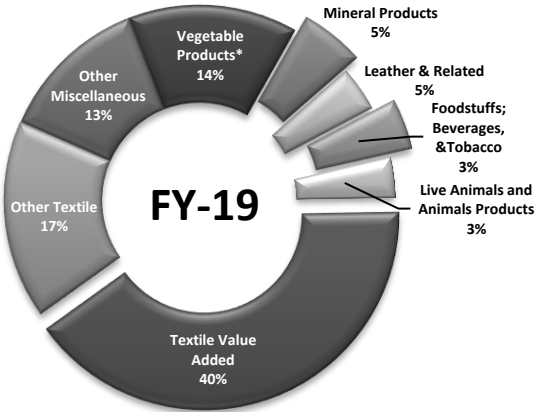
Technology level	Pakistan		World	
	1995	2018	1995	2018
Raw Materials *(Commodities)*	12.8	19.7	10.1	11.5
Resource Based	4.1	8.2	16.5	17.0
Low Technology	69.4	53.4	16.0	13.9
Medium Technology	8.0	6.7	27.2	24.7
High Technology	0.1	0.6	17.2	17.4
Others	5.6	11.6	13.0	15.6

Source: UNCTAD

Pakistan's export is concentrated in raw commodities, resource based and low technology manufactured goods (**Table A1**). These altogether account for more than 85 percent of the total exports. The share of medium technology product also reduced from 8 percent in 1995 to 5.9 percent in 2015. Whereas the share in high-end technological product is remain meager at less than 1 percent (average 0.5 percent during 1995-2015). **Table A1** exhibits a snap shot of the composition of exports by technological classification in 1995 and 2015.

Figure A1
Composition of Total Exports (2018-19)

Share (%)



Note: *Estimates are different from other databases; as SBP estimates include freight and insurance costs and are for the fiscal year (FY), not calendar year (CY).*
** Vegetable products is largely rice export (67 percent) of the classification, while 20 percent edible vegetables, fruits and nuts.*
Source: SBP

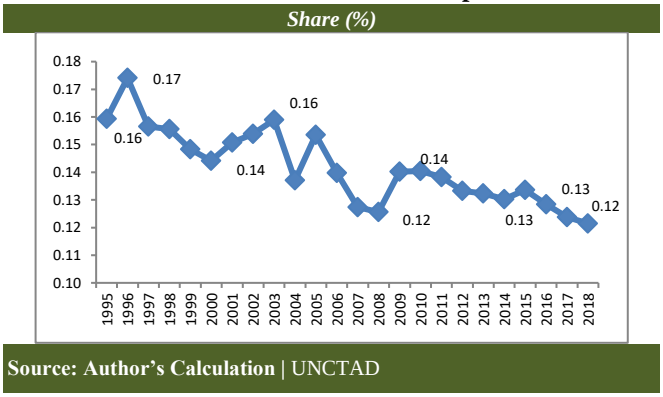
Pakistan's exports are highly concentrated by commodities having backward linkages with the agriculture commodities such as cotton crop and rice (Memon, Baig and Ali, 2008). Currently the majority of exports originate in the textiles sector, which contributes almost 60 percent of foreign exchange earnings. This is followed by exports of rice under vegetable products with a share of 12 percent in FY16

[1]Business Recorder dated October 9, 2019, pg 18

(FY15: 12.9 percent). Leather and mineral products account for 5 percent share each in FY16 compared to 5 percent and 7 percent, respectively in FY15 (**Figure A1**).

There is a dire need to shift from resource based, raw export and low tech exports to medium and high tech product as the volume of trade in these areas has grown intensively in the last one or two decades. Foreign investment is needed with local ventures in the FMCG sectors, as well as medium high tech products that include IT related products and Automobiles. These sectors would likely to support the economy by import substitution of products by means of local production.

Figure A2
Pakistan Share in World Exports



Source: Author's Calculation | UNCTAD

Corroborating this recommendation a recent news piece quoted some recommendation where

"*the author suggested that to make the old model of export-led growth still work … countries (like Pakistan) will need to invest in roads, railways, airports, and other logistics infrastructure – and eventually in modern, high-tech factories that can compete with those in the rest of the world*" [2]

[2] Business Recorder dated October 9, 2019, P 18

Review of Strategic Trade Policy Framework

In chart given below two previous Strategic Trade policy Frameworks of Pakistan are compared side-by-side.

Both the policies are focused on export growth and set ambitious targets for same. However, export situation of Pakistan clearly checks that policies missed their mark.

Strategic Trade Policy Framework 2012-15	***Strategic Trade Policy Framework 2015-18***	***Remarks***
Major Targets/goals:	Major Targets/goals:	
1- Make export sector as an engine of growth in short as well as long term	1- Enhancement of annual exports to US$ 35 Billion	Pakistan's export for FY19 is USD 23.99 billion. In STPF-15-18 target export level was revised down to USD $35billion which has been missed by nearly 30%
2- Enhance Pakistan's export competitiveness	2- Improve Export Competitiveness	
3- Increase Pakistan's cumulative exports to $ 95 billion during 2012-15	3- Transition from "factor-driven" economy to "efficiency-driven" and "innovation-driven" economy	
	4- Increase share in regional trade	

Table 1 Comparison of STPFs of Pakistan

Many loopholes pointed out in these policies include:

- Obliviousness to import dynamics and inclusion in the policy.
- Lack of co-ordination among Ministries for implementation of the policy.
- Over dependence on current export products, little efforts for product diversification
- Misled analysis of FTAs and PTAs.
- Overhaul policies are long term, and thus require more time than 3-years.

Many initiatives announced in the policies are taking time to be implemented for example, establishment of Pakistan Land Port Authority (PLPA) was announced in STPF-2012-15 but it's still in progress in 2019.As the latest STPF has ended its stipulated duration Ministry of commerce is engaged with stakeholders to formulate new policy and this time for period of 5-years. Multiple news briefs have been shared for announcement of said policy but no final verdict has been heard till date.

