CONTOURS OF A NATIONAL CHARTER FOR EXPORTS

2020

The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

EXECUTIVE SUMMARY

No nation of Pakistan's size or of its stage of economic development has progressed without a strong manufacturing-led export sector. Yet Pakistan has deindustrialized and lost share of world exports. In an import-reliant and consumption-led economy, Pakistan has suffered from macro-economic imbalances which have led to 22 IMF Programmes since 1958. As part of its **"Make-in-Pakistan"** thrust, the Pakistan Business Council (PBC) has been advocating fundamental reforms to create jobs, promote value-added exports and encourage import substitution. In the **Contours of a National Charter for Exports,** the PBC outlines the directions that a long term export policy must take. "Do nothing new" is not an option. A "business unusual" approach is called for.

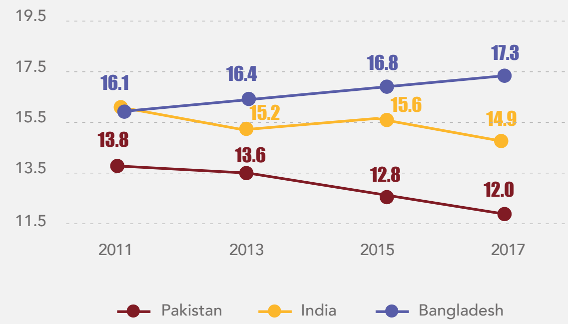
The export policy must be owned and monitored by the Prime Minister to give exports the importance that it clearly deserves. And this policy or charter should be empowering rather than controlling, as many of the policies impacting business in general, and exports in particular, have been controlling and restrictive in the past. Secondly, Pakistan needs to invest to grow exports. This requires a shift from retrospective investment, meaning a percentage of realized export proceeds being utilized for this purpose, to prospective investment, requiring up-front investment in the well-premised strategies of higher and more diversified exports. It also means a more enlightened policy on buying and developing brands as also in allowing exporters to warehouse goods abroad and not being prosecuted for delayed remittances and bad debts. Certainly, integrating into the fast growing online portals abroad will require a totally different approach than hiterto. In a nutshell, the PBC urges a quantum change from a suspecting, doubting, untrusting and controlling to an empowering and more brand-led risk taking approach. At the same time, PBC recognizes that in the past some unscrupulous exporters have misused policies. It is a sad fact that "Made in Pakistan" carries a negative perception abroad. The PBC therefore advocates an in-depth engagement with responsible exporters to develop checks and balances leading to high standards of governance and accountability. Denying the formal, responsible and accountable sector from benefits of an empowered policy because of misuse by others in the past is not valid.

SECTION 01

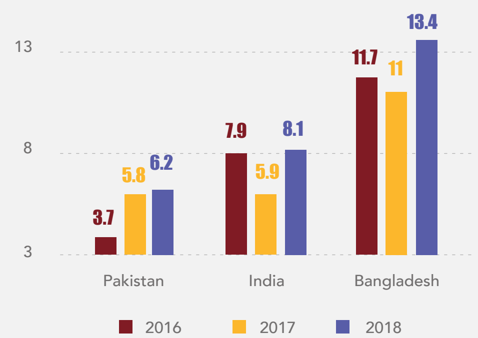
BACKGROUND

Pakistan is deindustrializing prematurely. The role of manufacturing in the economy has been declining and its rate of growth lags far behind our neighbors in South Asia. As a result, over the last decade and a half, Pakistan has lost share of world exports, whilst Bangladesh's share doubled and Vietnam's grew seven-fold. Manufactured goods represent a lower percentage of Pakistan's exports than of Bangladesh, primarily because we export commodities and relatively low value-added goods. Disproportionate burden of taxes on industry; an anti-export and anti-import-substitution bias; until recently, an uncompetitive exchange rate; rampant under-invoicing and misdeclaration of imports; misuse of the Afghan transit trade agreement; blatant smuggling; a fiscal policy that relies on imports for revenue and fails to encourage capital formation, scale, investment or consolidation; together with knee-jerk measures to meet tax revenue shortfall have all worked to thwart the growth of industry. A tariff policy which fails to adequately differentiate between raw materials, intermediate goods and finished products has resulted in rapid growth of imports, often negating the positive impact that trade agreements could bring through cheaper raw materials. As a result, Pakistan is not integrated well into the global value

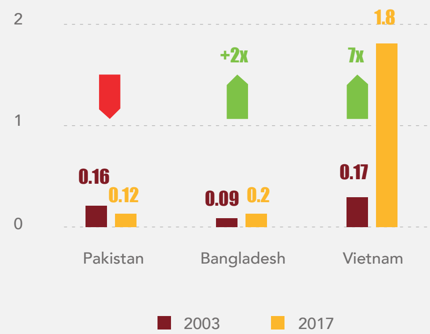
Pakistan is De-industrializing
Manufacturing % of GDP



% Growth of Manufacturing



% Share of World Exports



chains. Poorly negotiated trade agreement with China failed to secure competitive tariffs vs. ASEAN and others for our exports. High energy and labour costs impeded the competitiveness of relatively low value-added, heavily textile-reliant exports. Shortfall in availability of cotton continues to inflate imports and impacts the potential of value-added exports. Subsidies for sugar cane and wheat create uneconomic surpluses, denying industry adequate inputs to add value to exports and promote import substitution. Short-term oriented export policies have not encouraged investment into capacity, product sophistication or adaptation to the changing global demands, as an example, the shift to man-made fibers from cotton. About 70% of Pakistan's value added exports are concentrated on the US and European markets. Energy shortfall, high cost and generally anti-manufacturing policies also discouraged the broadening of exports beyond textiles or of import substitution.

