Improving Regional Trade to Support Pakistan’s Economic Growth

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Agenda

• Importance of Regional Trade
• Pakistan’s Strategic Location
• Pakistan’s Comparative Export Performance
• Reasons for Long Term Decline in Export Performance
• Pakistan’s Regional and Bilateral Trade Agreements
• Regional Transit Agreements
• Way Forward for Improving Regional Trade
• Conclusion
Pakistan’s Strategic Location
Pakistan’s Comparative Export Performance

Source: The World Fact Book
Pakistan’s Long Term Decline in Export Performance

• Inward looking policies

• Nationalization of key industries

• Negligible trade in the region

• High taxes on international trade

• No bench-marking
Trade Routes Prior to 1965

• At present only
  (A) Wagah – Attari is open for limited trade

• Other land crossings that can easily be re-opened:
  (B) Lahore – Patti (Burki road)
  (C) Kasur – Ferozpur (Ganda Singh)
  (D) Sahiwal – Fazilka (linking Southern Punjab)
  (E) Munabao – Khokhrapar rail (linking Sind)

• Open direct shipping routes
  o Karachi-Mumbai
Comparison: Customs Tariff Ranking

Regional Competitors Tariff level rankings

MFN Applied Tariff (AV only) - Trade Weighted Average

Source: WTI
Reducing Import Tariffs and Growth of Exports

Export Trends (PK and Others)

USD billions

Pakistan’s Regional and Bilateral Trade Agreements

Regional Trade Agreements
• **SAFTA**: South Asia Free Trade Agreement (2006)

Bilateral Trade Agreements
• **Free Trade Agreements (FTAs)**
  o Pakistan-China FTA (2007)
  o Pakistan-Malaysia FTA (2007)
  o Pakistan-Sri Lanka FTA (2005)
• **Preferential Trade Agreements (PTAs)**
  o Pakistan-Indonesia PTA (2012)
  o Pakistan-Iran PTA (2006)
  o Pakistan-Mauritius PTA (2007)
Pakistan’s Regional Transit Agreements

- **CAREC**: Central Asia Regional Economic Cooperation Program (2010)
- **APTTA**: Afghanistan-Pakistan Transit Trade Agreement (2010)
- **CBTA**: Cross-Border Transport Agreement among Kyrgyzstan, Tajikistan, and Afghanistan (Pakistan has observer status)
Way Forward

- Carry out serious tariff and trade policy reforms
- Improve connectivity and trade with regional countries
- Become a part of global supply chain through tariff reforms
- Accede to TIR Convention
Importance of Global Supply Chains

- Share of **intermediate goods** increasing compared to finished goods
- Gaining full commercial value in one country is no longer a reality
- Export oriented FDI depends upon countries' tariff structure

**Share of Intermediate Goods**

- 55% Share of intermediate goods in world non-fuel exports in 2011
- 26% Foreign value added in world exports

WTO-ITS 2013
Building Supply Chain – Automotives

- Auto parts (e.g. Suzuki Alto)
  - Suzuki Altos

- Emission standard engines
  - High quality cheaper tractors

- Large engine motorcycles
  - Smaller engine motorcycles
Conclusion

• Pakistan needs to:

  – increase its share of trade within the region to the global average

  – implement its regional trade and transit agreements

  – become a part of the regional and global supply chain

  – redefine its trade and tariff policies
Thank You!
Supplementary slides
Effect of Phasing Out “Import Substitution” Policies: Units of Cars Produced

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2011</th>
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<tbody>
<tr>
<td>China</td>
<td>5,708,421</td>
<td>18,418,876</td>
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<tr>
<td>India</td>
<td>1,638,674</td>
<td>3,936,448</td>
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<tr>
<td>Brazil</td>
<td>2,530,840</td>
<td>3,406,150</td>
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<tr>
<td>Mexico</td>
<td>1,624,238</td>
<td>2,680,037</td>
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<td>Thailand</td>
<td>1,122,712</td>
<td>1,457,798</td>
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<td>Turkey</td>
<td>879,452</td>
<td>1,189,131</td>
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<tr>
<td>Indonesia</td>
<td>500,710</td>
<td>837,948</td>
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Import Substitutions policies eliminated

Import Substitutions policies still in force

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>563,408</td>
<td>533,695</td>
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<td>South Africa</td>
<td>525,227</td>
<td>532,545</td>
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<tr>
<td>Pakistan</td>
<td>153,393</td>
<td>162,194</td>
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</table>
Implementing the TIR Convention

- Pakistan is the only Economic Cooperation Organization-Transit Transport Framework Agreement (ECO-TTFA) country (of 10 total) not yet implementing the TIR system
- TIR implementation was approved in 2002 but is still pending
- Implementing the TIR involves the following:
  - National guarantee associations and customs authorities control access
  - Goods accompanied by TIR Carnet, which serves as the control document in the countries of departure, transit, and destination
  - Duties and taxes covered by an internationally valid guarantee
  - Goods travel in approved secure vehicles and containers
  - Customs control measures taken in country of departure are accepted by the countries of transit and destination
## Comparison: Industrial Tariffs

