

MARKET ACCESS SERIES

Second Review of the Malaysia – Pakistan Closer Economic Partnership Agreement (MPCEPA)



October 2020

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Acknowledgements

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Disclaimer

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Any conclusions and analysis based on the data from ITC Trade Map, World Integrated Trade Solution, Ministry of Commerce Pakistan and Ministry of International Trade and Industry of Malaysia are the responsibility of the author(s) and do not necessarily reflect the opinion of the ITC, or the European Commission. Although every effort has been made to cross-check and verify the authenticity of the data, the Pakistan Business Council, or the author(s), do not guarantee the data included in this work. All data and statistics used are correct as of 28th September, 2020 and may be subject to change.

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The Pakistan Business Council: An Overview

The Pakistan Business Council (PBC) is a business policy advocacy platform, established in 2005 by 14 (now 83) of Pakistan's largest private-sector businesses and conglomerates, including multinationals. PBC businesses cover nearly all sectors of the formal economy. It is a professionally-run organization headed by a full-time chief executive officer.

The PBC is a not-for-profit entity, registered under Section 42 of the Companies Ordinance 1984. Though it is not required under the law to do so, the PBC follows to the greatest extent possible, the Code of Corporate Governance as applicable to listed companies.

The PBC is a pan-industry advocacy group. It is not a trade body nor does it advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers to allow Pakistani businesses to compete in regional and global arenas. The PBC conducts research and holds conferences and seminars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan.

The PBC works closely with relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues which impact the conduct of business in and from Pakistan. The PBC has submitted key position papers and recommendations to the government on legislation and other government policies affecting businesses. It also serves on various taskforces and committees of the Government of Pakistan as well as those of the State Bank, the SECP and other regulators with the objective to provide policy assistance on new initiatives and reforms.

The PBC's Founding Objectives

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and fieldwork for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the World economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

The PBC's Member Companies





List of Acronyms

AFTA	<u>ASEAN Free Trade Area</u>
ASEAN	<u>Association of Southeast Asian Nations</u>
CAGR	<u>Compound Average Growth Rate</u>
CPFTA	<u>China-Pakistan Free Trade Agreement</u>
EHP	<u>Early Harvest Program</u>
EPD	<u>Export Product Dynamics</u>
FTA	<u>Free Trade Agreement</u>
GDP	<u>Gross Domestic Product</u>
GSP	<u>Generalized Scheme of Preferences</u>
GST	<u>Goods and Services Tax</u>
HS	<u>Harmonized System</u>
HSL	<u>Highly Sensitive List</u>
IMF	<u>International Monetary Fund</u>
ITC	<u>International Trade Center</u>
MAFTA	<u>Malaysia-Australia Free Trade Agreement</u>
MCFTA	<u>Malaysia-Chile Free Trade Agreement</u>
MEEPA	<u>Malaysia-European Free Trade Area Economic Partnership Agreement</u>
MEUFTA	<u>Malaysia-EU Free Trade Agreement</u>
MFN	<u>Most Favored Nation</u>
MICECA	<u>Malaysia-India Comprehensive Economic Cooperation Agreement</u>
MIPTA	<u>Malaysia-Iran Preferential Trade Agreement</u>
MJEPA	<u>Malaysia-Japan Economic Partnership Agreement</u>
MNZFTA	<u>Malaysia-New Zealand Free Trade Agreement</u>
MOP	<u>Margin of Preference</u>
MPCEPA	<u>Malaysia-Pakistan Closer Economic Partnership Agreement</u>
MRA	<u>Mutual Recognition Arrangements</u>
MTFTA	<u>Malaysia-Turkey Free Trade Agreement</u>
OIC	<u>Organization of Islamic Cooperation</u>
PBC	<u>Pakistan Business Council</u>
PSFTA	<u>Pakistan-Sri Lanka Free Trade Agreement</u>
PTA	<u>Preferential Trade Agreement</u>
RCEP	<u>Regional Comprehensive Economic Partnership</u>
SAFTA	<u>South Asian Free Trade Area</u>
TRQ	<u>Tariff Rate Quota</u>
USA	<u>United States of America</u>
USD	<u>United States Dollar</u>
WTO	<u>World Trade Organization</u>

CHAPTER 1

INTRODUCTION

Pakistan-Malaysia Socio-Economic Overview

Malaysia is an upper-middle income economy located in Southeast Asia, bordering Indonesia, Thailand and Brunei. Geographically, it lies close to the major world trade routes which gave the country an early exposure to the international economy after its independence. Malaysia's robust and rapidly developing economy has allowed the country to transform from a producer of raw materials to an emerging multi-sector economy.

The country experienced significant growth and restructuring under its New Economic Policy from 1970 to 1990. However, the Asian Financial Crisis of 1997 halted this period of impressive growth. Since then, the Malaysian economy has managed to recover and is, at present, experiencing a positive economic outlook. Currently, the country is undergoing its 11th Malaysia Plan which charts a path towards advanced economy status and greater inclusion, through a range of development initiatives such as equity, inclusiveness, environmental sustainability, human capital development, and infrastructure development.

Exports- mainly of electronics and raw materials such as palm oil- remain significant drivers for the Malaysian economy. In fact, the country exports the second-largest volume and value of palm oil products globally after Indonesia. Malaysia is also a part of the Association of Southeast Asian Nations (ASEAN)- an organization which maintains a sectoral dialogue partnership with Pakistan.

According to the Global Competitiveness Report – which shows a country's ability to provide high levels of prosperity to its citizens – the Malaysian economy ranks as the 27th most competitive country in the world in 2019. During the same year, Malaysia ranked 12th out of 190 countries in the Doing Business Report.

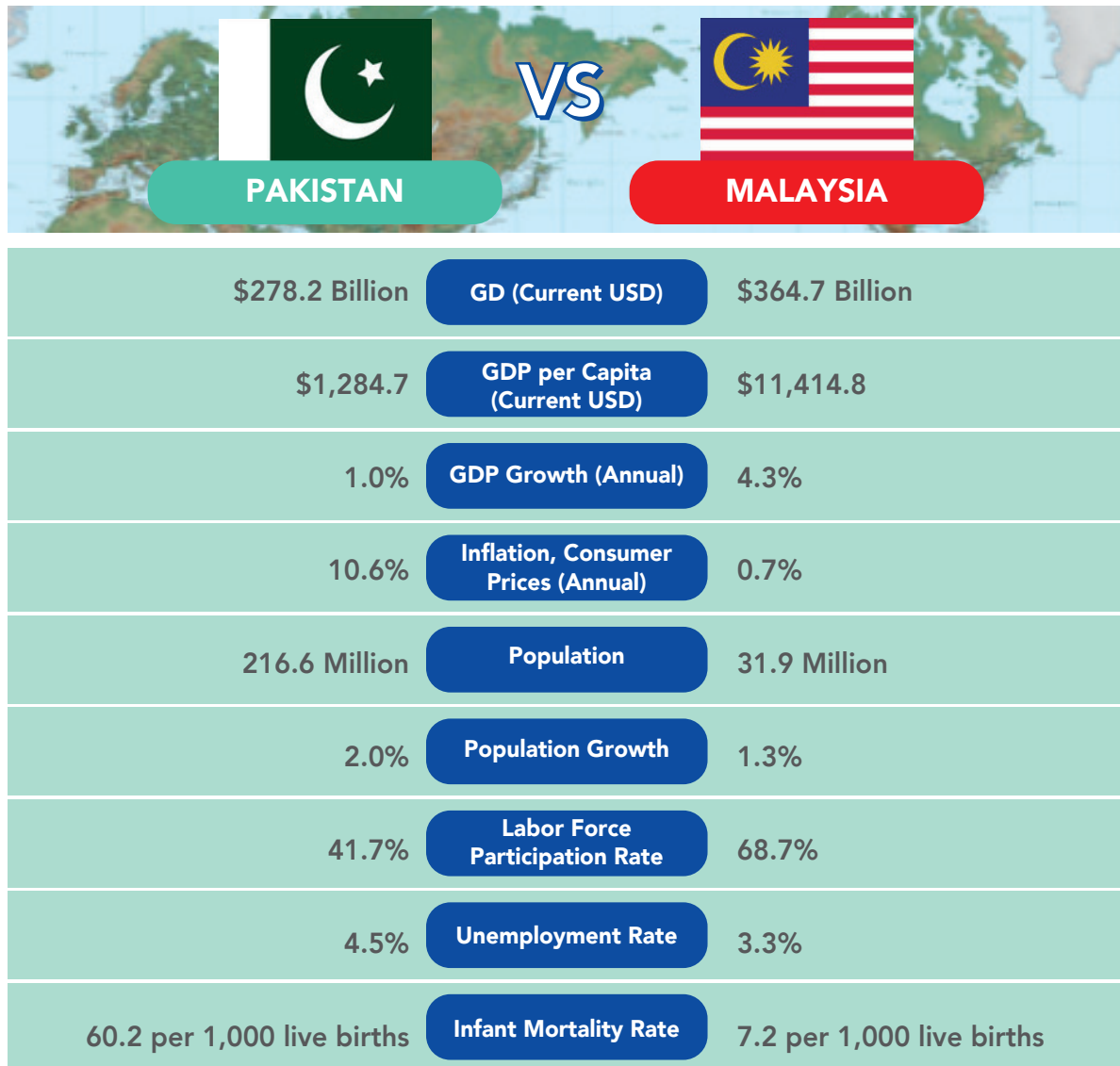
Pakistan, on the other hand, is a lower-middle income economy located in South Asia. It is a semi-industrialized economy where the country's production and exports are largely dependent upon the agriculture and textile sector. Wheat, rice, cotton, sugarcane, fruits, vegetables and tobacco are among the major crops of the country.

Pakistan is the 4th largest cotton producer in the world and has abundant natural resources, mainly copper, oil and gas. Due to low foreign reserves, Pakistan entered into a 39-month Extended Fund Facility arrangement with the International Monetary Fund (IMF) in July 2019. Moreover, a depreciation in the value of the currency has led to a rise in Government debt during the same period. The correction in the value of the currency did not significantly boost exports, but it did help in reducing imports from \$60.4 billion in 2018 to \$50.1 billion in 2019.

1 Dialogue partner is any country, or organization which enjoys consultative relationship in areas of common interest. Sectoral dialogue partners have a say in a few areas such as palm oil trading. Pakistan and India are the only South Asian countries that enjoy dialogue partnership with ASEAN.

Pakistan ranked as the 110th most competitive economy according to the Global Competitiveness Report of 2019, which is quite low in comparison to Malaysia. During the same year, Pakistan was ranked 108th in the Doing Business Report.

FIGURE 1 Socio-economic Indicators, 2019



Source: World Bank Data Bank

Figure 1 lists a few socio-economic indicators for the two countries for 2019.

With a gross domestic product (GDP) of \$364.7 billion in 2019, Malaysia is considered to be the 35th largest economy in the world according to World Bank. Pakistan, on the other hand, was ranked as the 43rd largest economy with a GDP of \$278.2 billion in 2019. Malaysia's GDP per capita far exceeds Pakistan's. Malaysia's GDP per capita was \$11,414.8 in 2019, not far behind the \$13,530.0 average of the six least wealthy OECD² members. According to an IMF forecast issued in April 2020, Malaysia's GDP growth is expected to fall to -1.7% in 2020 due to the COVID-19 pandemic and then, subject to a global recovery, pick up to 9.0% in 2021. For Pakistan, during the same time period, growth is expected to slow further to -1.5% in 2020 and to then pick up to reach 2.0% in 2021.

In terms of population, Pakistan is a much larger country. Its population in 2019 was 216.6 million while Malaysia's population was 31.9 million in the same year.

2 Organization for Economic Co-operation and Development. It is an intergovernmental economic organization with 37 member countries, founded in 1961 to stimulate economic progress and world trade. Member countries include Australia, Canada, United Kingdom, United States of America and so on.

There is a stark difference in the inflation rate for both the countries as well. Pakistan experienced high levels of inflation at 10.6% while Malaysia's inflation rate was only 0.7% in 2019. This difference is partially due to the weaker Rupee and the fact that Malaysia removed its goods and services tax (GST) in June 2018.

Pakistan-Malaysia Relationship

Pakistan and Malaysia established diplomatic relations in 1957 soon after Malaysia's independence. Even though these ties were severed due to Malaysia's stance on the Pakistan-India 1965 war, they were re-established soon after in 1966 due to the efforts of the Shah of Iran. Both countries then went on to sign an Air agreement in 1973 and a Cultural agreement in 1979, thereby further strengthening their ties.

During the Malaysian Prime Minister's visit to Pakistan in 2004, it was mutually agreed to strengthen the bond of friendship and economic relations by signing a Free Trade Agreement (FTA) between the two countries. Initially an Early Harvest Program (EHP) was signed between the countries in January 2006. After successful implementation of the EHP, the **Malaysia-Pakistan Closer Economic Partnership Agreement** (MPCEPA) was signed in November 2007 and which came into effect in January 2008.

The Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)

The Malaysia Pakistan Closer Economic Partnership Agreement (MPCEPA) is the first bilateral FTA signed between two Muslim countries who are also members of the Organization of Islamic Cooperation (OIC). It is also Pakistan's first comprehensive FTA integrating trade in goods and services along with investment and Malaysia's first bilateral FTA with a South Asian country. Comprehensive FTAs usually refer to trade agreements that include more ambitious liberalization commitments than those defined in WTO agreements. Hence, the MPCEPA encompasses liberalization in the trade of goods and services, investment, as well as bilateral technical cooperation and capacity building in areas such as sanitary and phytosanitary measures, intellectual property protection, construction, tourism, healthcare and telecommunications.

Concessions Under MPCEPA

For trade in goods, both countries agreed to progressively reduce or eliminate tariffs on agricultural and industrial products. Pakistan agreed to eliminate tariffs on 43.2% of imports from Malaysia by 2012. During the MPCEPA reviews in 2009 and 2011, Pakistan agreed to further reduce tariffs by 2014. Hence, Pakistan offered concessions to Malaysia on around 6,803 tariff lines. Additionally, Pakistan placed five palm-based products (margarine, glycerol, non-ionic soap, medium density fiberboard and other related commodities) under MOP Track I. In this track, the import tariff was reduced by 5.0% MOP on January 2008 followed by an additional 5.0% MOP every year till 2011. MOP Track II includes Crude Palm Oil, Palm stearin, RBD palm oil, Palm olein, Crude Palm Kernel oil and other related commodities. Under this track, import duty was reduced by 10.0% in 2008 followed by an additional 5.0% starting from 2010. In turn, Malaysia agreed to eliminate tariffs on 78.0% of its imports from Pakistan by 2012. Overall, Malaysia offered concessions on around 10,593 tariff lines.

The different track systems under MPCEPA are described in detail in the table below. The end rate and the time period columns specify what tariff rate will be applied on goods under a particular track system after the mentioned time period.

Table 1 Concessions under MPCEPA

Track Name	End Rate	Time Period	Number of Covered Tariff Lines	
			Pakistan	Malaysia
Fast	0%	2 years	1,703	6,699
Normal	0%	4 years	1,236	1,215
Sensitive-I	5%	6 years	796	224
Sensitive-II	10%	6 years	593	616
Sensitive-III	20%	3 years	1,423	1,271
MOP Track I	20% MOP	3 years	129	-
MOP Track II	15% MOP	2 years	9	-
Highly Sensitive	No Concessions in the First Phase	5 years	765	450
Exclusion List	Not Subject to the Terms and Conditions of the FTA		179	101
TRQ ⁴	0% for in-quota value	Applied MFN when the yearly quota expires	-	17

Source: Ministry of Commerce, Pakistan

For trade in services, both countries have provided WTO-plus market access to each other. Pakistan has secured 100.0% equity in Malaysia in computer and IT-related services, Islamic banking and Islamic insurance. Mutual recognition arrangements (MRAs⁵), are also covered in the MPCEPA which offer a framework for accreditation of educational institutions and academic programs. To facilitate entrepreneurs of both countries, the FTA also incorporates a chapter on investment which includes incentives available to investors from Pakistan and Malaysia.

3 Margin of Preference: the absolute difference between the most-favored-nation (MFN) rate of duty and the preferential rate of duty

4 Tariff Rate Quota: allows a pre-determined quantity of a product to be imported at lower import duty rates (in-quota duty) than the duty rate normally available for that product.

5 Mutual recognition arrangements (MRAs) allow the qualifications of services suppliers that are recognized by the authorities in their home country, to be mutually recognized by the partner country.

