

Diversifying Pakistan's Exports: Tapping into Untapped Markets

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Executive Summary

Pakistan's export sector exhibits a limited range of primary goods, hindering sustainable economic growth. Despite positive trends, the country's reliance on traditional industries like textiles and agriculture poses vulnerabilities. The policy brief advocates for tapping into untapped markets in Southeast Asia, Africa, and South America to diversify exports and increase economic resilience. Analysing Pakistan's historical export performance, the policy brief emphasizes the need for exploring new markets and industries. It identifies potential in digital trade, engagements with the U.S., and untapped markets in Africa and Southeast Asia. Recommendations include tariff exemptions, policy reform, and leveraging SIFC for government-level negotiations. The research concludes in a SWOT analysis and policy recommendations to foster a conducive export environment. By implementing these strategies, Pakistan can unlock its export potential, reduce vulnerability to economic shifts, and achieve sustainable growth.

Recommendations

- The GSP+ holding countries face limitations on their export cap, set at a maximum of 14.5% of the total EU imports. Pakistan might explore the option of engaging in a Free Trade Agreement (FTA) with the European Union to foster a trade relationship based on equality.
- Encourage a shift in Pakistan's export focus toward high value-added products, coupled with effective branding. Simultaneously, advocate for expanded tariff exemptions by the EU under the GSP+ scheme for Pakistan's regular exports not currently covered by zero-duty tariffs, alongside eliminating customs duties on raw materials and machinery to mitigate the anti-export bias in Pakistan's tariff policy.
- The SIFC may play a pivotal role in facilitating government-to-government negotiations, particularly concerning Pakistan's potential to augment its exports to South East Asia and Africa. It can serve as platforms to showcase Pakistan's economic capabilities, allowing for fruitful negotiations, and forging stronger trade alliances.
- Establish an Economic Diplomacy Task Force within the Ministry of Foreign Affairs to drive export market growth. Simultaneously, establish strategic partnerships with educational institutions to enhance human resource development for better export competitiveness.
- The government needs to support local testing centres to improve product quality, streamline customs clearances, and subsidize freight for non-traditional exports, vital for enhancing Pakistan's global export competitiveness.
- Merge the Ministries of Commerce, Industries, and the Board of Investment to streamline trade and industry policies. Employ trade professionals, not just government officials, for better policy design and execution. Establish the merged

entity, possibly through the SIFC, to serve as a centralized hub for this comprehensive approach.

Introduction

Pakistan's current export profile is characterized by a high degree of concentration in a narrow set of products such as primary and intermediate goods. The country has historically remained import-intensive with a weak exportable surplus, especially in value-added variety. The basket of Pakistan's exports is highly concentrated within a small set of products, which has led to less dynamism in its export base over time¹. This lack of diversification poses a challenge to the country's sustainable economic growth and resilience in the face of global challenges²³.

Exports play a crucial role in Pakistan's economy by earning foreign income to finance imports, service debt, stabilize its currency, and overcome the persistent problem of the balance of payments deficit. However, the country's export growth has been negative over a 10 years period, primarily due to factors such as a higher tariff structure, erratic growth trends, low penetration in global markets, lack of infrastructure and technological advancement, and government's irrational policies and complex incentives offered to industry⁴⁵.

Figure 1 shows Pakistan's total exports from January 2019 to July 2023, highlighting year-on-year (YoY) and monthly changes. Notably, a general upward trajectory in exports is evident since January 2019, though punctuated by occasional fluctuations. The YoY changes, representing the percentage variance in exports compared to the same month of the previous year, generally reflect positive growth, signifying a consistent expansion. However, instances of negative growth, witnessed in July 2020 and July 2022, denote periods of decline. In contrast, the monthly changes exhibit greater volatility, with both positive and negative fluctuations occurring frequently.

