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Prospects of Pakistan's Agri. Exports to China

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Contents

EXECUTIVE SUMMARY

According to economic survey of Pakistan 2017-18, Pakistan's exports showed increasing trend and the negative growth is bottoming out as during the FY2017 the exports declined by only 1.76 percent compared to negative growth of 12.2 percent a year early. Exports posted a double digit growth after a long period of seven years, yet exports sector of Pakistan needs to be strengthened as Pakistan's balance of payments remains under stress due to rising imports.

Pakistan has been able to more than double its exports, which peaked from $11.93 billion in 2003 to $25.2 billion in 2014 before declining to $22 billion in 2016. Entire growth in exports over these years has been posted in the conventional products and commodities such as textiles, rice, leather and leather products, sports goods, surgical instruments, sugar and molasses, fish, and so on and so forth.

There are many reasons for the recent declining trend in the export sector. Broadly, the factors responsible for the lackluster performance of the export sector include: lack of an effective industrial/export policy, liberal import-policy and free trade agreements, high cost of doing business due to energy crises, narrow base of exports and limited market access, etc.

Pakistan has been running consistent trade deficit since 2003 mainly due to high imports of energy. Since 2012, China has emerged as Pakistan's largest trading partner replacing the United States. In recent years, the biggest trade deficits were recorded with China, India, United Arab Emirates, Saudi Arabia, Kuwait and Malaysia. Pakistan records trade surpluses with the United States, Afghanistan, Germany and United Kingdom.

Presently, the China-Pakistan Economic Corridor (CPEC) is being considered as a game changer, not only for Pakistan and China, but also for the entire region. In fact, this is a planned network of roads, railways and energy projects which is aimed at linking Pakistan's Gwadar port to the China's Xinjiang province, besides helping Pakistan in improving its supply side constraints. For China, this short route can also serve as an alternative to the sea route that passes through the Straits of Malacca. In this regard, both the countries are focusing on enhancing trade interaction with world through this new route.

Pakistan can reduce its overall trade deficit by increasing its agricultural exports to China by focusing on the production of commodities which are in high demand in China such as soybeans, meat and dairy etc. This will enable the country to increase access to Chinese markets, which can now be more easily done due to CPEC. Additionally, it is important that the government encourages Pakistan's private sector to modernize its business processes, invest in research and development, improve human capital, seek international certifications, and meet quality standards as expected by the consumers so as to increase the demand of its exports for China.

Pakistan has a lot of economic potential. The country is located at the crossroads of South Asia, Central Asia, China and the Middle East and is, thus, at the center of a very large regional market with a vast population, diverse resources, and untapped potential for trade. The country's growing working-age population offers the country with a potential demographic dividend but also with the critical challenge to create jobs. It is important to formulate an effective export-oriented strategy that addresses industry's competitiveness issues, encourage value-addition, and diversify markets and products.

OVERVIEW OF PAKISTAN'S EXPORTS PERFORMANCE

Exports are vital component of a country's GDP which have a direct impact on economic growth, creation of employment and balance of payments. Pakistan has always been vulnerable to downfalls in its balance of payments which destabilizes its macroeconomic outlook. The Economist Intelligence Unit has given Pakistan's 'Foreign Trade and Payments Risks' a score of 75 out of 100 (100 = riskiest). In comparison, India has a score of 50 while Bangladesh has a score of 57. There are many examples where countries like China, Malaysia, Bangladesh, India, South Korea, Thailand, Vietnam (and the list goes on and on) have achieved higher level of economic growth and prosperity by pursuing export-led growth strategy. While other nations have formulated target policies to boost and diversify their exports for rapid economic development, Pakistan has lagged far behind in this area.

The importance of export-led growth policies becomes even more imperative for a country like Pakistan, which has been running high current account deficits for decades and is extremely reliant on foreign private and official capital inflows to pay for its import bill and create jobs to absorb millions entering the job market every year. It is for this reason that both the multilateral donors and the SBP have for long been underscoring the need for formulating and implementing clear-cut policies for diversifying and increasing exports.

The SBP has particularly stressed the impact of falling exports on the country's current account in its recent reports. "In order to ensure adequate financing for imports of capital goods and raw material, there is a need to enhance export revenues, which have contracted for the second year in a row." Unless Pakistan significantly boosts its exports, it is headed for a major balance of payments crisis as reducing import bill is near impossible because of highly inelastic composition of imports like fuel, capital goods, etc. It therefore is imperative that it moves to create comfortable surpluses of manufactured goods and value-added products, which would allow it room to address other major issues facing the economy.

According to economic survey of Pakistan 2017-18, Pakistan's exports showed increasing trend and the negative growth is bottoming out as during the FY2017 the exports declined by only 1.76 percent compared to negative growth of 12.2 percent a year early. Exports posted a double digit growth after a long period of seven years, yet exports sector of Pakistan needs to be strengthened as Pakistan's balance of payments remains under stress due to rising imports.