CHAPTER 2

Trade Agreements and Top Trade Partners

Malaysia's Trade Agreements

Currently, Malaysia has signed bilateral FTAs with seven countries- these include Pakistan, Australia, Chile, India, Japan, New Zealand and Turkey. Moreover, since ASEAN has established an ASEAN Free Trade Area (AFTA), Malaysia also has regional FTAs with China, Japan, Korea, India, Australia and New Zealand. Currently the country is involved in four FTA negotiations namely Regional Comprehensive Economic Partnership (RCEP), Malaysia-Iran Preferential Trade Agreement (MIPTA), Malaysia-European Free Trade Area Economic Partnership Agreement (MEEPA) and Malaysia-EU Free Trade Agreement (MEUFTA).

The table below lists Malaysia's bilateral FTAs along with the country's trade balance during the year of implementation as well as, the trade balance in 2019.

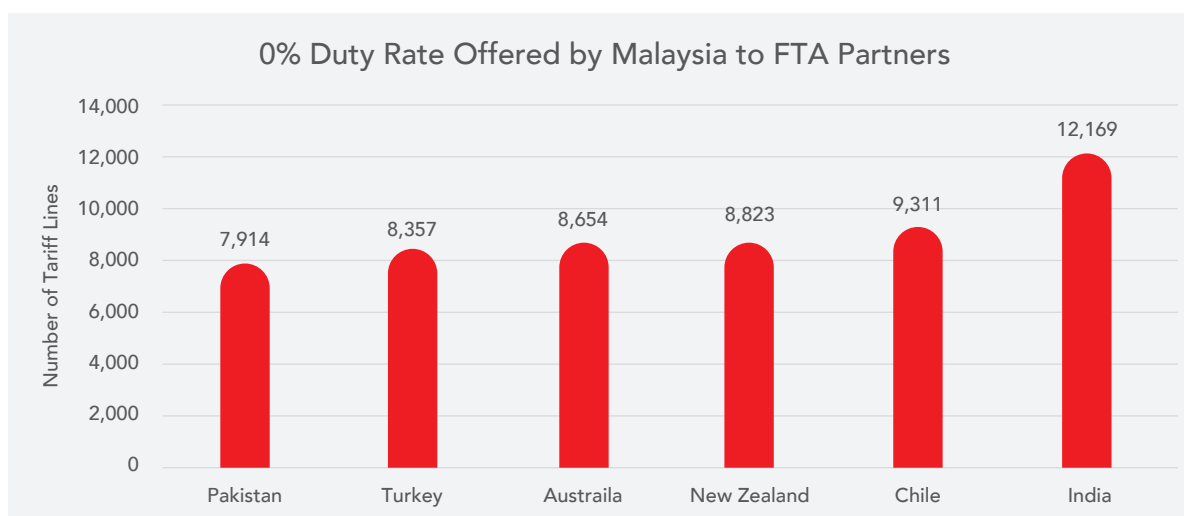
Table 2 Malaysia's Bilateral FTAs

Name of Agreement	Year of Implementation	Malaysia's Trade Balance During	
		Year of Implementation (USD Million)	2019 (USD Million)
Malaysia-Japan Economic Partnership Agreement (MJEPA)	2006	(3,096.27)	401.62
Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)	2008	1,592.80	852.16
Malaysia-New Zealand Free Trade Agreement (MNZFTA)	2010	317.82	356.49
Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA)	2011	5,881.62	3,202.45
Malaysia-Chile Free Trade Agreement (MCFTA)	2012	(72.87)	(46.75)
Malaysia-Australia Free Trade Agreement (MAFTA)	2013	4,033.77	1,232.57
Malaysia-Turkey Free Trade Agreement (MTFTA)	2015	503.02	1,254.05

Source: ITC Trade Map, Ministry of International Trade and Industry of Malaysia

As can be seen from the table above, in the case of bilateral trade with Japan, New Zealand, Chile and Turkey, Malaysia's trade balance has improved since the FTA has been brought into effect. On the other hand, in the case of bilateral trade with Pakistan, India and Australia, Malaysia's trade balance has worsened since the year of implementation. Further analysis shows that Malaysia's imports from India have almost doubled since 2011 whereas its exports to the country remained stagnant. This is because Malaysia imports large amounts of mineral oils and aluminum from India. In the case of the trade balance worsening with Australia, it is due to the fact that Malaysia recorded lower commodity sales to major buyers such as Australia, Japan, China and Thailand in 2019.

Figure 2 below compares duty relief offered by Malaysia on different tariff lines to Pakistan and other FTA partner countries. It is worth noting that Pakistan has been offered 0% duty on the lowest number of tariff lines. Meanwhile, India has been offered 0% tariff on 12,169 tariff lines which is the highest number as compared to other FTA partner countries. As a consequence, Pakistan might not be in a position to compete in the Malaysian market owing to this discrepancy in provisions offered by Malaysia to Pakistan as compared to other countries.

FIGURE 2 Comparison of 0% Duty Rate Offered by Malaysia to FTA Partners

Source: Ministry of International Trade and Industry, Malaysia

Malaysia's Top Trading Partners

Tables 3 and 4 show Malaysia's top 10 import and export partners in 2019, along with the trade agreements in effect with these countries. For this purpose, the countries listed below are broadly categorized into four categories: the country is an ASEAN member; the country has a trade agreement with ASEAN; the country has a bilateral agreement with Malaysia; or the country does not have any trade agreement with either ASEAN or Malaysia. Pakistan which is Malaysia's 44th largest import source and the 24th largest export destination is also been included in the tables.

Table 3 Malaysia's Top 10 Import Sources, 2019

Rank	Name of Agreement	Malaysia Imports 2019 (USD Millions)	Trade Agreement in Effect
1	China	42,395.01	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement
2	Singapore	21,620.59	ASEAN Member
3	United States of America	16,584.57	No Agreement in Effect
4	Japan	15,351.88	Malaysia-Japan Economic Partnership Agreement (MJEPA)
5	Taipei, Chinese	13,768.89	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement
6	Thailand	10,663.97	ASEAN Member
7	Korea, Republic of	9,369.09	ASEAN- [Republic of] Korea Comprehensive Economic Cooperation Agreement
8	Indonesia	9,367.95	ASEAN Member
9	Germany	6,457.52	No Agreement in Effect
10	India	5,863.49	Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA)
44	Pakistan	257.26	Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)

Source: ITC Trade Map

Table 4 Malaysia's Top 10 Export Destinations, 2019

Rank	Name of Agreement	Malaysia Exports 2019 (USD Millions)	Trade Agreement in Effect
1	China	33,706.91	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement
2	Singapore	33,050.89	ASEAN Member
3	United States of America	23,146.02	No Agreement in Effect
4	Hong Kong, China	16,066.86	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement
5	Japan	15,753.50	Malaysia-Japan Economic Partnership Agreement (MJEPA)
6	Thailand	13,475.08	ASEAN Member
7	India	9,065.94	Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA)
8	Taipei, Chinese	8,920.16	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement
9	Viet Nam	8,385.13	ASEAN Member
10	Korea, Republic of	8,151.62	ASEAN- [Republic of] Korea Comprehensive Economic Cooperation Agreement
24	Pakistan	1,109.42	Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)

Source: ITC Trade Map

As can be seen from the tables above, China, Singapore and the USA were the top 3 trading partners for Malaysia in 2019. Moreover, it can be seen that Malaysia's major trading partners are countries that are either ASEAN members or have trade agreements with ASEAN and or with Malaysia. Only two countries (USA and Germany) out of the top 10 import sources and one country (USA) out of the top 10 export destinations have no trade agreement in place. Furthermore, Pakistan ranks quite low in Malaysia's market and is not as significant a trading partner as the other countries in the tables.

Combined, the top 10 import sources contributed a total of 73.9% of the \$205.0 billion import bill in 2019. Meanwhile, the top 10 exports destinations contributed a total of 71.3% of the \$238.2 billion export revenue in 2019.

Pakistan's Trade Agreements

Pakistan has signed a number of Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTAs) with its major trade partners. These include FTAs with Malaysia, China and Sri Lanka and PTAs with Indonesia, Mauritius and Iran. In addition, Pakistan is a member of the South Asian Free Trade Area (SAFTA).

The table below lists Pakistan's bilateral FTAs and PTAs along with the country's trade balance during the year of implementation as well as, the trade balance during 2019.

Table 5 Pakistan's Bilateral FTAs and PTAs

Name of Agreement	Year of Implementation	Pakistan's Trade Balance During	
		Year of Implementation (USD Million)	2019 (USD Million)
Pakistan-Sri Lanka Free Trade Agreement (PSFTA)	2005	94.49	258.93
China-Pakistan Free Trade Agreement (CPFTA)	2006	(2,408.28)	(10,381.10)
Pakistan-Mauritius Preferential Trade Agreement	2007	35.00	12.31
Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)	2008	(1,555.60)	(724.09)
Pakistan-Indonesia Preferential Trade Agreement	2013	(1,063.94)	(2,075.49)

Source: : ITC Trade Map

As can be seen from the table, trade agreements signed by Pakistan have not been very effective in turning the trade balance in Pakistan's favor. Pakistan's trade balance has worsened since the year of implementation, with Malaysia and Sri Lanka being the only exceptions. Trade deficit with China has increased exponentially since 2006 due to a surge in imports from that country

Pakistan's Top Trading Partners

Tables 6 and 7 below show Pakistan's top 10 import and export partners in 2019, along with the trade agreements in effect with these countries. For this purpose, the countries listed below are broadly categorized into three categories; the country has a trade agreement with Pakistan; the country is part of the regional trade agreements including SAFTA and ECO; or the country does not have any trade agreement with Pakistan and is neither part of any regional trade agreement. Malaysia – which is Pakistan's 12th largest import source and 21st largest export destination- has also been included in the tables.

Table 6 Pakistan's Top 10 Import Sources, 2019

Rank	Import Sources	Pakistan Imports 2019 (USD Millions)	Trade Agreement in Effect
1	China	12,424.00	China-Pakistan Free Trade Agreement (CPFTA)
2	United Arab Emirates	6,340.20	No Agreement in Effect
3	United States of America	2,614.71	No Agreement in Effect
4	Saudi Arabia	2,439.77	No Agreement in Effect
5	Indonesia	2,222.14	Pakistan-Indonesia Preferential Trade Agreement
6	Qatar	2,190.93	No Agreement in Effect
7	Japan	1,362.46	No Agreement in Effect
8	Kuwait	1,255.31	No Agreement in Effect
9	South Africa	1,174.66	No Agreement in Effect
10	Thailand	1,060.72	No Agreement in Effect
12	Malaysia	956.87	Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)

Source: ITC Trade Map

Table 7 Pakistan's Top 10 Export Destinations, 2019

Rank	Export Destinations	Pakistan Exports 2019 (USD Millions)	Trade Agreement in Effect
1	United States of America	4,042.27	No Agreement in Effect
2	China	2,042.89	China-Pakistan Free Trade Agreement (CPFTA)
3	United Kingdom	1,682.33	EU GSP Plus Status
4	Germany	1,344.83	EU GSP Plus Status
5	Afghanistan	1,183.59	Economic Cooperation Organization (ECO)
6	United Arab Emirates	1,179.06	No Agreement in Effect
7	Netherlands	1,058.34	EU GSP Plus Status
8	Spain	949.00	EU GSP Plus Status
9	Italy	810.40	EU GSP Plus Status
10	Bangladesh	793.03	South Asian Free Trade Area (SAFTA)
21	Malaysia	232.78	Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)

Source: ITC Trade Map

China remained the top import source for Pakistan, contributing around 24.8% to imports in 2019. It also ranked as the second-largest export destination, indicating its importance as Pakistan's trade partner. Moreover, it is evident that Pakistan's major export and import partners are countries with which there are no bilateral trade agreements in place. Sri Lanka, Mauritius and Malaysia, three of the five countries that have a trade agreement with Pakistan, are not included in Pakistan's top 10 import or export partners. This might also be an indication that Pakistan is not fully utilizing its FTAs and PTAs.

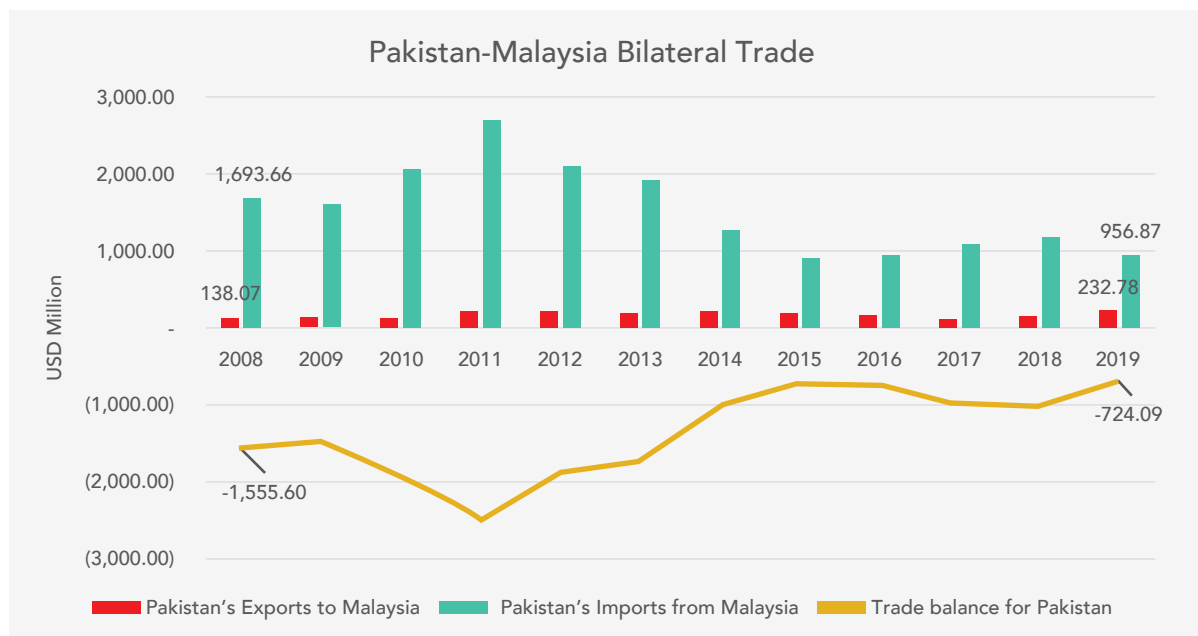
Combined, the top 10 import sources contributed a total of 66.0% of the \$50.1 billion import bill in 2019. Similarly, the top 10 exports destinations contributed a total of 63.3% of the \$23.8 billion export revenue in 2019.

CHAPTER 3

Pakistan-Malaysia Bilateral Trade

Overview

FIGURE 3 Pakistan-Malaysia Bilateral Trade Trend



Source: ITC Trade Map

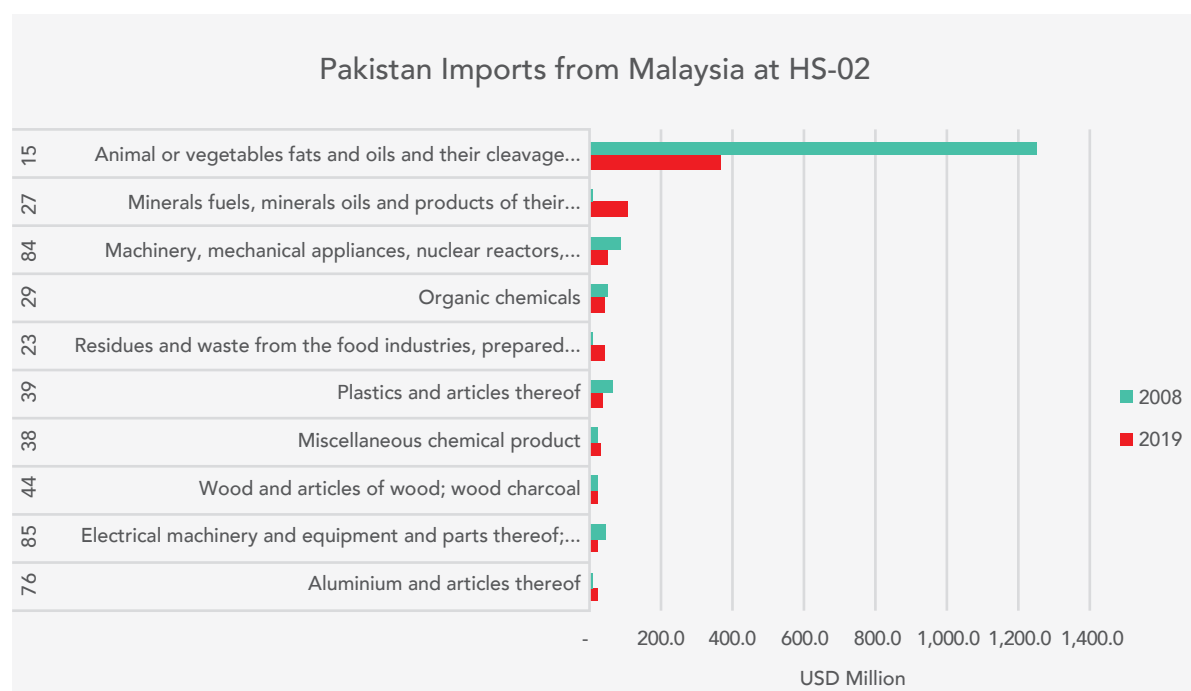
Pakistan's imports from Malaysia decreased from \$1.7 billion in 2008 to \$956.9 million in 2019 while its exports to Malaysia increased from \$138.1 million to \$232.8 million during the same period. This led to the lowest ever trade deficit in 2019 of \$724.1 million for Pakistan since the implementation of the FTA. Pakistan's imports from Malaysia reached a peak in 2011 after which they declined till 2015. This can partly be attributed to the PTA signed with Indonesia in 2013, after which, Pakistan started importing considerable amounts of palm oil from Indonesia. Meanwhile, Pakistan's exports to Malaysia did not experience significant growth, indicating that Pakistan might not be utilizing the FTA to the fullest.