¹ <https://pide.org.pk/research/special-economic-zones-and-the-state-of-pakistans-economy/>

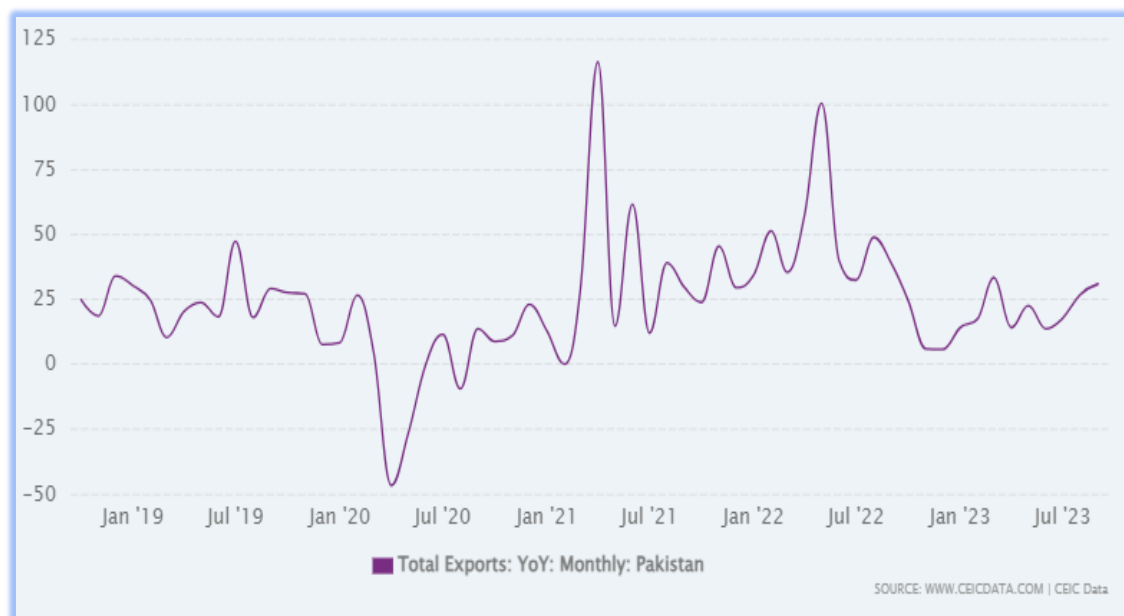
² <https://pide.org.pk/research/how-to-increase-exports-for-pakistans-sustainable-economic-growth/>

³ <https://pide.org.pk/research/special-economic-zones-and-the-state-of-pakistans-economy/>

⁴ <https://pide.org.pk/research/how-to-increase-exports-for-pakistans-sustainable-economic-growth/>

⁵ <https://pide.org.pk/blog/how-to-increase-exports-for-pakistans-sustainable-economic-growth/>

Figure 1: Pakistan Total Exports (YoY)



