

Government of Pakistan  
Ministry of Commerce  
National Tariff Commission



**Study**  
**on**  
**Reasons of Decline in Exports of**  
**Pakistan**

September 30, 2015

## **Study on**

### **Reasons of Decline in Exports of Pakistan**

#### **Introduction**

1.1 A detailed presentation was given to the Minister for Commerce on the enhanced functions of National Tariff Commission (NTC) under the new National Tariff Commission Ordinance, 2015 (now NTC Act, 2015) and reforms in NTC along with an update on its working on June 24, 2015 in the NTC. The Minister for Commerce desired that a study may be conducted by the NTC to ascertain the reasons of decline in Pakistan's exports. National Tariff Commission has accordingly carried out this study to find out the major reasons of decline in exports.

1.2 The government of Pakistan has taken a number of measures to increase exports which, *inter-alia*, include providing raw materials to export industries at zero tariffs (world prices), sharing inland freight with exporters, providing cheap running finance through export refinance schemes and exemption from all taxes and duties to exporters located in export processing zones, providing market access through Free Trade Agreements (FTAs), Preferential Trade Agreements (PTAs), Generalized System of Preference (GSP), giving a long term trade policy (STPF 2009-12 and STPF 2012-15) etc. It was expected that the exports would increase due to the above mentioned measures.

#### **2. Export Performance of Pakistan**

2.1 An analysis of Pakistan's export performance during last five years show that its exports achieved its highest level in 2010-11 when the exports were US\$25.35billion and since then it were hovering around US\$25 billion. Pakistan's exports reveal that its base is quite narrow, highly concentrated in a few commodities namely, textile and clothing, leather, rice, chemicals, pharmaceuticals, and sports goods. These six categories of exports accounted for about 70 percent of total exports during 2013-14 with cotton manufactures alone contributing 53.49 percent.

2.2 Similarly Pakistan's export destinations during last five years were also limited, heavily concentrated among a few major trading partners, i.e EU-27 (top destination for Pakistan's exports having share of 24 percent), USA (second-largest market having share of 15 percent), China increased sharply from only US\$ 305 million to US\$ 2.25 billion over the period 2000-01 to 2013-14 as a result of the Free Trade Agreement that

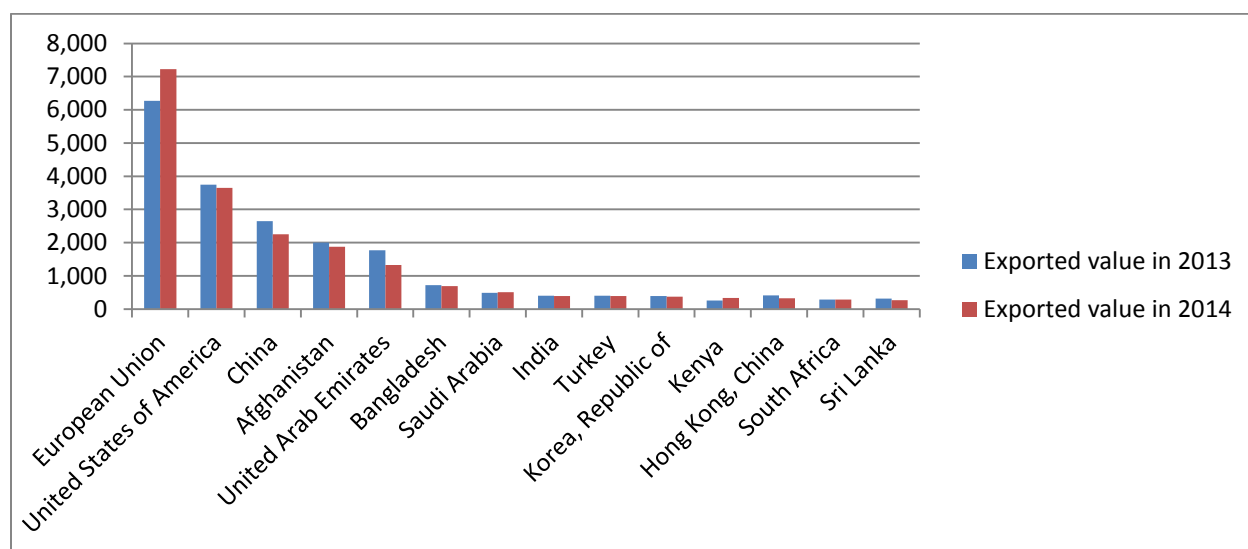
was signed between the two countries in 2005-06. China's share in total exports has gradually picked up from 4 percent in 2008-09 to 10 percent during 2013-14. Summary of Pakistan's export commodities is at Annex-I. Major exports commodities and destinations of Pakistan's regional competitors are at Annex-II.

2.3 However, Pakistan's exports to major destinations have decreased in FY 2014 as compared to previous financial year as under:

**Table-I**  
**Major Export Destinations of Pakistan**  
(USD million)

<b>Export Destinations</b>	<b>Exported value in FY 2013</b>	<b>Exported value in FY 2014</b>	<b>%age Increase/ Decrease</b>
European Union	6,273	7,224	15.16
United States of America	3,746	3,647	-2.64
China	2,652	2,253	-15.05
Afghanistan	1,998	1,879	-5.96
United Arab Emirates	1,775	1,324	-25.41
Bangladesh	718	688	-4.18
Saudi Arabia	494	510	3.24
India	403	392	-2.73
Turkey	407	391	-3.93
Korea, Republic of	397	378	-4.78
Kenya	258	333	29.07
Hong Kong, China	408	328	-19.61
South Africa	289	290	0.35
Sri Lanka	316	266	-15.82
Others	4,326	5,207	20.37
<b>Total Exports</b>	<b>24,460</b>	<b>25,110</b>	<b>2.66</b>

