RESEARCH STUDY:

AGRI EXPORTS OF PAKISTAN VIZ A VIZ INDIA AND BANGLADESH

CONTENTS

1. EXECUTIVE SUMMARY

Pakistan's exports are highly concentrated in few items like cotton & cotton manufacturers, leather, rice and few other items. The first three categories of exports account for 69.2 percent of total exports during July-March FY2019 with cotton & cotton manufacturers alone contributing 56.7 percent. Traditionally, the contribution of these three categories was 70.3 percent during the same period last year, and 71.8 percent during FY 2017. Conventionally, Pakistan's export destinations are concentrated to a few markets. Pakistani exports go to the countries namely USA, China, UAE, Afghanistan, Germany, France, Bangladesh, Italy and Spain. Whereas, disaggregated analysis reveals that all the groups including food group, machinery group, petroleum good, consumer durables and raw materials witnessed hefty decline in imports during the current fiscal year. Food group constitutes 10.5 percent of overall import bill. Food import bill stood at US$ 4.261 billion in first nine months of FY2019 as compared to US$ 4.730 billion in the same period last year. Hence witnessed a significant decline of 9.9 percent. Within the group heaviest decline has been observed in imports of dry fruits, sugar, edible oil (soybeans and palm oil) and spices by 64.7, 24.8, 12.1 and 8.5 respectively.

Bangladesh has been one of the key exporting destinations for Pakistani goods over the decades. Pakistan's exports to Bangladesh rose from $14.27 million in January 2005 to $48.8 million in January 2017. This fluctuation in export is primarily due to rising domestic demand and a stiff competition in the export market. Other reasons for the fluctuation include improved manufacturing facilities in Bangladesh, rise in regional agreements with India, Nepal, Bhutan and the Maldives and also major developed economies along with increase in informal trade. During the current year, Pakistani exports have generally slowed down, owing to non-availability of PIA flights between Karachi and Dhaka.

Pakistan's exports to India constituted 0.08% of the Indian imports from the world for the year 2017. While they only make 1.53 percent of the total Pakistani exports for the said year. Pakistan's exports to India are highly concentrated in a few products as the top five exports make more than half the total exports to India. The Pakistani export basket is dominated by fresh or dried dates and Portland cement with 26.70 percent and 19.51 percent share in the total export to India. The share of these two items in Indian imports is recorded at 36.97 and 70.76 percent respectively. Other than these two items, the export to India comprise of medium oils & preparations, gypsum, grain splits leather, waste and scrap of stainless steel & copper, instruments & appliances used in medical sciences and cane or beet sugar.

2. AGRICULTURE SECTOR OF PAKISTAN

Agriculture contributes 18.5 percent to country’s Gross Domestic Product (GDP) and provides 38.5 percent employment to national labour force but it remains backward sector of the economy while high performing agriculture is a key to economic growth and poverty alleviation. Over the last decade, the performance of agriculture sector has fallen short of desirable level, mainly because of stagnant productivity of important crops. Cropped area of the five traditional crops has also largely remained unchanged. Climate change also poses a serious challenge to Pakistan’s agriculture and threatens country’s water availability and food security.

The performance of Agriculture during 2018-19 remained subdued. On the aggregate, the sector grew by 0.85 percent, much lower than the target of 3.8 percent set at the beginning of the year. This under-performance of agriculture sector was mainly due to insufficient availability of water which led to a drop in cultivated area and a drop in fertilizer offtake. The crops sector experienced a negative growth (-4.43 percent against the target of 3.6 percent) on the back of decline in growth of important crops by (-6.55) percent. Sugarcane production declined by (-19.4) percent to 67.174 million tons, Cotton (-17.5 percent) to 9.861 million bales and Rice (-3.3 percent) to 7.202 million tonnes while production of Maize crop increased by 6.9 percent to 6.309 million tonnes and Wheat growth was marginally higher (by 0.5 percent) to reach 25.195 million tonnes. Other crops having a share of 11.21 percent in agriculture value addition and 2.08 percent in GDP, showed growth of 1.95 percent mainly due to increase in production of pulses and oilseeds. Cotton ginning declined by -12.74 percent due to decrease in production of cotton crop.

Livestock having share of 60.54 percent in agriculture and 11.22 percent in GDP, maintained the growth at 4.0 percent against the target of 3.8 percent. The Fishing sector having share of 2.10 percent in agriculture value addition (and 0.39 percent in GDP), grew by 0.79 percent, while Forestry sector having share of 2.10 percent in agriculture (and 0.39 percent in GDP) grew by 6.47 percent due to increase in timber production in Khyber Pakhtunkhwa (by 26.7 percent to 36.1 thousand cubic meters).

The important crops (wheat, rice, sugarcane maize and cotton) account 21.90 percent in the value addition of agriculture sector and 4.06 percent in GDP. The other crops account 11.21 percent in the value addition of agriculture sector and 2.08 percent in GDP. Pakistan has two cropping seasons, "Kharif" being the first sowing season starting from April-June and is harvested during October-December. Rice, sugarcane, cotton, maize, moong, mash, bajra and jowar are “Kharif" crops. "Rabi", the second sowing season, begins in October-December and is harvested in April-May. Wheat, gram, lentil (masoor), tobacco, rapseed, barley and mustard are "Rabi" crops. Pakistan’s agricultural productivity is dependent upon the timely availability of water.

3. OVERVIEW OF PAKISTAN AGRI-TRADE SITUATION

Food group constituting 19.6 percent of overall exports posted a decline of 2.4 percent as compared to same period last year. Within the food group, export of rice comprises 44.4 percent of total food group declined by 0.5 percent causing a major setback in overall food exports. The quantum drop in rice was 5.0 percent but its value declined by 0.5 percent. This underwhelming picture is attributed to the competition faced by Pakistan from its competitors like Africa and China. Pakistani exporters are facing tough time against Chinese competitors as they are offloading their stock at lower prices.

However, to tackle this situation government is taking necessary steps including reclaiming traditional markets besides accessing to new markets. Removal of restriction by Qatar on Pakistani rice export is a step in this direction that will reclaim Pakistan's share in the global rice market. Moreover, China has agreed to give duty free access to 200,000 tons of rice from Pakistan in the current calendar year.

Among other products fruits, capturing the second highest position in food group, posted a growth of 8.7 percent in value during the current fiscal year. Pakistan managed to explore new international markets for this group by participating in Berlin fair.