All in all, the trade balance has been in favor of Malaysia since 2008 and currently, Pakistan's imports from Malaysia are at least three times more than its exports to that country. Even though the trade deficit has decreased since the implementation of MPCEPA, it appears Pakistan has not been able to become a significant trading partner for Malaysia, despite having an FTA with the country.

Top Imports- HS-02 and HS-06 Level

Figure 4 below shows Pakistan's top ten imports from Malaysia at HS-02 level in 2008 and then again in 2019.

FIGURE 4 Pakistan's Top 10 Imports from Malaysia at HS-02 Level



Source: ITC Trade Map

At HS-02 level, Pakistan's top import from Malaysia was of "Animal or vegetable fats and oils and their cleavage products; prepared edible fats" (HS-15). However, since the implementation of the FTA, the import of this commodity has fallen from \$1.3 billion in 2008 to \$369.4 million in 2019. This huge decrease has been evident after signing of the PTA with Indonesia in 2013 which diverted Pakistan's palm oil imports from Malaysia to Indonesia. Malaysian palm oil traditionally trades at a premium over Indonesian palm oil which is important in a price conscious market like Pakistan. As can be seen from the figure, the other top imports are not as significant as HS-15 indicating that Pakistan's imports from Malaysia are not very diversified.

Furthermore, import of "Mineral fuels, mineral oils and products of their distillation" (HS-27) experienced the highest increase from \$0.1 million in 2008 to \$111.5 million in 2019. Other top imports from Malaysia consist of Machinery, Organic chemicals, Plastics and so on. Combined, the top ten commodities at HS-02 level accounted for 80.2% of Pakistan's total imports from Malaysia.

A more detailed table below shows Pakistan's top 25 imports from Malaysia at HS-06 level in 2008 and then again in 2019, along with the share of these commodities in Pakistan's total imports from Malaysia, the growth rate during this period and the tariff applied by Pakistan on Malaysia.

Table 8 Pakistan's Top 25 Imports from Malaysia at HS-06 Level

HS Code	Product label	Pakistan's imports from Malaysia		Share in Total Imports from Malaysia 2019	CAGR (2008-19)	Equivalent ad valorem tariff applied by Pakistan
		2008 (USD Million)	2019 (USD Million)			
TOTAL	All products	1,693.66	956.87		-5.06%	
151190	Palm oil and its fractions, whether or not refined (excluding chemically modified and crude)	901.92	231.35	24.18%	-11.63%	7
151110	Crude palm oil	314.62	109.17	11.41%	-9.17%	6
271012	Light oils and preparations, of petroleum or bituminous minerals which >= 90% by volume "incl. ...	-	68.62	7.17%	-	7
230660	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting ...	1.12	39.47	4.12%	38.20%	0
271111	Natural gas, liquefied	-	23.83	2.49%	-	0
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	0.03	18.99	1.99%	77.72%	12
760110	Aluminium, not alloyed, unwrought	-	18.63	1.95%	-	0
847130	Data-processing machines, automatic, portable, weighing <= 10 kg, consisting of at least a ...	24.39	15.47	1.62%	-4.06%	0
151620	Vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, ...	10.40	14.99	1.57%	3.38%	5
382319	Fatty acids, industrial, monocarboxylic; acid oils from refining (excluding stearic acid, oleic ...	9.87	14.67	1.53%	3.67%	9
540247	Filament yarn of polyester, incl. monofilament of < 67 decitex, single, untwisted or with a ...	16.17	14.39	1.50%	-1.05%	11
441193	Fibreboard of wood or other ligneous materials, whether or not agglomerated with resins or ...	5.60	14.28	1.49%	8.89%	16
560311	Nonwovens, whether or not impregnated, coated, covered or laminated, n.e.s., of synthetic or ...	-	11.87	1.24%	-	0
293040	Methionine	-	11.20	1.17%	-	0
390230	Propylene copolymers, in primary forms	9.64	10.94	1.14%	1.16%	5
180500	Cocoa powder, not containing added sugar or other sweetening matter	1.41	8.57	0.90%	17.83%	0
490199	Printed books, brochures and similar printed matter (excluding those in single sheets; dictionaries, ...	0.02	8.51	0.89%	71.88%	2
151790	Edible mixtures or preparations of animal or vegetable fats or oils and edible fractions of ...	2.15	7.75	0.81%	12.34%	3
870919	Works trucks, self-propelled, not fitted with lifting or handling equipment, of the type used ...	-	7.55	0.79%	-	30
230990	Preparations of a kind used in animal feeding (excluding dog or cat food put up for retail ...	0.29	7.17	0.75%	33.95%	0
291590	Saturated acyclic monocarboxylic acids, their anhydrides, halides, peroxides and peroxyacids; ...	1.72	7.14	0.75%	13.79%	0
390690	Acrylic polymers, in primary forms (excluding poly"methyl methacrylate")	0.40	7.13	0.74%	29.84%	10
901839	Needles, catheters, cannulae and the like, used in medical, surgical, dental or veterinary ...	2.44	6.96	0.73%	10.01%	5

Source: ITC Trade Map

Key Findings:

- Pakistan's imports from Malaysia have fallen annually at a rate of 5.1% since the implementation of MPCEPA.
- Combined, the top 25 imports at HS-06 level accounted for 79.1% of Pakistan's total imports from Malaysia in 2019.

- With an import value of \$231.4 million, “Palm oil and its fractions, whether or not refined (excluding chemically modified and crude)” (HS-151190) is Pakistan’s top import from the country in 2019. This single commodity accounted for 24.2% of Pakistan’s imports from Malaysia. However, the import of this product has fallen at a rate of 11.6% since Pakistan started importing palm oil from Indonesia following its PTA with that country. Furthermore, since the tariff line for this product falls under MOP Track II, the tariff applied by Pakistan is around 7.0%. Pakistan is the third largest importer of this product from Malaysia behind India and China.
- Pakistan is also the third largest importer from Malaysia of “Oilcake and other solid residues, whether or not ground or in the form of pellets” (HS-230660).
- The highest tariff applied by Pakistan is of 30.0% on “Works trucks, self-propelled, not fitted with lifting or handling equipment” (HS-870919) as Pakistan does not offer any preferential tariff for Malaysia for this product.

Top Imports- Growth Rate Method

While Figure 4 and Table 8 above showed Pakistan’s top imports from Malaysia at HS-02 and HS-06 level according to the import value, Table 9 below lists Pakistan’s top 25 imports from Malaysia at HS-06 level, sorted according to the compound average growth rate (CAGR). This table indicates which products exhibited the highest growth under the MPCEPA.

Table 9 Pakistan's Top 25 Imports from Malaysia - Growth Rate Method

HS Code	Product Description	Pakistan's Imports from Malaysia		CAGR (2008-19)	Equivalent ad valorem tariff applied by Pakistan
		2008 (USD Million)	2019 (USD Million)		
210111	Extracts, essences and concentrates, of coffee	0.001	3.08	107.53%	0
740819	Wire of refined copper, with a maximum cross-sectional dimension of <= 6 mm	0.001	1.17	90.03%	10
854140	Photosensitive semiconductor devices, incl. photovoltaic cells whether or not assembled in ...	0.009	5.08	77.88%	0
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	0.034	18.99	77.72%	12
490199	Printed books, brochures and similar printed matter (excluding those in single sheets; dictionaries, ...	0.022	8.51	71.88%	2
841939	Dryers (excluding dryers for agricultural products, for wood, paper pulp, paper or paperboard, ...	0.002	0.41	62.31%	0
180400	Cocoa butter, fat and oil	0.011	1.77	58.74%	0
470790	Recovered "waste and scrap" paper or paperboard, incl. unsorted waste and scrap (excluding ...	0.001	0.15	57.60%	5
200820	Pineapples, prepared or preserved, whether or not containing added sugar or other sweetening ...	0.009	1.22	56.19%	0
401519	Gloves, mittens and mitts, of vulcanised rubber (excluding surgical gloves)	0.048	6.19	55.55%	5
380892	Fungicides (excluding goods of subheading 3808.50)	0.001	0.12	54.53%	1
842489	Mechanical appliances, whether or not hand-operated, for projecting, dispersing or spraying ...	0.006	0.71	54.32%	0
847730	Blow-moulding machines for working rubber or plastics	0.001	0.11	53.06%	0
851762	Machines for the reception, conversion and transmission or regeneration of voice, images or ...	0.026	2.60	51.97%	6
700529	Float glass and surface ground and polished glass, in sheets, but not otherwise worked (excluding ...	0.001	0.09	50.84%	20
220210	Waters, incl. mineral and aerated, with added sugar, sweetener or flavour, for direct consumption ...	0.001	0.08	48.60%	20
190120	Mixes and doughs of flour, groats, meal, starch or malt extract, not containing cocoa or containing ...	0.006	0.42	47.08%	0
200799	Jams, jellies, marmalades, purées or pastes of fruit, obtained by cooking, whether or not containing ...	0.003	0.21	46.95%	0

HS Code	Product Description	Pakistan's Imports from Malaysia		CAGR (2008-19)	Equivalent ad valorem tariff applied by Pakistan
		2008 (USD Million)	2019 (USD Million)		
840999	Parts suitable for use solely or principally with compression-ignition internal combustion ...	0.004	0.24	45.31%	25
390730	Epoxide resins, in primary forms	0.001	0.06	43.71%	16
851718	Telephone sets (excluding line telephone sets with cordless handsets and telephones for cellular ...	0.002	0.10	43.09%	11
960891	Pen nibs and nib points	0.004	0.19	42.11%	10
180620	Chocolate and other food preparations containing cocoa, in blocks, slabs or bars weighing > ...	0.026	1.09	40.42%	10
999999	Commodities not elsewhere specified	0.013	0.53	40.16%	0
847990	Parts of machines and mechanical appliances, n.e.s.	0.007	0.28	39.71%	0

Source: ITC Trade Map

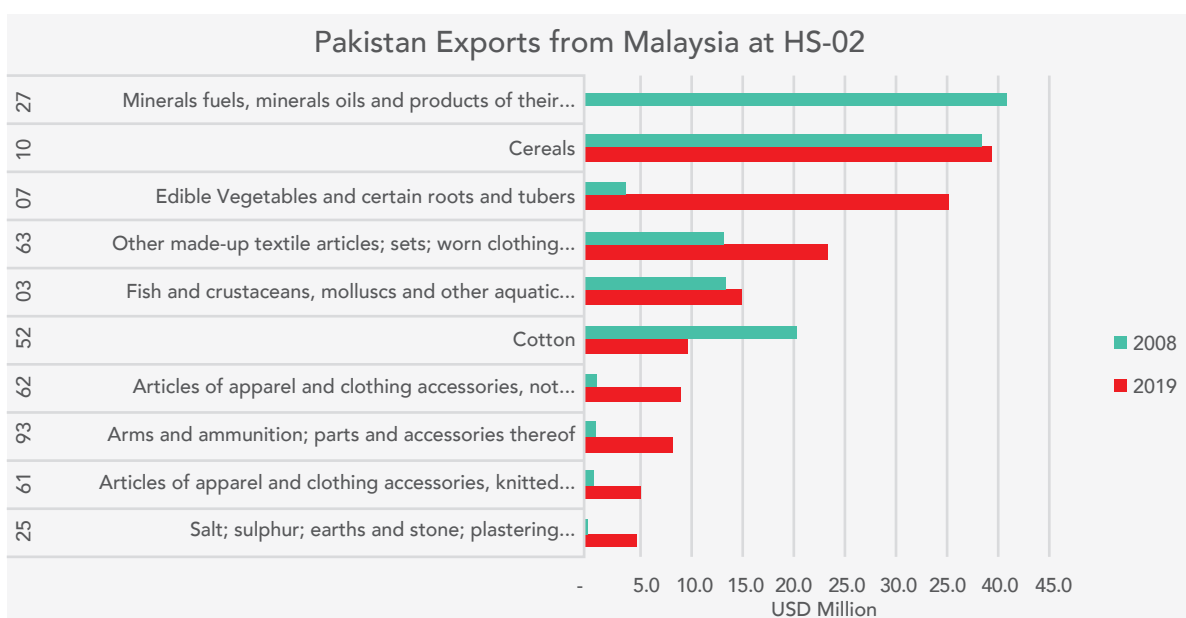
Key Findings:

- Since the MPCEPA has come into effect, “Extracts, essences and concentrates, of coffee” (HS-210111) has exhibited the highest growth of 107.5% in import value. The preferential tariff for Malaysia on this product is 0.0% while the MFN duty applied is 11.0%.
- Furthermore, it is evident that eight out of the top 25 imports according to growth rate fall under the category of Machinery (HS-84-85). The average growth rate for these commodities is 53.5% and the ad valorem tariff applied on most of these is 0.0%.
- Two of the products listed above also fall under Pakistan’s top imports from Malaysia at HS-06 level as can be seen in Table 8. These products are “Medium oils and preparations, of petroleum or bituminous minerals” (HS-271019) and “Printed books, brochures and similar printed matter” (HS-490199). Since 2008, these products have experienced growth rates of 77.9% and 71.8%, respectively. What is important to note is that, though these products have shown good growth rates, their overall values are still pretty low.

Top Exports- HS-02 and HS-06 Level

Figure 5 shows Pakistan’s top ten exports to Malaysia at HS-02 level in 2008 and then again in 2019.