Export Classifications of Pakistan Over-10 years

Table 2 shows commodity concentration in Pakistan's total export. Top-10 commodities at average constitute around 65% of total exports, which are majorly textile products.

Export Concentration Index is calculated as a sum of squared shares of products constituting a country's exports. It ranges from 0 to 1, where 0 depicts perfect diversification and 1 show that the exports are concentrated on a single product. Here Pakistan scored 0.20 in 2015 (India-0.12, Vietnam-0.16 and Bangladesh-0.40). Apparently, diversification approach doesn't help to explain Pakistan's issue.

However, further analyses of export commodities show that nearly all the products are either resource based or are of low-tech where any value addition doesn't create much impact on final value of commodity. In this context Pakistan's diversification hampers its way towards specialisation like in case of Bangladesh.

Commodity (percent) share in total exports over 10-years							
S. #	**Commodity**	**FY10**	**FY12**	**FY14**	**FY16**	**FY18**	**FY19**
01	Knitwear	10.62	9.53	8.83	10.58	10.76	11.88
02	Readymade Garments	4.97	5.91	7.38	9.88	10.20	10.70
03	Bed Wear	8.46	7.93	8.30	9.75	9.66	9.77
04	Cotton Cloth	9.69	10.76	11.00	10.69	8.96	9.05
05	Rice	11.00	8.63	8.48	8.49	7.96	8.46
06	Chemical & Pharmaceutical Products	4.41	5.26	4.58	4.82	5.72	5.10
07	Cotton Yarn	6.38	7.04	8.26	5.80	5.14	5.00
08	Towels	3.11	2.85	3.04	3.30	3.09	2.97
09	Made-up Articles (incl.Other Textile)	1.69	1.69	2.28	3.21	3.02	2.92
10	Sports Goods	2.01	2.15	2.36	2.47	2.27	2.16
11	Leather Manufactures	1.29	1.77	1.99	2.24	2.53	2.10
12	Fish & Fish Preparations	1.14	1.41	1.48	1.51	2.01	1.91
13	Surgical Goods & Medical Instruments	1.43	1.38	1.52	1.94	1.82	1.82
14	Fruits	1.19	1.01	1.25	1.51	1.63	1.82
15	Cement	2.63	2.09	1.96	1.59	0.92	1.22
16	Art,Silk & Synthetic Textile	2.11	2.71	1.72	1.26	1.21	1.18
17	Leather Tanned	2.31	2.01	2.38	1.92	1.46	1.10
18	Vegetables/Leguminous Vegetable	0.61	0.49	0.59	0.69	0.70	1.09
19	Petroleum Crude	0.00	0.00	0.08	0.00	0.01	1.08
20	Solid Fuel including Naptha	0.90	2.44	2.84	1.57	1.42	1.02
A	**Total Share (Top-10 of FY19)**	62.33	61.73	64.52	69.01	66.77	67.99
B	**Total Share (Top-20 of FY19)**	75.94	77.04	80.31	83.23	80.49	82.34
Source: State Bank of Pakistan							

Table 2 Commodity Share in Export

Export Markets of Pakistan Over-10 years

S.#	Country	FY10	FY12	FY14	FY16	FY18	FY19
1	U. S. A.	18.35	16.42	15.91	17.04	15.93	16.82
2	China	6.24	8.67	10.82	8.73	7.21	7.72
3	U. K.	5.79	5.42	6.44	7.46	7.30	7.32
4	Germany	4.28	4.79	4.71	5.58	5.62	5.44
5	Afghanistan	6.21	5.74	5.01	5.64	6.15	4.97
6	U. A. E. Dubai	6.12	5.99	5.27	3.97	4.68	4.66
7	Netherlands (Holland)	1.69	1.77	2.08	2.55	3.21	3.95
8	Spain	2.18	2.22	2.58	3.61	3.88	3.87
9	Italy	3.13	2.81	2.70	2.94	3.17	3.35
10	Bangladesh	2.32	2.75	2.91	3.18	2.99	3.10
11	Belgium	1.85	1.95	1.90	2.31	2.64	2.54
12	France	2.17	2.00	2.12	1.97	1.88	1.85
13	Saudi Arabia	2.06	1.90	2.02	2.05	1.31	1.37
14	India	1.34	1.39	1.70	1.83	1.73	1.30
15	Sri Lanka	1.48	1.25	1.05	1.18	1.40	1.27
16	Turkey	2.43	2.53	1.47	0.98	1.36	1.25
17	South Korea	1.14	2.09	1.55	1.15	1.31	1.25
18	Canada	1.05	0.94	1.01	1.06	1.09	1.19
19	Singapore	1.18	0.58	1.60	1.30	1.28	1.10
20	Poland	0.23	0.31	0.46	0.75	0.90	1.03
A	**Total Share (Top-10 of FY19)**	56.31	56.58	58.43	60.70	60.15	61.19
B	**Total Share (Top-20 of FY19)**	71.25	71.50	73.31	75.28	75.04	75.33
C	**Total Share (Europe)**	23.77	23.80	24.46	28.15	29.95	30.59
D	**Asia**	19.90	22.47	24.64	23.01	22.08	20.70

Source: State Bank of Pakistan

Table 3 shows country wise percentage share of Pakistan's total export. Top-10 countries average make up around 59% of exports, where further majority is taken by USA. High reliance of one country's export over other makes it equally prone to inherent threats of partner economy, which can be seen in case of Pakistan.