The other important components of food group which registered a positive growth include oil seeds, nuts & kernels, spices and wheat. Sugar exports declined by 68.2 percent on account of the withdrawal of subsidies and completion of earlier announced quotas.

Exports of textile manufacturers, which accounts 58.5 percent in total exports witnessed a trivial growth of 0.1 percent and remained at US$ 9.99 billion in July-March FY2019 as compared to US$ 9.98 billion during the same period last year. Within the group, knitwear and bed wear registered a positive growth but it was offset by the decline in cotton yarn and cotton cloth. Low demand from EU and lower unit prices, particularly for knitwear, contributed to the lackluster performance of this group. Textile trade agreements have been signed at Texpo Pakistan 2019 which will support textile exports.

Export of the textile items like knitwear comprises 12.6 percent of total exports and 21.6 percent of textile exports increased in both quantity and value by 14.8 and 9.29 percent respectively. Readymade garments with 11.5 percent share in total exports and 19.6 percent share in textile exports registered a positive growth of 2 percent in value and 28.1 percent in quantity. Value-added exports increased due to growing demand and improvement in export competitiveness after exchange rate adjustment.

Cotton cloth having 9.3 percent share in total exports and 16 percent in textile exports declined by 2.1 percent in value but its quantum increase was 18.1 percent. Bed wear with a share of 10.1 percent in exports and 17.21 percent in textile group, increased both in quantity and in value by 10.3 percent and 2.7 percent, respectively. Cotton yarn has 4.9 percent share in total exports and 8.35 percent in textile group, decreased in both quantity and value by 15.7 percent and 15.4 percent, respectively.

Towels having share of 3.4 percent in total exports and 5.88 percent share in textile group, decreased both in quantity and in value by 11.0 percent and 1.8 percent, respectively. Raw cotton having a share of 0.1 percent in total exports and 0.16 percent in textile group, decreased in both quantity and value by 71.2 percent and 71.8 percent, respectively. This decline is may be due to declining international cotton prices from 2.15 $/kg in June 2018 to 1.92 $/kg in April 2019. Petroleum group having a negligible share of 2 percent in total exports registered a negative growth of 0.2 percent on account of 7.6 percent decline in petroleum exports. Other manufacturers accounting 14.6 percent of total exports registered a negative growth of 1.5 percent during the period July-March FY2019. Within the group chemical and pharmaceutical products, bearing the largest share in the group, posted a growth of 5.7 percent in value. This is the only category showing significant growth in the group. Leather manufacturers continues to struggle but registered a negative growth of 8.4 percent in value. 21.8 percent decline in value is witnessed in leather tanned while its quantity decreased by 19 percent.

Exports of carpets, rugs and mats registered a negative growth of 12.5 percent in value. The acute shortage of electricity, bad law and order, ever-soaring inflation, shortage of skilled labor force and high mark-up rate during last one decade were the major reasons hitting the carpet industry besides causing huge decline in rugs exports.

Sports goods decreased in value by 9 percent on the back of 7.35 percent decline in exports of football. Other than these, surgical goods and medical instruments, engineering goods and jewelry posted a negative growth of 1.5, 10.8 and 24.2 percent, respectively. Although Cement export posted a significant growth of 32.8 percent in value and 55.4 percent in quantity during July-March FY2019. Low domestic sale and significant capacity additions paved the way to foreign markets for cement manufacturer.

3.1 Concentration of Exports

Pakistan's exports are highly concentrated in few items like cotton & cotton manufacturers, leather, rice and few other items. The first three categories of exports account for 69.2 percent of total exports during July-March FY2019 with cotton & cotton manufacturers alone contributing 56.7 percent. Traditionally, the contribution of these three categories was 70.3 percent during the same period last year, and 71.8 percent during FY 2017. The bifurcation of these items in table shows that exports in these few items are the major factor for lower export earnings.

Commodity	2013-14	2014-15	2015-16	2016-17	2017-18	July-March	
						2017-18	2018-19 P
Cotton Manufactures	53.1	54.5	55.0	59.4	56.9	56.7	56.7
Leather**	5.1	4.8	4.9	4.5	4.6	4.1	3.7
Rice	7.6	8.5	8.8	7.9	8.8	8.8	8.8
Sub-Total of three Items	**65.8**	**67.8**	**68.7**	**71.8**	**70.3**	**69.6**	**69.2**
Other items	34.2	32.2	31.3	28.2	29.7	30.4	30.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

P: Provisional, ** Leather & Leather Manufactured.

3.1.1 Direction of Exports

Traditionally Pakistan's export destinations are concentrated to a few markets. Pakistani exports go to countries namely USA, China, UAE, Afghanistan, Germany, France, Bangladesh, Italy and Spain. Among these countries USA has the largest share of 17 percent in total exports followed by China 8 percent and UK 7 percent. The share of exports to Afghanistan and UAE witnessed one percent decline during July-March FY2019 as compared to the same period last year. Table below suggests that all the countries have been on a stable trajectory in terms of export destinations of Pakistan. However, efforts are being made to explore new markets where lots of potential exists. Formulation of Strategic Trade Policy Framework (2019-24) is a way forward towards securing more international markets' access.

(Rs. Billion & Percentage Share)

Country	2015-16		2016-17		2017-18		July-March			
							2017-18		2018-19 P	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
USA	364.8	17	361.1	17	400.4	16	290.9	16	384.6	17
CHINA	174	8	153.8	7	185.7	7	133.9	7	182	8
AFGHANISTAN	149.9	7	133.1	6	165.2	6	122.4	7	128.5	6
UNITED KINGDOM	164.7	8	163.1	8	186.7	7	135.7	7	166.9	7
GERMANY	118	6	125.1	6	146.7	6	106.9	6	125.6	6
U.A.E	85.5	4	83	4	104	4	69.1	4	77.3	3
BANGLADESH	72.3	3	65.4	3	81	3	58.8	3	77.8	3
ITALY	67.7	3	68.6	3	84.5	3	60	3	74.3	3
SPAIN	84.3	4	85.5	4	104.5	4	77.3	4	93.2	4
FRANCE	36	2	38.8	2	45.5	2	31.3	2	39.1	2
All Other	**849.6**	**45**	**860.7**	**40**	**1050.8**	**41**	**752.6**	**41**	**914.4**	**40**
Total	**2166.8**	**100**	**2138.2**	**100**	**2555**	**100**	**1838.9**	**100**	**2263.7**	**100**

P : Provisional

3.2 Concentration of Imports

Disaggregated analysis reveals that all the groups including food group, machinery group, petroleum good, consumer durables and raw materials witnessed hefty decline in imports during the current fiscal year.