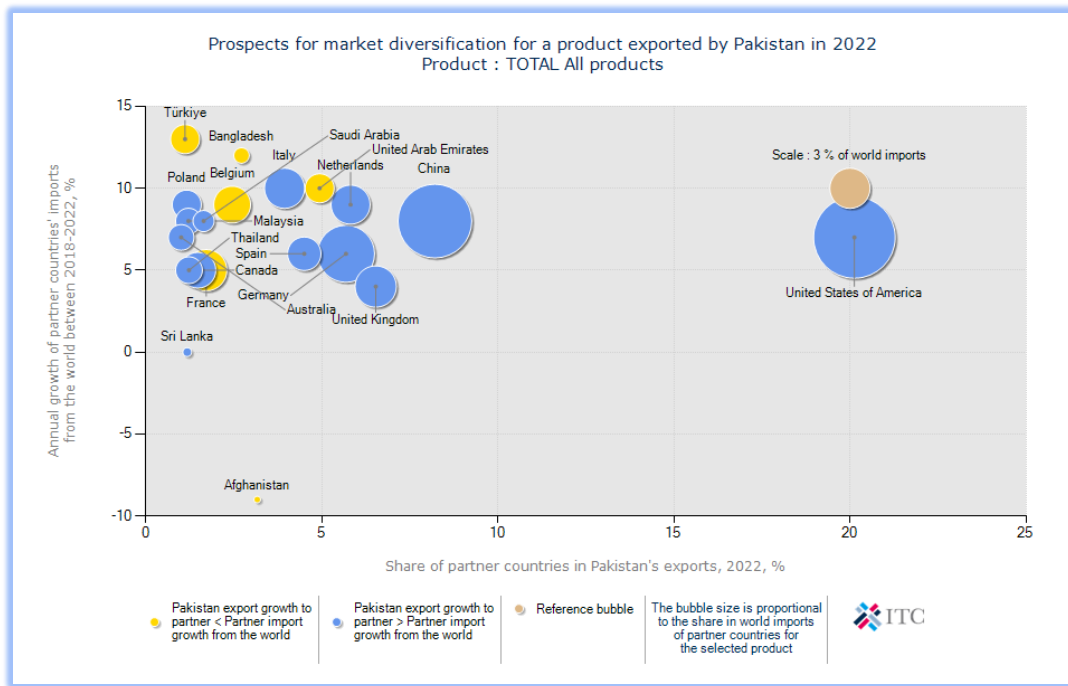
Source: CEIC Data

Diversification of exports is essential for Pakistan to enhance its competitiveness in the global market and achieve sustainable economic growth. The World Bank has assessed Pakistan's annual export potential at \$88.1 billion, highlighting the significant room for growth and the need to expand the spectrum of export commodities. Countries like Vietnam and Bangladesh have successfully pursued export-led growth strategies, resulting in rapid industrialization and sizable market shares in the global market, particularly in the textile sector⁶.

Figure 2 depicts the potential for market diversification regarding Pakistan's exported products in 2022. The yellow circles indicate Pakistan's export growth to partners, which falls short of partner import growth from the world. Conversely, the blue circle indicates the opposite trend. In numerical terms, Pakistan's primary trading partners consist of the USA (46%), China (23%), the UK (15%), Germany, and the Netherlands (8%).

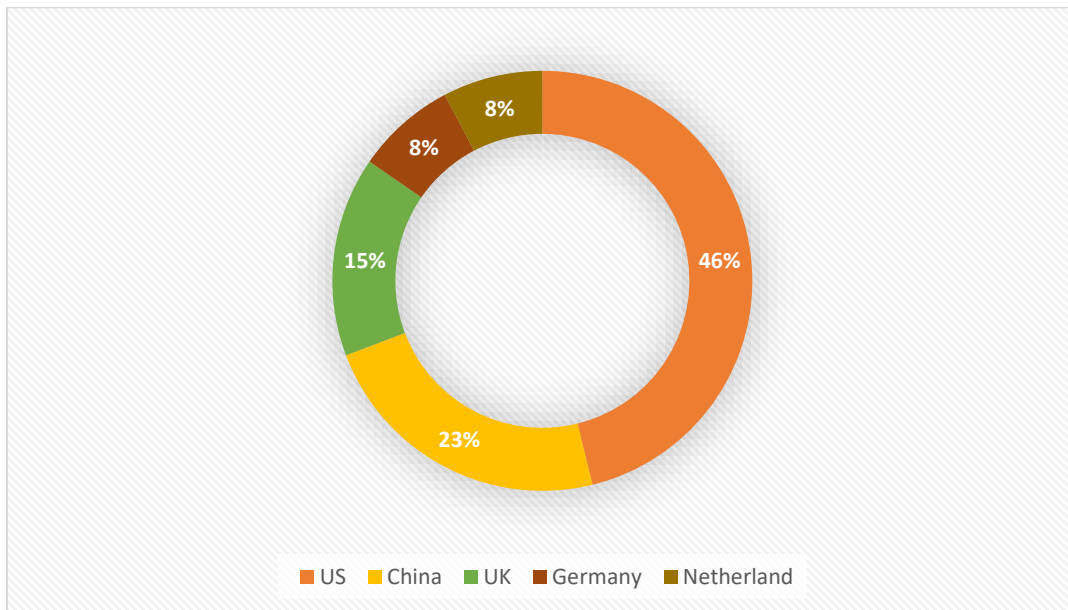
⁶ <https://www.brecorder.com/news/40089390>