The net impact of the aforementioned is a growing trade deficit and recurring cycles of external account crises; resulting in Pakistan knocking on the IMF and other donor's doors for the 22nd time since 1958 and the 13th occasion in the last 30 years. There is a dire need to conduct fundamental reforms to restructure the economy and strengthen domestic industry. Besides, the country needs to generate 2-3 million jobs for the youth who reach the age of employment every year

Countries with Exports < 10% of GDP

 Pakistan  Sudan

 Afghanistan  Yemen

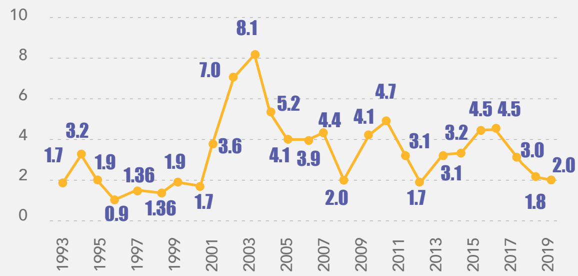
 *Ethiopia

*And Ethiopia is moving swiftly on SEZs**

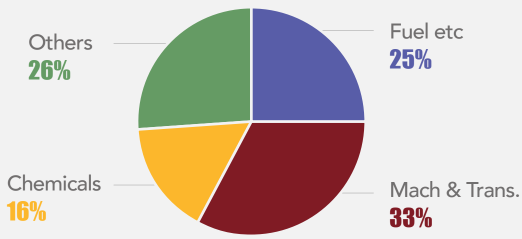
Narrow Product and Regional Diversification

	Total	Textiles	US&EU
Exports	$23 Bn	56%	50%
Textiles	$13 Bn	68%	75%

Import Cover Often <3 Months
22 IMF Programmes Since 1958



74% of Imports Are Unavoidable in the Near Term.
Hence the Imperative to Increase Exports



and for the 5-6 million currently as reportedly unemployed.

With imports outpacing exports by a multiple of more than two and a large part of imports being inelastic in the medium term, there is no choice but to focus on substantially boosting the level of exports beyond the current $23 Bn pa level.

In a "do nothing new" scenario, assuming world demand growth rate is maintained at the average of the last four years and no other supplier country intervenes to gain share at Pakistan's expense, Pakistan's exports in 2023 will amount to US$29 Bn vs US$23 Bn in 2019. However, if imports grow at 4% pa, in line with the expected average medium term growth rate of GDP, by 2023, imports would amount to $ 57 Bn. This would mean that the trade deficit in 2023 of $28 Bn will be higher than the $26 Bn expected in 2020.

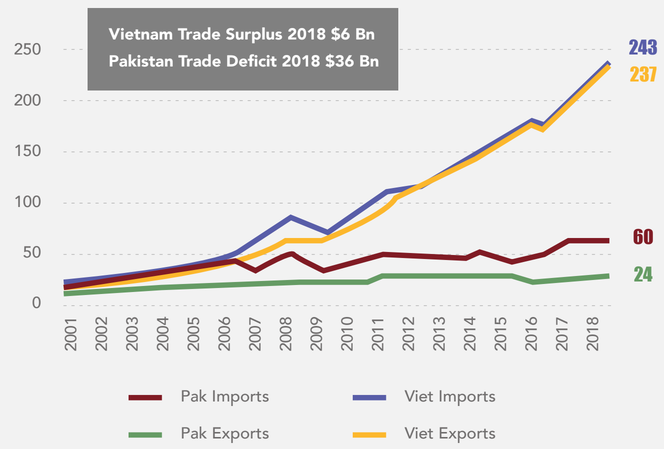
It is however, unrealistic to expect other countries not to adopt aggressive export policies. Therefore, a "do nothing new" export strategy is not a viable option. Pakistan needs to adopt an innovative, "business unusual," export-friendly policy to broaden its export basket, diversify its geographical reach beyond Europe and USA and add more value and sophistication into offerings. Likewise, it needs to focus on export and import substitution of services, which have not received as much attention as goods.

Trade Deficit in a "Do Nothing New" Scenario

	2019	2020	2021	2022	2023
Imports*	55	51	53	55	57
Exports**	23	25	26.5	27.8	29
Deficit	-32	-26	-26.5	-27.2	-28

*If Imports grow in line with GDP
**If no new Export Strategy is adopted

Pakistan and Vietnam: Contrasting Strategies, Sharply Different Outcome



FDI: Vietnam is export focused; Pakistan Is consumption driven

Vietnam

Pakistan

On a positive note:

- security conditions have improved significantly;
- energy outages are less frequent;
- the exchange rate is now more competitive and with that, the gap in labour and utility costs with key competitor countries has largely been plugged;
- the Free Trade Agreement with China has been renegotiated;
- the recently announced National Tariff Policy will bring down the rates of duty on manufacturing inputs, allowing Pakistan to integrate into global value-chains, somewhat as Vietnam has in the last ten years;
- the trade conflict between USA and China and the rising labour cost in the latter is opening opportunities to countries like Pakistan to take over China's role as the "Factory of the World"
- improving political and economic relations with the USA should be beneficial.

Vietnam's Export Mix: Mostly Value-addition on Imported Materials

Phones and their parts
US$49.1 BILLION

Textile & garments
US$30.5 BILLION

Computers, electrical products
US$29.3 BILLION

Fishery products
US$8.8 BILLION

Footwear
US$16.2 BILLION

Wooden products
US$6.3 BILLION

Vehicles and their parts
US$8.0 BILLION

Iron and steel
US$4.5 BILLION

Cameras, video cameras, and parts
US$5.2 BILLION

Machinery, instruments, accessories
US$5.2 BILLION

It would take long term commitment and investment by key stakeholders for Pakistan to become an export engine. This paper sets out the contours of a National Charter for Exports. It is directional in nature and focuses on identifying the key measures required to promote exports rather than trying to project a set of numbers. Global trade is dynamic in nature. All nations try to promote their exports, whilst large importers, such as the US and UK, are increasingly trying to take control and promote their local industry. The PBC is aware of extrapolations estimating Pakistan's export potential at between $50-100Bn in five years, i.e. between 2 to 4 times the current level. Whilst serving to open minds, these projections need to be viewed with caution as they are largely premised on mathematical models which assume a combination of assumptions, foremost amongst which are that world demand will continue to grow in line with recent trends and that Pakistan can preserve and build on its market share, notwithstanding measures by competing nations. The more ambitious estimates assume that Pakistan can build capabilities to become competitive in sectors it is currently absent from, some of which entail heavy investment, often in energy intensive and import reliant industries, generating relatively few jobs. Examples of such sectors are: naphtha cracker and heavy machinery. Others, like auto parts are contingent on domestic scale and the agreement, hitherto denied, by foreign principals to use Pakistan as an export base.