Structure of Imports ($ Million):

Particulars		July-March		% Change in Value	July-March Quantity		% Change in Quantity
		2017-18	2018-19 (P)		2017-18	2018-19 (P)	
	Total	**44,280.9**	**40,718.3**	**-8.0**			
A.	**Food Groups**	**4,730.6**	**4,261.4**	**-9.9**			
	Milk & Milk food	197.8	185.8	**-6.1**	**68935.0**	72163.0	4.68
	Wheat Unmilled	-	-	**0.0**	0.0	0.0	0
	Dry Fruits	95.6	33.8	**-64.7**	67778.0	19819.0	-70.76
	Tea	450.9	445.8	**-1.1**	147921.0	171237.0	15.76
	Spices	122.0	111.7	**-8.5**	99823.0	100748.0	0.93
	Edible Oil (Soyabean & Palm)	1,654.4	1,454.6	**-12.1**	2242805.0	2420751.0	7.93
	Sugar	4.0	3.0	**-24.8**	6673.0	5758.0	-13.71
	Pulses	407.9	393.4	**-3.6**	558568.0	712540.0	27.57
	Other Food Items	1,797.9	1,633.4	**-9.1**	-	-	-

Food group constitutes 10.5 percent of overall import bill. Food import bill stood at US$ 4.261 billion in first nine months of FY2019 as compared to US$ 4.730 billion in the same period last year. Hence, witnessed a significant decline of 9.9 percent. Within the group heaviest decline has been observed in imports of dry fruits, sugar, edible oil (soybeans and palm oil) and spices by 64.7, 24.8, 12.1 and 8.5 respectively. Although a quantum increase in palm oil has been witnessed during the period. Yet, lower international palm oil prices also suppressed import values.

Other mentionable items in the group are tea, milk & related items and pulses. All of these showed negative trend of 1.1, 6.1 and 3.6 respectively. Declined imports in this sector can also be attributed to the SRO issued by the government, demanding the proper labelling requirements on the fast-moving consumer goods accompanied with Halal certificate.

In textile group, import of raw material decreased both in quantity and value by 32.37 and 28.11 percent respectively during July-March FY2019 as compared to the same period last year. The import bill of fertilizers increased in both quantity and value by 5.01 and 16.4 percent respectively on the back of lower domestic production. Fertilizer import increased to supplement the stock and to meet up the demands for Rabi and Kharif crops.

3.2.1 Direction of Imports

Like exports, Pakistan's imports are also concentrated to few countries. Based on the current year data, around 65 percent of total imports originated from countries like China, UAE, Saudi Arabia, Kuwait, Indonesia, India, USA, Japan, Germany and Malaysia. China being the largest import destination accounts for the 24 percent of total imports. Share of import from UAE has increased from 12 percent in FY2018 to 14 percent in FY2019. Change in Pakistan's import pattern is shown in the following table;

(Rs. Billion & Percentage Share)

Country	2015-16		2016-17		2017-18		July-March			
							2017-18 P		2018-19 P	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
CHINA	1261.9	23	1584.3	29	1731.8	26	1252.7	26	1267.2	24
UAE	572.7	10	774.5	14	893.3	13	584.3	12	759.7	14
SAUDI ARABIA	237.2	4	227.7	4	356.4	5	255.8	5	286.2	5
KUWAIT	139.5	3	141.9	3	159.7	2	120.4	3	133.8	2
INDONESIA	222.7	4	240.4	4	278.5	4	205.6	4	245.5	5
INDIA	185.8	3	178.2	3	207.5	3	142.4	3	154.8	3
U.S.A	185.3	3	267.9	5	316.4	5	221.9	5	259.5	5
JAPAN	190.3	3	217.4	4	266.5	4	197.8	4	188	4
GERMANY	97.6	2	114.3	2	146.4	2	101.2	2	105.4	2
MALAYSIA	96.5	2	100.2	2	132	2	94.6	2	103	2
All Other	**1469.2**	**31**	**1692.9**	**31**	**2206.5**	**33**	**1592.299**	**33**	**1868.043**	**35**
Total	**4658.7**	**100**	**5539.7**	**100**	**6695**	**100**	**4768.999**	**100**	**5371.143**	**100**

P: Provisional

4. PAKISTAN-BANGLADESH TRADE SITUATION

Bangladesh's economy has grown roughly 6% per year since 2005 despite prolonged periods of political instability, poor infrastructure, endemic corruption, insufficient power supplies, and slow implementation of economic reforms. Although more than half of GDP is generated through the services sector, almost half of Bangladeshis are employed in the agriculture sector, with rice as the single-most-important product. Garments, the backbone of Bangladesh's industrial sector, accounted for more than 80% of total exports in FY 2016-17. The industrial sector continues to grow, despite the need for improvements in factory safety conditions. Steady export growth in the garment sector, combined with $13 billion in remittances from overseas Bangladeshis, contributed to Bangladesh's rising foreign exchange reserves in FY 2016-17. Major export commodities of Bangladesh are garments, knitwear, agricultural products, frozen food (fish & seafood), jute & jute goods, leather & export partners are Germany 12.9%, US 12.2%, UK 8.7%, Spain 5.3%, France 5.1%, Italy 4.1% (2017). Import commodities of Bangladesh are cotton, machinery & equipment, chemicals, iron & steel, foodstuffs and import partners are China 21.9%, India 15.3%, and Singapore 5.7% (2017).

Bangladesh has been one of the key exporting destinations for Pakistani goods over the decades. Pakistan's exports to Bangladesh have come through various fluctuations but still managed to end on a rise. It rose from $14.27 million in January 2005 to $48.8 million in January 2017. This fluctuation in export is primarily due to rising domestic demand and a stiff competition in the export market. Other reasons for the fluctuation include improved manufacturing facilities in Bangladesh, rise in regional agreements with India, Nepal, Bhutan and the Maldives and also major developed economies along with increase in informal trade.