Source: Trade Development Authority of Pakistan



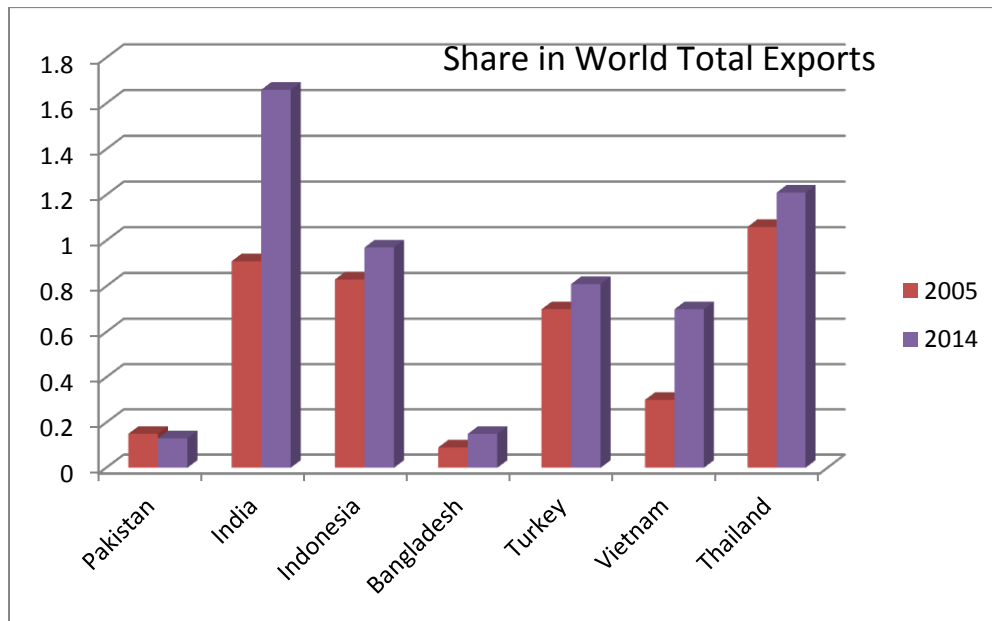
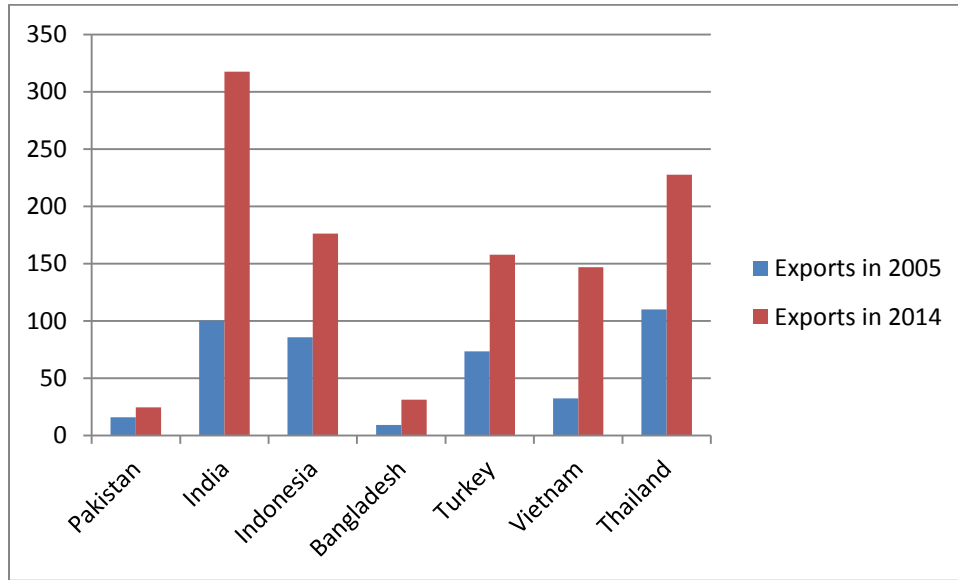
2.4 A comparison of Pakistan export performance with its regional counterpart countries during last ten years is given in the following table:

**Table-II**  
**Exports Performance of Pakistan and other Region Countries**

(USD in Billion)

Years/	Pakistan	India	Indonesia	Bangladesh	Turkey	Vietnam	Thailand
<b>Share in Global Exports 2005</b>	0.15	0.91	0.83	0.09	0.70	0.30	1.06
2005	16.05	100.35	85.66	9.33	73.48	32.45	110.11
2006	16.93	121.20	100.80	11.70	85.53	39.83	130.58
2007	17.84	145.90	114.10	13.14	107.27	48.56	153.57
2008	20.28	181.86	137.02	15.56	132.01	62.69	175.91
2009	17.55	176.76	116.51	19.23	102.14	57.09	152.50
2010	21.41	220.41	157.78	22.93	113.98	72.24	195.31
2011	25.35	301.48	203.50	24.30	134.92	96.91	228.82
2012	24.61	289.56	190.03	28.62	152.54	114.53	229.54
2013	25.12	336.61	182.55	30.10	151.80	132.03	228.53
2014	24.71	317.54	176.29	31.19	157.71	147.00	227.57
<b>Share in Global Exports 2014</b>	0.13	1.66	0.97	0.15	0.81	0.70	1.21

Source: Trademap, WTO



2.5 The above table shows that Pakistan’s exports during last ten years have increased from US\$ 16.05 billion in 2005 to US\$ 24.71 billion in 2014, an increase of 54 percent. Whereas, the exports of India increased from US\$ 100.35 billion to USD 317.54 billion, an increase of 216 percent during the same period. Similarly exports of Indonesia increased by 106 percent, Bangladesh by 233 percent, Turkey by 115 percent, Vietnam by 353 percent and Thailand by 107 percent during the last ten years. However, Pakistan’s share in global exports have reduced from 0.15 percent in 2005 to 0.13 percent in 2014. The share of Pakistan’s exports in total world exports is 0.13 percent in 2014 which is also very low as compared to other regional countries e.g.

India's share is 1.66 percent, Indonesia's share is 0.97 percent and Turkey's share is 0.81 percent.

2.6 Pakistan's exports growth was lowest as compared to its regional counterparts, as there was phenomenal growth in the exports of other regional countries, whereas Pakistan could not achieve the same pace in its exports growth.