FIGURE 5 Pakistan's Top 10 Exports to Malaysia at HS-02 Level



Source: ITC Trade Map

HS Code	Product Description	Pakistan Exports to Malaysia		Malaysia Imports from World	Share in Total Exports to Malaysia 2019	CAGR (2008-19)	Equivalent Ad Valorem Tariff Applied by Malaysia on						
		2008 (USD Million)	2019 (USD Million)				Pakistan	India	New Zealand	Japan	Chile	Australia	Turkey
620322	Men's or boys' ensembles of cotton (excluding knitted or crocheted, ski ensembles and swimwear)	0.02	6.18	2.01	2.65%	68.41%	0	0	0	0	0	0	0
630260	Toilet linen and kitchen linen, of terry towelling or similar terry fabrics of cotton (excluding ...	4.30	4.81	26.87	2.07%	1.01%	0	0	0	0	0	0	0
350300	Gelatin, whether or not in square or rectangular sheets, whether or not surface-worked or coloured, ...	1.86	4.16	7.35	1.79%	7.56%	5	0	1	1	0	0	9
100590	Maize (excluding seed for sowing)	11.58	3.35	477.43	1.44%	-10.66%	0	0	0	0	0	0	0
490199	Printed books, brochures and similar printed matter (excluding those in single sheets; dictionaries, ...	0.03	3.34	96.39	1.44%	54.46%	0	0	0	0	0	0	0
520622	Single cotton yarn containing predominantly, but < 85% cotton by weight, of combed fibres and ...	0.28	2.57	3.41	1.10%	22.43%	0	0	0	0	0	0	10
540710	Woven fabrics of high-tenacity yarn, nylon, other polyamides or polyesters, incl. monofilament ...	-	2.52	29.83	1.08%	-	0	0	0	0	0	0	10
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	-	2.49	10,226.71	1.07%	-	0	0	0	0	0	0	0
030617	Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns in ...	-	2.17	93.61	0.93%	-	0	0	0	0	0	0	0
100640	Broken rice	3.67	2.03	1.01	0.87%	-5.25%	28	25	28	28	28	28	28
020230	Frozen, boneless meat of bovine animals	-	2.02	417.71	0.87%	-	0	0	0	0	0	0	0
250100	Salts, incl. table salt and denatured salt, and pure sodium chloride, whether or not in aqueous ...	0.37	1.79	44.79	0.77%	15.55%	0	0	0	0	0	0	0
220720	Denatured ethyl alcohol and other spirits of any strength	0.81	1.75	11.20	0.75%	7.26%	34	34	34	34	34	34	34

HS Code	Product Description	Pakistan Exports to Malaysia		Malaysia Imports from World	Share in Total Exports to Malaysia 2019	CAGR (2008-19)	Equivalent Ad Valorem Tariff Applied by Malaysia on						
		2008 (USD Million)	2019 (USD Million)				Pakistan	India	New Zealand	Japan	Chile	Australia	Turkey
251010	Natural calcium phosphates and natural aluminium calcium phosphates, natural and phosphatic ...	-	1.46	0.57	0.63%	-	0	0	0	0	0	0	0
252921	Fluorspar containing by weight <= 97% calcium fluoride	-	1.43	2.12	0.62%	-	0	0	0	0	0	0	0
540753	Woven fabrics of yarn containing >= 85% by weight of textured polyester filaments, incl. monofilament ...	-	1.33	2.74	0.57%	-	0	0	0	0	0	0	10

Source: ITC Trade Map

Key Findings:

- Pakistan's exports to Malaysia have increased with a rate of 4.9% since the implementation of MPCEPA. Pakistani exporters might not be utilizing this FTA to its fullest potential as the growth rate is not that significant for a 11-year period.
- Combined, the top 25 exports at HS-06 level accounted for 79.2% of Pakistan's total exports to Malaysia in 2019.
- With an export value of \$39.2 million in 2019, "Petroleum oils and oils obtained from bituminous minerals, crude" (HS-270900) was the largest export to Malaysia. In 2008, Pakistan did not export this product to Malaysia. This single commodity accounted for 16.8% of Pakistan's total exports to Malaysia in 2019 and tariff applied by Malaysia on Pakistan and its FTA partners is 0.0%.
- Ten out of the top 25 exports consist of agricultural products and food items (HS-01-24). Combined, these products accounted for 39.1% of Pakistan's exports to Malaysia. The tariff applied by Malaysia on almost all of these products is 0.0% for all its FTA partners except on "Denatured ethyl alcohol and other spirits of any strength" (HS-220720), "Broken Rice" (HS-100640) and "Semi-milled or wholly milled rice, whether or not polished or glazed" (HS-100630). In the case of rice, tariff rate applied is 28.0% and 40.0%, respectively for all FTA partners except India. India enjoys lower tariff rates on rice which is why it is the third largest exporter of "Semi-milled or wholly milled rice, whether or not polished or glazed" (HS-100630) to Malaysia. Pakistan is the fourth largest supplier of this commodity. The top two suppliers are Vietnam and Thailand, both ASEAN members, who also face a lower tariff of 20.0%.
- In the case of "Broken Rice" (HS-100640), Pakistan is the largest exporter to Malaysia, despite a higher tariff of 28.0% as compared to its competitors Vietnam, Myanmar and Thailand, who face 18.0% tariff. However, since the FTA came into effect, Pakistan's export of this product to Malaysia has fallen at a rate of 5.3%.
- Further, seven out of the top 25 exports fall under the category of textile products (HS-50-63). Combined, these products accounted for 13.3% of Pakistan's exports to Malaysia in 2019. The tariff applied on these commodities by Malaysia on imports from Pakistan is 0.0%. Pakistan is the second largest exporter to Malaysia of "Bedlinen of textile materials" (HS-630239) and "Bedlinen of cotton (excluding printed, knitted or crocheted)" (HS-630231). China remains the largest exporter for these commodities.
- "Gelatin, whether or not in square or rectangular sheets, whether or not surface-worked or coloured" (HS-350300), is Pakistan's 12th largest export to Malaysia and faces a 5.0% tariff. The other FTA partners face a lower tariff ranging between 0.0% - 1.0% except for Turkey.

Top Exports- Growth Rate Method

While Figure 5 and Table 10 above showed Pakistan's top exports to Malaysia at HS-02 and HS-06 level according to export values, Table 11 below lists Pakistan's top 25 exports to Malaysia at HS-06 level, sorted according to the compound average growth rate (CAGR). This table indicates which exports exhibited the highest growth under the MPCEPA and also compares the tariff rate applied by Malaysia on its FTA partners. Moreover, the highlighted rows indicate the commodities where Malaysia applies a higher tariff rate on imports from Pakistan, as compared to the other FTA partners.

Table 11 Pakistan's Top 25 Exports to Malaysia - Growth Rate Method

HS Code	Product Description	Pakistan Exports to Malaysia		CAGR (2008-19)	Equivalent Ad Valorem Tariff Applied by Malaysia on						
		2008 (USD Million)	2019 (USD Million)		Pakistan	India	New Zealand	Japan	Chile	Australia	Turkey
620322	Men's or boys' ensembles of cotton (excluding knitted or crocheted, ski ensembles and swimwear)	0.02	6.18	68.41%	0	0	0	0	0	0	0
520852	Plain woven fabrics of cotton, containing >= 85% cotton by weight and weighing > 100 g to 200 ...	0.00	0.62	62.36%	0	0	0	0	0	0	10
420219	Trunks, suitcases, vanity cases, executive-cases, briefcases, school satchels and similar containers ...	0.00	0.15	57.79%	0	0	0	0	0	0	0
620333	Men's or boys' jackets and blazers of synthetic fibres (excluding knitted or crocheted, and ...	0.00	0.14	56.91%	0	0	0	0	0	0	0
490199	Printed books, brochures and similar printed matter (excluding those in single sheets; dictionaries, ...	0.03	3.34	54.46%	0	0	0	0	0	0	0
640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather ...	0.00	0.20	52.20%	0	0	0	0	0	0	0
640320	Footwear with outer soles of leather, and uppers which consist of leather straps across the ...	0.00	0.08	48.77%	0	0	0	0	0	0	0
400400	Waste, parings and scrap of soft rubber and powders and granules obtained therefrom	0.01	0.82	44.81%	25	12	0	0	25	0	25
630130	Blankets and travelling rugs of cotton (excluding electric, table covers, bedspreads and articles ...	0.02	0.93	43.94%	0	0	0	0	0	0	0
610130	Overcoats, car coats, capes, cloaks, anoraks, incl. ski jackets, windcheaters, wind-jackets ...	0.00	0.05	43.47%	0	0	0	0	0	0	0
120799	Oil seeds and oleaginous fruits, whether or not broken (excluding edible nuts, olives, soya ...	0.00	0.20	42.38%	0	0	0	0	0	0	0
611090	Jerseys, pullovers, cardigans, waistcoats and similar articles, of textile materials, knitted ...	0.00	0.14	41.82%	0	0	0	0	0	0	0
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted ...	0.00	0.10	37.79%	0	0	0	0	0	0	0
330499	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), ...	0.01	0.44	36.84%	0	0	0	0	0	0	0
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres (excluding ...	0.00	0.03	36.64%	0	0	0	0	0	0	0
521212	Woven fabrics of cotton, containing predominantly, but < 85% cotton by weight, other than those ...	0.00	0.09	36.51%	0	0	0	0	0	0	10

HS Code	Product Description	Pakistan Exports to Malaysia		CAGR (2008-19)	Equivalent Ad Valorem Tariff Applied by Malaysia on						
		2008 (USD Million)	2019 (USD Million)		Pakistan	India	New Zealand	Japan	Chile	Australia	Turkey
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	0.01	0.32	34.90%	0	0	0	0	0	0	0
610342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or ...	0.00	0.11	34.82%	0	0	0	0	0	0	0
621149	Women's or girls' tracksuits and other garments, n.e.s. of textile materials (excluding of ...	0.01	0.24	34.63%	0	0	0	0	0	0	0
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	0.05	1.26	34.06%	0	0	0	0	0	0	0
630492	Articles for interior furnishing, of cotton (excluding knitted or crocheted, blankets and travelling ...	0.01	0.15	33.67%	0	0	0	0	0	0	0
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding ...	0.01	0.28	33.03%	0	0	0	0	0	0	0
392310	Boxes, cases, crates and similar articles for the conveyance or packaging of goods, of plastics	0.00	0.02	31.30%	20	15	0	6	0	0	20
630232	Bedlinen of man-made fibres (excluding printed, knitted or crocheted)	0.00	0.02	31.30%	0	0	0	0	0	0	0
621139	Men's or boys' tracksuits and other garments, n.e.s. of textile materials (excluding of cotton ...	0.00	0.04	30.38%	0	0	0	0	0	0	0

Source: ITC Trade Map

Key Findings:

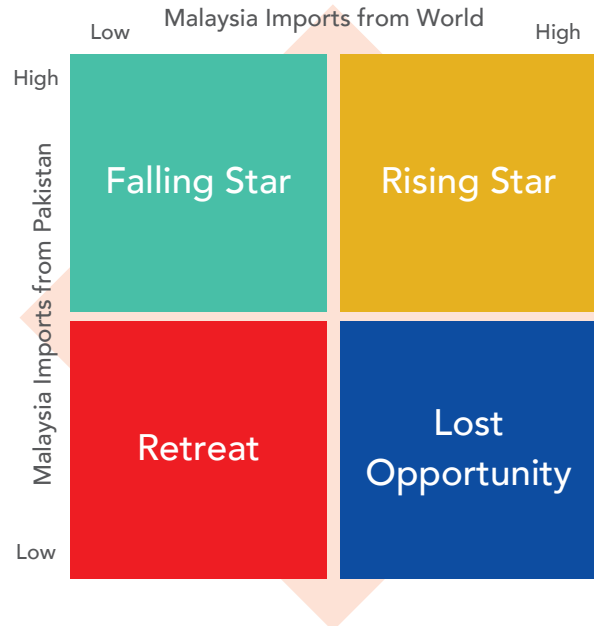
- Since the MPCEPA has come into effect, “Men's or boys' ensembles of cotton (excluding knitted or crocheted, ski ensembles and swimwear)” (HS-620322) has exhibited the highest CAGR at 68.4%. This was also Pakistan’s 10th largest export to Malaysia during 2019 as seen in Table 10. Malaysia applies 0.0% tariff on this commodity for all its FTA partners.
- Nineteen of the top 25 exports fall under the category of Textile products which indicates the importance of this sector, especially in consideration to MPCEPA. The average growth rate for these products was 41.9%.
- Malaysia applies 0.0% tariff for Pakistan on all the goods listed in the table above with the exception of the highlighted rows above. The country applies 25.0% tariff on the import of “Waste, parings and scrap of soft rubber and powders and granules obtained therefrom” (HS-400400) and 20.0% tariff on the import of “Boxes, cases, crates and similar articles for the conveyance or packaging of goods, of plastics” (HS-392310) from Pakistan. Comparing these tariff rates with other FTA countries such as India, New Zealand, Japan and Australia reveals that Malaysia applies a lower tariff on these countries which might give them a competitive edge over Pakistan.

Export Product Dynamics Matrix

The Export Product Dynamics (EPD) Matrix can be used to identify the market position of commodities as well as their performance. In this matrix, products are classified as Rising Stars, Falling Stars, Retreat and Lost Opportunity as can be seen in Figure 6.

The most ideal or most desirable market position is **Rising Star** because products in this Quadrant have a large share among the world's imports and the exporting country also exports those items in substantial amounts. Furthermore, **Falling Star** market position shows an increase in export market share in stagnant products as items have a low share among world imports while the exporting country exports those items in large quantities. **Lost Opportunity** market position shows a decline in the export market share in dynamic products as these commodities have a large share among world's imports but the exporting country is not exporting these items in large quantities. Lastly, **Retreat** has the lowest market share in both, the world's imports and the exporting country's exports.

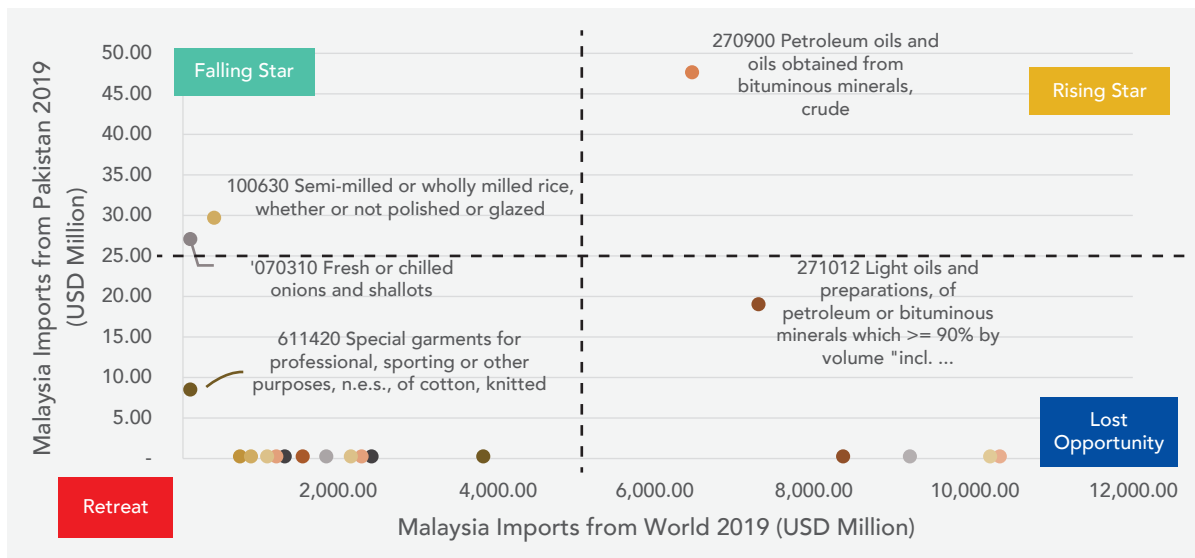
FIGURE 6 EPD Matrix



Thus, according to this framework, Rising Star is the most desirable market position while Lost Opportunity is the least favorable position. In the context of Pakistan's exports to Malaysia, products under Lost Opportunity can be focused upon to increase Pakistan's exports to Malaysia since Malaysia imports large quantities of such products. The Falling Star position is undesirable, since market shares are rising but not in high-demand products. Pakistan can increase its exports of such products but only till a certain amount since Malaysia does not import large quantities. Finally, Retreat may be unfavorable, or favorable, depending upon whether the move is away from stagnant products and towards growth in high-demand products.

By taking Malaysia's imports from the world on the x-axis and Malaysia's imports from Pakistan on the y-axis, the imports of different Pakistani products can be plotted and their performance can be viewed in relation to their demand in Malaysia as indicated in Figure 7 below. Only the top commodities from each segment have been shown. As previously shown in Figure 6, items which are in the upper right-hand quadrant are called **Rising Stars** (Malaysia imports from Pakistan: greater than \$25.0 million, Malaysia imports from World: greater than \$5.0 billion). Items which are in the upper left quadrant are **Falling Stars** (Malaysia imports from Pakistan: greater than \$25.0 million, Malaysia imports from World: less than \$5.0 billion). Therefore, Pakistan can increase its exports of such products, but not exponentially. Commodities which are high in demand among Malaysia's imports but have a low share in imports from Pakistan and positioned in the lower right quadrant, are **Lost Opportunities** (Malaysia imports from Pakistan: less than \$25.0 million, Malaysia imports from World: greater than \$5.0 billion). Products in the **Retreat Quadrant** (Malaysia imports from Pakistan: less than \$25.0 million, Malaysia imports from World: less than \$5.0 billion) are positioned on the lower left quadrant. While trade fairs and promotional activities may push such items into the Falling Stars category, they will still not be able to move into the Rising Stars category due to low imports by Malaysia of the same items.