Without getting into a debate on the size of Pakistan's export potential, it suffices to conclude that from the weak and declining share today, the horizontal measures outlined below to promote a meaningful increase do not vary significantly in relation to the potential over a relatively short, five-year time frame. The vertical measures suggested address the gaps and opportunities specific to sectors, and which require further evaluation, which can be supplemented to the policy framework. Therefore, the focus of this paper is on the "how" of the policy framework, rather than the "what" of the size of the export potential. The intent is to start engagement and dialogue with key stakeholders for a new policy framework. As mentioned above, a "do-nothing-new" and "business as usual" will not move the needle substantially on exports. A step-change will require significant change in the export policy in particular and foremost a change in attitude to business.

Whilst the focus of this paper is on export of goods, it is important to set the context of the $23Bn earned from export of goods against the $20Bn remitted through banking channels annually by Pakistanis working abroad and the approx. $1Bn remitted by the Information Technology (IT) and Information Technology Enabled Services (ITES). Thus workers remittances and IT/ITES services produce almost as much foreign exchange as the export of goods. However, the potential of the aggregate of remittances and IT/ITES exports is larger than presently realized and this potential could materialize sooner than the time it may take to grow export of goods by the same amount. It is estimated that $10 Bn is currently remitted annually by overseas Pakistanis through unofficial channels and a further $1 Bn is estimated to be earned but not remitted by the IT and ITES sectors. Thus there is an opportunity to realize an incremental inflow of $11 Bn in a shorter period – 1 to 2 years. It is unrealistic to expect the export of goods to rise by 50% or $11 Bn in the same time period.

The PBC recommends a critical evaluation of incentives currently offered to Pakistanis working abroad and to the exporters of IT and ITES to remit their entire earnings through the formal sector. Informal remittances by Pakistanis abroad are used to fuel the under-invoicing of imports, which results in loss of revenue to the exchequer, besides creating an unfair playing field for the formal industry. The SBP offers incentives to banks to increase formal remittances. However, none are offered to the remitter. By offering an exchange rate approximating the open market rate, Pakistanis working abroad would be dis-incentivized to use the Hawala channel. Similarly, exporters of IT and ITES would also have additional incentive to remit. An alternative incentive for the latter could be rebates, as offered to exporters of goods. The IT and ITES sector should also be provided working capital loans at reduced cost, like exporters of goods. Additionally, loans should be provided against the collateral of work-in-progress and Accounts Receivable. Banks have traditionally shied from lending to this sector for want of physical collateral. As recommended for exporters of goods, all taxes incurred in the execution of export services should be refundable. It is surprising that Sindh and KPK levy GST on services provided to customers abroad by the ITES sector. Last, but not the least, minimum tax on turnover, albeit on domestic turnover, limits the scale and hence the competitiveness of this sector.

SECTION 02

POLICY THRUSTS

Policy Thrusts	Explanation
HORIZONTAL POLICIES WHICH APPLY TO ALL SECTORS	
01 **Long term policy, owned and monitored by the Prime Minister to give exports the consistent priority that it deserves**	A long term policy, owned (and regularly monitored) by the PM, is required to generate investment, scale, competitiveness, product sophistication and range/market diversification of exports. This policy should shift the mindset of the bureaucracy from "control" to "empowerment." Long term policies need to facilitate planning and to encourage investments leading to scale and improved competitiveness. Even the traditional export sectors are running out of capacity and there is a need to diversify and develop capabilities to address changing global demand patterns. An example is the shift from 100% cotton to man-made fibres. A 5-year National Charter for Exports, launched and regularly reviewed by the Prime Minister with frequent interaction with exporters from the relevant sectors will give exports the importance and focus that it deserves. The export policies and the bureaucrats implementing them need to treat exporters with respect and with a generous mind-set, giving the benefit of the doubt in the interest of creating a positive and empowering culture. The current policies are "control" motivated, whereas the need is of "empowerment". A regulatory guillotine needs to be applied to simplify and automate the interface between exporters and the bureaucracy.

Hitherto incentives contingent on export growth have failed to promote exports because exporters could not factor these into pricing due to the uncertainty of sales within a prescribed period. Instead, such incentives, if realized, were simply retained by the exporter.

Export incentives are funded by the tax payers and require proper accountability. It is recommended that this be done for each sector at least on an annual basis and their continuation be contingent on meeting prescribed objectives.

02

Shift from retrospective to upfront, prospective investment in export growth

With 75% of export reliance on traditional products and with Textiles comprising 60% of exports, of which in turn, 68% are destined for the European and North American markets, Pakistan needs to invest heavily in diversifying both products and destinations. The operators in the non-core sectors are generally small and do not have the means to develop exports. Moreover, the current 10% retention allowance for non-core sectors is inadequate in size to fund such development. Instead a leap of faith is required on the part of the government to set aside a substantial amount for up-front investment from the Export Development Fund (EDF) for non-core and new markets. This can be supplemented by exporters from their own 10% retention allowance to build markets. Appropriate checks and balances would need to be instituted to ensure that value is received for the government's investment from the EDF.

03

Make exports more competitive by removing all incidence of import duty and taxes, no matter where incurred in the supply chain. The final exporter should be able to receive a refund based on standard costs updated periodically.

As a matter of principle, all import levies and domestic transaction costs, irrespective of where they are incurred in the supply chain leading up to the point of export should be refunded to the final exporter, allowing price competitiveness.

Large exporters are able to import into bond and thus avoid paying and reclaiming import duty. Other organized businesses are able to use the DTRE scheme to reclaim. SMEs however lack the sophistication to operate these schemes, hence their output suffers from a cost disadvantage. An imputed duty and tax refund mechanism based on standard cost for such exporters is used in India and can be replicated.

Secondly, where the final exporter is not the original importer and where the supply chain is complex and long, involving multiple players from the start to the final point of export, a system is required to compute and refund import duty and unadjusted transaction taxes (GST etc.) up to the point of export to the final exporter.

The combination of the above will liberate exports from all Pakistan import and transaction taxes and make them more competitive. The sectors that would be the main beneficiaries would be the non-traditional sectors due to relatively small size and lack of sophistication of the operators.