Country (percent) share in total exports over 10-years							
S.#	Country	FY10	FY12	FY14	FY16	FY18	FY19
1	U. S. A.	18.35	16.42	15.91	17.04	15.93	16.82
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4	Germany	4.28	4.79	4.71	5.58	5.62	5.44
5	Afghanistan	6.21	5.74	5.01	5.64	6.15	4.97
6	U. A. E. Dubai	6.12	5.99	5.27	3.97	4.68	4.66

7	Netherlands (Holland)	1.69	1.77	2.08	2.55	3.21	3.95
8	Spain	2.18	2.22	2.58	3.61	3.88	3.87
9	Italy	3.13	2.81	2.70	2.94	3.17	3.35
10	Bangladesh	2.32	2.75	2.91	3.18	2.99	3.10
11	Belgium	1.85	1.95	1.90	2.31	2.64	2.54
12	France	2.17	2.00	2.12	1.97	1.88	1.85
13	Saudi Arabia	2.06	1.90	2.02	2.05	1.31	1.37
14	India	1.34	1.39	1.70	1.83	1.73	1.30
15	Sri Lanka	1.48	1.25	1.05	1.18	1.40	1.27
16	Turkey	2.43	2.53	1.47	0.98	1.36	1.25
17	South Korea	1.14	2.09	1.55	1.15	1.31	1.25
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19	Singapore	1.18	0.58	1.60	1.30	1.28	1.10
20	Poland	0.23	0.31	0.46	0.75	0.90	1.03
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C	**Total Share (Europe)**	23.77	23.80	24.46	28.15	29.95	30.59
D	**Asia**	19.90	22.47	24.64	23.01	22.08	20.70
Source: State Bank of Pakistan							

Table 3 Country Share in Exports

Export Composition Breakdown of Some Emerging Economies

Overview of exports breakup of some of the current emerging economies provides us some important conclusions which are as follows:

1- Countries (Vietnam and Turkey) that showed stellar growth in exports have mix of high to low tech export commodities. Both the countries have taken serious politico-economic reforms to implement long term infrastructure and policy initiatives that helped build environment conducive for long term investment.

2- Bangladesh is the country which has focused on strict specialisation in fabric processing.

3- Whereas, Pakistan neither has technology mix in commodities nor it specialises in any of the specific process/commodity (the two identified approaches for export growth).

Bangladesh

Export Category	Value (USD)	Share in total export (%)	Tech-Classification
Knit or crochet clothing, accessories	18.9 billion	44.90	Low-technology
Clothing, accessories (not knit or crochet)	17.7 billion	42.00	Low-technology
Miscellaneous textiles, worn clothing	1.1 billion	2.50	Low-technology
Footwear	936.4 million	2.20	Low-technology
Paper yarn, woven fabric	641.6 million	1.50	Low-technology
Fish	525.5 million	1.20	Low-technology
Headgear	302.6 million	0.70	Low-technology
Leather/animal gut articles	293.7 million	0.70	Low-technology
Raw hides, skins not furskins, leather	166.5 million	0.40	Low-technology
Tobacco, manufactured substitutes	105.4 million	0.20	Low-technology
Source: http://www.worldstopexports.com/bangladeshs-top-10-exports/ (Accessed on 15-Oct-2019)			

Table 4 Bangladesh's Export Composition

Vietnam			
Export Category	**Value (USD)**	**Share in total export (%)**	**Tech-Classification**
Electrical machinery, equipment	117.2 billion	40.40	Medium-high-technology
Footwear	22.7 billion	7.80	Low-technology
Machinery including computers	15.9 billion	5.50	High-technology
Clothing, accessories (not knit or crochet)	15.9 billion	5.50	Low-technology
Knit or crochet clothing, accessories	14.8 billion	5.10	Low-technology
Furniture, bedding, lighting, signs, prefab buildings	9.8 billion	3.40	Low-technology
Optical, technical, medical apparatus	6.2 billion	2.20	Medium-high-technology
Fish	5.6 billion	1.90	Low-technology
Coffee, tea, spices	4.4 billion	1.50	Low-technology
Leather/animal gut articles: $4.2 billion	4.2 billion	1.50	Low-technology
Source: http://www.worldstopexports.com/vietnams-top-10-exports/ (Accessed on 15-Oct-2019)			

Table 5 Vietnam's Export Composition

Pakistan			
Export Category	**Value (USD)**	**Share in total export (%)**	**Tech-Classification**
Miscellaneous textiles, worn clothing	4.1 billion	17.10	Low-technology
Cotton	3.5 billion	14.90	Low-technology
Knit or crochet clothing, accessories	2.9 billion	12.00	Low-technology
Clothing, accessories (not knit or crochet)	2.6 billion	10.90	Low-technology
Cereals	2.4 billion	9.90	Low-technology
Leather/animal gut articles	662.7 million	2.80	Low-technology

Sugar, sugar confectionery	519 million	2.20	Low-technology
Mineral fuels including oil	499.5 million	2.10	Low-technology
Beverages, spirits, vinegar	453.1 million	1.90	Low-technology
Salt, sulphur, stone, cement	445.4 million	1.90	Low-technology
Source: http://www.worldstopexports.com/pakistans-top-10-exports/ (Accessed on 15-Oct-2019)			