Pakistan over the decade has also been a key supplier of cotton and woven goods along with the services sector where contribution was of minimal level to the economy. Like trade in locally-produced goods and services, its flow has also reduced over the period when it comes to discussion of trade ties between the two South Asian countries. There are several explanations for this reduction. The most important are: political shifts occurring in this region, e.g. different regional agreements where Pakistan is not a part of. These key regional agreements include South Asian sub-regional Sub-Economic Commission, Bangladesh, Bhutan, India, Nepal motor vehicle agreement and Bangladesh, Bhutan, India and other agreements of regional connectivity like Bangladesh-Bhutan-India-Nepal (BBIN). Beside these political shifts and regional pacts there had been increasing demand in the domestic market both in Bangladesh and Pakistan also resulted in low trade over the period.

Pakistan and Bangladesh share the membership of SAARC, OIC and D-8. These are two major Islamic nations of South Asia, a region which is trying to come closer under the ambit of SAARC Free Trade Agreement (SAFTA). Both the countries have been working closely at international fora for promoting regional integration, trade, security and world peace. The volume of trade between Pakistan and Bangladesh has always remained in favor of Pakistan.

Trade diplomacy between the two countries has generally remained stalled from 2001 to 2006. Holding of the Joint Economic Commission (JEC) between Pakistan and Bangladesh is long over-due. It may be noted that the last JEC meeting was held in 2005. Moreover, most of the trade diplomacy and major bilateral agreements were made but negligible work has been done for around 10 consecutive years.

Pakistan's exports have shown increase in Bangladesh market from 530 million US dollars (2016-17) to 727 million US dollars for the year 2017-18 (third highest ever) and 743 million US dollars recorded during the year 2018-19 (second ever highest).

During the current year, Pakistani exports to Bangladesh have generally slowed down, owing to non-availability of PIA flights between Karachi and Dhaka.

4.1 Major Pakistan Agri Exports to Bangladesh during 2018

Sr.#	Commodity	Value
i.	Cotton	$574.68M
ii.	Cereals	$88.40M
iii.	Raw hides and skins (other than furskins) and leather	$19.25M
iv.	Knitted or crocheted fabric	$4.71M
v.	Other made textile articles, sets, worn clothing	$4.41M
vi.	illing products, malt, starches, inlin, wheat gluten	$2.13M
vii.	Edible fruits, nuts, peel of citrus fruit, melons	$1.95M
viii.	Articles of apparel, not knit or crocheted	$1.48M
ix.	Coffee, tea, mate and spices	$1.45M
x.	Articles of apparel, knit or crocheted	$1.24M

xi.	Fish, crustaceans, molluscs, aquatics invertebrates	$750.28K
xii.	Oil seed, oleagic fruits, grain, seed, fruits	$562.11K
xiii.	Vegetable, fruit, nut food preparations	$301.47K
xiv.	Sugars and sugar confectionery	$107.64K
xv.	Cereal, flour, starch, milk preparations and products	$66.98K
xvi.	Special woven or tufted fabric, lace, tapestry	$52.61K
xvii.	Dairy products, eggs, honey, edible products	$20.05K
xviii.	Tobacco and manufactures tobacco substitutes	$14.04K
xix.	Residues, wastes of food industry, animal fodder	$11.47K
xx.	Live trees, plants, bulbs, roots, cut flowers	$3.52K
xxi.	Products of animal origin	$3.58K
xxii.	Live animals	$2.59K

4.2 Overview of Bilateral Trade including Imports and Exports during September 2019 and Comparison with Corresponding month of Previous Financial Year:

US $ thousand

Month	Pakistan Exports to Bangladesh	Pakistan's imports from Bangladesh	Total Trade
September-2018	68781	2126	70907
September -2019	57637	2229	59866

4.3 Trade Potential between Pakistan and Bangladesh:

- Bangladesh is a very important export destination for Pakistani products ranking amongst our top destinations globally and 2nd in Asia after China, despite the hostile environment under the Awami League government in Bangladesh.
- There is an ample scope for expansion of bilateral trade between the two countries. Pakistan can not only export textile yarn, raw cotton and rice but cement, food products, engineering goods & machinery and on the other hand Pakistan can import fish, vegetables like ginger, fruits, Bamboo, paper, pulp & betel-nuts besides jute and tea. Pakistan already depends on Bangladesh for most of the supply of raw jute for manufacturing of jute goods.

- The textile sector of Bangladesh is fully equipped with the latest facilities of printing, dyeing and stitching. Pakistan's textile sector should strike at the opportunity for more value addition. Bangladesh have abundant orders regarding export of readymade garments to Europe and other world markets. Pakistani business may enhance the export of readymade garments by having collaboration with Bangladeshi exporters. A new era of economic prosperity may knock at the door if the countries in the region join hands to work together in the larger interest of the respective countries and the people.
- Since India has recently announced a ban on exports of onions due to shortage amidst floods, the prices of onions in Bangladesh have raised to new heights, as the market was heavily dependent on Indian supply. Bangladesh is now looking for import options from other countries like Turkey, Myanmar and Egypt to meet the demand in the local market. It is added that annually around 80% onion was being imported from India. This has created market potential for Pakistan.
- Availability of surplus dates in Pakistan can be considered as the option of import from Pakistan

5. PAKISTAN-INDIA TRADE SITUATION

The Indian economy is one of the fast-growing economies in the world with an average Gross Domestic Product (GDP) growth of 7.16 percent from 2013 through 2017. The growth rate is featured to have a steady increasing trend over the past decades. It is the "seventh largest economy" of the world with GDP of $2,611.01 billion as of 2017. The economy has attained a massive level of diversification over decades along with major macroeconomic reforms in recent years. Sector-wise contribution to GDP shows that the agricultural sector has a "17.4 percent share in GDP"

India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries and a multitude of services. Slightly less than half of the workforce is in agriculture, but services are the major source of economic growth, accounting for nearly two-thirds of India's output but employing less than one-third of its labor force. Main agri. products produced in India are rice, wheat, oilseed, cotton, jute, tea, sugarcane, lentils, onions, potatoes, dairy products, sheep, goats, poultry and fish.