Current exports of Pakistan comprise of a variety of products. Figure shows the export portfolio of Pakistan and each commodity group's share in total exports of Pakistan.

- The most prominent category in Pakistan's exports is textile and clothing, which make up more than half of Pakistan's exports.
- The second largest export category is vegetables, accounting for 14% of Pakistan's exports.
- Food products are the fourth important item in Pakistan's exports, constituting almost 4% of total exports.

Regional Comparison:

Pakistan has been able to more than double its exports, which peaked from $11.93 billion in 2003 to $25.2 billion in 2014 before declining to $22 billion in 2016. Entire growth in exports over these years has been posted in the conventional products and commodities – textiles, rice, leather and leather products, sports goods, surgical instruments, sugar and molasses, fish, and so on and so forth. Pakistan has failed to diversify its exports at all. Nor has it been able to increase the share of value addition to our existing exports. Similarly, the markets where the country's exports are headed every year remain the same. Thus, Pakistan's exports continue to be constrained by lack of diversification of products and markets, as well as lower levels of value-addition. As a consequence, Pakistan's share in the world exports has declined to 1.5 per cent in 2015 from 1.8 per cent in 2003.

Compared with Pakistan, for example, Bangladesh has massively boosted its exports from $6.4 billion in 2003 to $36 billion in 2015. Like our exports, Bangladesh's exports have a very narrow base i.e. mostly textile garments with limited markets. Yet, while Pakistan's textile exports are stagnant at $12-13 billion despite it being the 4th largest producer of cotton, Bangladesh has grown its textile-based exports to more than $33 billion over the years and plans to push them to $50 billion by 2020 to overtake China through massive value-addition. It is in spite that it does not grow cotton at all. China has done so by implementing investment and industrial policies and setting definitive targets for themselves. Indeed, the concessional duties offered by the European Union and the United States for Bangladesh's textiles and government subsidies have helped its textile makers grow their exports much faster than Pakistan, the level of value addition its industry has achieved is a major contributor to the export growth. India also has achieved remarkable export growth over the same period, growing its exports from $59.30 billion to a whopping $264 billion. Also, Indian exports are more diversified and carry higher levels of value addition.

- **Why Pakistan failed to grow its exports?**

There are many reasons for the recent declining trend in the export sector. Broadly, the factors responsible for the lackluster performance of the export sector include: lack of an effective industrial/export policy, liberal import policy and free trade agreements, high cost of doing business, narrow base of exports and limited market access, etc.

1) **Lack of Effective Industrial Policy:** Prolonged stagnation in the manufacturing sector, and a consistent decline in investment in Greenfield projects, capacity expansion and technology replacement have led many to conclude that Pakistan could be on the verge of 'premature de-industrialization'. Manufacturing — especially Large Scale Manufacturing (LSM) that constitutes almost 80 per cent of the manufacturing sector output and contributes 11.7 per cent to GDP, which plays a crucial role in the economic growth of a country by helping it absorb most of the urban labour and again higher income levels, has been in trouble for a long time. The country's decision to abandon its proactive industrial policy around 1990 and start a process of trade and economic liberalization at the behest of international financial institutions is a major reason for this state of affairs.
2) **Impact of Trade Liberalization and Free Trade Agreements:** Pakistan's decision to liberalize its international trade regime without encouraging export-oriented manufacturing is another reason for declining export performance. By abandoning active industrial policy, Pakistan seems to have lost the benefits of an economic focus on the development of the manufacturing sector and its lackadaisical attempts at trade liberalization were not enough to start the process of export-oriented manufacturing and economic growth. In fact, Pakistan is fast turning into a consumer economy. The conclusion of Free Trade Agreements (FTAs) with its trading partners has not so far helped it attract investments in export-oriented industries, diversify exports and create jobs. Actually, the FTAs have heavily subsidized imports from countries like China and export jobs. With the influx of cheaper goods from China and elsewhere no new investment is taking place. Local manufacturers aren't only facing intense competition in export markets, but also losing their domestic market because of non competitiveness.
3) **Cost of doing business:** The consistent erosion in the country's exports is a major indicator of decreasing competitiveness because of rising cost of doing business, primarily on account of energy shortages and high prices, especially in Punjab. While the government has reduced energy shortages for the industry in the last three years by inducing Liquefied natural gas (LNG) into the system of gas companies, the costs remain way higher than the regional average. The industry in Pakistan, especially in Punjab where the export-oriented industry is using expensive LNG, is paying over \$0.11 per unit of electricity compared with \$0.085 in China, \$0.07 in Vietnam and \$0.09 in India. Low labour productivity and efficiency and difficulties in starting a business further add to the cost of doing business. A Pakistan Business Council (PBC) study shows that the cost disparity between Pakistan and Bangladesh is 1.3 to 2.7 times, yet Pakistan is losing its garments markets to Bangladeshi and Vietnamese companies.
4) **Narrow export base, low value-addition and limited markets:** Pakistan's exports continue to revolve mostly around a single crop – cotton (as textiles constitute 55 percent of the nation's total exports), low value-added merchandise like leather and agriculture commodities like rice. Little effort has been made to diversify exports to meet the changing global economy and consumer demand and trends. Narrow export base means our exporters will be constrained to sell their goods in the same traditional markets with demand for those products and quality. Thus, Europe, America and, in the recent years, China remain Pakistan's major markets with chunk of exports destined for these destinations. The increase in product base would help in bring down the product concentration index. To capture a large share in the world trade, Pakistan has to make a strategic shift in the composition of its exports and encourage value-addition for better prices and for capturing greater share even in the existing markets.