04

A new strategy is required to promote export of branded goods.

Strong brands command premium prices. Pakistani exporters should be allowed to both acquire and develop brands. The former is a capital investment, whilst the latter is expensed when incurred. However, the purpose of both is to generate higher exports.

Acquisition of Overseas Brands

Presently, exporters are allowed to retain and spend 10% of export proceeds for marketing. However, they are barred from investing part of these proceeds in acquiring existing brands. Since the immediate impact on the country's foreign exchange reserves is neutral (and the longer term impact, more favourable), exporters should be allowed to utilize all or part of the 10% retention to acquire brands without ECC permission. In time, when the country's foreign exchange reserves improve, exporters who are able to make a case for buying brands with outlays beyond their 10% retention allowance, may also be considered on the merits of their feasibilities.

Marketing and Selling of Pakistani Brands Abroad

Marketing and selling branded goods costs more than selling simple commodities. The present 10% export retention allowance does not adequately cover the cost of establishing a brand, registering the products with supermarket chains, paying for shelf rentals etc. These costs are high in the early years of market entry. It is recommended that such costs incurred abroad may be allowed at actuals, subject to audit or other verification.

Supermarket chains require just-in-time delivery. It is not possible to achieve this without warehousing abroad. Branded goods exporters should be permitted to hold stock abroad and remit on the basis of sales. In the absence of this facility, exporters have to rely upon intermediaries such as distributors, which reduces their margin and the amount that can be remitted to Pakistan. Moreover, in the event of a dispute, fresh registration has to be negotiated with supermarket chains. This reduces the leverage that exporters have over their supply chain abroad.

Slow recoveries and bad debts are risks that are inherent to developing and marketing brands. Despite good risk management processes, branded goods companies, even in the domestic market have to write off and provide for debts. These risks are higher in international markets. Changes should be made to allow more time than currently permitted to recover debts. Similarly, up to 1% of annual brand exports be allowed for bad debts.

State Sponsored National Brand Building Programme

Pakistan could learn valuable lessons from the Turkish "TURQUALITY" Programme through which the Turkish government has been funding the development of 10 worldwide Turkish brands.

Safeguards

Stakeholders and regulators need to be engaged in developing safeguards to prevent the misuse of the policy to promote exports of branded goods.

05

Warehousing abroad

Pakistan exporters are required to realize export proceeds within a short time period. This does not permit the warehousing of products, for subsequent sale on a "just in time" basis, which is increasingly demanded by foreign buyers unwilling to carry inventory on their own books. Large exporters should be permitted to warehouse inventory abroad. This is all the more essential to serve online sales portals, such as Amazon, which will not allow access to foreign suppliers unless they are shipping promptly from a domestic point. This would entail longer time period for remittance of export proceeds.

06

Plug and Play Industrial Zones

Industrial areas around the big cities are choked, land is expensive and infrastructure is lacking. Manufacturing and exports can be jump started by providing "plug & play" facilities in industrial zones. SEZs are an ideal way to do so. "Ready-to-Go" facilities will also attract relocation of manufacturing from China which is otherwise moving to Vietnam and Ethiopia.

Please also refer to **PBC's Recommended Framework for SEZs** on https://www.pbc.org.pk/research/pbcs-recommended-framework-for-sezs-v3/

07

Energy at Competitive Cost

The five core export sectors were offered energy at reduced rate. This promise has not been fully honored. In principle, all exports should be entitled to energy at a cost which is globally competitive. Where industries produce a mix of exported and domestically marketed products, a rebate should be offered on the quantity exported to render the input cost of energy to a globally competitive level.

08

Market Access

Focus economic diplomacy to negotiate market access, at a minimum to achieve parity with key global sourcing competitor countries. Whilst prescribed goods from Pakistan currently are allowed entry into the EU duty free under the GSP+ facility and Textiles have parity access in the USA with countries like Bangladesh, exports from Pakistan suffer from higher duties into Japan, Canada and Australia, relative to Bangladesh.

EU's GSP+ is under review and it is vital that Pakistan positions itself to retain duty free access. Please see PBC's report on **Trade with the European Union on** https://www.pbc.org.pk/research/trade-with-the-european-union-28-2017/

Similarly, Pakistan needs to consider ongoing lobbying in Washington to obtain preferential access into the USA.

09

SME Integration, including Export Houses

Scale is a driver of cost competitiveness. Scale can be achieved through mergers and expansion of existing units as also through stronger integration of larger businesses with SMEs. Transaction costs are an inhibiting factor. Further, the inability to recover duties and taxes incurred by multiple players in a supply chain up to the final point of export is also a constraint.

Banks are reluctant to lend to SMEs due to higher risk. SMEs on the other hand are unable to take risks associated with credit to foreign buyers. A vendor financing and export house model would promote greater integration of the SMEs into the export chain. Japan and Korea developed their exports through the export house model with companies like Mitsubishi and Mitsui offering a model and learning opportunity.

10

SME funding and credit guarantee through DFIs

Commercial banks are by nature risk averse as their primary responsibility is to safeguard their shareholder's interest. Development is not a shareholder business; it is a stakeholder business with the state having a major interest in managing its trade balance. Developing export markets involves risks as most foreign buyers will not provide letters of credit, especially to SMEs who lack negotiation power. An Export Development and Credit Guarantee Bank owned by the government can take on the task of helping to fund SMEs and to build non-traditional and riskier markets in Africa and Latin America.

The past failure of DFI's like the IDBP, PICIC etc., is in itself not a sufficient reason to avoid setting up a well-resourced and governed institution. Instead learnings should be taken from the past mistakes.

11

Differentiated FDI Policy for Exports

A quarter of Vietnam's exports are generated by Samsung alone whilst many other Japanese, Chinese, South Korean, Taiwanese and US investors account for a sizeable percentage of its exports. Pakistan has not attracted foreign investment into exports, even in the agriculture sector where there could be potential. Instead, a liberal FDI policy has attracted many FMCGs which reap the demographic dividend of a rising middle class but do not export or create import substitution. A differentiated FDI policy which factors impact on the external account is recommended for fresh foreign investment. Existing foreign companies operating in Pakistan should be encouraged to export into their global value chains

12

Prioritize non-energy intensive sectors

Pakistan will continue to rely heavily on imported fuel for its energy. Moreover, the cost of energy will remain high until distribution losses and theft are curbed. On the other hand, its vast agriculture, horticulture and livestock sectors, have potential to increase yield and cut losses; its unexploited mineral wealth and a large population of youth which can be upskilled, potentially offer a competitive edge.