### **3. Reasons of decline in Pakistan's exports**

3.1 Pakistan's economy is faced with a number of challenges during the period from 2005 to 2015 including low GDP growth, energy crisis, war on terror, high budget deficit, narrow industrial base etc. There are a number of factors other than exchange rate<sup>1</sup> that affect exports of a country, which can be classified as non-quantifiable factors and quantifiable factors and, *inter alia*, include the following:

#### **S.No. Non-Quantifiable Factors**

- i. High cost of doing business
- ii. Lack of Export Products and Markets Diversification
- iii. Liquidity problem due to pending export refunds
- iv. Non-compliance of quality standards
- v. Poor Market Access
- vi. Poor trade facilitation
- vii. Law and order, war on terror and political instability
- viii. Decreasing commodity prices
- ix. Low level of technological advancement and research and development
- x. Less Educated and low skills labour

#### **Quantifiable Factors**

- i. Gross Domestic Product (GDP)
- ii. Foreign Direct Investment
- iii. Interest rate
- iv. Inflation
- v. Saving rate
- vi. Average applied tariff rate

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<sup>1</sup> The NTC has simultaneously conducted a separate study on Impact of Exchange Rate on Exports, which is also submitted to the Minister for Commerce.

**Non-Quantifiable Factors:**

**3.2 High Cost of Doing Business**

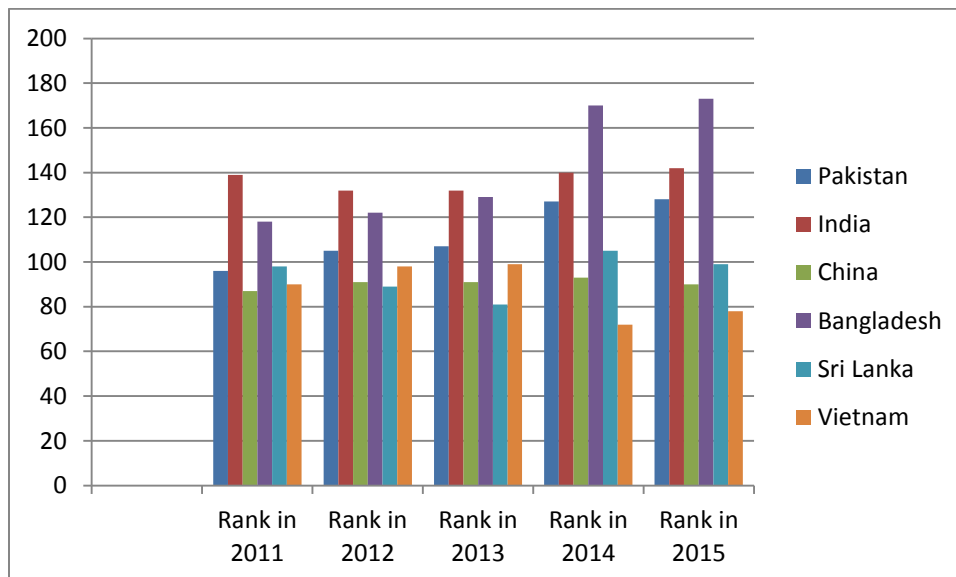
3.2.1 High cost of doing business is one of the major factors which made Pakistani exports un-competitive in world markets. Due to inefficient and unfriendly socio-economic environment, the cost of operating a business in Pakistan is considerably high. The main factors of high cost of business in Pakistan are cost of raw material, utilities and cost of finance, lack of human resource (mainly unskilled labor), technology, infrastructure and supporting institutions. The cost competitiveness of business units in Pakistan is comparatively weak when compared with the region.

3.2.2 Following table shows the ease of doing business in Pakistan and its competitors from 2011 to 2015.

**Table-III**  
**Ease of Doing Business**

Years	Pakistan	India	China	Bangladesh	Sri Lanka	Vietnam
2011	96	139	87	118	98	90
2012	105	132	91	122	89	98
2013	107	132	91	129	81	99
2014	127	140	93	170	105	72
2015	128	142	90	173	99	78

Source: World Bank



3.2.3 The above table shows that the rank of Pakistan in “ease of doing business” was 96 in 2011 which deteriorated to 128 in 2015. Whereas, the ranks in ease of doing business of Pakistan’s competitors (China, Bangladesh, India and Sri Lanka) also deteriorated but their exports increased during the same period, however, those countries did not face peculiar problems that Pakistan face like low GDP growth, energy crisis and security situation etc. Out of these regional countries only Vietnam improved in ease of doing business during the same period.

3.2.4 A meeting with Pakistani exporters was held in August 2015 in NTC and they were of the view that the cost of doing business in Pakistan is increasing day by day and making country’s products uncompetitive in the international market. Shortage of electricity, gas and water is adversely affecting the competitiveness of Pakistan’s exports vis-à-vis its competitors in the region. Some of the major elements of high cost of doing business in Pakistan are:

- i. High electricity tariff
- ii. High gas charges
- iii. Gas Infrastructure Development Cess
- iv. High financial charges

3.2.5 The comparison of electricity tariff of Pakistan and other regional countries in 2014 is given below:

**Table-IV**  
**Electricity Tariff of Pakistan and other Regional Countries**

<b>Countries</b>	<b>Electricity Tariff (US cents/Kwh)</b>
Pakistan	14
India	9
Bangladesh	7
China	6
Thailand	6
Vietnam	6

Source: International Energy Agency



3.2.6 The electricity tariff is very high in Pakistan as compared to other regional countries, which results into high cost of production of Pakistan's exports and makes these products uncompetitive in the international markets.

### **3.3 Competitiveness**

3.3.1 Following table shows the index of competitiveness of Pakistan and its regional competitors;

**Table-V**  
**Index of Competitiveness**

<b>Year</b>	<b>Pakistan</b>	<b>China</b>	<b>India</b>	<b>Indonesia</b>	<b>Thailand</b>	<b>Bangladesh</b>	<b>Vietnam</b>
2010-11	123	27	51	44	38	107	59
2011-12	118	26	56	46	39	108	65
2012-13	124	29	59	50	38	118	75
2013-14	133	29	60	38	37	110	70
2014-15	129	28	71	34	31	109	68

Source: World Bank

3.3.2 The above table shows that Pakistan's rank deteriorated in terms of competitiveness from 123 in 2010-11 to 129 in 2014-15, whereas, the ranks of regional competitors (China, Bangladesh, India, Indonesia and Vietnam) have also deteriorated, however, their exports increased phenomenally during the same period.