Figure 2: Market Diversification and Export Potential Map



Source: ITC trade map, MoC

Figure 3: Pakistan Major Trading Partners



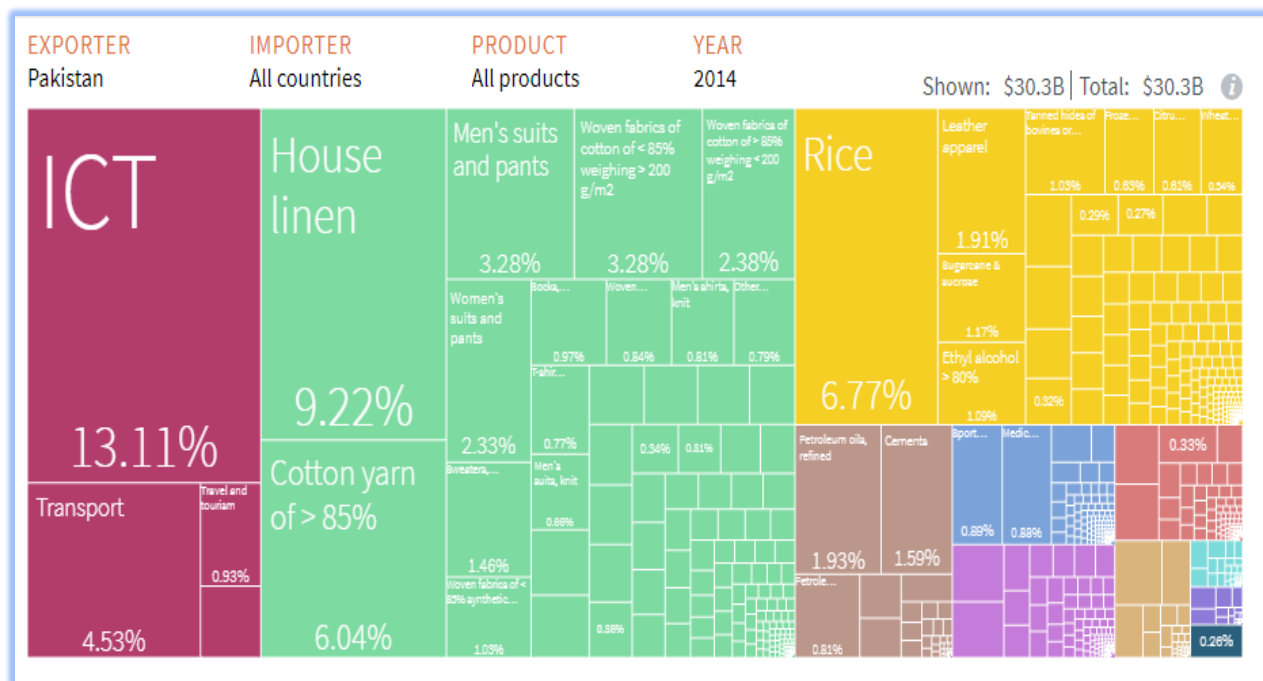
Source: Author calculations

This policy brief explores various strategies to help Pakistan tap into its untapped market potential, driving a surge in exports and fostering export-led growth.

Pakistan Exports over time

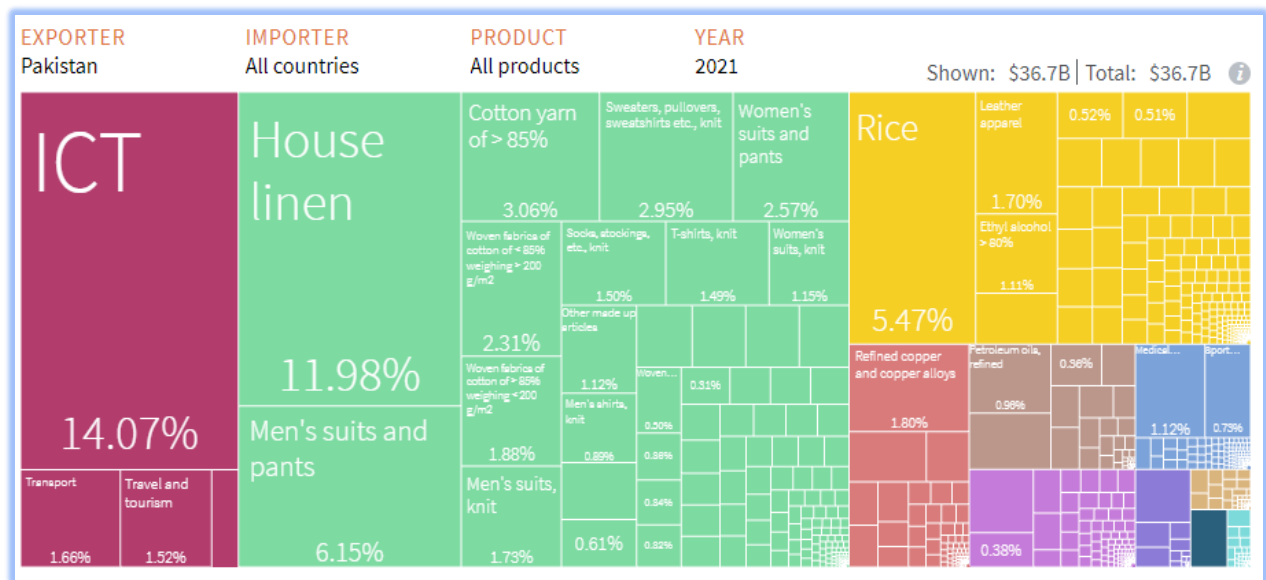
From 2014 to 2021, Pakistan's export profile hasn't evolved much. The types of goods exported and the destinations remain largely unchanged. This lack of diversity suggests that Pakistan hasn't actively pursued new avenues for exports. In 2014, major exports included ICT, transport, house linen, and cotton, and remarkably, in 2021, the export landscape looks quite similar. This indicates a static approach without much effort to explore new markets or industries for exports.