13

Exports to be Integral Part of an Industrial Policy

Exports need to be an integral part of an industrial policy, which promotes manufacturing, including import substitution. A stand-alone export policy without strong linkages with manufacturing and imports is not sustainable over the long run. A National Industrial Policy would perforce address all elements of manufacturing, including exports and import substitution.

Please refer to PBC's report: **Contours of a New Industrial Policy** on https://www.pbc.org.pk/research/contours-of-a-new-industrial-policy/

14

SME Training

Many SME's are oblivious of global opportunities. Whilst an export house is one solution, educating SMEs in global trade procedures would be another way to widen the export eco-system.

15

Competitive Labour Laws

Labour laws need to be compliant with global norms. However, a comparison of laws in the region may reveal scope for improving competitiveness. One aspect of this is minimum wages. In China, India and Bangladesh these are set in line with the development of a region. In Pakistan, after the 18th amendment, provinces are free to set their own minimum wage. However, they end up setting the same wage. Secondly no differentiation is made within the province in relation to the stage of development. This gives no incentive to industries that operate in the formal sector, especially those that export, to move out of large cities. The minimum wages in the less developed areas are not enforced and the beneficiary is the informal sector, not labour. As it is now not politically acceptable to have lower minimum wages in less developed parts

16

Duty Free Plant and Machinery

Investment in plant and machinery for export industries to be exempt from duties and sales tax

17

Don't abandon the traditional export sectors in search of pastures new

Existing export markets need to be retained and developed further. The EU GSP+ is up for review in January 2020 and will phase out by December 2023. Pakistan needs to lobby hard for its continuation. Likewise, despite President Trump's upbeat ambition to grow trade 10-20 times with Pakistan, no significant initiative has been taken to gain preferential access. Again, Pakistan needs to seriously consider retaining a lobbyist in Washington.

18

A supportive Fiscal Policy

The levy of minimum tax based on turnover, irrespective of the underlying profit and the withdrawal of tax credit on investment in plant are two major fiscal measures that impede scale and competitiveness of industry in general. Reforms in these two aspects of the fiscal policy will promote investment which in time would lead to exports. In a complex supply chain where exporters rely on supplies from domestic industry, the incidence of minimum taxes impacts the end cost of exports.

The justification offered by the FBR for the imposition of minimum tax based on turnover and for the withdrawal of tax credit on investment is that some tax payers were understating profit and overstating investment. It is inequitable that those who do not indulge in such practices suffer.

SPECIFIC POLICIES REQUIRING FURTHER EVALUATION

01

Broad-basing Textiles

The Apparel (Value-added sector) exports from Pakistan cover the bottom 20% of the global universe of apparel, leaving 80% of apparel demand unaddressed. This is where countries like Vietnam and Bangladesh have moved with speed. Bulk of Pakistan's exports are 100% cotton based, whilst global demand is shifting to man-made fibres, which are also ideal for the emerging technical textiles. The per unit price commanded by Pakistan apparel exports is between 11-50% of Vietnam's and 20-33% of Bangladesh's. Hence there is significant scope to change the cotton/man-made fibre mix and to go up the value chain. The main onus of this is on the current large players who need to invest in capacity and capability including skills. There is little that the government can do other than providing a long term policy framework. However, the failure to refund taxes on a timely basis is severely impacting the cash flow of exporters and needs to be addressed urgently. Secondly, anti-dumping duty on imports required as input (for example fabric from man-made fibre) for exports, should not be levied and the bonding facility should apply as for other imported inputs.

Travel Advisories limit the number of foreign buyers from travelling to Pakistan. The government can help by advocating a differentiated approach for larger cities where most of the industry is located. Also, it could subsidize the first few year’s costs of running Pakistan-based buying offices for larger buyers. These could potentially be located near major airports to assure further security. In the meantime, it needs a fast visa approval process with an added challenge that many buyers are Indian and Bangladesh nationals.

02

Pharmaceuticals

Drug registration in foreign countries is a major cost as is establishing a WHO approved manufacturing facility in Pakistan. Clearly, neither are possible for small companies and so a size and capability criterion is recommended to boost exports.

Pharmaceutical companies contribute to a Central Research Fund. Companies may be allowed to draw on this fund in relation to their contribution in the previous years to meet the costs of drug registration and establishing a WHO certified facility. Additionally, those meeting a prescribed export performance realization may be given a 1% rebate. Pharma exports amounted to $200 as compared to carpet exports which generated $75 Mn of exports.

Besides, pharma has a larger and faster growing global demand than hand-made carpets, which Pakistan exports. Yet pharma is not a priority export sector, whereas carpet is.

03

Footwear, Leather, Furniture, Cutlery, Sports Goods

These sectors suffer from design and skill deficiencies which can be addressed through a combination of FDI, technical agreements and training by establishing or improving dedicated design centres. Duty refunds etc. are covered in the horizontal policy above. The Turkish "TURQUALITY" programme should be emulated to establish Pakistani brands in these sectors

04

Dairy

The packed dairy industry is currently exempted from GST which impedes it from offsetting input sales tax paid on packaging and other materials and services. This impacts the competitiveness of this industry vs. loose milk and thwarts its scale and growth. As a result, only 8% of milk available in Pakistan is sold in packaged form. If the industry is zero-rated, it will grow to a size from which exports could become feasible. China is a large importer of milk and Pakistan could potentially become a significant supplier.

05

Livestock

Due to a combination of poor breeding, feeding and hygiene standards, Pakistan is unable to fully exploit the potential of meat exports to the Middle East or China. A fresh strategy for livestock exports is required to realize this.

06

Horticulture

Given the depleting water resources of the country, a focus on fruits and vegetables can maximize yield and revenue per acre of land and volume of water. This requires an integrated horticulture policy covering all elements of the value-chain including logistics. The export potential would primarily be to the Middle East and China.