ANALYSIS OF EXISTING TRADE SITUATION BETWEEN PAKISTAN-CHINA

Since the establishment of diplomatic ties between the two countries in 1951, Pakistan and China have developed immense reservoir of goodwill and soft power. The period between 1957 and 1969 saw a very important phase in the history of the Sino-Pakistani relations. During this period, historical changes took place in the bilateral relations, and the change of Pakistan from being hostile towards friendly with China opened a new chapter in the Sino-Pakistani relations.

Trade relations between Pakistan and China on the trade front improved when Pakistan accorded the Most Favored Nation (MFN) status to China in 1963 through a bilateral trade agreement. Chinese products imported in Pakistan. In January 1963, first trade agreement was also signed. In October 1982, a joint committee for economic, trade and scientific and technological co-operation was established. On February 13, 1989, the two countries signed bilateral investment protection agreement. Since then, both countries have closely collaborated to deepen economic and trade relations.

Bilateral trade between Pakistan and China reached to US $18.95 billion in 2015 (as per China's available statistics); Pakistan's exports to China were US $2.47 billion and imports from China were US $16.48 billion. Pakistan and China both signed Free Trade Agreement (FTA) in 2007. Before implementation of FTA, the trade volume was $4.1 billion. Pakistan's imports from China were US $3.53 billion, while Pakistan's exports to China were only US $575 million in the pre-FTA era. The Sino-Pakistan volume of trade, which was around US$ 4 billion in the year 2006-07, reached an all-time high of US$ 15.60 billion in 2016-17 showing an increase of 290 percent. Pakistan's exports have jumped to US$ 1.46 billion in 2016-17 from US$ 575 million in 2006-07.

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- **Major Agri Imports of China from World:**

China's import of major agricultural products continued to increase fast during Jan-June 2017, driven by price gaps between domestically produced products and imported products and the United States has become the leading supplier of these imports. Though China's import policies vary depending on the commodity (and show a marked preference for prioritizing self-sufficiency in cereal grains), it has been increasingly importing oilseeds, oils, cotton, grains, meat and dairy, and processed foods.. Imports of soybeans increased by nearly 20 percent to 37 million tons compared with the same period last year. The prices of many agricultural products produced in China are higher than the international level due to higher production costs. An exception is corn, whose average wholesale price was 1.58 yuan (23 cents) per kilogram in the first part of the year, similar to the international level

List of major chinas's import of agricultural products is as follows;

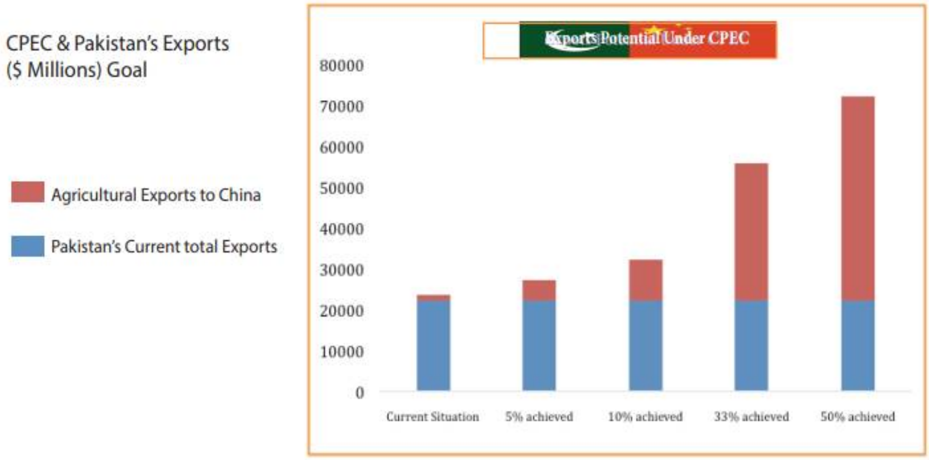
- Soybeans and oilseeds
- Fats and oils
- Cotton, wool, fibers
- Hides, skins, furs
- Meat and dairy
- Grains and feeds
- Fruits, vegetables, nuts
- sugar

- **Major Agri Imports of China from Pakistan:**

China is ranked as the second largest export destination of Pakistan with a share of 7.7 percent in

Pakistan's total exports, after the United States. China is also ranked as one of the largest buyers of Pakistani rice. In fact, the dramatic increase in China's rice imports in 2012, which was driven by strong domestic demand and low international prices, paved the way for Pakistani rice to enter Chinese markets – share of Pakistani rice in China's imports jumped from 1.3 percent in 2011 to 24.4 percent in 2012, surpassing Thailand's exports of rice to China.