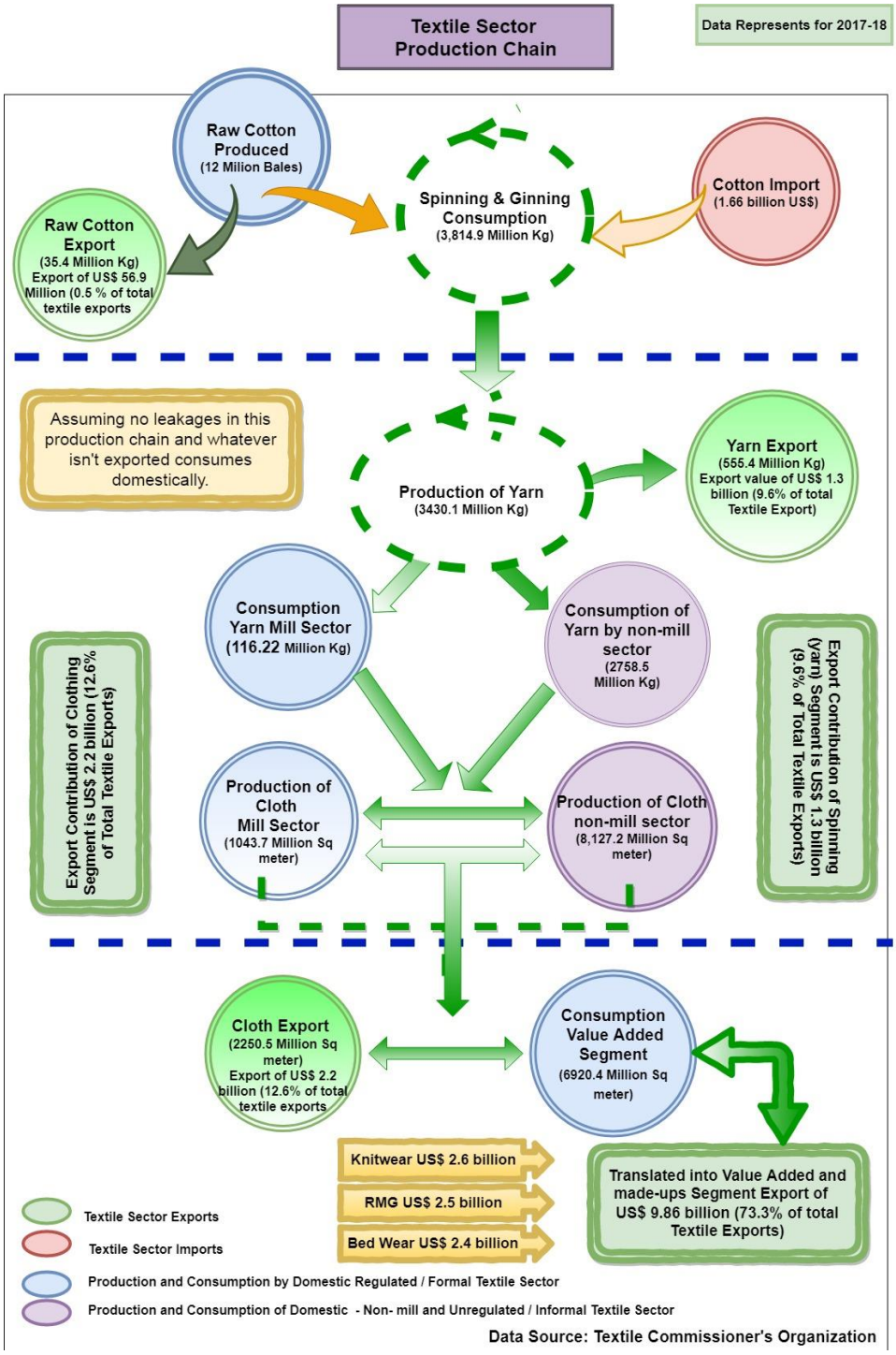
Table 6 Pakistan's Export Composition

Turkey			
Export Category	**Value (USD)**	**Share in total export (%)**	**Tech-Classification**
Vehicles	26.8 billion	15.90	Medium-high-technology
Machinery including computers	15.8 billion	9.40	High-technology
Iron, steel	11.6 billion	6.90	Medium-low-technology
Knit or crochet clothing, accessories	9.1 billion	5.40	Low-technology
Electrical machinery, equipment	8.7 billion	5.20	Medium-low-technology
Gems, precious metals	7.2 billion	4.30	Medium-low-technology
Articles of iron or steel	6.5 billion	3.90	Medium-low-technology
Clothing, accessories (not knit or crochet)	6.3 billion	3.70	Low-technology
Plastics, plastic articles	6 billion	3.60	Medium-low-technology
Mineral fuels including oil	4.4 billion	2.60	Medium-low-technology
Source: http://www.worldstopexports.com/turkeys-top-10-exports/ (Accessed on 15-Oct-2019)			

Table 7 Turkey's Export Composition

Pakistan's Textile Sector Industrial Key Backward and Forward Linkages

Both the raw-form textile sector (particularly the agriculture cotton production and ginning sector) and value added sectors are corresponding to each other. The consequent vertically integrated sectors after ginning starts from spinning further integrating with weaving followed by the high-end value added and made-up segment which includes Ready Made Garments (RMGs), Apparel, Knitwear, Bed-wear, Towels and other made-up articles etc.



Pakistan's Textile Sector Low-end and High-end Segment Classification

Sector Classification: Sector includes cotton spinning, cotton cloth, cotton yarn, cotton fabric, fabric processing, home textiles, towels, hosiery and knitwear and readymade garments. Over 75% of the industry falls under small and medium enterprises (SMEs), (FBR, 2014). The study classifies the sector into two major segments:

1. Low-end value added segment (Other Textiles): constitutes the raw cotton, cotton spinning, cotton cloth, cotton yarn, cotton fabric and fabric processing, whereas,
2. High-end value added segment (Textile value added): include made-ups in home textile (bed-wear), towels, hosiery, knitwear and readymade garments (including fashion apparels).

As can be seen from above illustration, the Pakistan's high-end value added segment, contributes almost three-fourth (73.3 percent) of the total exports of the textile sector and almost 40 percent of the total exports of the country. However, the dilemma is that the high-end value added segment is the most vulnerable segment because of its composition in small scale and informal economy.

Pakistan's High-end Value Added Segment Classification

Following is the classification into different production tiers of high-end value added and made-up segment which includes Ready Made Garments (RMGs), Apparel, Knitwear, Bed-wear, Towels and other made-up articles etc.

Large Scale Manufacturing (Tier-1):
Large Scale Manufacturing (tier-1) primarily comprises of those units which are exporting directly. During the peak season and at times subcontract their order to medium (tier-2) and low scale (tier-3) manufacturers. The manufacturers of this particular category follow the norms of high-end value segments and do hires workers on contract basis and at times through sub-contractors. The number of stitching machines use by this class of manufacturer is 500 plus.