3.3.3 The above analysis further reveals that the ease of doing business and competitiveness as such do not have direct substantial effects on growth in exports of these countries. It appears that the countries mentioned above were able to enhance their exports despite the deterioration in ease of doing business and competitiveness, as they were able to produce high value-added and sophisticated products which enabled them to absorb the effects of deterioration in the ranks of ease of doing business and competitiveness.

### **3.4 Lack of Diversification of Export Products and Markets**

3.4.1 In order to analyze Pakistan's export share of major product groups and their percentage share has been calculated as under:

**Table-VI****(US\$ Million)**

	<b>Summary</b>	<b>FY 2013-14</b>	<b>% Share</b>	<b>FY 2012-13</b>	<b>% Share</b>
	Total Exports	25,110	100	24,460	100
A	Agro & Food	4,325	17.22	4,353	17.79
B	Textile Group	13,434	53.50	12,839	52.49
C	Metal & Minerals	1,147	4.57	1,297	5.30
D	Engineering Manufacturing Goods	2,961	11.79	2,637	10.78
E	Other Sectors	3,242	12.91	3,335	13.63

Source: TDAP Statistics

3.4.2 The above table explains that the export of textile group has major share of almost 53% in total exports of Pakistan, whereas agro and food has around 17 percent of export share. It clearly shows that Pakistan's exports are not diversified in terms of product diversification.

3.4.3 Pakistan's exports consist of a few products mainly textile and primary products and concentrated in very few markets mainly United States, European Union and China. Export diversification i.e. change in the composition of Pakistan's existing export product mix and export destination, and as the spread of production over many sectors is important and necessary.

3.4.4 Many export competitors of Pakistan have adopted an export led growth strategy, whereas, export diversification is conceived as the progression from traditional to non-traditional exports. By providing a broader base of exports and diversification, Pakistan can lower instability in export earnings, expand export revenues, upgrade value-addition and enhance growth through many new markets and products. These include: improved technological capabilities via broad scientific and technical training, facilitation of forward and backward linkages; increased sophistication of products, economies of scale, and substitution of commodities with positive price trends for those with declining price trends.

### **3.5 Low level of Technological Advancement and Research & Development**

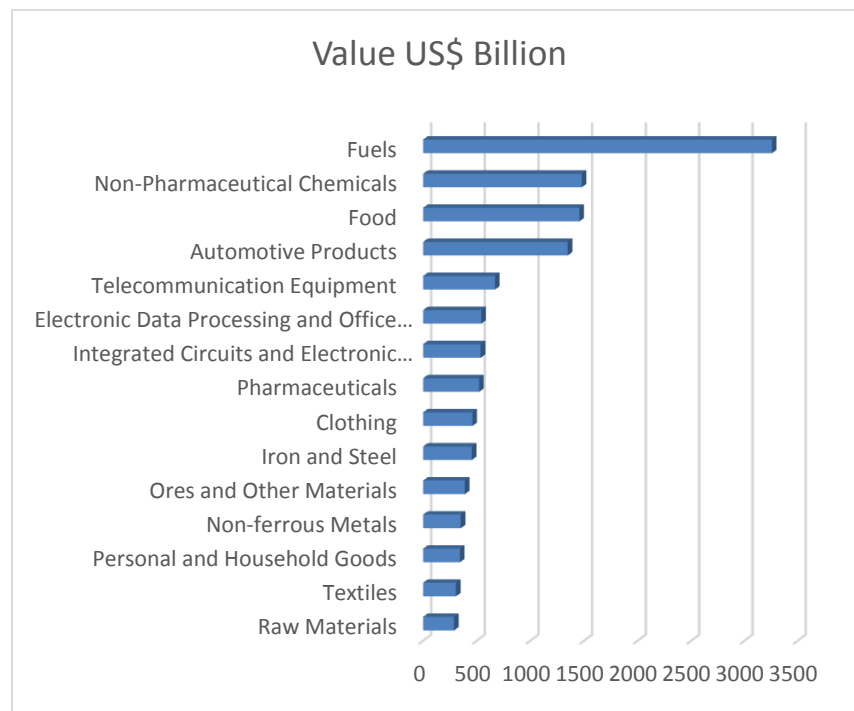
3.5.1 In world merchandise exports during 2013, exports of non-pharmaceutical chemicals are of US\$ 1,470 billion, food US\$ 1,457 billion, automotive products US\$

1,348 billion, telecommunication equipment US\$ 670 billion, electronic data processing and office equipment US\$ 543 billion, integrated circuits and electronic components US\$ 537 billion and pharmaceuticals US\$ 522 billion. Whereas the total world merchandise exports of clothing is US\$ 460 billion and textile is US\$ 306 billion.

**Table-VII**  
**Global and Pakistan Merchandise Exports**

<b>Products</b>	<b>Global Exports US\$ Billion</b>	<b>Pakistan's Exports US\$ Million</b>	<b>%age Share of Pakistan's exports in Global Exports</b>
Fuels	3258	527	0.02
Non-Pharmaceutical Chemicals	1479	92	0.01
Food	1457	4,995	0.34
Automotive Products	1348	--	--
Telecommunication Equipment	670	--	--
Electronic Data Processing and Office Equipment	543	59	0.01
Integrated Circuits & Electronic Components	537	--	--
Pharmaceuticals	522	169	0.03
Clothing	460	4,549	1.0
Iron and Steel	454	222	0.05
Ores and Other Materials	389	135	0.03
Non-ferrous Metals	351	na	--
Personal and Household Goods	343	na	--
Textiles	306	9,341	3.1
Raw Materials	288	na	--

Source: World Trade Statistics, WTO, Trademap



3.5.2 Pakistan's export of textile group has major share of almost 53% in total exports of Pakistan, whereas agro and food has around 17 percent of export share. Whereas, the world's major exports consists of sophisticated products e.g. non-pharmaceutical chemicals, automotive products, telecommunication equipment, electronic data processing and office equipment, integrated circuits and electronic components and pharmaceuticals. World top 15 major sophisticated export products is annexed at Annex-II.