Currently, Pakistan is exporting only $ 1.46 Billion worth of agricultural products to China, which represents 1.457% of China's total agricultural imports, while Pakistan's total exports of all commodities stand at around US$ 22 Billion. The figure shows the impact of gradually increasing Pakistan's share in China's market for agricultural imports, from the current 1.457% to 5, 10, 33, and 50 percent respectively. For example, other exports remaining constant, a 33% share of Pakistan in China's agricultural imports can push the country's total exports to almost US$ 60 Billion.



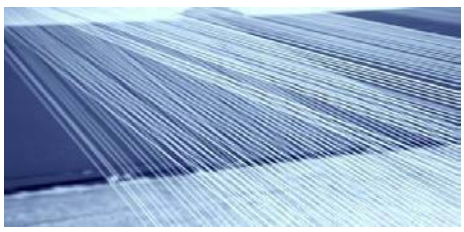
- **Major Agri Imports of Pakistan from China**

China now occupies the largest share in Pakistan's total imports (i.e. 29 percent), followed by the UAE (13 percent). These imports mainly include electrical equipment, high-tech machinery, nuclear reactors, iron & steel, organic chemicals, manmade filaments, etc. More than half of Pakistan's imports of electrical equipment and machinery come from China.

Pakistan's major agri imports from China includes

- Agri machinery and equipment
- Organic chemicals
- Synthetic fibers
- Fertilizer

A more lucid picture of these top import items from China may more aptly be captured when looked at the HS-2 import level data, as a substantial rise was exhibited in these products after signing of FTA in 2007. China and Pakistan announced the launch of negotiations on free trade in 2005. The Free Trade Agreement (FTA) was formalized in November 2006 and came into effect in July 2007. Free trade agreement greatly reduced the tariff and non-tariff barriers between the two countries to promote bilateral trade. After the implementation of the China Pakistan FTA, bilateral trade between China and Pakistan increased from US $4.78 billion (2007) to US $12.95 billion (2015), but the trade deficit with China also increased from US $3.55 billion (2007) to US $9.08 billion (2015), an increase of 156%.



As against imports, Pakistan's exports to China could not gain adequately from tariff concessions under the agreement. Although, the exports exhibited a significant growth, its volume remained small. Following are the key reasons behind the low exports value: a) Pakistan's potential export areas remain limited since China outpaced Pakistan in almost all of its major producing sectors. For instance, textile industry is the main pillar of Pakistan's exports. Since China itself is a major textile manufacturer, the trade volume could not be raised adequately; although Pakistan has been exporting low value-added products to China. b) The country's export potential remained unutilized due to pursuance of non-innovative export approach by the local business community; this includes inadequate efforts to diversify export base and exploring new opportunities for products in the Chinese market. c) Pakistan's margin of preference eroded due to China's FTA with other countries, especially with ASEAN members.4 d) The slowdown in Chinese economy has lowered the demand for raw material/intermediate goods from countries like Pakistan.

PROPOSED STRATEGY TO ENHANCE AGRI EXPORTS OF PAKISTAN

Pakistan is an agro based economy. Agriculture sector plays a vital role in total exports of the country. Share of Agri sector's exports in GDP is around - % To deal with fragile balance of payments position on a sustainable basis, develop capacity to absorb exogenous price shocks like sudden increase in essential imports as oil, create jobs and reduce its reliance on foreign debt, Pakistan must increase its exports.

Pakistan can reduce its overall trade deficit by increasing its agricultural exports to China by focusing on the production of commodities which are in high demand in China such as soybeans, meat and dairy etc. This will enable the country to increase access to Chinese markets, which can now be more easily done due to CPEC. Additionally, it is important that the government encourages Pakistan's private sector to modernize its business processes, invest in research and development, improve human capital, seek international certifications, and meet quality standards as expected by the consumers so as to increase the demand of its exports for China.

Pakistan has a lot of economic potential. The country is located at the crossroads of South Asia, Central Asia, China and the Middle East and is, thus, at the center of a very large regional market with a vast population, diverse resources, and untapped potential for trade. The country's growing working-age population offers the country with a potential demographic dividend but also with the critical challenge to create jobs. It is important to formulate an effective export-oriented strategy that addresses industry's competitiveness issues, encourage value-addition, and diversify markets and products.