Medium Scale Manufacturing (Tier-2):
Due to limitation of resources (financial and infrastructure), the units in the industry takes export orders from small international buyers with small orders. They also take the CMT (Cut, Make and Trim) orders from the Tier-1 units in the industry. The hiring of the labour/worker is done largely through the sub-contractors working in the sector/industry. Medium scale manufacturing units (tier-2) usually works with a range of 100-500 stitching machines.

Low Scale Manufacturing (Tier-3):
The tier-3 category is very small units working with less than 100 stitching machines. There are thousands of units existing in this particular category which are mostly found in the informal sector. These units do not export directly and mostly service to Tier-1 and Tier-2 units for their export orders. The segment also caters the units producing for domestic markets. All workers of low scale manufacturing category are hired directly, and the compensation is either based on daily rates or piece rates.

*A large proportion (more than 80 percent) of the readymade garment industry falls under the category of SMEs, and mostly falls under the informal economy (SMEDA, 2006).

1. Potential Measures for Export Boost in Short Run

1.1 Bringing Efficiency and Full Capacity Utilization (Overall Textile Sector)

At present, the industry consists of a large scale organized sector as well as highly fragmented cottage/small scale sector. The organized sector is essentially the integrated Textile Mills – large number of spinning units and a very small number of shuttle less looms units. The downstream industry (Weaving, Finishing, Garment, Towels & Hosiery), which has a great export potential, largely exists (more than 80 percent) in un-organized sector. Some units have well grown to the international scale and are progressive in business philosophy.

1.1.1 Low-end value added Segment Efficiency

The efficiency in the low-end value segment has also been compromised due to many reasons. The spinning sector capacity utilization stood around 85 percent, reflecting a potential export loss of US$ 0.2 billion. Whereas the weaving sector efficiency loss of around 35 percent translates into US$ 1.17 billion. Thus, the low-end value added segment underutilization of capacity translates into a loss of US$ 1.4 billion in a fiscal year.

Capacity & Capacity Utilization (Textile Low-end Value Added Segment)		
CAPACITY	**2017-18**	**Capacity Utilization**
Spindles (Millions)	13.410	84.18%
Rotors	198,801	61.98%
Looms (Mill Sector)	9,084	65.0%

The above loss is based on an assumption that underutilized capacity would have been directly exported. However, in case of value added chain as explained earlier in an illustration, the total loss of textile sector would be higher. This is based on the assumption that the full utilized capacity will feed into high-end value added segment, which entails more revenues and more margins in the international market. Based on this, the sector has a potential loss of over US$ 3.5 billion due to underutilization of existing capacity.

1.1.2 Overall Textile Sector Efficiency

According to the report of Textile Commissioner in 2019, ***the textile sector has been underutilized by about 21 percent of its existing capacity***.

To evaluate the potential loss and potential export, we developed certain assumptions (as provided below) which allowed us to estimate the projected potential loss and potential export. With the existing infrastructure, ***if utilized properly and efficiently,*** the exports of the sector would increase by about a maximum US$ 3.82 billion (ranges between US$ 2.8 billion to US$ 3.8 billion). The sectorial calculation is provided below:

Assumptions:

- The share of mill and non-mill sector in Consumption, production and exports remains same.
- Domestic Cotton Production + Cotton Import = Input Demand of Textile Sector
- Sectorial share of export remains the same.
- Non- Operational unit's productivity is homogenous.
- All additional production would contribute to the export.

Category	2017-18	Potential Loss	Potential Export
Raw Cotton	0.058	0.015	0.074
Cotton Yarn	1.372	0.365	1.736
Yarn Other than Cotton Yarn	0.033	0.009	0.042
Cotton Cloth	2.204	0.586	2.789
Hosiery & Knitwear	2.720	0.723	3.443
Bed Wear	2.261	0.601	2.862
Towel	0.797	0.212	1.009
Tents/Canvas	0.085	0.023	0.108
Ready Made Garments	2.579	0.686	3.265
Synthetic Fabrics	0.310	0.082	0.392
Other Made-Ups	0.683	0.182	0.865
Other textile Products	0.428	0.114	0.542
Carpet and Carpeting	0.076	0.020	0.096
Total	**13.61**	**3.62**	**17.22**

*In $ Billion

*Data Source: Textile Commissioner's Organization Annual Report 2019

1.2 Increases in Agriculture Production of Cotton

Pakistan exports as well as import cotton. Imported cotton being subject to high duties increases cost of production. Side by Side analysis of import and export commodities need to be carried out to identify crop planning and crop demand patterns, so that export then import of similar commodities is minimized.

For instance, during the current year 2019-20, Pakistan has imported over 4.5 million cotton bales that would cost around US$ 1.5 billion, owing to 33 percent decline from the target set for the cotton production in the current fiscal year season. Imports of such a large quantity would not only increase the country's import bill, but also the cost of value-added production. This increases the cost of value-added production thus affects the competitiveness of the Pakistan's Textile sector in the global market. According to All Pakistan Textile Mills Association (APTMA) short fall of 33 percent in cotton production translates to a drop of 2 percent GDP.

Pakistan Agricultural Research Council, other agri based research authorities at federal and provincial level and other authorities linked to agricultural economy should work out to increase the production of the cotton in the country. This would not only increase the supply of local cotton to the value added sector but also translates in to reduction of import bill as well as increase the raw cotton exports of the country.