3.5.3 Pakistan's exports are highly concentrated in few products mainly textile and clothing group products. Pakistan's export base is not only relatively undiversified but it is also concentrated in products with low technological content. Pakistan faces a problem of being lower end in terms of producing technological products. The only way to be competitive is to produce sophisticated products and exports in international markets.

3.5.4 Developed and emerging economies of the world enhance and add value to their export products through effective usage of R&D. However, neither the Government of Pakistan nor the private sector invested in R&D. The promotion of R&D holds paramount importance if Pakistan has to achieve export growth, especially in high tech products.

3.5.5 In consideration of the above global ranking of exports Pakistan needs to re-prioritize its exports of the products which are in high demand in the world market:

- i) Non-Pharmaceutical Chemicals,
- ii) Food Products,
- iii) Automotives and their Parts / Components,
- iv) Telecommunication Equipment,
- v) Electronic Data Processing and Office Equipment

These should be declared as “priority industries” for granting special incentives.

### **3.6 Liquidity Problem due to Pending Export Refunds**

3.6.1 Pending Rebates on Exports, Sales Tax refunds and Special Incentive rebates on exports is also one of the major reasons of decline in exports of Pakistan. The delays in tax related/other refunds hamper the competitiveness of Pakistan’s export sector. According to Federation of Pakistan Chambers of Commerce and Industry the export refunds and rebates have been accumulated to over Rs.200 billion for the last two years and are adversely affecting the cash flow / liquidity position of the exporters.

3.6.2 Pakistan employed duty drawback, rebate schemes in an attempt to remove the bias against exports due to tariff on imported raw materials, but these schemes did not eliminate the bias completely, as the Government of Pakistan owes billions of rupees in shape of refunds to the exporters.

### **3.7 Non Compliance of Mandatory Quality Standards**

3.7.1 The inability of large number of developing countries specially Pakistan to participate effectively in international standardization activities poses serious actual and potential problems to the trade of these countries. Pakistan has to strictly follow the technical standards under Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) standards in order increase its exports to developed countries. Otherwise Pakistan would not be able to export its products to that country.

3.7.2 Moreover, since compliance with requirements laid down by technical regulations and sanitary and phytosanitary measures is mandatory, countries often require imported products to be accompanied by certificates issued by properly

accredited third party conformity assessment labs, bodies or, more typically in the case of sanitary and phytosanitary measures, certifications by official bodies in the exporting country. In most developing countries including Pakistan the infrastructure which is required for certification of conformity to standards has not yet been fully developed. The result is that importing countries often insist on post-arrival examination of the product after importation, or resort to systems of prior inspection and approval of the products in the exporting country by their officials. These requirements not only add to the costs of exporters but also in some cases lead to delays and even cancellation of orders in case of non-compliance.

3.7.3 The opportunities arising from increased global trade are accompanied by numerous challenges for exporters. One of these is meeting strict quality and compliance requirements, not only from a product-specific and technical perspective, but also from regulatory, social, environmental, performance, and customer-specific standpoints. With greater competition, innovations in technology, and stricter measures of quality being enforced, Pakistan needs to take all possible measures to meet international quality standards and certifications for its exports.

3.7.4 For instance due to non-compliance of sanitary and phytosanitary standards on fisheries and seafood products, mangoes and other agriculture products Pakistani exporters are facing restrictions by the Developed Countries hence there is fall in exports in these products.

### **3.8 Market Access for Pakistani Exports**

3.8.1 Government of Pakistan needs to get more market access for Pakistani exports by signing preferential and free trade agreements. Pakistan got preferential market access in the shape of GSP plus for its exports in European Union in 2014. United States has also allowed GSP facility to Pakistan in August 2015. European Union and United States are two major exports destinations of Pakistan.

3.8.2 However, Pakistan needs to get free/preferential market access in Africa, Latin America, Central Asian Republics (CARs), Russia and Australia. African and CARs economies are emerging economies and there is immense potential of exports from Pakistan.

3.8.3 Pakistan has signed free trade agreements with China, Bangladesh, Sri Lanka and Malaysia but in most of the agreements Pakistan is facing trade deficit. Following table shows Pakistan's trade with China and Malaysia:

**Table-VIII**  
**Pakistan's trade with China and Malaysia** (US\$ in Million)

Years	Pakistan's trade with Malaysia				Pakistan's trade with China			
	Exports	Imports	Trade Balance	%age increase/Decrease	Exports	Imports	Trade Balance	%age increase/decrease
2008	138	1,694	(1,556)	--	727	4,738	(4,011)	--
2009	158	1,608	(1,450)	-6.78	998	3,780	(2,782)	-30.65
2010	146	2,055	(1,909)	31.65	1,436	5,248	(3,812)	37.02
2011	243	2,728	(2,485)	30.16	1,679	6,471	(4,792)	25.71
2012	233	2,132	(1,899)	-23.59	2,620	6,688	(4,07)	-15.11
2013	204	1,920	(1,715)	-9.65	2,652	6,626	(3,974)	-2.30
2014	233	1,280	(1,046)	-39.01	2,253	9,588	(7,336)	84.58

Source: Trademap

3.8.4 The above table shows that after signing of free trade agreements with China and Malaysia, Pakistan is facing trade deficit with these partner countries. Exports of Pakistan did not increase much in case of Malaysia, whereas, Pakistan's exports to China increased but imports from China increased phenomenally which resulted into trade deficit of US\$ 7.3 billion in 2014. It may be observed that even with free trade agreements Pakistan couldn't achieve desired goal to increase exports.

3.8.5 Pakistan has given unilateral market access to its trading partners by reducing its maximum rate of duty much lower than its bound rates and particularly to Japanese auto sector, and the Government of Pakistan did not allow import of new as well as secondhand cars for more than 25 years from 1980 to 2000. In reciprocity Pakistani products are not getting preferential market access in Japan. There is a need to re-negotiate free/preferential trade agreements of Pakistan.