Strengthening Import Policy between Pakistan & China:

No export strategy can succeed without dovetailing import policy into it. An export policy looking in one direction and an import policy into another will keep working at cross purposes and pulling each other down. By making its import policies subservient to its export strategy, for example, Bangladesh has successfully created a vibrant, export-oriented garment sector and millions of jobs although it does not grow cotton. Similarly, Malaysia, Vietnam and Thailand have two-fifth of their exports based on imported raw materials. In contrast, the import content used in exports is less than 10 per cent in case of Pakistan. There is a need to review FTAs signed with China. The primary objective of any such bilateral agreement should be to create jobs at home, encourage value-addition, boost industrial output, and enhance export. In Pakistan's case, however, such agreements have proven detrimental for the domestic industry and tax revenues and failed to increase exports. Such arrangement with China has resulted in an influx of cheap imports at the cost of local industry's competitiveness and jobs, and caused a major dent into the government tax revenues. On the other hand Pakistan has not been able to increase its exports to China because Beijing now offers more concessional access to countries like Thailand than it does to Pakistan.

Exploring the Untapped Trade Potential:

Apparently, the low volume of bilateral trade between Pakistan and China indicates the existence of huge untapped trade potential in both countries. The establishment of Special Economic Zones under the CPEC arrangements are expected to provide tremendous opportunities to develop and upgrade Pakistan's SME sectors, which have high export potential, such as, agriculture, food processing, marble & mining, light engineering, textile, garments & made-ups, and logistics sector. Moreover, the continued restructuring in Chinese economy opens opportunities for countries like Pakistan, as there is possibility of relocation of Chinese low value added industries to other regional countries where business with competitive edge can be established.

1) Price Comparison of Pak-China Imports & Exports:

HS Code	Product	Unit	Pak. Export Price per unit ($)	Pak. Total Export Value of Product($)	Pak. - Major Export Countries	China Import Price per unit ($)	China - Major Import Countries	China's Total Import value of the product($)
03033900	Fish, frozen, excluding fish fillets	Kilogram (Kg)	2.23	124 million	Vietnam, Thailand, China	1.39	USA, Russia, Canada	177 million
04012000	Milk and Cream of a fat content by weight >1% but <= 6%	Kilogram (Kg)	1.18	34 million	Afghanistan, UAE, Mozambique	0.85	Germany, New Zealand, Australia	308 million
22071000	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 % vol or higher	Litre	0.56	231 million	China, Korea, Netherlands	0.57	Pakistan, Vietnam	122 million
08045020	Mangoes	Tons	726	40 million	UAE, UK, Oman	2980	Australia, Peru, Thailand	30 million
19053100	Sweet Biscuits	Kilogram (Kg)	2	17 million	Afghanistan, UAE, Mauritius	4.6	Indonesia, Denmark, Malaysia	305 million
17019910	White crystalline cane sugar (Granulated sugar)	Kilogram (Kg)	0.44	230 million	Afghanistan, Djibouti, Saudi Arabia	0.44	Korea, Thailand, Guatemala	301 million
02023000	Frozen boneless bovibne meat	Kilogram (KG)	3.48	26 million	vietnam UAE, Saudi arabia	5.42	Austrialia Uruguay Brazil	1.99 Billion

The following table illustrates the per unit price comparison between Pakistan's exports and China's imports;

From the table above export potential can be analyzed by looking into price gap. For example, the stark difference in price of $1.94 per kilogram makes China a potential market for Pakistan to export FBBM, however, the problem lie in the quality of meat and China's strict regulatory requirements. Conforming to a multitude of regulations in the complex regulatory framework of China is a major challenge for meat exporters in Pakistan.

According to the Economic Survey of Pakistan, bovine (cow and buffalo) meat production was 2 million tones in 2015-16. Pakistan exports approximately 7,465 tonnes of Frozen Boneless Bovine Meat (FBBM) to Vietnam, UAE, Saudi Arabia and other countries with a total value of $26 million. The average price of FBBM exported from Pakistan to all the countries in the world is approximately $3.48 per kilogram. Pakistan does not export FBBM to China which has a huge demand for FBBM. In 2015, China imported FBBM worth $1.99Billion, a total of 472,209 tonnes.

Learning from best practices: Brazil has emerged as the second largest exporter of FBBM in the world after India. In 2015, Brazil exported FBBM worth $3.95 billion. The Brazilian government and its meat processing industry have collaborated in creating a conducive environment to expand its meat industry and has become a world leader in FBBM. Meat export is also a value-chain (production, processing and marketing) activity, similar to most exports. Thus, focus on all three areas is necessary to boost exports.

Pakistan has enormous potential to export FBBM, however, it is necessary to ensure quality in the local market and then extend the effort to the foreign market. By introducing quality products in the domestic market, Pakistan can test and improve its supply chain and also win confidence of Chinese importers. Once hygienic and international standardized compliance requirements are met, only then the local supply chain will be able to respond to Chinese demands.