FIGURE 7 EPD Matrix for Malaysia's Imports from Pakistan 2019



Source: ITC Trade Map

Malaysia's highest imports from the world during 2019 were of "Electronic integrated circuits (excluding such as processors, controllers, memories and amplifiers)" (HS-854239), "Medium oils and preparations, of petroleum or bituminous minerals" (HS-271019) and "Electronic integrated circuits as processors and controllers" (HS-854321), of which Pakistan's supply to Malaysia was nil. Hence, these items are categorized as Lost Opportunities. Similarly, Malaysia also imported large quantities of "Petroleum oils and oils obtained from bituminous minerals, crude" (HS-270900) from the world, out of which, it imported \$47.2 million of this commodity from Pakistan. Hence, this is the only product classified as Rising Star.

Furthermore, only two commodities are listed as Falling Stars whereas majority of the products are clustered under the category of Retreat. This is an indication that most of Pakistan's exports to Malaysia are low-value added since Malaysia's imports of these commodities from the world is relatively low. The following tables show Malaysia's top imports from Pakistan for each of the four segments defined above. Only the Retreat segment table lists the top 5 imports since Pakistan's share in the other quadrants is low.

Falling Star Segment

Table 12 Falling Star- Top Pakistani Products

Ranking	HS Code	Product Description	Malaysia Imports from World 2019 (USD Million)	Malaysia Imports from Pakistan 2019 (USD Million)	Imports from Pakistan as a % of Total Imports
1	100630	Semi-milled or wholly milled rice, whether or not polished or glazed	450.09	29.53	6.56%
2	070310	Fresh or chilled onions and shallots	179.60	26.87	14.96%

Source: ITC Trade Map

Rising Star Segment

Table 13 Rising Star- Top Pakistani Products

Ranking	HS Code	Product Description	Malaysia Imports from World 2019 (USD Million)	Malaysia Imports from Pakistan 2019 (USD Million)	Imports from Pakistan as a % of Total Imports
1	270900	Petroleum oils and oils obtained from bituminous minerals, crude	6,461.10	47.18	0.73%

Source: ITC Trade Map

Retreat Segment

Table 14 Retreat-Top Pakistani Products

Ranking	HS Code	Product Description	Malaysia Imports from World 2019 (USD Million)	Malaysia Imports from Pakistan 2019 (USD Million)	Imports from Pakistan as a % of Total Imports
1	847330	Parts and accessories of automatic data-processing machines or for other machines of heading ...	1,886.29	0.02	0.00%
2	300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, ...	1,217.49	0.41	0.03%
3	851762	Machines for the reception, conversion and transmission or regeneration of voice, images or ...	1,123.38	0.11	0.01%
4	999999	Commodities not elsewhere specified	1,020.32	1.02	0.10%
5	853690	Electrical apparatus for switching electrical circuits, or for making connections to or in ...	939.44	0.03	0.00%

Source: ITC Trade Map

Lost Opportunity Segment

Table 15 Lost Opportunity- Top Pakistani Products

Ranking	HS Code	Product Description	Malaysia Imports from World 2019 (USD Million)	Malaysia Imports from Pakistan 2019 (USD Million)	Imports from Pakistan as a % of Total Imports
1	271012	Light oils and preparations, of petroleum or bituminous minerals which \geq 90% by volume "incl. ...	7,288.73	18.67	0.26%

Source: ITC Trade Map

All in all, analysis of the EPD framework reveals that most of Pakistan's exports to Malaysia are clustered under the Retreat segment. The top products from this segment mostly fall under the category of electronics and machinery which Malaysia imports in small quantities from Pakistan as can be seen in Table 14. These products are not in Pakistan's forte which is why Pakistan has been unable to gain a significant market share in Malaysia.

Similarly, the Lost Opportunity segment includes electronic commodities and mineral products. Malaysia imports large amounts of these commodities from the world but once again, Pakistan has been unable to gain market share in these products even though Malaysia offers concession through MPCEPA on these products.

CHAPTER 4

Trade Complementarity

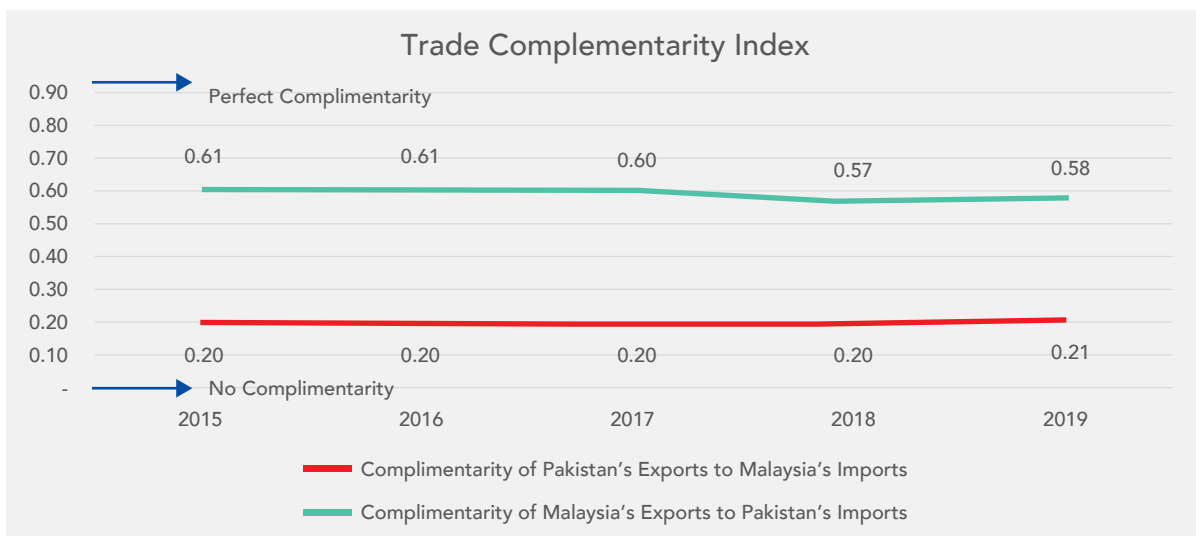
Trade Complementarity index shows the extent to which the export profile of the exporter complements the import profile of the partner. A high index may indicate that the exporter would stand to gain from increased trade. It is calculated using the following formula:

Trade Complementarity of Country *i* with Country *j* =

$$1 - \frac{\sum |\text{share of good X in imports of country j} - \text{share of good X in exports of country i}|}{2}$$

The figure below shows that Malaysia's exports match Pakistan's imports more closely relative to Pakistan's exports with Malaysia's imports. Only 20.0% of Pakistan's exports complement Malaysia's imports, while nearly 60.0% of Malaysia's exports complement Pakistan's imports. Over the last few years, correlation of Malaysia's exports with Pakistan's imports has decreased slightly. On the other hand, trade complimentary for Pakistani exports with Malaysian imports have remained more or less the same. This indicates that the Malaysian export industry stands to gain more from the FTA between both the partner countries.

FIGURE 8 Pakistan-Malaysia Trade Complementarity Index



Source: WITS

CHAPTER 5

Trade Potential

Pakistan's Potential to Export to Malaysia

The table below lists the top 25 products with the highest export potential for Pakistan in 2019. From the previous tables, it can be seen that Pakistan has not been utilizing the full potential of MPCEPA. Table 16 shows those commodities on which Pakistan should focus on in the near to medium terms to increase exports to Malaysia.

Table 16 Pakistan's Top Export Potential Products

HS Code	Product label	Pakistan Exports to Malaysia 2019 (USD Million)	Malaysia Imports from World 2019 (USD Million)	Pakistan Exports to World 2019 (USD Million)	Export Potential 2019 (USD Million)	Equivalent Ad Valorem Tariff Applied by Malaysia on Pakistan
	Top 25 Products	74.15	3,822.72	4,834.82	2,016.43	
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	28.22	450.09	1,786.25	421.87	40
901890	Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.	1.29	438.38	405.51	404.23	0
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	1.26	136.28	314.81	135.03	0
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, ...	0.64	1,217.49	82.41	81.77	0
640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather ...	0.20	77.02	87.77	76.82	0
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	0.32	71.26	172.72	70.93	0
070190	Fresh or chilled potatoes (excluding seed)	7.47	78.09	114.16	70.62	0
030617	Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns in ...	2.17	93.61	72.78	70.61	0
170199	Cane or beet sugar and chemically pure sucrose, in solid form (excluding cane and beet sugar ...	-	58.34	218.47	58.34	0
841199	Parts of gas turbines, n.e.s.	-	329.80	56.86	56.86	0
390761	Poly"ethylene terephthalate", in primary forms, having a viscosity number of >= 78 ml/g	0.01	49.70	217.75	49.69	-
080410	Fresh or dried dates	0.16	48.79	71.81	48.63	0
080521	Fresh or dried mandarins incl. tangerines and satsumas (excl. clementines)	0.10	60.85	47.52	47.42	-
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding ...	0.28	47.36	400.50	47.08	0
620349	Men's or boys' trousers, bib and brace overalls, breeches and shorts of textile materials (excluding ...	0.14	47.06	118.36	46.93	0
630790	Made-up articles of textile materials, incl. dress patterns, n.e.s.	0.86	63.96	47.78	46.92	0
252329	Portland cement (excluding white, whether or not artificially coloured)	-	45.99	174.10	45.99	13
250100	Salts, incl. table salt and denatured salt, and pure sodium chloride, whether or not in aqueous ...	1.79	44.79	49.64	43.00	0

HS Code	Product label	Pakistan Exports to Malaysia 2019 (USD Million)	Malaysia Imports from World 2019 (USD Million)	Pakistan Exports to World 2019 (USD Million)	Export Potential 2019 (USD Million)	Equivalent Ad Valorem Tariff Applied by Malaysia on Pakistan
940490	Articles of bedding and similar furnishing, fitted with springs or stuffed or internally filled ...	0.49	42.82	85.47	42.33	10
110100	Wheat or meslin flour	0.43	39.61	122.97	39.18	0
070310	Fresh or chilled onions and shallots	28.35	179.60	67.48	39.13	0
252310	Cement clinkers	-	37.45	84.13	37.45	0
151620	Vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, ...	-	164.39	35.61	35.61	0
170490	Sugar confectionery not containing cocoa, incl. white chocolate (excluding chewing gum)	0.01	56.07	35.14	35.13	0
481159	Paper and paperboard, surface-coloured, surface-decorated or printed, coated, impregnated or ...	1.16	105.34	34.42	33.26	13

Source: ITC Trade Map

Key Findings:

- The aggregate export potential for Pakistan's top 25 products amounted to \$2.0 billion in 2019. However, the country only exported goods worth \$74.2 million from the top 25 high potential goods to Malaysia during the year.
- "Semi-milled or wholly milled rice, whether or not polished or glazed" (HS-100630) holds the highest potential worth \$421.9 million. This commodity was also Pakistan's third largest export to Malaysia and was classified as a Falling Star in the EPD Matrix. More details for this product are given in the sections below.
- The product with the second highest potential in 2019 was "Instruments and appliances used in medical, surgical or veterinary sciences" (HS-901890). While Pakistan had the potential to export \$404.2 million of this product in 2019, it exported a mere \$1.3 million to Malaysia. Furthermore, "Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes" (HS-300490) contains high potential as well. However, Pakistan's Pharma and Drug regulatory authorities are not registered with the International Pharmaceutical Inspection Convention. Due to this, exports of such products to Malaysia remain limited. With no tariffs applied on these products by Malaysia, Pakistan should try to tap into this potential market by gaining recognition of international authorities since the country already produces high quality pharmaceutical products.
- Ten out of the top 25 products fall under the category of Agricultural Goods and Foodstuffs including Sea Food (HS-01-24). Combined, Pakistan exported \$59.5 million of these products to Malaysia in 2019 while it had the potential to export goods worth \$816.1 million.
- Almost all the top 25 products have 0.0% tariff applied on them except for "Semi-milled or wholly milled rice, whether or not polished or glazed" (HS-100630), "Portland cement (excluding white, whether or not artificially coloured)" (HS-252329) and "Articles of bedding and similar furnishing, fitted with springs or stuffed or internally filled" (HS-940490). Malaysia applies 40.0%, 13.0% and 10.0% tariff, respectively, on these commodities when imported from Pakistan. Pakistan should try to negotiate tariff reductions for these products as Malaysia offers 0.0% tariff on these commodities, with the exception of rice, to other FTA partners such as Australia, New Zealand and Chile.
- Five out of the top 25 products consist of Textile commodities (HS-50-63). While Pakistan exported a mere \$2.9 million of these commodities in 2019, it held the potential to export \$346.9 million of these goods to Malaysia. The reason behind this is that Pakistani textile exporters prefer markets like EU and USA due to the EU GSP+ benefit and due to the fact that textile goods can be sold with a high markup in these destinations. However, since most textile goods under MPCEPA are also allowed zero duty access, Pakistan should try to tap into this potential market as well. More trade fairs and marketing of textile goods, especially high value-added products in place of raw material (cotton), will allow Pakistan to tap into this market.

Malaysia's Potential to Export to Pakistan

Table 17 below lists Malaysia's high potential products that it can export to Pakistan, along with the tariff applied by Pakistan on Malaysia on these products.

Table 17 Malaysia's Top Export Potential Products

HS Code	Product label	Malaysia Exports to Pakistan 2019 (USD Million)	Pakistan Imports from World 2019 (USD Million)	Malaysia Exports to World 2019 (USD Million)	Export Potential 2019 (USD Million)	Equivalent Ad Valorem Tariff Applied by Pakistan on Malaysia
	Top 25 Products	513.80	7,108.70	25,657.06	5,696.93	
151190	Palm oil and its fractions, whether or not refined (excluding chemically modified and crude)	387.45	1,557.14	6,469.97	1,169.69	7
390210	Polypropylene, in primary forms	0.14	479.82	612.92	479.69	5
851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	-	1,019.64	421.95	421.95	9
854140	Photosensitive semiconductor devices, incl. photovoltaic cells whether or not assembled in ...	9.20	355.91	4,680.44	346.70	0
390110	Polyethylene with a specific gravity of < 0,94, in primary forms	0.88	310.23	823.60	309.36	5
290243	P-Xylene	-	300.75	372.26	300.75	0
851762	Machines for the reception, conversion and transmission or regeneration of voice, images or ...	0.38	263.73	3,007.72	263.35	6
390120	Polyethylene with a specific gravity of >= 0,94, in primary forms	3.15	243.85	587.98	240.70	5
870323	Motor cars and other motor vehicles principally designed for the transport of persons, incl. ...	0.03	181.62	280.53	181.59	92
847130	Data-processing machines, automatic, portable, weighing <= 10 kg, consisting of at least a ...	6.32	186.52	276.29	180.21	0
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, ...	0.26	342.04	157.08	156.82	12
853710	Boards, cabinets and similar combinations of apparatus for electric control or the distribution ...	0.02	148.74	1,200.27	148.72	30
999999	Commodities not elsewhere specified	2.64	140.59	791.10	137.95	0
390230	Propylene copolymers, in primary forms	10.11	142.63	152.57	132.53	5
854449	Electric conductors, for a voltage <= 1.000 V, insulated, not fitted with connectors, n.e.s.	0.09	128.74	175.89	128.65	15
850440	Static converters	0.36	128.99	598.02	128.64	11
151110	Crude palm oil	70.99	198.06	1,862.35	127.07	6
730890	Structures and parts of structures, of iron or steel, n.e.s. (excluding bridges and bridge-sections, ...	1.21	124.58	359.15	123.37	20
382499	Chemical products and preparations of the chemical or allied industries, incl. those consisting ...	4.59	124.90	641.92	120.31	-
841590	Parts of air conditioning machines, comprising a motor-driven fan and elements for changing ...	5.02	114.67	379.20	109.64	18
847989	Machines and mechanical appliances, n.e.s.	0.01	109.26	605.18	109.25	2
290531	Ethylene glycol "ethanediol"	-	216.22	100.87	100.87	0
550320	Staple fibres of polyesters, not carded, combed or otherwise processed for spinning	0.04	94.82	144.53	94.78	11
901839	Needles, catheters, cannulae and the like, used in medical, surgical, dental or veterinary ...	10.09	102.32	764.74	92.23	5
848180	Appliances for pipes, boiler shells, tanks, vats or the like (excluding pressure-reducing valves, ...	0.82	92.93	190.53	92.11	29

Source: ITC Trade Map

Key Findings:

- The aggregate export potential for Malaysia's top 25 products amounted to \$5.7 billion in 2019. However, for these top 25 commodities, Malaysia exported goods worth \$513.8 million to Pakistan during the year. Hence, Malaysia is currently way below its export potential.
- Pakistan applies tariffs on 19 out of the top 25 high potential products from Malaysia. Therefore, Malaysia may target such products in tariff negotiations.
- Malaysia holds immense potential to export Palm Oil to Pakistan. While Malaysia exported \$458.4 million of these commodities to Pakistan in 2019, it had the potential to export \$1.3 billion of these products during the same year.
- Nine out of the top 25 high potential products consist of Machinery. Malaysia holds the potential to export \$1.9 billion of these goods. However, it only exported \$22.2 million of these goods to Pakistan in 2019.