### **3.9 Poor Infrastructure and Trade Facilitation**

3.9.1 The Global Enabling Trade Index measures the factors, policies, and services facilitating the free flow of goods over borders and to destinations. According to the

Global Enabling Trade Index 2012, Pakistan ranked 116 out of 132 countries studied for the report.

3.9.2 Pakistan requires considerably more days to export an item as compared to other efficient countries in the regions i.e. India, Malaysia and Thailand. This is primarily due to lengthy procedures in terms of time taken and documents required. There is need to adopt modern, simplified export procedures and best practices. A comparison of the export efficiency procedures of Pakistan and other countries in the region is given below in the table:

**Table-IX**  
**Efficiency of Export Performance**

<b>Countries</b>	<b>Documents required to Export</b>	<b>Time Taken (Days)</b>
Pakistan	07	21
India	08	16
Malaysia	06	17
Thailand	05	15

Source: World Bank, IFC, Doing Business 2012

3.9.3 Poor condition of rail / road network and lack of repair/maintenance rail / roads continues to be one of the major factors in export growth. According to the Global Enabling Trade Report 2012, Pakistan ranks 72 out of 132 countries in terms of road quality network. Poor roads not only cause delays but also cause wear and tear of vehicles causing an increase in transport cost. Railroad network in Pakistan is also highly inefficient and caters only 10 percent of total cargo movement. Pakistan ranks 60 out of 132 countries in terms of quality of railroad infrastructure. The exporters in meeting with NTC have also raised this point of high cost due to inefficiency of rail system.

### **3.10 Law and Order, Political Instability and War on Terror**

3.10.1 Economy flourishes when people's life and property is secure due to better law and order situation. The law and order situation arises when there is insecurity, threat of violence or violence arising due to a host of factors disturbing the ordinary conduct of life and businesses in a society.

3.10.2 Political uncertainty, bad law and order situation due to war on terror and low levels of foreign investment led to slow GDP growth and are main reasons of



underdevelopment of Pakistan, which leads to stagnant/decline in Pakistan's exports. According to Economic Survey of Pakistan 2014-15 Pakistan suffered a total loss of US\$107 billion during the last 14 years as a result of the war against terror after 9/11, with US\$4.53 billion loss in FY 2014-15 only. Pakistan suffered a loss of US\$0.73 billion in exports due this war on terror during 2014-15 and a loss of US\$ 0.53 billion during 2013-14

3.10.3 War on terror and law order situation disrupted Pakistan's normal economic and trading activities which not only resulted in higher costs of business but also created disruptions in the production cycles, resulting in significant delays in meeting the export orders around the globe. As a result foreign buyers are not coming to Pakistan due to travel advisories by international agencies. Pakistani exporters are also facing problems in getting visas for the developed countries. As a result, Pakistani products have gradually lost their market share to their competitors. Consequently, economic growth could not pick up as planned. Investment outflow and negative trends of out sourcing of capital in Pakistan has further added to the woes of dwindling performance of the export-oriented industry. It may be noted that Pakistan's regional competitors are not facing law and order problems in their countries.

### **3.11 Less Educated and Unskilled Labour**

3.11.1 The unavailability of skilled and educated labour is also one of the major factors contributing export growth of Pakistan. The reasons of non-availability of skilled labour includes, *inter-alia*, lack of proper training centers, workers are not well educated which makes difficult for them to learn new concepts related to work, use new machinery, etc.

3.11.2 Economic growth in a country or sector can be ascribed either to increased employment or to more effective work by those who have to. The latter effect can be expressed through statistics on labour productivity. Labour productivity (representing the amount of output per unit of input) is a vital determining factor in the competitiveness of both, national economies and individual enterprises. Its growth is essential for creating quality jobs, since increased labour productivity can lead to higher wages, better working conditions, and more investment in human resources which leads to growth in exports. There is strong linkage between labour productivity and growth in exports.

3.11.3 Pakistan's high demand for skilled labour, especially in high technology sectors, with significant economic growth but limited supply of qualified, workers, is reflected in lesser growth in Pakistan's exports. Without inadequate education and skills of the labour force, Pakistan will keep trapped in a vicious circle of low education, low productivity, low value added and thus low exports.

### 3.12 Decreasing Commodity Prices

3.12.1 The international markets have remained subdued for the past many months. Whether it is oil or other commodities, their prices have gone down significantly. In this situation, developing countries catering to the needs of wealthier nations have faced a tough time with prices of leading products declining and export earnings dwindling:

**Table-X**  
**Commodity Prices of Pakistan's Exports**

Commodities	2014-2015 (Jul-Dec)			2013-2014 (Jul-Dec)		
	Quantity in MT	Value US\$	AUP Per MT	Quantity in MT	Value US\$	AUP Per MT
Raw cotton	72,879	113,996	1,564.18	78,061	138,866	1,778.94
Cotton carded or combed	2,529	2,747	1.09	2,434	3,020	1.24
Cotton yarn	358,513	987,714	2.76	358,845	1,089,703	3.04
Bed ware	162,668	1,069,586	6.58	161,663	1,079,224	6.68
Rice	1,781,401	976,784	548.32	1,709,883	944,077	552.13
Rice (others)	1,520,920	674,519	443.49	1,440,611	649,560	450.89
Petroleum products (excl.top naphtha )	46,221	43,753	946.60	47,147	44,848	951.24

Source: TDAP

3.12.2 The above table shows that commodity prices of raw cotton, cotton carded or combed, cotton yarn, bed-ware and petroleum products decreased during the period July-December 2014-15 as compared to July-December 2013-14 which has affected the exports earnings of Pakistan. On the other side the prices of rice and rice (others) have also decreased in July-December 2014-15 as compared to July-December 2013-14 but the exported value increased due to increased exported quantity of rice. Hence the decreasing commodity prices are also one of the reasons of decline in Pakistan's exports.