2) Export Potential for Halal Food

Halal food is one of the fastest growing markets in the world with a share of more than 15 percent in the world trade. Within halal food, halal meat is a prominent item which makes up a whole industry in itself. This niche is not limited to the processed meat only but its byproduct also makes up around 26 various other industries operating under it; including bone crushing, casings, sausages, leather, gelatin and other associated industries.

The main demand for halal meat is driven by the Muslim countries like Middle East region including U.A.E and Egypt. The size of the market is estimated to be around $300 billion, share of Pakistan is only $163 million or 5.70 percent. The shares of global halal meat of Brazil, India and Australia are 54 percent, 11 percent and 9.0 percent, respectively. Pakistan has a negligible share in the world trade despite being one of the largest Muslim countries and enormous potential to produce and export halal food, including meat and poultry products. Pakistan has great potential to increase its exports of Halal food and agri-products. If encouraged, Pakistani companies dealing in poultry and poultry products alone can boost their exports to $8-10 billion. In order to encourage poultry exports, the government should help the industry bring down the cost of its locally produced poultry and its products to allow it compete in the international markets.

Pakistan's neighboring Muslim countries like Saudi Arabia, UAE, Kuwait, Oman, Qatar, Bahrain, Iran and Afghanistan are dependent on imported halal meat and beef. Moreover, in addition to 2 billion Muslim population of the world, 500 million non-Muslims also use halal products which create huge global market of consumers of this sector.

Pakistan is currently in the list of top 5 countries for livestock production; however it is unable to break into top ten for meat exporters. The Muslim population is globally on an increase and also is showing increase in Europe and North America. The increase in Europe and North America means having access to highly profitable markets.

During the fiscal year 2017, growth in Pakistan's meat exports has originated mainly from larger shipments to four out of six GCC (Gulf Cooperation Counci) nations, i.e Bahrain, Kuwait, Oman and the United Arab Emirates, and some others including Afghanistan, China, Hong Kong and Vietnam.

Exports to two other GCC states, Saudi Arabia and Qatar, have seen a decline as meat imports in Saudi Arabia from the United States, New Zealand and Australia have grown, and Qatar is importing more meat from Turkey.

Saudi Arabia and Qatar have also upgraded their local meat processing and continue to import Australian cows and sheep for slaughtering and processing at home

Halal Certification: a recent surge in demand for halal meat has been observed in Non - Muslim countries as well which includes Germany, United Kingdom and France where Muslims are considered to be an important minority. To satisfy their native Muslim consumers along with meeting strict halal import regulations from Muslim countries; halal certification plays an important role. According to the estimates, there are currently 122 certification bodies actively working in the halal markets of the world containing local government departments that regulate halal certification in their countries like Philippines, Thailand, Malaysia, Singapore and Indonesia. The certification is being provided for slaughterhouses and food including both processed and raw. These companies use halal logos on their items marketed in the stores which greatly help them in satisfying their Muslim consumers.

The certifications that are renowned for halal food from various countries include JAKIM (Malaysia), MUI (Indonesia), SMIIC (OIC), GSO (GCC), ESMA (UAE), IFANCA (USA), HFA (UK) and SGS Pakistan.

Issues faced by Halal Meat Industry in Pakistan:

1. **Informal Practice prevails in Meat Industry:** The meat industry is working on an informal basis in Pakistan where whole supply chain; from animal nurturing to meat selling, is being operated without any documentation. The animal purchasing is mostly being made from the rural areas from where traders buy the animals and sell them in city markets. The butchers then get these animals on cheaper rates without testing them for diseases/disabilities and slaughter them. As the slaughtering is not being done in a hygienic manner; it creates problem in meat supply on both national and international levels.
2. **Absence of Local Halal Accreditation body in Pakistan:** The foremost challenge faced by the halal meat industry is that of halal standards which create confusion as number of private halal certifying bodies and government organizations exist in the global market. Pakistani market players tend to struggle in obtaining these halal certifications of each market making it difficult to operate in international markets.
3. **Establishment of Halal Processing Zones:** Halal processing zone has also been established in Faisalabad which would offer investors tax holiday of 10 years and tariffs relaxation on importing plant, machinery and equipment. A similar processing zone needs to be set up in other areas also; particularly in Karachi, which has an added advantage of exporting halal food items being the port city of Pakistan
4. Major problem lies in setting up appropriate halal standards which are acceptable in all the halal import markets particularly Saudi Arabia and Middle Eastern countries.