CHAPTER 6

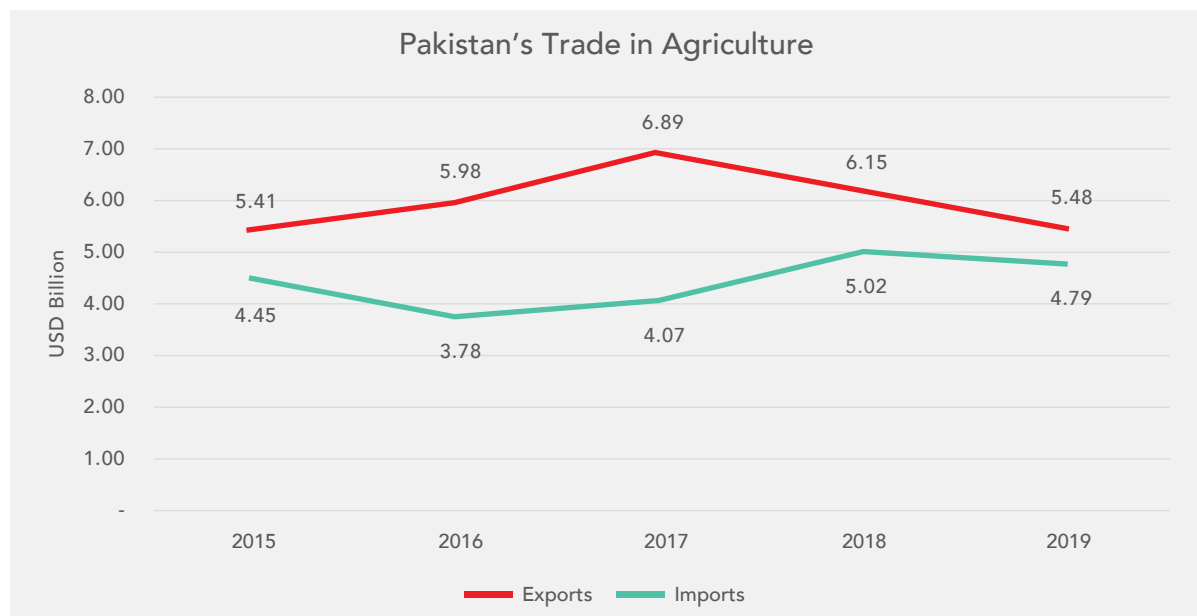
Industry Analysis

Pakistan's Agriculture and Foodstuff Industry

Contributing around 22.1% to the GDP of Pakistan and absorbing almost half of the country's labor force, the agriculture sector is considered to be the backbone of the Pakistani economy. The major crops include wheat, sugarcane, rice and cotton, which account for approximately 75.0% of the value of total crop output. It is also an important source of foreign exchange earnings and stimulates growth in other sectors.

Figure 9 below shows Pakistan's exports and imports in this sector for the last five years. Imports of agricultural products reached their peak during 2017, after which they declined to \$5.5 billion in 2019. On the other hand, exports increased till 2018, slightly decreasing to \$4.8 billion in 2019.

FIGURE 9 Pakistan's Trade in Agriculture



Source: ITC Trade Map

The table below lists Pakistan's top 10 agricultural exports during 2019, along with its exports of these commodities to Malaysia in the same year. Pakistan's agricultural exports to Malaysia constitute a mere 1.8% of global agricultural exports. Pakistan's export to Malaysia of "Fresh or chilled potatoes (excluding seed)" (HS-070190) has the largest share, amounting to 6.5% of Pakistan's global agricultural goods.

Table 18 Pakistan's Top Agricultural Exports

HS Code	Product Description	Exports to World 2019 (USD Million)	Exports to Malaysia 2019 (USD Million)	Exports to Malaysia as a % of Total Agricultural Exports
Total	Agricultural Products	4,785.83	86.23	1.80%
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	1,786.25	28.22	1.58%
220710	Undenatured ethyl alcohol, of actual alcoholic strength of >= 80%	301.87	0.96	0.32%
100640	Broken rice	255.73	2.03	0.79%
100620	Husked or brown rice	232.92	-	0.00%
170199	Cane or beet sugar and chemically pure sucrose, in solid form (excluding cane and beet sugar . . .	218.47	-	0.00%
020110	Carcases or half-carcases of bovine animals, fresh or chilled	184.10	-	0.00%
110100	Wheat or meslin flour	122.97	0.43	0.35%
070190	Fresh or chilled potatoes (excluding seed)	114.16	7.47	6.54%
080450	Fresh or dried guavas, mangoes and mangosteens	101.63	0.66	0.65%
080529	Fresh or dried wilkings and similar citrus hybrids	101.28	0.31	0.31%

Source: ITC Trade Map

Pakistan's Potential to Export Agricultural Goods to Malaysia

From Table 16 in the previous chapter, it can be seen that Pakistan holds the potential to exponentially increase its exports of agricultural products to Malaysia. To further identify which products Pakistan can focus on to increase its exports to utilize the FTA with Malaysia, Pakistan's potential to export agricultural goods to Malaysia has been listed in the table below. The table also shows the tariff applied by Malaysia on Pakistan along these tariff lines.

Table 19 Pakistan's Potential to Export Agricultural Products to Malaysia

HS Code	Product Description	Pakistan Exports to Malaysia 2019 (USD Million)	Malaysia Imports from World 2019 (USD Million)	Pakistan Exports to World 2019 (USD Million)	Export Potential 2019 (USD Million)	Equivalent Ad Valorem Tariff Applied by Malaysia on Pakistan
Total	Agricultural Products	86.23	14,770.65	4,785.83	4,699.60	-
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	28.22	450.09	1,786.25	421.87	40
070190	Fresh or chilled potatoes (excluding seed)	7.47	78.09	114.16	70.62	0
170199	Cane or beet sugar and chemically pure sucrose, in solid form (excluding cane and beet sugar ...	-	58.34	218.47	58.34	0
080410	Fresh or dried dates	0.16	48.79	71.81	48.63	0
080521	Fresh or dried mandarins incl. tangerines and satsumas (excl. clementines)	0.10	60.85	47.52	47.42	-
110100	Wheat or meslin flour	0.43	39.61	122.97	39.18	0
070310	Fresh or chilled onions and shallots	28.35	179.60	67.48	39.13	0
151620	Vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, ...	-	164.39	35.61	35.61	0
170490	Sugar confectionery not containing cocoa, incl. white chocolate (excluding chewing gum)	0.01	56.07	35.14	35.13	0
100199	Wheat and meslin (excluding seed for sowing, and durum wheat)	6.30	290.86	37.64	31.34	0

Source: ITC Trade Map

HS Code	Product Description	Pakistan Exports to Malaysia 2019 (USD Million)	Malaysia Imports from World 2019 (USD Million)	Pakistan Exports to World 2019 (USD Million)	Export Potential 2019 (USD Million)	Equivalent Ad Valorem Tariff Applied by Malaysia on Pakistan
210690	Food preparations, n.e.s.	0.05	690.38	30.68	30.63	0
170230	Glucose in solid form and glucose syrup, not containing added flavouring or colouring matter ...	-	27.79	38.02	27.79	0
230120	Flours, meals and pellets of fish or crustaceans, molluscs or other aquatic invertebrates, ...	-	26.75	27.85	26.75	0
100590	Maize (excluding seed for sowing)	3.35	477.43	28.74	25.39	0
091091	Mixtures of different types of spices	0.38	22.37	65.06	21.99	0
090240	Black fermented tea and partly fermented tea, whether or not flavoured, in immediate packings ...	0.00	44.89	21.75	21.75	0
190531	Sweet biscuits	0.01	67.62	20.61	20.61	0
120740	Sesamum seeds, whether or not broken	1.30	18.44	40.45	17.13	0
080450	Fresh or dried guavas, mangoes and mangosteens	0.66	17.61	101.63	16.95	2
190590	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion ...	0.08	52.59	15.08	15.00	0
080390	Fresh or dried bananas (excluding plantains)	-	14.81	33.11	14.81	2
110812	Maize starch	0.35	74.59	14.44	14.09	0
020629	Frozen edible bovine offal (excluding tongues and livers)	-	13.78	14.12	13.78	0
081340	Dried peaches, pears, papaws "papayas", tamarinds and other edible fruits (excluding nuts, ...	0.01	17.09	13.59	13.58	0
050400	Guts, bladders and stomachs of animals (other than fish), whole and pieces thereof, fresh, ...	-	13.23	19.50	13.23	0

Source: ITC Trade Map

Key Findings:

- Pakistan held the potential to export agricultural goods worth \$4.7 billion to Malaysia in 2019. However, the country only exported agricultural goods worth \$86.2 million to Malaysia during the year. This stark difference may be due to the fact that Malaysia wants to protect its food and agriculture sectors by limiting market access.
- MPCEPA includes concessions on agricultural goods and Malaysia applies 0.0% tariff on 22 out of the 25 high potential commodities. The exceptions include "Semi-milled or wholly milled rice, whether or not polished or glazed" (HS-100630), "Fresh or dried guavas, mangoes and mangosteens" (HS-080450) and "Fresh or dried bananas (excluding plantains)" (HS-080390). Malaysia applies 40.0%, 2.0% and 2.0% tariffs on these items, respectively.
- Pakistan does not export 7 of the products listed above to Malaysia even though it had an indicative potential of around \$175.5 million. These include "Cane or beet sugar and chemically pure sucrose, in solid form" (HS-170199), "Glucose in solid form and glucose syrup, not containing added flavouring or colouring matter" (HS-170230), "Fresh or dried bananas (excluding plantains)" (HS-080390) and so on. Pakistan can look into increasing its exports of such products.
- Five out of the top potential goods consist of edible fruits (HS-08). Combined, Pakistan had the potential to export fruits worth \$141.4 million to Malaysia in 2019. Malaysia applies 0.0% tariff on these with the exception of "Fresh or dried bananas (excluding plantains)" (HS-080390) and "Fresh or dried guavas, mangoes and mangosteens" (HS-080450). These fruits and edible items can be focused upon so that Pakistan may come up to its potential. However, there is no direct flight from Pakistan to Malaysia which is necessary for the transport of these perishables.
- During 2019, Pakistan had a potential to export \$13.9 million worth of "Frozen edible bovine offal (excluding tongues and livers)" (HS-020629) to Malaysia. This is because the Halal industry in Malaysia has grown rapidly over the years. However, Pakistan does not export this product to Malaysia due to non-compliance with Malaysia's veterinary requirements. These include failure to follow work procedures and implementation of internationally acceptable quality control standards and certifications.

The sections below provide in-depth details for high potential items such as rice, vegetables and fruits of Pakistan mentioned in Table 19 above. Pakistan's position in the Malaysian market regarding these products, competitor's strategies and how Pakistan can learn from them is described in greater detail.

Top Potential Item- Semi-milled or wholly milled rice, whether or not polished or glazed (HS-100630)

Under HS-08 level, this product includes two tariff lines: 'Semi-milled or wholly milled rice, whether or not polished or glazed; other (10063090)' and 'Semi-milled or wholly milled rice, or not polished or glazed; basmati (10063010)'. These tariff lines are included under the HSL track by Malaysia- indicating that no concession is to be allowed on these commodities in the first phase. As mentioned above, HS-100630 is Pakistan's third-largest export to Malaysia, as well as, Pakistan's highest potential item.

Competitor Analysis

The table below lists Pakistan's competitors of this product and Pakistan's position in the Malaysian market. Other indicators such as market share, CAGR, unit price and tariff applied are also shown.

Table 20 HS-100630- Pakistan and its Competitors

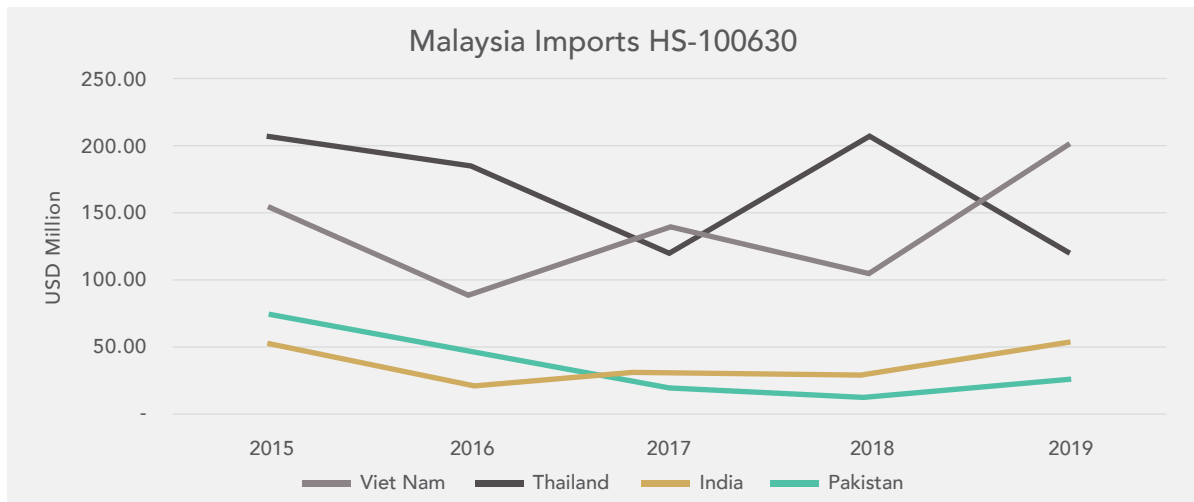
Ranking	Exporters	Value imported by Malaysia in 2019 (USD Million)	Share in Malaysia's imports	CAGR (2010-19)	Unit Price (USD/Tons)	Average tariff (estimated) applied by Malaysia (%)	Trade Agreement in Effect
	World	450.09	100	-0.93%	470		
1	Viet Nam	200.48	44.5%	-3.46%	436	20	ASEAN Member
2	Thailand	119.54	26.6%	-2.55%	411	20	ASEAN Member
3	India	54.86	12.2%	39.79%	674	20	MICECA
4	Pakistan	28.22	6.3%	-8.01%	604	40	MPCEPA

Source: ITC Trade Map

Pakistan is the fourth largest supplier of this product to Malaysia, behind Vietnam, Thailand and India. The country faces a negative CAGR for the last ten years which indicates that it is losing its market share. It is the only country amongst its major competitors to face 40.0% tariff by Malaysia and so, Pakistan can urge Malaysia to revise tariff concessions along these lines. The unit price for Pakistani rice is greater than Vietnam and Thailand but lower than India, Pakistani rice exporters can try to increase the export of this product provided they have a level playing field vis-à-vis India.

Trade Trends

FIGURE 10 Trade Trends- Malaysia Imports HS-100630 from Pakistan and its Competitors



Source: ITC Trade Map

Figure 10 shows the trade trends for the last five years of Malaysia's imports of HS-100630 from Pakistan and its competitors. There have been major changes in imports of this commodity from Vietnam and Thailand. Despite this, both countries have remained amongst the top two suppliers of rice to Malaysia since 2015. On the other hand, Pakistan's share for rice in the Malaysian market took a steep drop from 2015 to 2018. Though it slightly increased in 2019, Pakistan still holds potential to export more of this commodity.

Vietnam

Contributing 44.5% to Malaysia's rice imports, Vietnam is by far, the largest exporter of this commodity to Malaysia. Being a member of ASEAN, it can export rice to Malaysia at 20.0% tariff, which is much lower than the tariff on Pakistani rice. However, after the outbreak of Covid-19, Vietnam curbed its exports of rice to ensure stocks for domestic uses. Soon after, Malaysia signed a major deal with India which stated that Malaysia would import 100,000 tons of rice from India during May and June 2020.