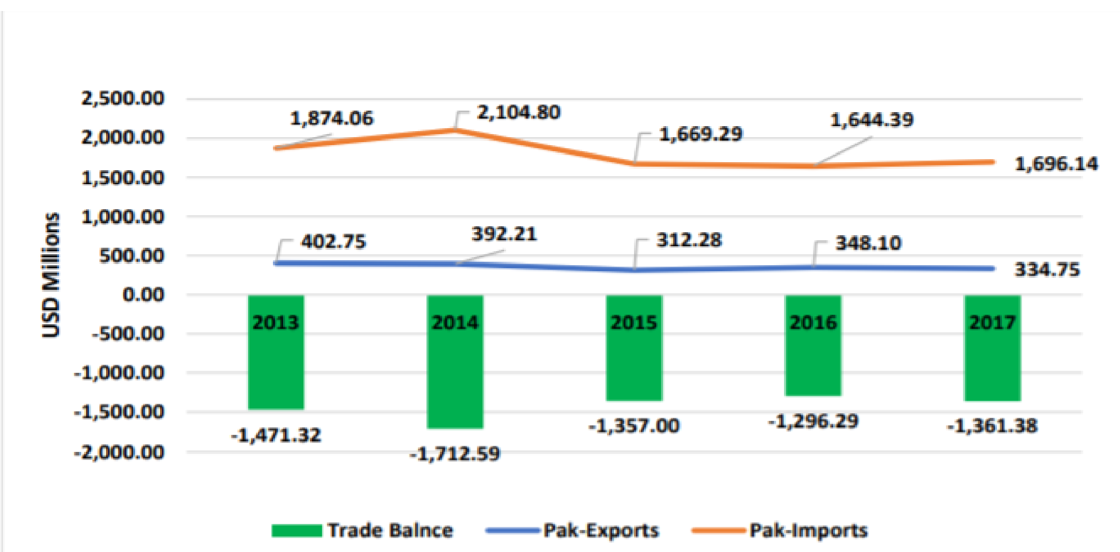
5.1 Bilateral Trade between India and Pakistan

The Political relations across the borders define the economic ties between Pakistan and India. Since partition, the political relations between the two remained highly volatile with frequent military confrontations resulted in halting the trade relations. The bilateral trade volume remains negligible as compared to their trade volume globally and neither country falls top ten trading partners category of each other. A breakthrough in bilateral trade was expected when India granted the Most Favoured Nation (MFN) status to Pakistan in 1996 – Pakistan is yet to reciprocate the MFN status to India, followed by the singing of SAFTA in 2006 by both countries, under the umbrella of SAARC, however, the trade relations rebound to stagnation. Despite the ambivalent political relations, a gradual improvement in the bilateral trade has been observed when Pakistan has moved from a "Positive List" – (includes all those items that allowed to import) for imports from India to a "Negative List" – (consist of all those items that are not allowed to import) in 2012. This shift allowed the import of 6800 items from India as compared to fewer than 2000 items allowed under the positive list structure.

On the other hand, India follows Non-Least Developed Countries (LDCs). Sensitive List for imports from Pakistan. The non-LDC Sensitive List is followed by SAFTA countries, which includes goods on which tariff concessions are not granted. India applies the same to its imports from Pakistan.

Bilateral trade statistics show that Pakistan faces a consistent deficit in its trade with India from 2013 through 2017. The trade deficit, however, improved in 2015 to USD 1,357 million down from USD 1,712.59 million in 2014, due to a decline in the imports from India from USD 2,104.80 million in 2014 to USD 1,669.29 million in 2015. The improvement in trade deficit continued in 2016 as well. However, increasing imports in 2017 offset the trend by raising the trade deficit to USD 1,361.38 million over the year.

Pakistan-India Bilateral Trade



Pakistan's exports to India are equally contributing to the trade deficit in the bilateral trade. The data shows Pakistan's exports to India are on a steady decline from 2013 to 2015. A slight increase in the export is recorded in 2016, which again followed by a downturn in 2017.

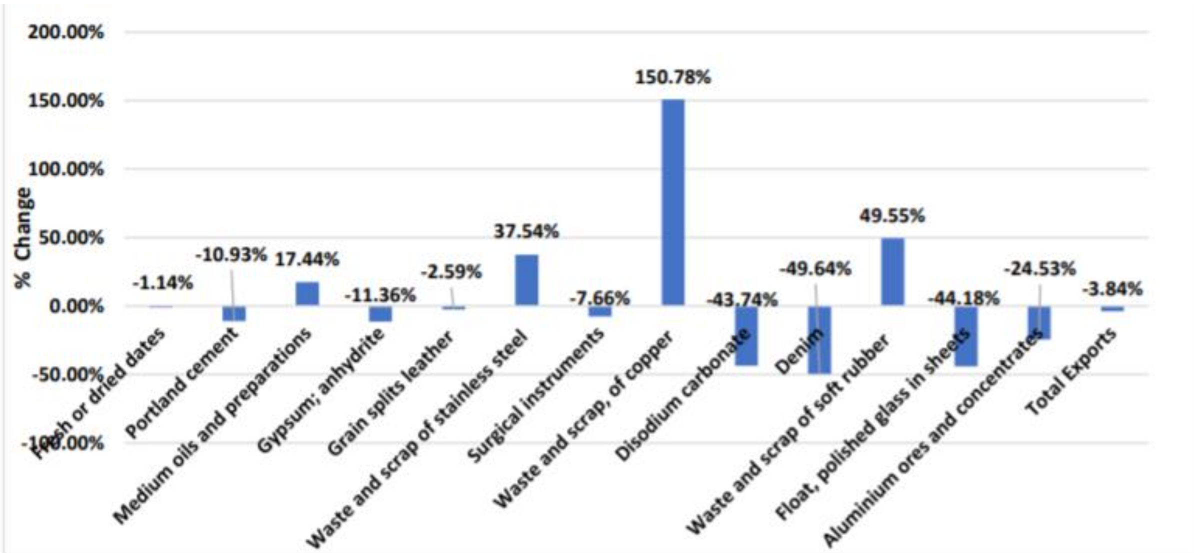
One of the reasons for diminishing official bilateral trade between India and Pakistan is the existence of “informal trade” between the two. According to a study carried out by the Indian Council for Research on International Economic Relations (ICRIER) the informal trade is estimated to be “USD 4.71 billion” in 2012-2013, of which India’s exports to Pakistan were “USD 3.99 billion” and imports from Pakistan were “USD 0.72 billion”. The informal export basket from India to Pakistan mainly consists of livestock, ready-to-wear garments, cosmetics, spices, drugs and pharma, machinery mainly of textiles, chemicals, tyres, while informal imports from Pakistan to India includes tobacco products, dry fruits, leather products mainly footwear.