Proposed Strategies to Increase Export of Halal Meat:

1. Pakistan should effectively capitalize on the widespread global demand. The country should approach new markets for attaining high profit margins like Turkey as its meat consumption is expected to show strong demand in the near future due to the large influx of Syrian refugees. Similarly, Chinese markets can also be explored for attracting customers.
2. Moreover, under “Halal Products”, Pakistan is mainly operating in the raw meat industry and even in that segment; its share has remained insignificant. There are many other segments of halal food which offers lucrative returns like processed food products, value added meat products and beverages which can be taken into consideration for investment and diversification strategy.
3. Pakistan can increase its share if halal meat and beef is exported rather than exporting live animals. Pakistan has a natural base for producing halal products and this unique characteristic should be aggressively marketed to earn appropriate share.
4. In addition to 5 exports oriented sectors which have been declared zero-rated, the food sector should also be awarded the same status. This step will encourage the exports of agri-produce and eventually our farmers will be able to fetch better prices. Export of halal meat may be encouraged by giving interest free loans for setting up modern slaughter houses in the country.
5. India is the largest beef exporter in the world mainly due to the fact that it offers lower price in comparison to its competitors like Brazil. Furthermore, its proximity to China also helped in enhancing its export volume. However, as India exports “Carabeef” which is actually a buffalo meat, Pakistan can beat the competition by exporting high quality cow meat which is better in taste and is in great demand.
6. Establishment of halal industrial zone is another healthy step towards developing this sector which would encourage further investment in the country.

3) Agri Exports Prospects Along CPEC:

Agriculture sector forms an important theme of CPEC whereby an effective cooperation strategy between Pakistan and China can prove to be greatly beneficial for both countries. In order to increase agricultural exports to China, there should be an improvement in the agricultural methods and technology being used in Pakistan for the production of various crops. CPEC provides a huge opportunity to Pakistan to learn Chinese agricultural practices.

- Necessary steps should be taken to **meet international standards**. For example improvement in the production methods, grain growing and harvesting techniques, livestock feeding, slaughtering and milking technique, improvement in the transportation and storage methods, transportation time, artisanal technique and sanitation of storage facilities, access to compliance resources, assistance by technical experts, information resources and laboratory and quarantine stations, access to international negotiations, establishment of inquiry points and contact points in WTO to promote participation of Pakistan in multilateral negotiations, balanced development of centralized quality control system and competitive market system for export
- Promote **adoption and application of Chinese farming practices and technology** to increase domestic yield and output of most crops significantly, which can then be exported to China for improvement in the balance of payments.
- Ministry of Food and Agriculture Islamabad may be requested to seek technical advice to **minimize the Technical Barriers to Trade (TBT)** through consultation with China's Ministry of Agriculture, to increase production, yield and exports as well of the major crops of Pakistan.
- The **availability of innovative farm machinery** should be ensured, by import without duty from China and other countries. The resulting increase in the use of modern technology in domestic farms will save time and cost of domestic producers. For example, by using rice harvesters, silo technology, rice growers, cotton pickers, combine harvesters etc. a huge amount of resources can be saved and the usage of arable land can be increased. The use of this technology will cause a positive socioeconomic and critical mass effect in agricultural communities.
- The **transfer of know-how and skills from the Chinese manufacturers of renewable energy** to the local producers can be achieved through creating links and promoting cooperation of the highest degree. The government should ensure incorporating training programmes by the Chinese for the local manufacturers, through mutual negotiations, to enhance local capacities. Encouraging participation of the local workforce in the renewable energy projects is likely to enhance their knowledge, and result in transfer of know-how in the medium-term and long-term.
- **Awareness programs** about China's practices including **trainings sessions** for proper harvesting techniques and methods may be conducted. This will increase the profitability and responsiveness of growers and eliminate the social and cultural differences. Chinese trainers may train Pakistani farmers in line with the latest techniques and methodologies being practiced in China.
- **Dairy practices may be strengthened**, meat based products sector due to their high profitability and export potential, to encourage private sector involvement in these sectors. China is facing deficits in the domestic production and consumption of dairy and meat products, which provides an opportunity for Pakistan to take a huge share in the Chinese markets by introducing HACCP and SPS standards based value added dairy and meat products. The government should establish an independent Milk Board with representation from all sectors of the dairy industry which would design and execute an export policy throughout the dairy sector.
- There is potential for **partnership for promotion of technology between Pakistan and China**. Some of these areas include water resources and water saving techniques, crop seed reproduction, breeding and production technology, agricultural products processing, animal & plant epidemic prevention & control, mechanization demonstration, ICT-enabled agriculture and remote sensing technologies, post-harvest agricultural practices, including storage, transportation and agricultural processing. In order to benefit from China in these areas and others, Agriculture Department may develop a technology partnership program, whereby modern agricultural demonstration zones can be established and individual enterprises and farmers can be supported. However, in order to further develop this thread, the Department must arrange a few stakeholder exposure visits to Xinjiang Production and Construction Corps (XPCC), where these areas can be studied further.
- Food processing sector can be improved by focusing on Processed Meat Dairy Products, Juices & Beverages, Fruit & Vegetable Processing, Bakery & Confectionery, Spices Processing & Packaging, Cereals based processed foods

- One of the most import objectives of CPEC is to increase foreign capital inflows. However, as far as foreign investment is concerned, there is no clear labor policy for the protection of domestic labor. There are no standard requirements allowing Chinese companies to use Chinese or Pakistani labour. There should be clear policy guidelines with regard to the protection of rights of the labor employed by fore ign investors.