07

Rice

Rice is Pakistan's second highest export earner. 60% of the country's annual output is exported as Pakistan's staple preference is wheat. Without putting additional burden on the country's depleting water resources, through measures such as land levelling, water-course management and mechanization of sowing and harvesting, output per acre can double, resulting in exports of $5 Bn vs. $2 Bn currently.

The Centre and Provinces need to work together to promote progressive agriculture policies to achieve this export potential.

SECTION 03

DISPERSION OF PAKISTAN'S EXPORTS

In the top 20 HS Codes Pakistan's exports in 2018 amounted to US $16.2 Bn, which represented 70% of the $23 Bn total exports.

The dipersion of these top 20 lines amounting to $16.2 Bn of exports was:

Market share winners in growing world demand lines

$6.7 BN OR 42%

Market share winners in declining world demand lines

$2.8 BN OR 17%

Market share losers in growing world demand lines

$1.9 BN OR 12%

Market share losers in declining world demand lines

$4.8 BN OR 29%

Thus

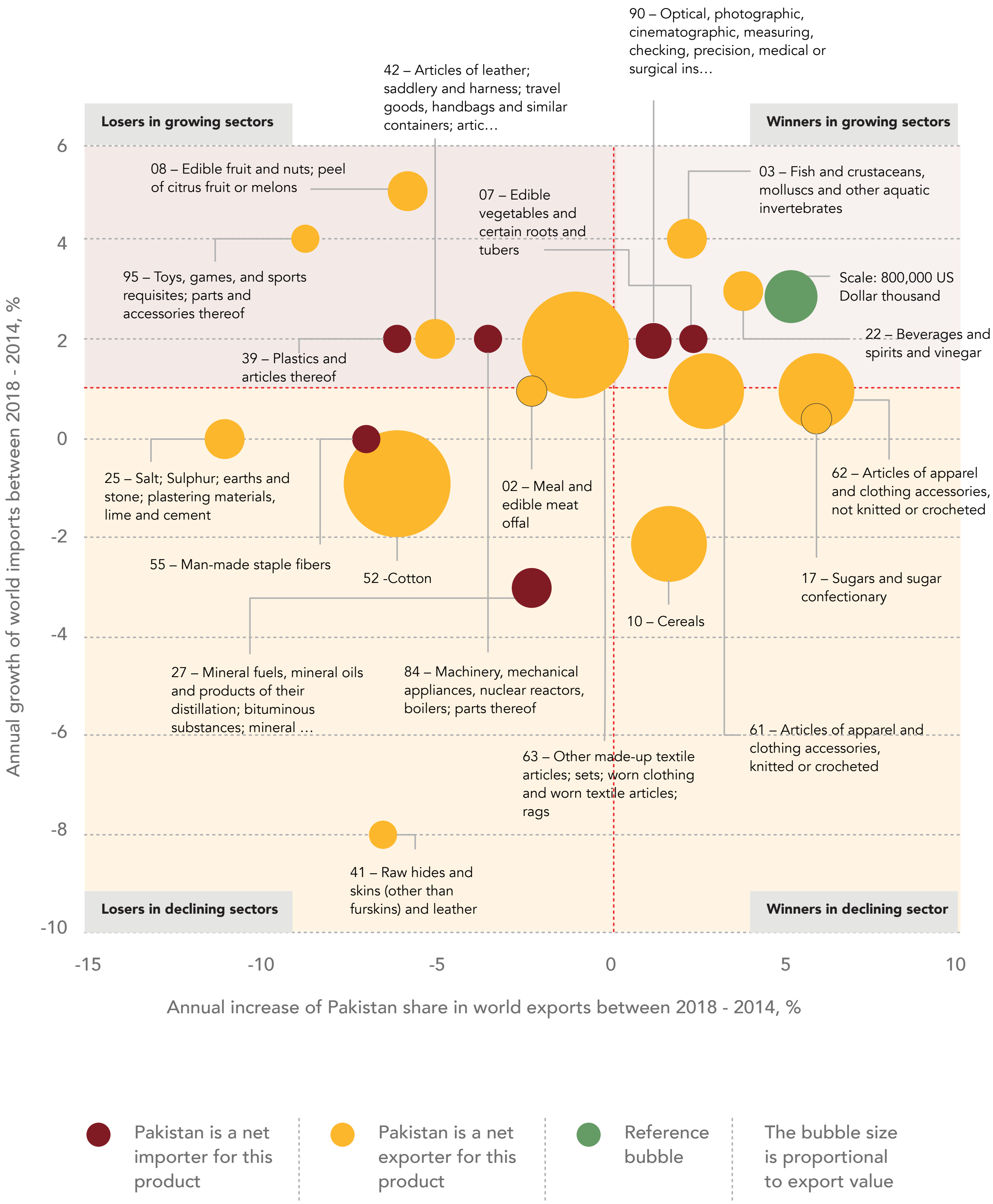
On a positive note, Pakistan was winning share in

59% OF THE LINES IT EXPORTED IN;

And Pakistan's export presence was

54% IN LINES OF GROWING WORLD DEMAND;

Growth of national supply and international demand for products exported by Pakistan in 2018



Source: International Trade Centre

SECTION 04

Pakistan's Export Representation in fastest growing and largest sectors

Are Pakistan's Exports Focused on the Fastest Growing and Largest Sectors?