2. *Potential Measures for Export Boost in Medium Term*

2.1 Increase Share in Existing Markets

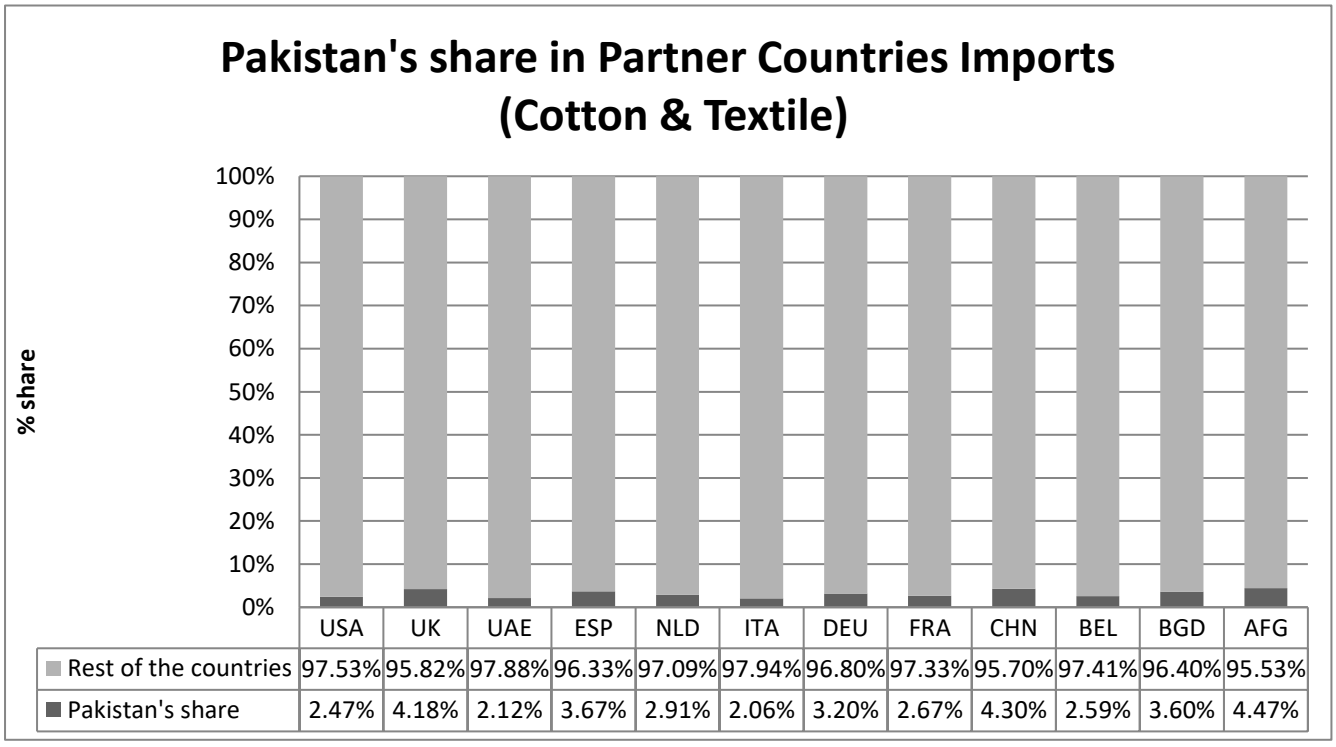
Along with exploring new markets, emphasis should also be made for further penetration in existing markets. This target can also be achieved by increasing production i.e working to max capacity available.

Pakistan's share of total imports of their trade partners is negligible Pakistan should initially focus on increasing export share in existing markets and simultaneously work on product diversification. Also competition analysis can be done by studying other suppliers of same commodity of importing country.

Pakistan's share in partner country's imports	
Country	**Percent Share**
China	0.1
Germany	0.2
USA	0.2
Source: Country brief on China, R&D Department, FPCCI, Accessed on October 9, 2019	

Table 8 Pakistan's share in other country's imports

In particular Pakistan's share in partner country's imports is dismal in cotton and textile



	USA	UK	UAE	ESP	NLD	ITA	DEU	FRA	CHN	BEL	BGD	AFG
Rest of the countries	97.53%	95.82%	97.88%	96.33%	97.09%	97.94%	96.80%	97.33%	95.70%	97.41%	96.40%	95.53%
Pakistan's share	2.47%	4.18%	2.12%	3.67%	2.91%	2.06%	3.20%	2.67%	4.30%	2.59%	3.60%	4.47%

Table 9 Pakistan's share (cotton and textile)

sector. Highest share that Pakistan enjoys is with Afghanistan at 4.47%.

2.1.1 USA Market

USA is major trading partner of Pakistan for textile and apparel exports; however the case is not similar at US's end, where Pakistan's share is only 3% (approx.) in its total textile and apparel imports. Whereas Vietnam enjoys 12 percent share, followed by India at 7 percent and Bangladesh at 5 percent share in the USA market.

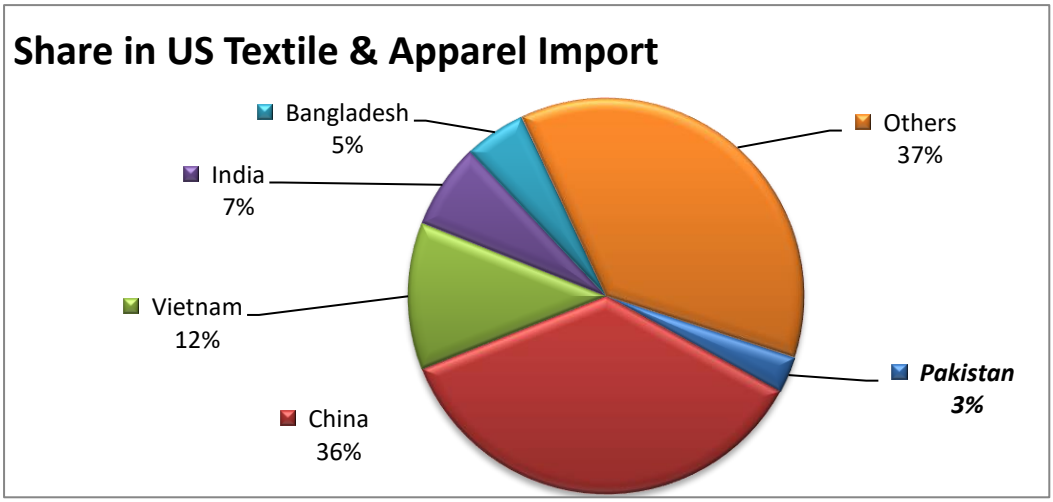


Figure 1 Share in US Textile& Apparel Import

2.2 European Market, GSP Plus and Pakistan's Exports

Historically, Pakistan has had difficulty in competing in the EU market because of immense competition from developing and least developed economies exporting to EU market with preferential access that includes Bangladesh, Sri Lanka, Turkey, Morocco, Tunisia and Mexico (Pasha, 2014). GSP plus do not only enable the domestic industry to compete with the countries having preferential access but also provided edge against the highly competitive countries having limited or no preferential access such as India and China. India has only limited concession for apparel under the standard GSP. Using evidence based approach, the importance of the preferential scheme can be realized from the trends of exports in the European Union member countries and the significant impact can be seen in the first two years of preferential access.