Various agricultural projects have already been initiated to get maximum benefit of CPEC, which include:

- **Setting up of a fruit processing industry in Gilgit-Baltistan:** The climatic conditions and fertile soil of Gilgit-Baltistan offers ideal environment for the production of highly nutritious and tasty fruits, like apples, peach, cherries, almonds, apricot, etc. According to an article published by the Asian Development Bank, farmers in Gilgit-Baltistan produce over 100,000 metric tons of fresh apricots a year.
- Setting up of the fruit processing industry in the region would help boost the country's fruit exports.
- **Setting-up of 'Sino-Pakistan Hybrid Rice Research Center' at Karachi University:** Both the countries have recently initiated collaborative research for producing high yielding and high quality rice varieties. Setting up of the rice research centre is a right step towards achieving the objective.
- **Setting up of meat production & processing facilities in KP:** Setting up of meat production and processing facilities in KP would help increase Pakistan's meat exports to China, as well as, to Afghanistan and Central Asian market.

4) Strategies for Increasing quantity and quality of exportable agricultural produce:

- A concrete **value chain** system helps to boost production and profitability. There is a dire need to improve existing agro-processing firms to enable them to undertake higher value addition in locally produced commodities. Pakistan's agro-processing industry reveals that lack of finances coupled with poor technology is curtailing full utilization of agro-processing potential. The existing structural inefficiencies in processing industries with respect to the functioning of value chains need to be eliminated, especially in the ancillary sectors of agri-business such as packaging, labeling branding, and marketing.
- **Warehouse financing** should be promoted.
- Establishment of **cool chain facilities** and Value Added Processing Facilities
- **Cost of doing business** should be minimized. Seeds, fertilizer, pesticides are non-water agricultural inputs which significantly increase crop production and water-use efficiency should be provided at low costs and at the right time to ensure agricultural productivity and performance.
- For agriculture sector, the **hybrid seeds** are mostly imported from other countries. Maximum facilities and incentives should be given to local hybrid seed producers so that they could be able to contribute more. Likewise, the government should encourage them to expand their production capacity to be able to export hybrid seeds. These efforts will also play important role in giving boost to agri-produce and job creation.
- The current **policies of taxes and duties** put a huge part of the overall burden on small farmers. Better policies like the exemption of customs duty and sales tax on machinery to boost value addition and export of commodities need to be designed and implemented.
- The **post-harvest practices** require improvement in terms of the use of resources for research and development, particularly to reduce the level of post-harvest losses. These losses are attributed to a combination of factors during production and post-production operations. In case of fruits and vegetables, the range of post-harvest loss is between 30-35%. To eliminate these losses, government should encourage farmers to adopt modern techniques.

- Fog harvesting techniques should be promoted for alternative source of fresh water in dry regions.
- Agricultural information is a power which gives proper direction to the producers by providing a framework to identify the strengths and weaknesses of the current systems and improve their performance accordingly. A timely dissemination of support price and storage targets from the Govt. agencies can help producers to capture maximum financial benefit from this information.
- The allocated funds on Research and Development should be disbursed after discussions with the relevant stakeholders through a Joint Coordination Committee (JCC) comprising of leading agricultural businessmen, farmers and small landholders' representatives, academic researchers, and banking sector. The JCC should monitor and share the performance with the concerned authorities to ensure optimal and clean transfer of allocated funds, keeping in view the potential for agricultural development under CPEC. The JCC will also address structural challenges and play role as a facilitator and a developmental partner for other research institutions (UAF, AARI, NIAB, NIBGE, NARC, PARB, etc.) to accelerate the development of agriculture in Pakistan.

PROPOSED ROLE OF ZTBL FOR STRENGTHENING AGRI TRADE OF PAKISTAN-CHINA

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.
- Financing against Digitalized/E-Pass Book.
- 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.

CONCLUSION

The level of efficiency and technological advancement varies between both Pakistan and China. Pakistan, therefore, needs to develop a strategy to attract Chinese investment for the development of local industry, particularly SMEs. To reap long-term economic benefits, both countries should avoid industrial competition and rather focus on developing complementarities. Through establishing enterprises, contracting projects and technology transfer China can support Pakistan to develop its comparatively advantageous industries, especially agriculture.

China has the world's largest and most highly concentrated supplier base, a massive manufacturing workforce, and a modern logistics infrastructure. These advantages give Chinese manufacturers a lead in some important knowledgebase manufacturing categories, such as electrical equipment, construction equipment, and solar panels. Pakistan can gain advantage by transfer of this knowledgebase through CPEC.

Moreover by adopting strategic measures Pakistan can not only increase its exports to China and other countries as well but can also decrease its imports by educating and training labor about international standards and increasing technology potential of the country.

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