5.2 Overview of Pakistan’s Major Exports to India

Pakistan’s exports to India constituted 0.08% of the Indian imports from the world for the year 2017. While they only make 1.53 percent of the total Pakistani exports for the said year. Pakistan’s exports to India are highly concentrated in a few products as the top five exports make more than half the total exports to India. The Pakistani export basket is dominated by fresh or dried dates and portland cement with 26.70 percent and 19.51 percent share in its the total export to India. The share of these two items in Indian imports is recorded at 36.97 and 70.76 percent respectively. Other than these two items, the export to India comprise of medium oils and preparations, gypsum; grain splits leather, waste, and scrap of stainless steel & copper, instruments & appliances used in medical sciences, and cane or beet sugar.

Detail of top 15 exports at HS 6-digit is provided in the table below. It provides a five-year export trend for each product and their market share in Indian imports. Moreover, figure provides a snapshot of export growth for the year 2017. The graph depicts that overall export to India recorded a decline of 3.84 percent from 2016 to 2017. Product wise growth shows that the export of medium oils and preparations, waste and scrap of stainless steel and copper, and waste & scrap of soft rubber increased in 2017 over the year, while rest of the items recorded a decrease in the export growth.

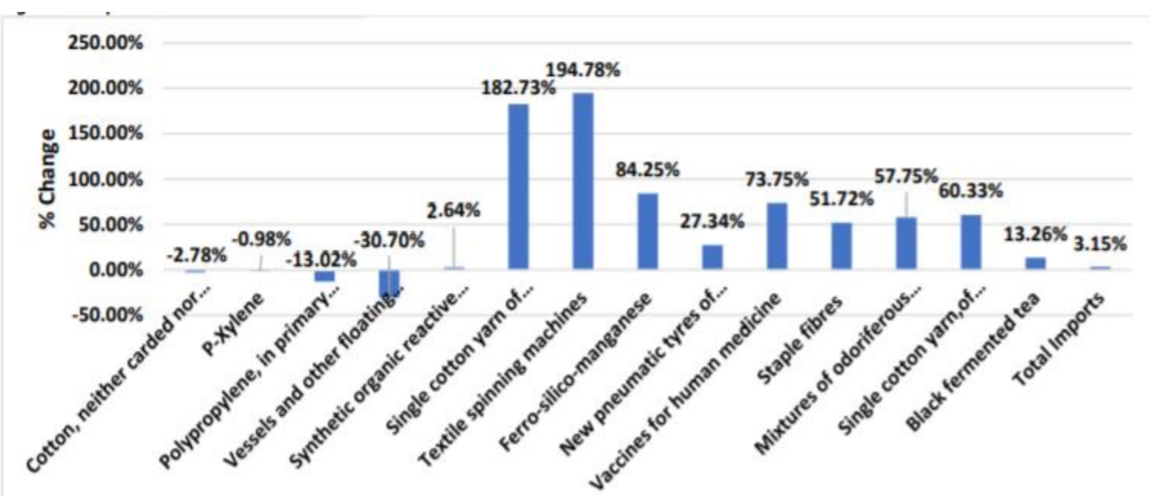
Export Growth Rate w.r.t. 2016



5.3 Overview of Pakistan's Major Imports from India

In 2017, the imports from India to Pakistan were USD 1,696.14 million with 2.95 percent share in Pakistan's total imports. As compared to Pakistan's export profile to India, Pakistan's import basket from India is relatively less concentrated. The top 5 products imports from India have a 26.44 percent share in Pakistan's total imports from India. The import basket is dominated by cotton neither carded nor combed, P-xylene, Polypropylene in primary forms with 26.69, 24.70, 14.18 percent respectively. Other than these items the imports are comprised of textile materials, synthetic organic reactive dyes, single cotton yarn of varying weight, staple fibre and black fermented tea. The import trend for five years and market share in Pakistan's exports of each product is provided in table below;

Import Growth Rate w.r.t. 2016:



The growth of imports as portrayed in figure above depict that, in 2017 over the year cotton, Pxylene, polypropylene in primary form and vessels & floating structures at HS 6-digit record a decrease in their import. On the other hand, single cotton yarn of combed and uncombed fibre, textile spinning machines, ferro-silicomanganese, new pneumatic tyres of rubber, staple fibres, and black fermented tea recorded an increase in their import. The overall imports from India have increased by 3.15 percent as compared to Pakistan's export to India which decreased by 3.84 percent for the fiscal year 2017.

5.4. Potential Products and their Analysis

The following criteria were followed to identify the potential products by keeping in view both the demand and supply sides of the countries involved.

i. Indian import of each product from the world to be US$50 million or more in value for the current year (2017)
ii. Pakistan´s export of each product to the world to be US$20 million or more in value for the current year
iii. Product -wise share of Pakistan's export in India's Import to be 10 percent or less for the current year

The potential products identified based on the above criteria include oils and preparations, surgical instruments, pharmaceuticals, equipment for outdoor games, marble, polyethene terephthalate, cotton, flat-rolled products of iron, textile made-ups, parts of gas turbines, and telephones for a cellular network. Majority of these potential products are not in Pakistan's export basket to India implying the need to diversify export-basket for Pakistan. Further, it is also identified that among the potential products medium oils and preparations, marble and travertine, flat-rolled products of iron, and parts of gas turbines are in the Non-LDC Sensitive list of India, meaning that their export to India will face high tariff rates.

Details of the potential products at HS 6-digit is provided in Table below. It provides a product wise Indian import from the world, Pakistan's export to the world and Pakistan's market share in India for the year 2017.