<table>
<thead>
<tr>
<th>Commodity Group</th>
<th>China</th>
<th>India</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Sri Lanka</th>
<th>Pakistan</th>
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</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>6.5</td>
<td>8.5</td>
<td>4.8</td>
<td>1.9</td>
<td>2.8</td>
<td>8.6</td>
</tr>
<tr>
<td>Plastics and Rubber</td>
<td>9.4</td>
<td>9.5</td>
<td>8.4</td>
<td>13.2</td>
<td>12.6</td>
<td>17.0</td>
</tr>
<tr>
<td>Paper and Paperboard</td>
<td>5.3</td>
<td>9.1</td>
<td>4.4</td>
<td>10.3</td>
<td>12.8</td>
<td>15.8</td>
</tr>
<tr>
<td>Textiles</td>
<td>11.5</td>
<td>9.8</td>
<td>10.8</td>
<td>7.7</td>
<td>6.7</td>
<td>18.7</td>
</tr>
<tr>
<td>Glassware, Ceramic articles</td>
<td>13.4</td>
<td>9.5</td>
<td>7.9</td>
<td>17.9</td>
<td>17.8</td>
<td>24.7</td>
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<tr>
<td>Machinery</td>
<td>8.3</td>
<td>7.2</td>
<td>5.2</td>
<td>5.4</td>
<td>4.9</td>
<td>12.2</td>
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<tr>
<td>Vehicles</td>
<td>13.2</td>
<td>30.2</td>
<td>16.9</td>
<td>17.7</td>
<td>15.5</td>
<td>35.8</td>
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<tr>
<td>Misc Manufactured articles</td>
<td>11.6</td>
<td>9.8</td>
<td>9.5</td>
<td>8.9</td>
<td>19.8</td>
<td>21.3</td>
</tr>
</tbody>
</table>

Average Tariff on Industrial Goods (%)

- **High**
- **Medium**
- **Low**

Source: WTO
Benchmarking Against Regional and Partner Developing Countries

- Pakistan’s tariffs on agricultural products are comparable, but its tariffs on industrial products are much higher.
- Since 2000-2004, Pakistan has become more protective (less competitive) against its competitors.

<table>
<thead>
<tr>
<th>Country</th>
<th>2000-2004</th>
<th>2006-09 Latest</th>
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</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>7.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9.1</td>
<td>8.0</td>
</tr>
<tr>
<td>China</td>
<td>12.6</td>
<td>8.7</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>7.9</td>
<td>8.9</td>
</tr>
<tr>
<td>India</td>
<td>29.5</td>
<td>9.1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>17.4</td>
<td>13.2</td>
</tr>
</tbody>
</table>

Average Tariff on Industrial Goods (%)
Tariff Reforms – India vs Pakistan

Average Tariff on Industrial Goods (%)
Benefits of Improving Trade with India

- Study by Dr. Pasha estimates the following benefits for Pakistan’s economy:
  - 2% additional growth in GDP
  - 200,000 new jobs
  - USD 720 million savings in import bill in the medium term
  - USD 1.3 billion exports to India, compared with USD 300 million at present

- Greater capacity utilization
- Reduce dependence on undiversified export markets
- Efficient and better utilization of resources
Trade Facilitation

• Adopting the following measures would significantly increase regional connectivity and cut trading costs:
  o Risk management
  o Streamlined border procedures
  o Harmonization and simplification of documents
  o Automated processes
  o Information availability

• Implementing the new World Trade Organization Agreement on Trade Facilitation (ATF) and World Customs Organization’s Revised Kyoto Convention (RKC) would achieve the above objectives
Building Supply Chains – Surgical Goods

Increasing Exports through Partnerships

• Sialkot produces high quality surgical goods
• However it’s exports are still low (USD 300 million in 2012)
• With cheaper raw-materials and synergies through India, it can increase exports manifold
• Similar examples in **sporting goods** from Sialkot

Pakistan’s Surgical Goods Cost Margins

- Raw materials (35.0%)
- Forging & shaping (1.5%)
- Miling & machining (5.9%)
- Rough grinding (4.6%)

Pakistan’s Top 10 Countries for Surgical Goods Exports

- **US**: 67 USD million
- **Germany**: 29 USD million
- **UK**: 26 USD million
- **France**: 11 USD million
- **Italy**: 6 USD million
- **India**: 5 USD million
- **Brazil**: 5 USD million
- **China**: 5 USD million
- **Australia**: 4 USD million
- **Japan**: 4 USD million

Source: Surgical Instruments Manufacturers Association of Pakistan (2012)
Building Supply Chains – Plastics and Chemicals

Plastics
• Pakistan imports over USD 1 billion of Polyethylene (300kt) and Polypropylene (300kt)
• Less than 10% are imported from India, whose petrochemical plants are located near Lahore
• Most plastic manufacturing units (over 400) are located near Lahore
• India can import cheaper, high quality plastic goods such as water coolers, bottles and parts from Pakistan

Chemicals
• Pakistan has surplus capacity for soda ash and caustic soda
  o India currently imports these products from more expensive sources
• Huge demand in Pakistan for dyes, colouring materials and organic chemicals
How Well Have Pakistan’s FTA’s Worked?

- Pakistan unable to make use of FTA concessions
  - *Pakistan utilizing 5% of tariff concessions, as against 57% by China*
- Significant diversion of trade towards our FTA partners
  - *e.g. China’s share in Pakistan’s imports increased from 18 to 63% in electrical and electronics*