Figure 4: Pakistan's Exports in 2014



Source: Atlas.cid.harvard.edu

Figure 5: Pakistan's Exports in 2021



Source: Atlas.cid.harvard.edu

Analysis of Pakistan's Current Export Profile

Pakistan's current export profile is dominated by a few key sectors, including textiles, agriculture, and services. Textiles, particularly ready-made garments, account for a significant portion of the country's exports, making it one of the largest textile exporters in the world. The agriculture sector, which includes products such as rice, fruits, and vegetables, also contributes significantly to Pakistan's export earnings. Additionally, services, such as IT and business process outsourcing, have been growing in importance as a source of export revenue. Pakistan's major export partners include the United States, China, the United Kingdom, Germany, and the United Arab Emirates. These countries play a crucial role in driving Pakistan's export growth and economic development. However, the country's export profile is vulnerable to global economic fluctuations, as demonstrated by the impact of the COVID-19 pandemic on global trade⁷.

Pakistan's trade with its regional partners

Pakistan's trade with its regional partners, including Afghanistan, China, India, and Iran, has historically been below its optimal level. Regional trade has proven to be a key tool in economic development and competitiveness in various regions of the world, but trade among the countries of South Asia has traditionally remained low. However, while current trade volumes with India are low, the potential for trade between Pakistan and India is

⁷ <https://www.worldbank.org/en/news/press-release/2021/10/28/strengthening-exports-is-critical-for-pakistan-s-sustained-economic-growth>

immense. Pakistan's primary exports to India include dates and cement, while it imports cotton, cotton yarn, and industrial chemicals & dyes from India⁸.

The digital trade sector in Pakistan is growing rapidly, and the government's favourable policies are helping create an environment under which digital trade is flourishing⁹. However, there are still challenges to be addressed, such as the relatively restrictive digital trade policy environment. The vibrant ICT sector of Pakistan provides a basis for digital trade promotion, and the e-commerce sector is also growing at a rapid pace. A study conducted by the Sustainable Development Policy Institute identified the digital trade items at the HS six-digit level and the trade volume of Pakistan in those products for the period 2010-2020¹⁰.

The economic ties between Pakistan and the U.S. showcase considerable potential, with Pakistan maintaining a trade surplus exclusively with the U.S. The current trade dynamics involve exports of around \$4 billion, predominantly in linen knitwear and sweaters, and imports of \$2.78 billion, including raw cotton, soybean, and scrap iron. The Information Technology (IT) sector is a standout contributor, with exports reaching \$3.5 billion in 2020 and a projected surge to \$15 billion within three years, presenting opportunities for job creation and self-sufficiency through local manufacturing. Additionally, the U.S. plays a crucial role in Pakistan's trade and investment landscape, with over 80 companies operating in sectors such as healthcare, automotive components, energy, and financial services, contributing significantly to employment. The recent revitalization of the U.S.-Pakistan Trade and Investment Framework Agreement (TIFA) in 2022 underscores the commitment to fostering bilateral ties and overcoming obstacles for sustained growth. Furthermore, as Pakistan navigates a changing global trade landscape amid the U.S.-China trade tensions, there's a notable opportunity for Pakistan to enhance its exports to the U.S. However, this prospect requires a concerted effort to address capacity issues within existing industries, particularly by diversifying and focusing on value-added goods. With strategic policies, incentives, and initiatives in place, such as the National Aerospace Science and Technology Park (NASTP), Pakistan is poised to capitalize on its economic potential and strengthen its position in the global market¹¹.