Pakistan's Potential Exports to India

Product code	Product label	Pakistan's exports to India	Pak-Market Share	India's imports from the world	Pakistan's exports to the world	In Non-LDC List: Y=Yes, N=No
271019	**Medium oils and preparations**	**14.38**	**0.46%**	**3115.88**	**142.87**	**Y**
'901890	Instruments and appliances used in medical, surgical or veterinary sciences	10.71	1.75%	613.48	360.58	N
'950699	Articles and equipment for sport and outdoor games	0.49	0.48%	100.25	27.55	N
'251512	**Marble and travertine, merely cut, by sawing**	**0.41**	**0.17%**	**249.42**	**25.06**	**Y**
'390769	Poly"ethylene terephthalate"	0.28	0.27%	104.66	37.54	N
'520100	Cotton, neither carded nor combed	0.20	0.02%	961.61	60.95	N
'620342	Men's or boys' trousers, and shorts, of cotton	0.04	0.04%	80.55	410.42	N
'300490	Medicaments consisting of mixed or unmixed products	0.01	0.00%	708.33	70.79	N
'270900	Petroleum oils and oils obtained from bituminous minerals	0.00	0.00%	82028.33	114.48	N
'300439	Medicaments containing hormones or steroids	0.00	0.00%	71.47	48.65	N
'731029	Tanks, casks, drums, cans, boxes	0.00	0.00%	75.10	37.58	N
'901580	Instruments and appliances used in geodesy, topogray	0.00	0.00%	156.68	33.70	N
'721049	**Flat-rolled products of iron or non-alloy steel**	**0.00**	**0.00%**	**273.57**	**31.18**	**Y**
'730690	Tubes, pipes and hollow profiles	0.00	0.00%	51.32	44.03	N
'841451	Table, floor, wall, window, ceiling or roof fans	0.00	0.00%	75.14	28.22	N

Source: Trade Map

5.5 Non-Tariff Barriers

India has been using Non-Tariff Barriers (NTBs) in its trade with Pakistan as a means to protect the local industry as well as to gain favourable terms in the trade. The identified potential products face numerous NTBs from India. The surgical instruments are under check for legal metrology, and hazardous wastes for trans-border movement. Under these checks, the items need to fulfill Technical Barriers to Trade (TBT) including labelling, packaging, marking, authorization and certification requirements. Pakistani pharmaceutical exports to India face drug and cosmetic rules for imports. NTBs of technical nature under such rules include authorization, registration, labelling, packaging, product quality and performance requirements in addition to import license fee and customs inspection fee. Central Drug Standard Control Organization of India is authorized for testing and registration of these products.

Furthermore, for textiles made-ups, it is prerequisite to fulfill Sanitary and Phytosanitary Agreement (SPS) requirements and obtain pre-shipment certifications from internationally recognised laboratories for their export to India. Pakistan lacks internationally certified laboratories whose certifications are acceptable to the Indian authorities for textile products certification. Moreover, the textile products also face quantitative restrictions from India

The import of marble is regulated by Plant Quarantine Order- the import of plants and plant products are subject to a permit requirement, SPS certification requirement, and inspection by an authorized officer. Further such consignments only are imported through ports of entry specified. Pakistani flat-rolled iron products also face the same NTBs of technical nature from India in addition to minimum import price. The number of NTBs applied by India on potential Pakistani exports has been presented in table below;

Non-Tariff Barriers on Pakistan's Potential Export Items

Product code	Product label	Number of non-tariff requirements applied by India
271019	Medium oils and preparations	19
'901890	Instruments and appliances used in medical, surgical or veterinary sciences	9
'950699	Articles and equipment for sport and outdoor games	3
'251512	Marble and travertine, merely cut, by sawing	13
'390769	Poly"ethylene terephthalate"	9
'520100	Cotton, neither carded nor combed	5
'620342	Men's or boys' trousers, and shorts, of cotton	5
'300490	Medicaments consisting of mixed or unmixed products	12
'270900	Petroleum oils and oils obtained from bituminous minerals	11
'300439	Medicaments containing hormones or steroids	12
'731029	Tanks, casks, drums, cans, boxes	3
'901580	Instruments and appliances used in geodesy, topography	9
'721049	Flat-rolled products of iron or non-alloy steel	7
'730690	Tubes, pipes and hollow profiles	3
'841451	Table, floor, wall, window, ceiling or roof fans	9

Source: Trade Map

5.6. Other Supply and Demand Side Issues

Demand Side Issue:

Trade normalisation has remained in turbulence between India and Pakistan as the bilateral trade between the two is hampered by the political relations and security issues. In a purely economic sense, the official trade is negatively affected by un-official and illegal trade pursued by both sides. In addition to that, the pattern on demand-side reflects that major Indian imports include inputs for industries including light and medium oils and preparations, copper, aluminium, natural gas, coal and another item including diamond including non-industrial diamond, parts of telephone sets, and crude palm oil. Trade Complementarity Index (TCI) – measures how well the structure of a country's exports match with imports from another country. In the case of Pakistan and India, it reveals that India's exports match Pakistan's imports more than vice versa. Trade complementarity shows that major Indian imports and Pakistan's major export do not complement each other as shown in table below. Pakistan cannot cater to the demand for manufactured goods – major Indian imports due to its low scale production of industrial goods coupled with lack of technological advancement in the industrial sector**.**

Pak-India Trade Complementarity:

Pakistan's Top Exports to the World (USD million)			India's Top Imports from the world (USD million)		
HS Code	Product Label	Exported Value 2017	HS Code	Product Label	Imported Value 2017
'100630	Semi-milled or wholly milled rice	1512.694	'270900	Petroleum oils and oils	82,028.33
'620322	Men's or boys' ensembles of cotton	1291.728	'710812	Gold, incl. gold plated with platinum	36,065.84
'520512	Single cotton yarn, of uncombed fibres	811.873	'710231	Non-industrial diamonds unworked	19,450.08
'630231	Bedlinen of cotton	810.93	'270119	Coal, whether or not pulverized	19,062.43
'630260	Toilet linen and kitchen linen	805.01	'851770	Parts of telephone sets	11,298.21
'630239	Bedlinen of textile materials	669.978	'710239	Diamonds, worked	7,799.88
'630210	Bedlinen, knitted or crocheted	665.344	'271111	Natural gas, liquefied	7,208.34
'520942	Denim	482.494	'151110	Crude palm oil	4,579.10
'620342	Men's or boys' trousers, and shorts, of cotton	410.423	'854140	Photosensitive semiconductor devices	4,530.54
'630710	Floorcloths, dishcloths, dusters	407.123	'999999	Commodities not elsewhere specified	4,016.97
'220710	Undenatured ethyl alcohol	361.533	'260300	Copper ores and concentrates	3,901.13
'901890	Instruments Instrument	360.575	'851762	Machines for the reception, conversion and transmission	3,568.57
'170199	Cane or beet sugar and chemically pure	342.901	'851712	Telephones for cellular networks "	3,411.92
'610590	Men's shirts of textile materials	310.704	'710122	Cultured pearls, worked	3,227.20
'420310	Articles of apparel, of leather	275.584	'271019	Medium oils and preparations, of petroleum	3,115.88