Vietnamese rice continues to be a major competitor due to improved rice trade promotion activities via exhibitions, trade fairs, and business networking events supported by commercial agencies. Moreover, the country mostly exports aromatic and glutinous rice, in which Vietnam has a price advantage. The country's growth track is based on high production of low-quality rice and export at low price. This, coupled with low production costs, has made Vietnam a leading rice exporting economy.

Thailand

Thailand is another leading rice exporter that exports mainly white rice and jasmine rice. Similar to Vietnam, being an ASEAN member, Thailand can also export rice to Malaysia at 20.0% tariff.

The Thai government supports rice production through its crop insurance program, through which subsidized fertilizers are available. Thailand has also registered a variety of rice on online trading websites like Amazon and Alibaba through which rice exporters can easily market their products. Moreover, since Malaysia and Thailand share borders, the country has a low freight cost advantage as compared to Pakistan.

However, the Thai Rice Exporters Association has recently revealed that due to drought and floods, the country faces a threat of declining rice exports in the coming decade. This, coupled with Thailand's limited budget for research and development for rice and high production costs, may bring the country down to number five in world's largest exporters of this commodity.

India

Currently, India stands as the largest exporter of this commodity to the world. India faces 20.0% tariff on rice as well which is much lower than what Pakistan faces. It also offers relatively more varieties of rice than Pakistan.

India has followed a strategy similar to China to make use of hybrid seeds to improve yields. Hence, their high-quality rice, combined with the record-breaking deal signed with Malaysia for rice ensures that India remains a top competitor. However, India's unit price for rice remains the highest as can be seen in Table 20.

Pakistan

Pakistan mainly exports high-quality basmati rice to Malaysia. The Rice Exporters Association of Pakistan has recently announced that amid the Covid-19 pandemic, international demand for basmati rice has increased. Hence, it is predicted that during this fiscal year, rice exports will cross 4 million tons. Pakistan should take advantage of this and try to increase its exports of rice to Malaysia as well.

Moreover, it should learn from Vietnam's method of rice trade promotion activities to further increase rice exports. The country has new hybrid seeds available and it can market and properly brand this commodity to gain market share in Malaysia.

Top Potential Item- Fresh or chilled potatoes (excluding seed) (HS-070190)

Under HS-08 level, this product includes one tariff line: "Fresh or chilled potatoes (excluding seed)" (HS-07019000) which is included under the FTA concessional track. Hence, Malaysia applies 0.0% tariff on the import of this product from Pakistan. Globally, Pakistan was the 10th largest exporter of this product in 2019. In the Malaysian market however, Pakistan ranks as the second largest exporter of "Fresh or chilled potatoes (excluding seed)", exporting \$7.5 million of this product to Malaysia in 2019 while it held the potential to export \$70.6 million during the same year.

Competitor Analysis

The table below lists Pakistan's top three competitors of this product and Pakistan's position in the Malaysian market. Other indicators such as market share, CAGR, unit price and tariff applied are also shown.

Table 21 HS-070190- Pakistan and its Competitors

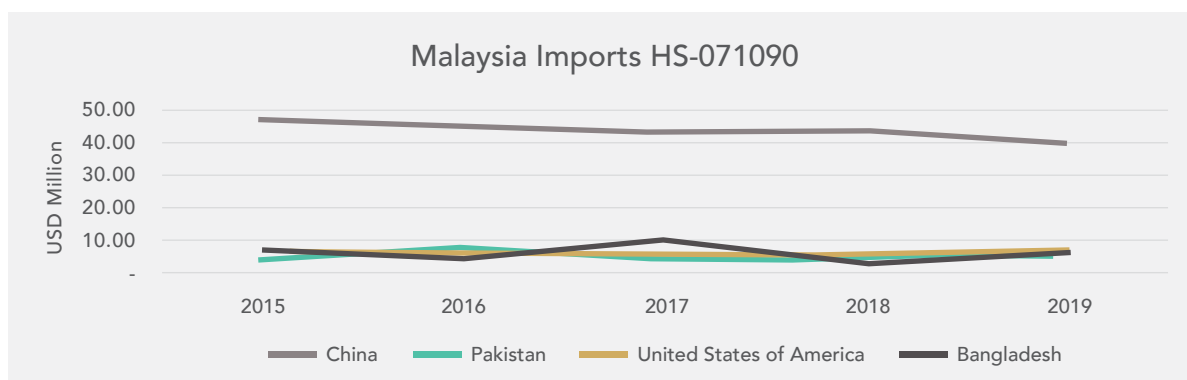
Ranking	Exporters	Value imported in 2019 (USD Million)	Share in Malaysia's imports	CAGR (2010-19)	Unit Price (USD/Ton)	Average tariff (estimated) applied by Malaysia (%)	Trade Agreement in Effect
	World	78.09		4.49%	316.00		
1	China	39.60	50.71%	2.36%	306.00	0	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement
2	Pakistan	7.47	9.57%	6.80%	216.00	0	MPCEPA
3	United States of America	7.41	9.49%	6.24%	618.00	0	No Trade Agreement in Effect
4	Bangladesh	6.70	8.58%	12.51%	234.00	0	No Trade Agreement in Effect

Source: ITC Trade Map

Pakistan remains an important supplier of potatoes to Malaysia, ranking second after China. While Pakistan's exports of potatoes account for 9.6% share in Malaysia's market, China takes the lead with 50.7% share. Hence, the difference between the first and second suppliers is large. Since 2010, Pakistan's potato exports to Malaysia have experienced a positive growth of 6.8%, which is higher than that of its competitors, with the exception of Bangladesh. The unit price for potatoes from Pakistan is considerably lower than competitor countries, making it attractive for Malaysia in terms of price. Furthermore, Malaysia applies 0.0% MFN tariff on the import of this commodity.

Trade Trends

FIGURE 11 Trade Trends- Malaysia Imports HS-071090 from Pakistan and its Competitors



Source: ITC Trade Map

Figure 11 illustrates the trends of Malaysia's imports of HS-071090 from Pakistan and its top three competitors since 2015. As can be seen, China's exports of HS-071090 to Malaysia far exceeds Malaysia's imports from other countries. However, China's export of this commodity has shown a decreasing trend since 2015. On the other hand, Pakistan, USA and Bangladesh's exports of this commodity have experienced slight changes and the export value of these three countries has remained more or less similar.

China

China is one of the world's largest potato producers and the third largest global exporter of this commodity. This can partly be attributed to the fact that the country has invested in extensive research on such food items. In August 2017, a new institute was established in China which aimed to enhance potato research and cultivate high-quality potatoes that better adapt to different environments and meet market demand. Moreover, China introduced the "Potato as Staple Food Strategy" which enacted subsidies from the government to promote potato production, which in turn increased exports as well.

Pakistan

Similar to China, Pakistan's exports of Fresh or chilled potatoes have also been growing. It is the fourth largest produced crop in the country. From Table 21, it can also be seen that Pakistani potato has the lowest per unit price, giving it a price advantage amongst competitors. Low productivity of the crop in Pakistan is due to several biotic, abiotic stresses and the relatively limited allocation of land. Nutrient deficit soil, droughts, lack of availability of quality seeds have a negative impact on production and export of potatoes. The Pakistani potato is in great demand in Malaysia, and given further research and development and subsidies from the government, Pakistan can increase the export of this crop to Malaysia.

Similarly, other vegetables such as "Fresh or chilled onions and shallots" (HS-070310) also hold immense potential and investing in research and development could increase exports.

Top Potential Item- Fresh or dried guavas, mangoes and mangosteens (HS-080450)

Under HS-08 level, this product includes around six tariff lines which fall under the FT and Sensitive-1 concessional tracks. Hence, Malaysia applies 0.0% tariff on products under FT and approximately 5.0% tariff on products under the Sensitive-1 track. Globally, Pakistan was the seventh largest exporter of this product in 2019. In the Malaysian market however, Pakistan ranks as the third largest exporter of fresh or dried guavas, mangoes and mangosteens, exporting around \$0.66 million of this commodity to Malaysia in 2019 while it had the potential to export \$17.0 million during the same year.

Competitor Analysis

The table below lists Pakistan's top three competitors of this product and Pakistan's position in the Malaysian market. Other indicators such as market share, CAGR, unit price and tariff applied are also shown.

Table 22 HS-080450- Pakistan and its Competitors

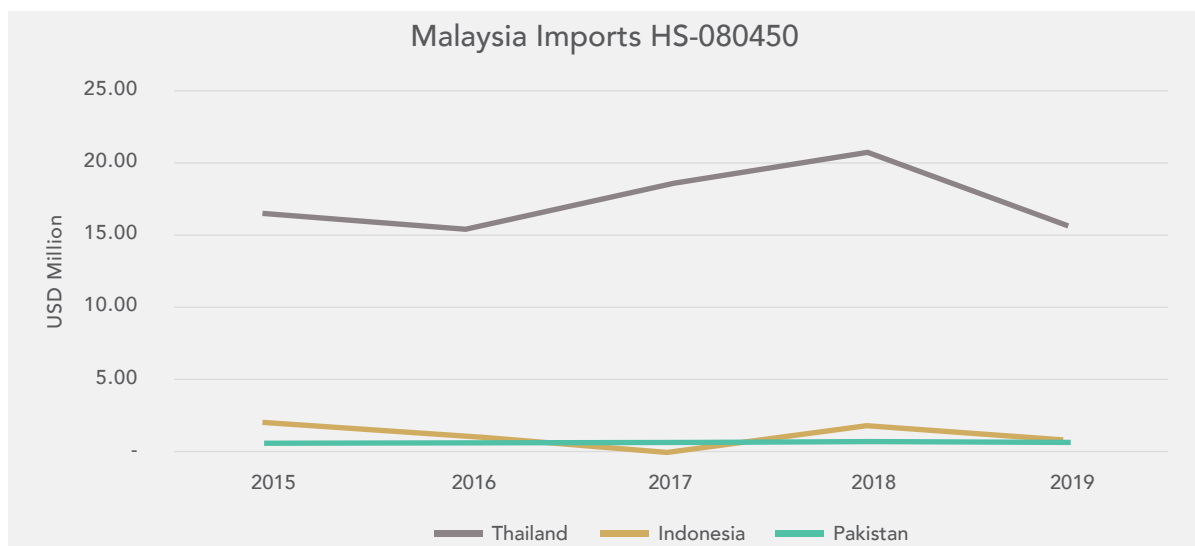
Ranking	Exporters	Value imported in 2019 (USD Million)	Share in Malaysia's imports	CAGR (2010-19)	Unit Price (USD/Ton)	Average tariff (estimated) applied by Malaysia (%)	Trade Agreement in Effect
	World	17.61		7.93%	394.00		
1	Thailand	15.66	88.92%	7.91%	367.00	5	ASEAN Member
2	Indonesia	0.69	3.90%	44.51%	625.00	5	ASEAN Member
3	Pakistan	0.66	3.75%	13.21%	1,840.00	2	MPCEPA

Source: ITC Trade Map

Pakistan is an important supplier of fresh or dried guavas, mangoes and mangosteens to Malaysia, ranking third after Thailand and Indonesia. As can be seen from the table above, Thailand supplies the majority of this commodity to Malaysia, accounting for more than 88.0% of Malaysia's imports of these fruits while Pakistan's share was a mere 3.8%. Moreover, the average tariff applied by Malaysia on this tariff line is the lowest for Pakistan, while the unit price for Pakistan is the highest amongst its competitors.

Trade Trends

FIGURE 12 Trade Trends- Malaysia Imports HS-080450 from Pakistan and its Competitors



Source: ITC Trade Map

Figure 12 shows the trends of Malaysia's imports of HS-080450 from Pakistan and its top three competitors since 2015. Thailand's exports of HS-080450 to Malaysia far exceeds that of the other countries, making it the single most important import source for Malaysia. However, its exports have declined sharply since 2018. On the other hand, Pakistan's exports of this commodity have slightly increased in the last five years.

Thailand

Since 2019, Thailand has overtaken Mexico in the global market for guavas, mangoes and mangosteens. The country is now the single largest exporter of these fruits to the world, exporting approximately \$627.6 million of these commodities.

One of the main reasons why Thai fruits are famous around the world is because of their high quality and reasonable unit price. Climatic conditions are suitable for the production of good quality tropical fruits like mangosteens and mangos. The Thai government promotes integrated pest control, thereby reducing chemical residues in fruits. The country has also started pilot projects for hygienic production of pesticide 'safe' fresh fruits and vegetables.

Indonesia

While Indonesia ranks as the 15th largest exporter of HS-080450 globally, it is the second largest exporter of this commodity to Malaysia. Generally, fruits from Indonesia are of lower quality due to less advanced technology and storage facilities. The country also faces high transportation costs due to which its unit price is higher than that of its competitors. However, since Indonesia borders Malaysia and is an ASEAN Member, it continues to export large quantities of fresh or dried guavas, mangoes and mangosteens to Malaysia.

Pakistan

Since the fresh produce industry requires constant product development related research, Pakistan needs to invest in these areas to catch up with its competitors. Since fruits from Pakistan are of high a quality, investing in storage facilities and upgradation of technology will further increase exports.

While Pakistan's unit price is higher than that of Thailand and Indonesia, the average tariff applied by Malaysia is lowest. Furthermore, import permits (especially for mangos) are required in Malaysia for each shipment which becomes cumbersome for exporters. Given that this procedure is simplified, along with the fact that Pakistan has indicative potential of \$17.0 million, the country can focus on these products to better utilize its FTA with Malaysia.

Similar to this item, Pakistan also holds high potential in other fruits such as "Fresh or dried mandarins incl. tangerines and satsumas (excl. clementines)" (HS-080521) and "Fresh or dried bananas (excluding plantains)" (080390). Provided that Pakistan improves and maintains its quality standards, the country may be able to increase exports of these items since they are in high demand in the Malaysian market.

All in all, Pakistan has immense potential to export rice, vegetables and fruits to Malaysia and this potential can be realized through research and development, proper branding, marketing and trade fairs and promotional activities. However, it is also necessary that Pakistan diversifies its exports to Malaysia and does not focus on just agricultural items.

Malaysia's Palm Oil Industry

Palm oil is an important and versatile raw material used by both the food and non-food industries. After being overtaken by Indonesia in 2006, Malaysia remains the second largest producer and exporter of palm oil, accounting for approximately 30.1% of the world's total exports of this commodity.

Figure 13 below shows Malaysia's exports of Palm oil as compared to total world exports during the last five years. On the other hand, Figure 14 shows Malaysia's export composition of "Crude Palm Oil" (HS-151110) and "Palm oil and its fractions, whether or not refined (excluding chemically modified and crude)" (HS-151190) during 2019.