#### **4. Econometric Modeling and Methodology for Quantifiable Economic Factors**

4.1 The quantifiable factors contributing in decline of exports of Pakistan are as follows:

- i) Foreign Direct Investment
- ii) GDP
- iii) Interest rate
- iv) Saving rate
- v) Average applied tariff rate
- vi) Inflation

4.2 Econometric techniques were used to ascertain the impact of economic factors e.g. average applied tariff, gross domestic product, lending interest rate, consumer price index, foreign direct investment and domestic saving rate on exports of Pakistan. The methodology used for estimation of impact of above mentioned economic factors on exports by using Ordinary Least Square (OLS) regression. Furthermore, the information concerning the periods for which the data on average applied tariff, gross domestic product, lending interest rate, consumer price index, foreign direct investment and domestic saving rate and exports has been taken and the sources from where the requisite data has been obtained.

4.3 In this study the time period from 2000 to 2014 has been taken to analyse the impact of average applied tariff, gross domestic product, lending interest rate, consumer price index, foreign direct investment and domestic saving rate on exports. Data of average applied tariff, gross domestic product, lending interest rate, and merchandise exports of Pakistan has been obtained from World Bank, whereas domestic saving rate, inflation (consumer price index) and foreign direct investment has been obtained from Economic Survey of Pakistan (Annex-III).

4.4 In this study the impact of above-mentioned economic factors on exports during the period from 2000 to 2014 has been calculated using the econometric regressions equations / models (using OLS model). In this regard the following regression equation has been prepared:

$$\text{LOG ME} = B_0 - B_1 \text{ AAT} + B_2 \text{ CPI} + B_3 \text{ LOG FDI} + B_4 \text{ LOG GDP} - B_5 \text{ LIR} - B_6 \text{ SRD}$$

Where;

LOG ME= Log of Merchandise Exports.

AAT= Average Applied Tariff

CPI= Consumer Price Index

LOG FDI= Log of Foreign Direct Investment

LOG GDP= Log of Gross Domestic Product

LIR= Lending Interest Rate

SRD= Saving Rate Domestic

4.5 Following are the results of the OLS regression:

Dependent Variable: ME				
Method: Least Squares				
Date: 09/04/15 Time: 10:14				
Sample (adjusted): 2000 2014				
Included observations: 15				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.42367	0.297191	38.43884	0.0000
D(AAT)	-0.06423	0.014023	-5.58122	0.0001
D(CPI)	0.00334	0.010870	0.54122	0.5980
D(LOG(FDI))	0.31754	0.051367	3.43412	0.0049
D(LOG(GDP))	1.93966	0.214038	17.18096	0.0001
D(LIR)	-0.01142	0.006935	-2.50678	0.0292
D(SRD)	-0.03912	0.008458	-7.59858	0.0000
R-squared	0.977033	Mean dependent var		10.21840
Adjusted R-squared	0.959808	S.D. dependent var		0.160622
S.E. of regression	0.032202	Akaike info criterion		-3.728880
Sum squared resid	0.008296	Schwarz criterion		-3.398457
Log likelihood	34.96660	Hannan-Quinn criter.		-3.732400
F-statistic	56.72098	Durbin-Watson stat		2.105905
Prob(F-statistic)	0.000004			

4.6 Above table shows that in this estimation, average applied tariff rate, foreign direct investment, gross domestic product and lending interest rate has significant impact on Pakistan's exports while inflation (consumer price index) does not have impact on Pakistan's exports. The results of the model are aligned with the economic theories however, the result of saving rate of Pakistan shown a significant negative correlation with merchandise export. As per the economic theory, saving rate and exports have positive relationship as when saving rate increases, leads to more liquidity available with the financial institutions for investment, meaning by more manufacturing

hence more exports. However, we found a contrary result in case of correlation between saving rate and exports of Pakistan.

4.7 One percent increase in average applied tariff rate will cause 0.06 percent decrease in exports of Pakistan. It further explains that 1 percent increase in foreign direct investment will cause 0.31 percent increase in Pakistan's exports. High foreign direct investment contribute high level of investment and employment generation, raising productivity and skill development and sharply improved competitiveness ultimately increases exports.

4.8 Gross domestic product has significant positive impact on exports as 1 percent increase in gross domestic product will cause 1.93 percent increase in Pakistan's exports. Similarly lending interest rate has significant negative impact on exports as 1 percent increase in lending interest rate will cause 0.01 percent decrease in exports of Pakistan. A rise in interest rates would make it more expensive to produce goods locally, thereby reducing export revenue as exports are now less competitive overseas. According to the results of the estimation, inflation (consumer price index) has insignificant impact on exports of Pakistan.

## **5. Conclusions**

5.1 Government of Pakistan has taken a number of measures/incentives to increase exports in Strategic Trade Policy Framework 2009-15 but Pakistan's exports are stagnant rather decreased during the last financial year. Major reasons contributing in decline of Pakistan's exports are (i) high cost of doing business, (ii) lack of product and market diversification, (iii) low level of technological advancement and research & development, (iv) pending export refunds, (v) non-compliance of quality standards, (vi) decreasing commodity prices, (vii) market accesses issues, poor trade facilitation, (viii) law and order, (ix) war on terror, (x) less educated and (xi) un-skilled labour, (xii) low foreign direct investment, (xiii) low growth rate of GDP, (xiv) interest rate and (xv) high average applied tariff rates.

5.2 The cost of doing business in Pakistan is increasing day by day and making country's products uncompetitive in the international market. Shortage of electricity, gas and water is adversely affecting the competitiveness of Pakistan's exports vis-à-vis its competitors in the region. The electricity tariff is very high in Pakistan as compared to

other regional countries which results into high cost of production of Pakistan's exports and makes these products uncompetitive in the international markets.

5.3 Pakistan's exports consist of few products mainly textile and primary products and concentrated in very few markets mainly United States and European Union. Pakistan needs to get free/preferential market access in Africa, Latin America, Central Asian Republics (CARs), Russia and Australia. African and CARs economies are emerging economies and there is immense potential of exports of Pakistan. Export diversification i.e. change in the composition of a Pakistan's existing export product mix and export destination, and as the spread of production over many sectors is very important to boost exports of Pakistan.. Pakistan faces a problem of being lower end in terms of producing technological products. The only way to be competitive is to produce sophisticated products and exports in international markets.