Source: Trade Map

In addition to that, the bilateral trade shows that Pakistan exports to India are dominated by raw materials for industrial goods and input for other finished items. Within the top fifteen exports to India, only fresh or dried dates, Portland cement, surgical instruments and denim of cotton are the finished products. It is observed that among the fifteen potential export items, five are in the Non-LDC sensitive list imposed by India. Moreover, NTBs are more strictly applied by India on those items in which Pakistan has a comparative advantage, i.e. textiles and some agricultural products and surgical instruments

Supply Side issues:

On the supply side, Pakistan faces issues related to merchandise's production and export. Noncompliance with mandatory quality standards and absence of country-cum- product-specific marketing are the main highlights Pakistan faces. There is a need to develop the capacity of the production sector to comply with the TBT and SPS standards to increase exports along with making marketing more dynamic.

Pakistan's textile industry is competitive because high-quality cotton and experienced, cost competitive labour are locally available. However, the industry needs to modernise its plants and manufacturing processes to compete in the international market. Further, the textile export basket of Pakistan is limited to garments and made-ups. Product diversification is necessitated as demand for differentiated products is increasing in the global market. Therefore, value-added products such as, technical textiles children wear, geo-textiles, leisure wear, and medical textiles can be considered for production. In addition to that, synthetic man-made apparel is replacing cotton-based apparel in the world market and the demand for the use of man-made fibre and other natural fibres in comparison to cotton has attained the ratio 70:30 as compared to 30: 70 in previous years, while Pakistani products are heavily dependent on cotton. It implies the incorporation of the man-made fibre in textile production. However, to produce man-made fibre locally, Polyester Staple Fibre (PSF) and polyester are imported which face the customs duty of 16 and 11 percent respectively.

6. SWOT ANALYSIS

Strength:

- Low unit price of potential Pakistani exports to India and Bangladesh on average as compared to existing competitors.
- Geographical proximity is a natural advantage for both over their respective competitors in trade.
- Competitive advantage in export of some of the agricultural and textile products to India and Bangladesh.
- Least distance and cheap labour - comparative advantage compared to other competitors.

Weakness:

- Pakistani exports have a very low share in Indian imports, i.e. 0.08 percent as of 2017.
- A limited basket of export items dominated by raw material and inputs for industrial goods.

- Very low trade complementarity, i.e. Pakistan's majority exports to the world do not complement with major Indian imports from the world.
- Weaknesses in the 'rules of origin' (on India-Pakistan side) resulting in trade routed through a third country.
- A binding constraint in trade is lack of infrastructure at both sides of the Attari-Wagah border.
- Non-availability of PIA flights between Dhaka-Pakistan.

Opportunities:

- Fast-growing economy in the region, as it sustained economic growth on the average 7.5% for the last five years.
- Second largest populous country in the world, with expanding consumer market.

Threats:

- Volatile security and political relations on both side determining trade relations between India-Pakistan and Bangladesh-Pakistan.
- Continuation of the Non-LDC sensitive list by India.
- Non-Tariff Barriers are being excessively used by India especially in the products like textile where Pakistan has a competitive edge.
- The trend of informal trade volume between the two countries is increasing. Informal exports from India were recorded to be USD 3.99 billion in 2012-2013, mainly consisted of readymade garments, cosmetics and jewellery, spices, pharma, machinery and, tyres
- India's trade agreement with ASEAN, and the Asia Pacific region.

7. RECOMMENDATIONS

- The Government of India subsidizes the agricultural sector through input support programmes, credit and insurance schemes, output price support and farmer income programmes. It also has high tariffs, and para tariffs such as countervailing duty(CVD) , Special CVD, and education cess. There are also a number of Non Tariff Barriers such as multiple standards, lack of testing facilities at the land border, requirement of phytosanitary permits etc. These measures make Pakistani products uncompetitive in the Indian market. The Government of Pakistan needs to take up these issues at governmental levels.
- Any strategy for promoting Pakistani agricultural exports to India must take note of the uncertainty in the application of trade restrictions by India. During times of domestic food shortages tariffs are lowered, para tariffs waived and NTBs relaxed. However, once there is excess supply or supply is able to meet demand trade restrictions are enforced

once again. Therefore, government needs to take up this issue with Indian government to ensure consistency in application of policy instruments.

- Demographic trends suggest that as income levels increase, Indian and Bangladeshi households tend to increase per capita consumption of vegetables, fruits and processed foods. Pakistani horticulture exports could target the niche market consisting of the more affluent segment. In this context, export promotion organizations need to hold exhibitions for promotion of aforementioned products.
- The implementation of internationally recognized standards requires fruits to undergo various tests like: wax test, pesticide test, brix test etc. For the results to be accepted the tests have to be conducted by an internationally recognized laboratories. There are currently 20 accredited laboratories, in Pakistan, to conduct such tests. However, for citrus more laboratories are needed near Sargodha which is the main citrus producing region. Support/funding should be provided to the private sector for the establishment of these laboratories on a cost sharing basis

8. PROPOSED ROLE OF ZTBL FOR STRENGTHENING AGRI TRADE OF PAKISTAN

Aligning with current trade deficit position of the country and to promote agri exports, the bank envisages following strategies;

- Motivating farmers to diversify farming activities for enhancing income.
- Promoting solar powered water pumping system, through financing package for ultimate reduction in energy cost.
- Introduction of affordable, cost effective technologies/machinery as a means to reduce harvesting costs and obtaining higher yields.
- Enhancing per acre yields by creating awareness to adopt best agriculture practices and application of better technologies.
- Promotion of Olive Oil Farming, Soybean Cultivation, Grape Cultivation, Citrus (polishing, grading and packing).
- Financing for Aquaculture and inland Fisheries Value Chain.
- Value Chain Financing.
- Establishment of Demonstration Plot for introduction of high yield seeds and irrigation.
- Enhancing the warehousing, building of storage facilities and establishment of distribution networks with the focus on grains, vegetables and fruits, through financing packages.
- Facilitating Establishment of Fruits and Vegetables processing plants by providing finance.

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