Pakistan is Under-represented in Fastest Growing Export Lines

HS Code	Fastest Growing World Demand Lines	World Exports		Pakistan Exports		Pak MS%	If Pakistan's Exports were to grow in line with World Demand	Incremental Exports
		$ Mn	Growth % 2014-18	$ Mn	Growth % 2014-18			
79	Zinc	19,500	10%	5.0	52%	0.0256%	5.5	0.5
81	Base Metals	22,900	9%	0.2	-16%	0.0009%	0.218	0.018
14	Vegetable Plaiting	1,200	7%	6.2	-29%	0.5167%	6.634	0.434
33	Essential oils, cosmetics	145,000	6%	18.7	4%	0.0129%	19.822	1.122
47	Pulp of wood	54,000	6%	1.2	4%	0.0022%	1.272	0.072
8	Edible Fruits	125,000	5%	428	-1%	0.3424%	449.4	21.4
3	Fish	124,000	4%	430	6%	0.3468%	447.2	17.2
30	Pharmaceuticals	586,000	4%	197	0%	0.0336%	204.88	7.88

HS Code	Fastest Growing World Demand Lines	World Exports		Pakistan Exports		Pak MS%	If Pakistan's Exports were to grow in line with World Demand	Incremental Exports
		$ Mn	Growth % 2014-18	$ Mn	Growth % 2014-18			
95	Toys, Sports Goods	118,000	4%	217	-5%	0.1839%	225.68	8.68
94	Furniture, mattresses	256,000	3%	102	1%	0.0398%	105.06	3.06
20	Preps of Veg, fruits	66,000	2%	53	-2%	0.0803%	54.06	1.06
24	Tobacco	45,000	2%	23	11%	0.0511%	23.46	0.46
7	Edible Vegetables	74,000	2%	245	4%	0.3311%	249.9	4.9
16	Preps of Meat	53,000	2%	36	-25%	0.0679%	36.72	0.72
42	Leather	83,000	2%	660	-3%	0.7952%	673.2	13.2
	Total	**1,772,600**		**2,422**		**0.1367%**	**2,503.01**	**80.71**

Pakistan is Under-represented in The World's Largest Export Lines

HS Code	Ten Highest Value World Export Lines	World Exports $ Mn	Pakistan Exports $ Mn	Pakistan MS%
85	Electrical Machinery	2,744,000	90	0.0033%
27	Mineral Fuels	2,504,000	499	0.0199%
84	Machinery Mech	2,272,000	225	0.0099%
87	Vehicles	1,533,000	40	0.0026%
39	Plastics	656,000	307	0.0468%
71	Pearls	649,000	0	0.0000%
90	Surgical, precision etc	614,000	405	0.0660%
30	Pharmaceuticals	587,000	197	0.0336%
29	Organic Chemicals	444,000	7	0.0016%
72	Iron and Steel	423,000	0	0.0000%
	Total Top 10 HS Codes	**12,426,000**	**1,770**	**0.0142%**
	Total Exports	**19,284,000**	**23,630**	**0.1225%**
	% Accounted by top 10	**64.44%**	**7.49%**	

SECTION 05

Some Observations on Pakistan's Main Export Categories

HS Code 61: Knitted Apparel

Pakistan is 19th largest exporter of knitted apparel, in which world demand grew by 6% in 2018. Pakistan's export value outgrew this at 14%, suggesting improved competitiveness. However, at $2.8 Bn, its export share of 1.2% is dwarfed by China's 30.5%, Bangladesh's 8.4% and Vietnam's 5.8%. China's export value grew by 2%, Bangladesh's by 13% and Vietnam's by 15%. Knitted apparel is not entirely a low-labour cost sector with countries like Germany, Italy, Belgium, Netherlands all holding more than twice Pakistan's share. Pakistan operates at the bottom end and there is opportunity to broaden the mix, add more value and address the trend towards man-made fibres.

Product : 61 Articles of apparel and clothing accessories, knitted or crocheted

Exporters	Value exported in 2018 (USD thousand)	Trade balance in 2018 (USD thousand)	Annual growth in value between 2014-2018 (%)	Annual growth in value between 2017-2018 (%)	Share in world exports (%)
World	240550929	25669072	0	6	100
China	73470128	70082712	-6	2	30.5
Bangladesh	20163397	20105767	8	13	8.4
Viet Nam	13859283	13633930	11	15	5.8
Germany	10772578	-8692401	6	8	4.5
Italy	9522758	967478	3	9	4
Turkey	9043113	8421809	-2	2	3.8
Cambodia	8834035	8645837	10	13	3.7

Product : 61 Articles of apparel and clothing accessories, knitted or crocheted					
Exporters	**Value exported in 2018 (USD thousand)**	**Trade balance in 2018 (USD thousand)**	**Annual growth in value between 2014-2018 (%)**	**Annual growth in value between 2017-2018 (%)**	**Share in world exports (%)**
India	7561110	7113346	1	-9	3.1
Hong Kong, China	6964200	842475	-10	-2	2.9
Belgium	5757457	688121	6	9	2.4
Spain	5647984	-2719349	6	4	2.3
Netherlands	5359145	-1559811	5	18	2.2
France	5254515	-6456715	5	11	2.2
Indonesia	4073930	3693585	5	9	1.7
United Kingdom	3888211	-9120420	1	9	1.6
Sri Lanka	3071565	3001137	1	-3	1.3
Poland	2960385	-915186	13	30	1.2
United States of America	2904919	-44793417	1	8	1.2
Pakistan	2860768	2802495	4	14	1.2
Portugal	2837220	1443475	5	16	1.2

Sources: ITC calculations based on UN COMTRADE and ITC statistics.

HS Code 62. Woven Apparel

Pakistan's exports of woven apparel in 2018 grew by 5%, in line with the growth of world exports. However, its share at 1.1% is dwarfed by China's 30%, Bangladesh's 7.9% and Vietnam's 6%. Bangladesh and Vietnam's exports outgrew Pakistan at 12% and 16% respectively in 2018. China's exports, however, declined by 3% suggesting relocation of manufacturing to other countries. Again, with Germany, Italy and Spain holding larger shares than Pakistan, woven apparel is not entirely a low labour cost reliant sector. Hence opportunity for Pakistan to sophisticate its offerings. Also avail of the relocation of manufacturing from China.