Free Trade Agreements (FTAs) present a significant opportunity for Pakistan's trade landscape. These agreements offer expanded market access and reduced trade barriers, empowering Pakistani exporters to compete globally. FTAs facilitate growth in industries like textiles and agriculture while encouraging innovation through technology transfer. However, to leverage FTAs effectively, Pakistan must balance reaping the benefits of increased trade with safeguarding local industries and addressing potential challenges.

⁸ <https://www.pbc.org.pk/research/regional-trade-digital/>

⁹ https://sdpi.org/assets/site_assets/Digital-Trade-as-Engine-of-Growth-for-Pakistan.pdf

¹⁰ https://sdpi.org/assets/site_assets/Digital-Trade-as-Engine-of-Growth-for-Pakistan.pdf

¹¹ <https://pakistanpolitico.com/pakus2/>

Strategic use of FTAs holds the key to strengthening Pakistan's economy, but careful navigation and consideration of both opportunities and challenges are crucial for sustainable growth¹².

Pakistan's Trade with Non-Chinese Partners

Pakistan's trade with its non-Chinese regional partners has historically been below its optimal level. However, the potential for trade between Pakistan and India is immense. Pakistan's primary exports to India include dates and cement, while it imports cotton, cotton yarn, and industrial chemicals & dyes from India¹³.

Pakistan has experienced a noteworthy 46.5% increase in exports to the EU after the GSP+ status in 2014 being granted (now extended the status till 2027). This status offers a significant benefit, exempting 91% of tariff lines from duties. Despite a commendable utilization rate of 96.5%, Pakistan's share in the EU's total trade among GSP+ beneficiaries stands at 0.3%. However, the growth of exports to the EU has been relatively sluggish due to the concentration of Pakistan's exports in low-value-added categories like textiles and leather, while EU imports primarily comprise high-value-added items such as heavy machinery. The tariff policy's anti-export bias, reflected in steep import duties on raw materials, has undercut our product competitiveness by inflating production costs. Consequently, the demand for Pakistan's traditional exports in EU markets is dwindling¹⁴.

Identification of Untapped Markets

Untapped markets refer to markets that have not been fully explored or developed by a country's exporters. These markets can include emerging economies, niche industries, and regions with untapped potential for growth. Identifying untapped markets is crucial for Pakistan to diversify its export base and expand its market reach.

Research and analysis of potential untapped markets for Pakistan's exports have identified several regions with significant potential for growth. These regions include Southeast Asia, Central Asian, Africa, and South America¹⁵¹⁶. These regions have large populations, growing middle classes, and increasing demand for goods and services, making them attractive markets for Pakistani exporters.

Africa's merchandise trade only represents around 3% of the global total. Africa's exports are heavily concentrated in mineral products and agriculture, while its imports exhibit

¹² <https://www.jstor.org/stable/10.13169/polipers.15.3.0179?seq=14>

¹³ <https://www.pbc.org.pk/research/regional-trade-digital/>

¹⁴ <https://ipripak.org/eu-pakistan-trade-significance-of-gspstatus/>

¹⁵ <https://www.brecorder.com/news/amp/4619240>

¹⁶ <https://www.ifc.org/content/dam/ifc/doc/mgrt/developing-value-full.pdf>

greater diversity. Notably, Pakistan's bilateral trade with Africa is rising, yet imports surpass exports, resulting in a trade deficit. Key trade partners for Pakistan in Africa include Kenya, South Africa, Egypt, Mozambique, and Tanzania.

Examining Pakistan's exports to Africa, the study identifies major products like cereals, wadding, vehicles, chemicals, and paper items. Moreover, it sheds light on untapped potential in sectors such as textiles, cotton, apparel, leather, sugar, and pharmaceuticals. Competitor economies across sectors in African markets present varying challenges for Pakistan.