Table A2
Major Exporters to EU

Exports / Countries/Groups	Percent Share (%) 2012	2014	2017	2018
Total Exports to EU				
Bangladesh	0.22	0.28	0.35	*0.34*
China	5.74	6.15	6.52	*6.38*
India	0.83	0.85	0.90	*0.90*
Pakistan	0.09	0.12	0.13	*0.12*
Turkey	1.03	1.14	1.31	*1.33*
Textile Exports to EU Markets				
Bangladesh	4.82	5.32	6.70	*6.67*
China	18.93	20.10	17.27	*18.06*
India	3.37	3.51	3.35	*3.05*
Pakistan	1.67	1.95	2.23	*2.14*
Turkey	6.24	6.21	5.79	*5.40*

Source: Authors estimates | UNCTAD

Developing economies are largely competing with Pakistan in exports to European markets. The share of these countries in overall exports and textile sector exports are exhibited in the Table A2. Amongst the major exporters, china lead with the highest share of 6.84 percent in 2015, followed by Turkey (1.23 percent) and India (0.86 percent). Pakistan's share in the European market has increased from 0.09 in 2011 to 0.13 in 2015. In textiles, China leads

with its share of over 20 percent, followed by Bangladesh (6.23 percent) and Turkey (6.05 percent). Pakistan share in textile exports improved considerably from 1.67 percent in 2012 to over 2 percent in 2015. The increase is mainly attributed to preferential access granted to Pakistan in 2014. The growth in the share of textile exports is more pronounced, however, the percentage share remained lowest in overall exports and textile sector exports amongst the competing countries that include China, India, Turkey and Bangladesh. The low share of Pakistan amongst the competitive countries is attributed to its less competitiveness in the global market.

2.2 Impact of Trade Agreements on Trade Balances

Re-negotiate already negotiated free/preferential trade agreements as Pakistan is facing trade deficit with partner countries

In million USD	Pre-Trade Agreement	Post-Trade Agreement	Current
Pak-Indonesia PTA	**2013**	**2014**	**2018**
Export	211.29	128.07	246.10
Import	700.31	893.13	1087.60
Net flow	**(489.03)**	**(765.06)**	**(831.50)**

In million USD	Pre-Trade Agreement	Post-Trade Agreement	Current
Pakistan Malaysia FTA	**2006**	**2007**	**2018**
Export	63.08	73.25	153.10
Import	637.15	802.07	1080.50
Net flow	**(574.07)**	**(728.82)**	**(927.40)**

In million USD	Pre-Trade Agreement	Post-Trade Agreement	Current
Generalized Scheme of Preferences (GSP+) of European Union	**2014**	**2015**	**2018**
Export	6,594.99	6,925.24	7952.70
Import	4,316.71	4,276.16	6241.60
Net flow	**2,278.28**	**2,649.07**	**1711.10**

In million USD	Pre-Trade Agreement	Post-Trade Agreement	Current
China Pakistan FTA (billion USD)	**2009**	**2010**	**2018**
Export	660.808	1210.678	1750.40
Import	2708.344	3283.84	6172.20
Net flow	**(2,047.54)**	**(2,073.16)**	**(4421.80)**

In million USD	Pre-Trade Agreement	Post-Trade Agreement	Current
Trade& Investment Framework Agreement (TIFA) between Pakistan and USA		**2004**	**2018**
Export	-	2,763.52	3867.10
Import	-	974.81	1075.10
Net flow	**-**	**1,788.70**	**2792.00**

Table 10 Pakistan's import/exports before and after Trade Agreement

Our analysis of Pakistan's imports and exports right after signing various Trade Agreements (selected only), shown in Table 10, depicts that most of the agreements skew towards benefit of partnering economy except FTA with USA, which makes it imperative that these agreements be revisited. Positive net flows in the table below reveals Pakistan is the beneficiary of FTAs/ PTAs, while negative net flows (figures in parenthesis) reveals the partner country largely benefiting from the trade agreement. Except US and GSP plus countries (Europe), Pakistan is on the beneficiary side, while on the larger end in other FTAs and PTAs, Partners countries are largely benefiting from it. Following are some selected trade agreements and the status of net flow of foreign exchange.

2.3 Capital Investment and Capacity Enhancement in Existing Textile Sector

In the medium term, following the above measures, one of the key measures that are needed to be consistent is the increase in capacity of the key textile export sector of Pakistan. The BMR in the textile sector is not at par with the export growth potential.

As the debate continues as to how Pakistan may achieve better economic growth, several experts have correctly identified the immediate need for economic stability to attract investment and propel growth. The lack of adequate investment in Pakistan has been contributing to adverse economic conditions. According to data from the World Development Indicators, Pakistan reported the gross fixed capital formation (GFCF) as a percentage of GDP, which indicates the level of investment outlay, at 14.5% in 2017. In comparison, the average for the South Asian region was 27.2%. In 2011, the value for Pakistan was 12.5%, the lowest since 1973.

Sustained investments in manufacturing activities are crucial. Value addition by the manufacturing sector as a percentage of GDP in Pakistan was the highest ever in 2005, peaking at 17.5%. It was the only instance in the last four decades when the value addition beat the average for the South Asian region. Unfortunately, this increase could not be sustained as the value addition collapsed to 13% in 2016. In 2017, it was below 12%.