Product : 62 Articles of apparel and clothing accessories, not knitted or crocheted					
Exporters	**Value exported in 2018 (USD thousand)**	**Trade balance in 2018 (USD thousand)**	**Annual growth in value between 2014-2018 (%)**	**Annual growth in value between 2017-2018 (%)**	**Share in world exports (%)**
World	237967654	25732345	0	5	100
China	71428838	67255299	-3	-3	30
Bangladesh	18817737	18645048	7	12	7.9
Viet Nam	14324005	14065141	7	16	6
Italy	13701102	5510117	0	8	5.8
Germany	11888468	-6938679	6	10	5
Spain	8752941	-2029155	4	5	3.7
India	8126006	7516601	-3	-10	3.4
France	6726168	-5867341	2	12	2.8
Turkey	6262454	5193529	0	5	2.6
Hong Kong, China	6163820	362505	-9	-7	2.6
Netherlands	5006037	-1950574	3	23	2.1
United Kingdom	4545269	-7354277	-2	2	1.9

Product : 62 Articles of apparel and clothing accessories, not knitted or crocheted					
Exporters	**Value exported in 2018 (USD thousand)**	**Trade balance in 2018 (USD thousand)**	**Annual growth in value between 2014-2018 (%)**	**Annual growth in value between 2017-2018 (%)**	**Share in world exports (%)**
Indonesia	4494890	4060036	3	8	1.9
Cambodia	4047168	3978157	12	15	1.7
Poland	3702749	-553087	9	30	1.6
Belgium	3582371	-540652	0	9	1.5
Myanmar	3262671	3229056	41	69	1.4
Denmark	2676698	-16956	4	11	1.1
Pakistan	2583733	2530292	7	5	1.1
Morocco	2534662	2276155	3	6	1.1
Tunisia	2495643	2334750	-1	11	1
United States of America	2388413	-36641586	-3	4	1
Mexico	2297714	542375	-4	1	1

Sources: ITC calculations based on UN COMTRADE and ITC statistics.

HS Code 63: Home Textiles

In Home Textiles, Pakistan holds the third highest share of exports at 6.1%. However, in 2018 its growth at 2% was less than half that of China's and India's and below Germany and Netherland's, suggesting scope to move up the value chain.

Product : 63 Other made-up textile articles; sets; worn clothing and worn textile articles; rags

Exporters	Value exported in 2018 (USD thousand)	Trade balance in 2018 (USD thousand)	Annual growth in value between 2014-2018 (%)	Annual growth in value between 2017-2018 (%)	Share in world exports (%)
World	66648939	6155559	0	5	100
China	27844719	27359963	-1	6	41.8
India	5225079	4731621	3	5	7.8
Pakistan	4051510	3710014	1	2	6.1
Germany	3010199	-1425939	0	7	4.5
United States of America	2179203	-14072484	-1	2	3.3
Turkey	2052497	1890131	-1	2	3.1
Viet Nam	1579249	1470456	5	9	2.4
Poland	1352452	269007	8	24	2
Netherlands	1291444	-521556	3	6	1.9
Mexico	1165073	466571	4	1	1.7
United Kingdom	1108309	-1357188	-1	5	1.7
Bangladesh	1100672	1033103	2	4	1.7

Sources: ITC calculations based on UN COMTRADE and ITC statistics.

SECTION 06

ABOUT PBC

The PBC is a private sector business policy advocacy forum composed of Pakistan's largest businesses / groups including multinationals that have a significant investment in and a long-term commitment to the growth of Pakistan. Members turnover represents every ninth Rupee of Pakistan's GDP and together the members contribute 25% of the annual tax revenues and exports. More information about the PBC, its members and its activities can be found on our website **www.pbc.org.pk**

The PBC's Member Companies

Abbott

AkzoNobel

AlliedBank

Artistic Milliners

AMRELI STEELS Building for Life

mayfair

Atlas Honda

Bank Alfalah

Bank AL Habib Ltd.

Bata

Cherat Cement Company Limited

Coca-Cola

COLGATE-PALMOLIVE

CENTRAL DEPOSITORY COMPANY

Dalda

Dawlance

Dawood Hercules

DESCON

EBM

efu GENERAL

engro corp

engro foods

faysalbank

FEROZSONS LABORATORIES LIMITED

GATRON

Getz pharma

gsk GlaxoSmithKline

GulAhmed Textile Mills Limited

HBL

HASCOL

HUBCO

ICI PAKISTAN LTD.

interloop

International Industries Ltd. Promising Reliability, For Now and Tomorrow

INDUS GROUP of companies

TOYOTA INDUS MOTOR COMPANY LTD.
JDW JDW Group
JS BANK
Jubilee INSURANCE
KE Energy That Moves Life

K&N's
KSB
LOTTE
LUCKY CEMENT
Martin Dow

MAHMOOD GROUP
MEGA MEGA CONGLOMERATE
MTL MILLAT TRACTORS LIMITED
National FOODS SINCE 1970
NAVEENA GROUP

Nestlé
NISHAT MILLS LTD
ORIX
PACKAGES Limited
pakarab FERTILIZERS LIMITED

PEPSICO
PSL PAKISTAN SERVICES LTD.
PSX PAKISTAN STOCK EXCHANGE LIMITED
ptcl
PAKISTAN TOBACCO COMPANY

PHILIP MORRIS INTERNATIONAL
Qarshi
rb
SAIF GROUP
Sapphire

Shan
SICPA
siddiqsons LIMITED
SIEMENS
Soneri Bank

SOORTY
HUTCHISON PORTS PAKISTAN
Standard Chartered
SPEL
TAPAL

TCS
Tetra Pak PROTECTS WHAT'S GOOD
TPL Holdings Tomorrow Delivered Today
Tufail Chemical Industries Ltd.
UBL where you come first

Unilever

The PBC Members by Sector

PBC currently has 81 members, whose businesses cover nearly all sectors of the formal economy. The sector wise representation (in alphabetical order) is detailed below:

Sector	Member Companies
Large-Scale Manufacturing	
Agro Industries	1
Cement	2
Chemicals / Fertilizer	8
Energy	2
Engineering	9
Fast Moving Consumer Goods	17
Packaging Material	2
Pharmaceuticals and Healthcare	6
Textiles	10
Total Members in Large-Scale Manufacturing	**57**
Services	
Financial service	12
Hospitality	1
Insurance	2
Logistics / Courier	2
Telecommunication	1
Utilities	1
Total Members in the Services Sector	**19**
Conglomerates	5

29 MNC's from 13 Countries

USA

UK

UAE

Switzerland

Japan

29 MNC's from 13 Countries

Netherlands

AkzoNobel | engro foods | Unilever

France

HBL

Bahrain

faysalbank

South Korea

LOTTE

Hong Kong

HUTCHISON PORTS PAKISTAN

Germany

KSB | SIEMENS

Sweden

Tetra Pak — PROTECTS WHAT'S GOOD™

Turkey

Dawlance

The Pakistan Business Council

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