Furthermore, the potential export sectors within regional African economic groups like Economic and Monetary Community of Central Africa (CEMAC), Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Economic Community of West African States (ECOWAS), Southern African Customs Union (SACU), Southern African Development Community (SADC), and West African Economic and Monetary Union (WAEMU). The bilateral agreements and market-access strategies to increase exports. The untapped market for African regions are Zambia, Nigeria, South Africa, Egypt, Morocco, Algeria, Cameroon, Mali, Tunisia, and Chad, emphasizing growth prospects in these markets for Pakistan. Conversely, certain economies like Kenya, Tanzania, Mauritius, and Madagascar indicate diminished export potential for Pakistan¹⁷.

To evaluate the compatibility of these markets with Pakistan's export capabilities, it is essential to assess their market size, growth potential, and demand for Pakistani products. For example, Southeast Asia has a combined population of over 600 million people and a rapidly growing middle class, making it an attractive market for Pakistani exporters. Similarly, Africa has a population of over 1.3 billion people and a growing demand for goods and services, making it a potential market for Pakistani exports¹⁸.

Central Asian countries, despite currently representing a minimal trade volume for Pakistan, present an enticing untapped market. Historical data showcasing declining trade volumes contrasts with recent positive trends. For instance, in the first three months of the current fiscal year, Pakistan's exports to Central Asian countries surged by 29%, reaching \$50.923 million compared to \$39.517 million in the corresponding period of the previous year. Notably, Kazakhstan remains the top recipient of export goods from Pakistan, with exports reaching \$27.736 million during this period. Similarly, Pakistan's exports to Uzbekistan saw a significant increase, rising to \$20.871 million, demonstrating an upward trajectory. Leveraging this potential could mark a pivotal shift for Pakistan's export markets, fostering diversification away from historically concentrated trade partners and creating a pathway for sustained economic growth.¹⁹

¹⁷ <https://www.commerce.gov.pk/wp-content/uploads/2020/10/Introduction.pdf>

¹⁸ <https://www.brecorder.com/news/amp/4619240>

¹⁹ <https://www.nation.com.pk/01-Nov-2022/exports-to-central-asian-countries-up-by-29-percent>

Pakistan seeks closer economic ties with the Gulf Cooperation Council (GCC), but obstacles persist. While exports to the GCC rose by US\$ 483.2 Million, imports dropped by US\$ 4.5 Billion from 2017 to 2020. Challenges include agricultural supply chain constraints, competition from India, logistical issues, and inadequate testing facilities affecting export quality. Pakistan faces language barriers, energy shortages, and unique trade policies within the GCC. The Pakistan Business Council suggests delaying the proposed Pakistan-GCC FTA, urging a focus on critical sectors like pharmaceuticals and textiles. Improving testing facilities, customs processes, safeguarding local industries, and bolstering dispute resolution mechanisms are crucial for fostering smoother trade relations²⁰.

However, it is also important to consider the vulnerability of current exports to global economic fluctuations when exploring untapped markets. The COVID-19 pandemic has highlighted the importance of diversifying export markets and reducing dependence on a few traditional sectors. Therefore, Pakistan needs to explore new markets and sectors to reduce its vulnerability to external shocks and achieve sustainable economic growth.

Identifying untapped markets is crucial for Pakistan to diversify its export base and expand its market reach. By exploring new markets and sectors, Pakistan can reduce its dependence on a few traditional sectors, increase its resilience to external shocks, and achieve sustained and inclusive economic growth.

SWOT Analysis of Pakistan's Exports Perspective

A SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis can provide valuable insights into Pakistan's export situation²¹. Here is a SWOT analysis specifically tailored to Pakistan's exports perspective.

²⁰ <https://www.pbc.org.pk/research/potential-for-a-pakistan-gcc-free-trade-agreement-market-access-series-2022/>

²¹ <https://d-nb.info/1221065270/34>

S

Pakistan has a strong textile industry, which has been a major contributor to its exports for many years. The country is known for its high-quality cotton and textile products, which are in demand in both regional and international markets.

Pakistan is also a significant exporter of agricultural products, including rice, fruits, and vegetables. The country's fertile land and favourable climate contribute to the production of high-quality agricultural goods.

Strengths



W

Pakistan's export profile is heavily concentrated in a few sectors, such as textiles and agriculture. This lack of diversification makes the country vulnerable to fluctuations in global demand and prices.

Pakistan faces infrastructure challenges, including inadequate transportation and logistics systems, which can hinder its export capabilities.