Pakistan is one of the largest producers of cotton in the world and the textile industry is the largest contributor to GDP within the manufacturing sector. Hence, its contribution to the economy cannot be discounted. However, the investment by domestic producers has lagged behind compared to other countries, which have experienced significant gains in textile exports in recent years.

According to the data extracted from the ITC's Trademap.org, between 2003 and 2006, Pakistan imported $2.3 billion of textile machinery. However, between 2007 and 2012, the

total imports of textile machinery decreased to $1.96 billion. Even between 2015 and 2018, when Pakistan benefited from the GSP Plus status from the European Union and export enhancement programmes offering a boost to textile exports, total imports of textile machinery stood at only $1.72 billion.

In 2005, Pakistan imported more textile machinery than Bangladesh and Vietnam combined. In 2017, the value was almost 60% of what reported by Vietnam and 67% of the figure reported by Bangladesh.

In 2005, textile exports from Pakistan were higher than exports from both Bangladesh and Vietnam. In 2017, the two countries considerably outperformed Pakistan. The lack of new investments in the textile industry has contributed to the decline in exports.[3]

3. Potential Measures for Export Boost in Long Run

Policies are needed to introduce medium-to-high tech products in export basket to diversify export composition, for which it is important that long-term and coherent Investment, industrial and trade policies are made. Pakistan can learn from the transformation of Vietnam economy from low-tech export country to a high-tech export economy.

Vietnam has been seen as a rising star for high-tech industry with the investment from Samsung, Microsoft, Intel, LG in chip and smartphone manufacturing and R&D. USA has now become one of the largest markets of the Vietnam software outsourcing industry. Vietnam also has quickly gained the second position of Japan's largest IT partner. [4]

Vietnam barely had any IT companies 15 years ago, but now there are close to 14,000 IT businesses spanning hardware, software, and digital content. Regional universities churn out hundreds of well-trained IT and software engineering graduates each year. Many are recruited right out of school by companies like Cisco, Fujitsu, HP, IBM, Intel, LG, Samsung, Sony, and Toshiba.

Pakistan also needs to build up foreign direct investment in the high-tech sector as a long term planning. The country needs to provide incentives for technology transfer with wisdom of 10 to 20 years down the road for excellence in the high-tech sector. Beside this, Pakistan also needs to develop institutions for the well-trained graduates in the high-tech and IT sector.

A master plan is needed for building and / or developing high-tech production economic zone(s) in the country, where the dedicated space for IT and software companies, hardware manufacturers, and infrastructure plants powering the country to bring a tech boom in a decade or two.

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[3] https://tribune.com.pk/story/1945738/2-pakistan-needs-set-performance-targets-investment-manufacturing-sector/
[4] https://jp.imt-soft.com/Blogs/News/Vietnam-s-Tech-Boom-A-Look-Inside-Southeast-Asia-s-Silicon-Valley

Suggested Methodology

For comprehensive policy analysis of recommended commodities for export growth following methodology is suggested.

Part-1 Review of Trade Policies

For our future planning to be successful it is essential that we learn from our past mistakes. In this case it is essential that we asses relevant trade policies on account of formulation as well as on implementation, structural support and general reception.

The trade policy review will be based on comparative analysis of Strategic Trade Policy of 2012-15 with 2015-18. Further, implementation in true letter sprit of recent trade policy 2015-18 will also be analysed.

Part-2 Industrial Studies

Detailed industrial studies (initially based on existing export sectors and sub-sectors) need to be carried out to outline fundamentals, this may consist of but not limited to below aspects

- Shortfalls, structural issues & intrinsic challenges
- Capacity in terms of output and demand
- Investment (requirement, availability and sources of investment)
- Statutory support and Laws related to the industry
- Timeline and impact assessment for Import substitution and export potential
- Export potential and global market trends

Part-3 Stakeholder Consultation

For a policy to be successful it is important that all relevant stakeholders are aligned and their respective input and expertise are incorporated. Following measures can be taken to take stakeholders on board.

- Identify national stakeholders (primary, secondary and tertiary)
- Identify international stakeholders
- Reach-out to existing lobbying platforms or associations
- Organise focus groups/ seminar/ workshops

Part-4 Policy Outline

Building on industrial analysis carried out in Part-1 & 2 policy outline will be drafted. The outline should set targets and be reviewed after set and agreed time for review. To draft a sound policy study factors should include but not limited to below aspects

- Map out all available and relevant national and international policies and treaties signed (e.g. trade agreements, compliance conventions etc.).
- Identification of maximum possible linkages and outcomes.
- Identification of target investors.
- International Economic and global environmental factors.

Part-5 Policy Advocacy / Marketing

Drafting a sound policy is essential but actual change comes out when it is implemented. Many policies become redundant because of insufficient advocacy and general misinformation. Below steps can be taken for proper information dissemination.

- Appoint a spokesperson who finds avenues to spread information and handle relevant queries.
- Organise regular review and stakeholder consultation sessions.

Way forward

The all-encompassing study presented in this report is a cursory attempt to build understanding of export dynamics in Pakistan.

- Top-20 export destinations and Top-20 export commodities are analysed for 10-year period that helped in constructing export concentration and technology mix of commodities.
- A brief overview is made of Pakistan's exports share in imports of major trading partners followed by capacity and potential analysis of Pakistan's Textile Industry.
- At policy level goals and achievements of previous trade policies are compared to learn from mistakes and impact assessment of trade agreements on Pakistan trade balances is carried out to take informed direction in international trade.

The preliminary analysis and policy measures (short, medium and long term) provided in previous section are based on experience, overarching studies as provided in this document and general understanding of local and international macroeconomic dynamics. We at Manzil Pakistan duly acknowledge that there is a need to further improve recommendations by basing them on sound data and trade patterns.

At the end Manzil Pakistan within its humble capacity in policy research would like to continue the efforts and intends to assist Trade Development Authority of Pakistan for development of sound policy for export growth.