Figure 13 Composition of Malaysia's Palm Oil Exports, 2019

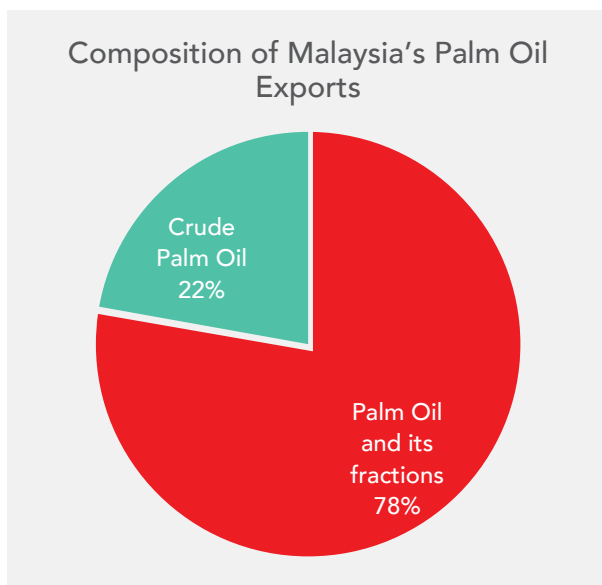
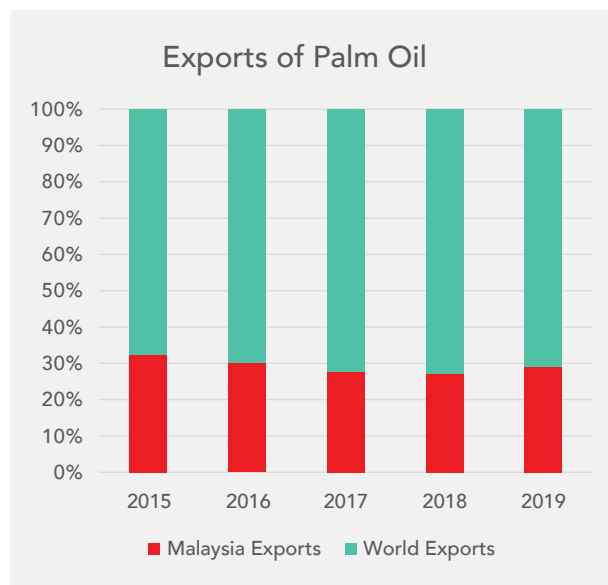


Figure 14 Malaysia Vs. The World Exports of Palm Oil

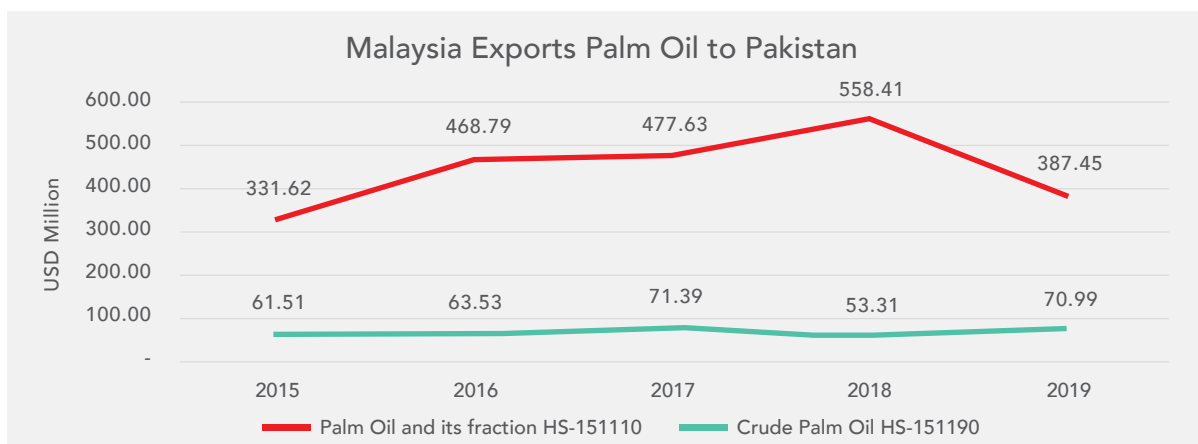


Source: ITC Trade Map

Exports to Pakistan

Figure 15 below shows Malaysia's exports of both, "Crude Palm Oil" (HS-151110) and "Palm oil and its fractions, whether or not refined (excluding chemically modified and crude)" (HS-151190), to Pakistan during the last five years. While Palm oil and its fractions reached its peak during 2018, their exports to Pakistan declined sharply in 2019. On the other hand, Crude Palm oil reached its lowest point during 2018, after which its exports slightly increased in 2019.

FIGURE 15 Trade Trends- Malaysia Imports HS-080450 from Pakistan and its Competitors

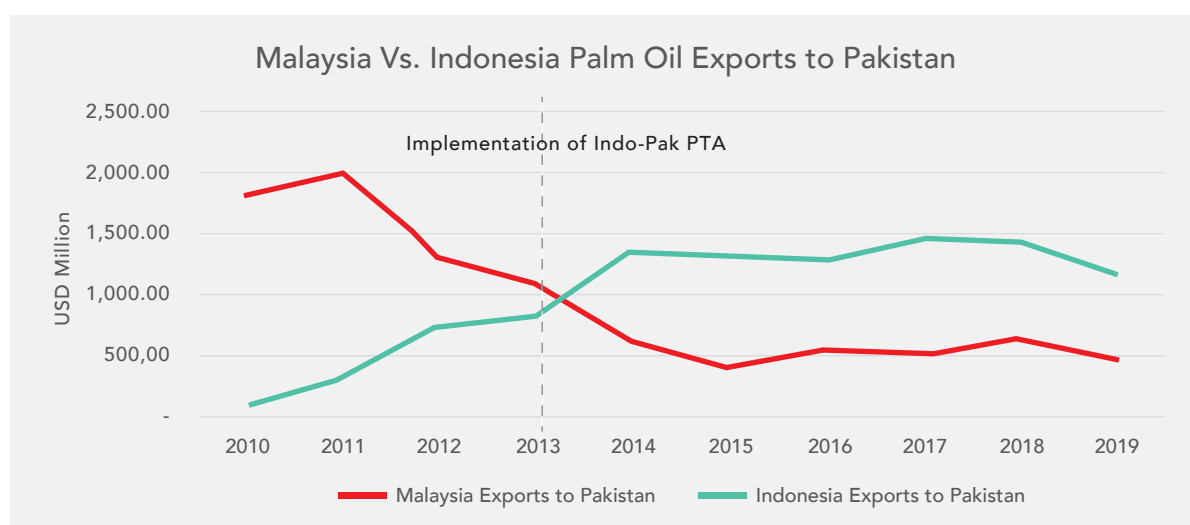


Source: ITC Trade Map

Palm Oil from Malaysia and Indonesia

Together, Malaysia and Indonesia produce around 85.0% of the world's palm oil. After Pakistan's signing of the PTA with Indonesia, palm oil imports from Malaysia faced a huge decline. Since 2014, Malaysia has been the second-largest exporter of palm oil to Pakistan, with Indonesia taking the lead. This can be seen in Figure 16 which compares Malaysia's export of this commodity with Indonesia's export of the same commodity for the last ten years. In 2019, Malaysia exported palm oil worth \$458.4 million to Pakistan while Indonesia exported palm oil worth \$1.2 billion to Pakistan. Hence, Indonesia's export of this commodity is more than double than that of Malaysia's.

FIGURE 16 Malaysia Vs. Indonesia Palm Oil Exports to Pakistan



Source: ITC Trade Map

The table below compares Pakistan's imports of palm oil from both the countries. This includes the export value, growth rate since the last ten years, average unit price, tariff applied on both Malaysia and Indonesia by Pakistan and the top three importing countries along with their market shares.

As can be seen from the table, Malaysia has experienced a decline in its exports of palm oil to Pakistan while Indonesia's palm oil exports to Pakistan have experienced growth of around 34.5% in the last ten years. The unit price of palm oil from Indonesia is relatively lower than that of palm oil from Malaysia, which might indicate why Indonesia has overtaken Malaysia in its export of this commodity to Pakistan. Moreover, Pakistan is an important market for both countries as it is the third largest importer of palm oil from Indonesia and Malaysia.

Table 23 Malaysia and Indonesia Exports Palm Oil to Pakistan

Exporters	Value of Palm Oil Exported to Pakistan in 2019 (USD Million)	CAGR (2010-19)	Unit Price (USD/Tons)	Average tariff (estimated) applied by Malaysia (%)	Top Three Importing Sources (% Market Share)
Indonesia	1,164.83	34.45%	527.00	6.9	China (17.9%) India (15.3%) Pakistan (7.9%)
Malaysia	458.44	-14.15%	560.00	6.9	India (23.2%) China (10.6%) Pakistan (5.5%)

Source: ITC Trade Map

CHAPTER 7

Key Findings

MPCEPA

- After successful completion of the Early Harvest Program (EHP), the Malaysia-Pakistan Close Economic Partnership Agreement (MPCEPA) was signed in November 2007 and implemented in January 2008 to strengthen the bond of friendship and economic relations between the two Muslim countries.
- The MPCEPA encompasses liberalization in the trade of goods and services, investment, as well as bilateral technical cooperation and capacity building in areas such as sanitary and phytosanitary measures, intellectual property protection, construction, tourism, healthcare and telecommunications.
- For trade in goods, Malaysia offered concessions on around 10,593 tariff lines while Pakistan offered concessions on 6,803 tariff lines. The different track systems under MPCEPA can be seen in detail in Table 1 in Chapter 1.
- Comparing duty relief offered by Malaysia on different tariff lines to Pakistan versus other FTA partners (India, Chile, New Zealand, Australia and Turkey) shows that Pakistan has been offered 0% duty on the lowest number of tariff lines. As a consequence, Pakistan might not be in a position to compete in the Malaysian market owing to this discrepancy in provisions offered by Malaysia to Pakistan as compared to other countries.

Trade Between Pakistan and Malaysia

- Pakistan's imports from Malaysia decreased from \$1.7 billion in 2008 to \$956.9 million in 2019 while its exports to Malaysia increased from \$138.1 million to \$232.8 million in the same period. This led to the lowest ever trade deficit for Pakistan since the implementation of the FTA worth \$724.1 million in 2019.
- All in all, the trade balance has been in favor of Malaysia since 2008. Currently, Pakistan's imports from Malaysia are at least three times more than its exports to that country. Even though the trade deficit has decreased since the implementation of MPCEPA, Pakistan has not been able to become a significant trading partner for Malaysia.
- Pakistan's imports from Malaysia have fallen at a rate of 5.1% since the implementation of MPCEPA. Pakistan mainly imports Palm Oil from Malaysia, which accounted for approximately 35.6% of Pakistan's total imports from that country. Other imports include Machinery, Organic chemicals etc.
- Imports of Machinery from Malaysia have experienced the highest growth since the implementation of MPCEPA.
- Pakistan's exports to Malaysia have increased at a rate of 4.9% since the implementation of MPCEPA. The country mostly exports Agricultural products to Malaysia such as edible fruits, vegetables, rice, as well as, textile products such as cotton and other textile articles.

- Pakistan is the largest exporter of “Broken Rice” (HS-100640) to Malaysia, despite a higher tariff of 28.0% as compared to its competitors Vietnam, Myanmar and Thailand, who face 18.0% tariff. Even in the case of “Semi-milled or wholly milled rice, whether or not polished or glazed” (HS-100630), Malaysia applies 40.0% tariff on Pakistan which is the fourth largest exporter of this product to the country. On the other hand, Vietnam, Thailand and India, the top three exporters of HS-100630, enjoy 20.0% tariff on this commodity.
- Exports of Textile to Malaysia have experienced the highest growth rate since the implementation of MPCEPA.
- Analysis of the Export Product Dynamics (EPD) Matrix shows that most of Pakistan’s exports to Malaysia fall in the Retreat Quadrant (items which are low among Malaysia’s imports from the world and low among Pakistan’s exports to Malaysia). The top products in this Quadrant mostly fall under the category of electronics and machinery which Malaysia imports in large quantities from the world as can be seen in Table 14. However, these products are not in Pakistan’s forte which is why Pakistan has been unable to gain a significant market share in Malaysia.
- Similarly, the Lost Opportunity Quadrant includes electronic commodities and mineral products. Malaysia imports large amounts of these commodities from the world as well but once again, Pakistan has been unable to gain market share in these products even though Malaysia offers concession through MPCEPA on these products.
- The trade complementarity index indicates that Malaysia’s exports match Pakistan’s imports more closely as compared to Pakistan’s exports with Malaysia’s imports. Only 20.0% of Pakistan’s exports complement Malaysia’s imports, while nearly 60.0% of Malaysia’s exports complement Pakistan’s imports. Hence, Malaysian export industry stands to gain more from the FTA between the partner countries.

Pakistan’s Potential Exports

- In Pakistan’s case, at HS-06 level, the indicative potential of the top 25 items amounted to \$2.4 billion in 2019. However, the country only exported goods worth \$115.7 million to Malaysia during the year. Hence, Pakistan is currently way below its export potential.
- “Semi-milled or wholly milled rice, whether or not polished or glazed” (HS-100630) holds the highest potential which is worth \$421.9 million. “Instruments and appliances used in medical, surgical or veterinary sciences” (HS-901890) ranks as the second largest potential product with an indicative potential worth \$404.2 million. Hence, rice and surgical instruments are amongst the top two high potential items for Pakistan.
- Nine out of the top 25 products fall under the category of Agricultural goods and Foodstuffs (including seafood) which indicates the untapped potential of this sector. Pakistan exported \$59.5 million of these products to Malaysia in 2019 while it had the potential to export \$816.1 million of these goods.
- Analyzing this sector reveals that rice, fruits and vegetables are amongst the highest potential items. The commodities listed below fall under this category and hold immense potential for Pakistan.

HS Code	Product Description	Pakistan's Export Potential 2019 (USD Million)
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	421.87
070190	Fresh or chilled potatoes (excluding seed)	70.62
080410	Fresh or dried dates	48.63
080521	Fresh or dried mandarins incl. tangerines and satsumas (excl. clementines)	47.42
070310	Fresh or chilled onions and shallots	39.13
080450	Fresh or dried guavas, mangoes and mangosteens	16.95

- Other significant high potential exports for Pakistan include “Frozen edible bovine offal (excluding tongues and livers)” (HS-020629) with an export potential of \$13.9 million in 2019. This high potential is due to the fact that the Halal industry in Malaysia has grown rapidly over the years.
- Furthermore, five out of the top 25 products consist of Textile commodities (HS-50-63). While Pakistan exported a mere \$2.9 million of these commodities in 2019, it held the potential to export \$346.9 million of these goods to Malaysia. The reasons behind this is could be that Pakistani textile exporters prefer markets like the EU and USA due to the EU GSP+ benefit and due to the fact that textile goods can be sold with a high markup in these destinations.
- The commodities listed below are amongst those which have a high potential but Malaysia applies high tariffs on Pakistan for these commodities.

HS Code	Product Description	Pakistan's Export Potential 2019 (USD Million)	Tariff Applied by Malaysia on Pakistan
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	421.87	40
252329	Portland cement (excluding white, whether or not artificially coloured)	45.99	13
940490	Articles of bedding and similar furnishing, fitted with springs or stuffed or internally filled ...	42.33	10

Malaysia's Potential Exports

- In Malaysia's case, at HS-06 level, the indicative potential of the top 25 items amounted to \$5.7 billion in 2019. However, the country only exported goods worth \$513.8 million to Pakistan during the year.
- Malaysia holds immense potential to export palm oil and machinery to Pakistan. Out of the top potential items, the country had the potential to export palm oil worth \$1.3 billion and machinery worth \$1.9 billion to Pakistan in 2019. Meanwhile, it exported these goods worth \$458.4 million and \$22.2 million, respectively, to Pakistan during the same year.
- Analysis of the palm oil industry in Malaysia reveals that Malaysia became the second-largest exporter of this commodity to Pakistan after the Indonesia-Pakistan PTA due to which Indonesia overtook Malaysia in palm oil exports to Pakistan.
- The unit price of palm oil from Indonesia is relatively lower than that of palm oil from Malaysia, which might indicate why Indonesia has overtaken Malaysia in its export of this commodity to Pakistan.

CHAPTER 8

Recommendations

- It is recommended that FTA reviews should include negotiations on significant tariff concessions for Pakistan's top exports to Malaysia as well as high potential exports such as "Semi-milled or wholly milled rice, whether or not polished or glazed" (HS-100630), "Portland cement (excluding white, whether or not artificially coloured)" (HS-252329) and "Articles of bedding and similar furnishing, fitted with springs or stuffed or internally filled" (HS-940490) (Tariff applied: 40%, 13%, 10%, respectively). Malaysia applies lower tariffs on such products on ASEAN members and other FTA partners.
- To fully utilize MPCEPA, Pakistan can focus on increasing its exports of fruits, vegetables, rice and meat to Malaysia. HS-codes and descriptions of these products have been identified in Chapter 7. Since these products are in high demand in the Malaysian market, focusing on these can boost Pakistan's exports, ensuring that the country utilizes the concessions provided by Malaysia on such products. An issue in this regard is the lack of direct flights from Pakistan and Malaysia which is necessary for transportation of perishables. If this issue is resolved, trade under MPCEPA can increase.
- Furthermore, Pakistan needs to learn from competitor countries such as the ASEAN members like Vietnam, Thailand and Indonesia or other competitors such as India. Participation in trade fairs, along with, branding, marketing and packaging of the products according to international standards is vital to increase market share in the Malaysian market.
- However, it is necessary to diversify exports and ensure that there is not too much reliance on agriculture-based exports.
- Since "Instruments and appliances used in medical, surgical or veterinary sciences" (HS-901890) and "Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes" (HS-300490) also hold immense potential but are being exported in low quantities to Malaysia, Pakistan can explore this market as well.
- Textile commodities have immense potential and since most textile goods under MPCEPA are allowed zero duty access, Pakistan should try to tap into this potential market as well. More trade fairs and marketing of textile goods, especially high value-added products in place of raw material (cotton), will allow Pakistan to tap into this market.
- To utilize potential of Halal meat exports such as "Frozen edible bovine offal (excluding tongues and livers)" (HS-020629), the Pakistani government needs to coordinate with the Malaysian government for alignment of acceptable Halal standards and mutual recognition.

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