Weaknesses



O

Pakistan has the opportunity to explore and tap into untapped markets, particularly in emerging economies and niche industries. By diversifying its export products and targeting new markets, the country can reduce its dependence on a few key sectors and expand its export base.

Pakistan can benefit from regional trade integration initiatives, such as the China-Pakistan Economic Corridor (CPEC) and the South Asian Free Trade Area (SAFTA). These initiatives can create new opportunities for trade and investment, further supporting the country's export growth.

Opportunities



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Pakistan's exports are vulnerable to global economic fluctuations, including changes in demand, prices, and trade policies. These external factors can impact the country's export performance and pose a threat to its economy.

Pakistan faces competition from other countries in its key export sectors, such as textiles and agriculture. To maintain its competitiveness, the country needs to focus on quality improvement, innovation, and market diversification.

Threats



Policy Recommendations

- The GSP+ holding countries face limitations on their export cap, set at a maximum of 14.5% of the total EU imports. Pakistan might explore the option of engaging in a Free Trade Agreement (FTA) with the European Union to foster a trade relationship based on equality.
- Encourage a shift in Pakistan's export focus toward high value-added products, coupled with effective branding. Simultaneously, advocate for expanded tariff exemptions by the EU under the GSP+ scheme for Pakistan's regular exports not currently covered by zero-duty tariffs, alongside eliminating customs duties on raw materials and machinery to mitigate the anti-export bias in Pakistan's tariff policy.
- The SIFC may play a pivotal role in facilitating government-to-government negotiations, particularly concerning Pakistan's potential to augment its exports to South East Asia and Africa. It can serve as platforms to showcase Pakistan's economic capabilities, allowing for fruitful negotiations, and forging stronger trade alliances.
- Establish an Economic Diplomacy Task Force within the Ministry of Foreign Affairs to drive export market growth. Simultaneously, establish strategic partnerships with educational institutions to enhance human resource development for better export competitiveness.
- The government needs to support local testing centers to improve product quality, streamline customs clearances, and subsidize freight for non-traditional exports, vital for enhancing Pakistan's global export competitiveness.
- Merge the Ministries of Commerce, Industries, and the Board of Investment to streamline trade and industry policies. Employ trade professionals, not just government officials, for better policy design and execution. Establish the merged entity, possibly through the SIFC, to serve as a centralized hub for this comprehensive approach.

Conclusion

The exploration of untapped markets and the diversification of Pakistan's exports present promising opportunities amid a landscape marked by concentrated exports and limited market penetration. Leveraging strategic policies, investment in high-value products, and fostering stronger trade relations could bolster Pakistan's economic growth. By embarking on a comprehensive approach and implementing nuanced policy recommendations, Pakistan can navigate challenges and propel its journey towards sustainable and inclusive economic prosperity.

Action Matrix

Problem	Pathway Solution	How to Implement Solution	Responsibility	Time Frame
Concentration in narrow export products	Expand export spectrum: high-value products	Develop export diversification policies, facilitate R&D for value-added goods	Ministry of Commerce, Industries, R&D institutions	Short-term to medium-term
Inconsistent growth trends, low global penetration	Target new markets, trade alliances	Initiate market research, trade agreements, participate in trade exhibitions	Ministry of Foreign Affairs, Trade Associations	Short-term to medium-term
Complex incentives, tariff structure	Simplify trade policies, reduce tariffs	Review and amend trade incentives, negotiate tariff reductions	Ministry of Finance, Commerce	Medium-term
Insufficient infrastructure	Improve logistical framework	Invest in infrastructure, upgrade ports, and transport networks	Ministry of Communion, Infrastructure Authorities	Medium-term to long-term
Lack of technology advancement	Promote technological innovation	Offer incentives for tech investment, collaborations with tech firms	Ministry of Science & Technology, Tech Councils	Medium-term
Vulnerability to global fluctuations	Diversify export destinations	Foster trade with untapped markets, reduce dependence on few partners	Trade Promotion Authorities	Long-term
Insufficient testing facilities	Enhance product quality, compliance	Develop testing centers, standardize quality protocols	Ministry of Industries, Quality Control Agencies	Short-term to medium-term
Inefficient customs clearances	Streamline customs processes	Modernize customs, reduce processing time	Customs Authorities, Ministry of Commerce	Short-term