5.4 Pending Rebates on Exports, Sales Tax refunds and Special Incentive rebates on exports is also one of the major reasons of decline in exports of Pakistan. The delays in tax related/other refunds hamper the competitiveness of Pakistan's export sector. According to the Federation of Pakistan Chambers of Commerce and Industry the export refunds and rebates have been accumulated to over Rs.200 billion for the last two years and are adversely affecting the cash flow of the exporters.

5.5 In consideration of the global ranking of exports Pakistan needs to re-prioritize its exports of the products which are in high demand in the world market. These high demand products should be declared as "priority industries" for granting special incentives.

## **6. Recommendations**

On the basis of the analysis and conclusions, the following is recommended:

- (i) the Ministry of Commerce may adopt such policies to promote exports of high value added/sophisticated products,
- (ii) get more market access for Pakistani exports,
- (iii) re-negotiate already negotiated free/preferential trade agreements as Pakistan is facing trade deficit with partner countries, and

- (iv) there should be coherence between Investment, Industrial and Trade policies, so that Pakistan may achieve desired goal of increasing exports.

## **7. Proposal**

If approved the NTC will conduct a detailed study to identify the raw materials/inputs required to produce the following high value added / sophisticated products and to provide raw materials/inputs to such “priority industries” at the lowest duty rates, so that :

- i. Non-Pharmaceutical Chemicals
- ii. Food Products
- iii. Automotive Products
- iv. Telecommunication Equipment
- v. Electronic Data Processing and Office Equipment

**Annex-I**

<b>EXPORT FROM PAKISTAN</b>				
<b>SUMMARY OF MAJOR COMMODITIES</b>				
		<b>Value in US\$ Thousand</b>		
	<b>MAJOR COMMODITIES</b>	<b>JULY-JUNE</b>		<b>% change</b>
		<b>2013-14</b>	<b>2012-13</b>	
	<b>Agro &amp; Food</b>	<b>4,325,104</b>	<b>4,352,595</b>	<b>(0.63)</b>
1	RICE	2,163,126	1,922,382	12.52
	(I) RICE BASMATI	769,991	666,598	15.51
	(II) RICE OTHER VARIETIES	1,393,135	1,255,784	10.94
2	FISH AND FISH PREPARATIONS	369,458	317,652	16.31
3	MOLASSES	24,253	27,873	(12.99)
4	FRUITS & VEGETABLES INCL. JUICES	684,513	679,232	0.78
	(I) FRUITS	435,293	392,271	10.97
	(II) VEGETABLES	209,092	246,828	(15.29)
	(III) FRUIT & VEGETABLE JUICES	40,128	40,134	(0.01)
5	SPICES(INCL. CHILLIES)	56,901	68,414	(16.83)
6	FEEDING STUFF FOR ANIMALS	134,269	66,661	101.42
7	OIL SEEDS, NUTS AND KERNELS	81,749	35,857	127.99
8	CRUDE ANIMAL MATERIAL	52,469	44,040	19.14
9	CRUDE FERTILIZER	1,439	2,001	(28.09)
10	GUAR AND GUAR PRODUCTS	68,394	145,695	(53.06)
11	TOBACCO	24,204	25,936	(6.68)
	(I) UN-MANUFACTURED	21,731	24,482	(11.24)
	(II) MANUFACTURED EXCL. CIGARETTE	879	816	7.72
12	WHEAT	7,008	53,628	(86.93)
13	WHEAT FLOUR	175,318	238,103	(26.37)
14	LEGUMINOUS VEGETABLE	2,820	4,531	(37.76)
15	SUGAR REFINED	286,740	529,970	(45.90)



## Study on Reasons of Decline in Exports Prepared by National Tariff Commission

16	MUTTON	58,924	79,401	(25.79)
17	BEEF	133,519	111,219	20.05
	<b>Textile Group</b>	<b>13,433,644</b>	<b>12,838,954</b>	<b>4.63</b>
		13,433,644	12,838,954	
1	COTTON CLOTH	2,769,986	2,689,832	2.98
2	KNITWEARS	2,293,668	2,042,958	12.27
3	COTTON YARN	1,997,338	2,252,952	(11.35)
4	BED WEAR	2,137,744	1,785,417	19.73
5	READYMADE GARMENTS	1,909,323	1,799,591	6.10
6	TOWELS	767,461	769,591	(0.28)
7	ART SILK AND SYNTHETIC TEXTILES	384,964	405,683	(5.11)
8	TEXTILE MADE UPS (EXCL. TOWELS & BED WEAR)	659,929	598,640	10.24
9	RAW COTTON	205,136	153,929	33.27
10	KINTTED OR CROCHATED FABRICS	34,974	35,843	(2.42)
11	COTTON WASTE	79,122	81,132	(2.48)
12	YARN OTHER THAN COTTON YARN	43,873	38,476	14.03
13	TENTS & OTHER CANVAS GOODS	77,759	117,463	(33.80)
14	WASTE MATERIAL OF TEXTILE FIBRES/FABRICS	24,451	24,901	(1.81)
15	TULE, LACE, EMBROIDERY ETC	15,567	10,264	51.67
16	COTTON BAGS/SACKS	11,677	13,905	(16.02)
17	TEXTILE FABRICS WOVEN(other than cotton & artificial fabrics)	3,698	7,107	(47.97)
18	COTTON THREAD	15,123	10,159	48.86
19	TEXTILE FOR MACHINERY	1,851	1,111	66.61
	<b>Metal &amp; Minirals</b>	<b>1,147,244</b>	<b>1,296,629</b>	<b>(11.52)</b>
1	PETROLEUM & PETROLEUM PRODUCTS	721,374	27,865	2,488.82
	I) PETROLEUM CRUDE	57,546	-	#DIV/o!
	II) PETROLEUM PRODUCTS	663,828	27,865	2,282.30
2	JEWELLERY	323,711	1,177,494	(72.51)
3	MARBLES AND STONES	82,532	74,325	11.04

## Study on Reasons of Decline in Exports Prepared by National Tariff Commission

4	PIG IRON	3,881	2,600	49.27
5	ONYX MANUFACTURED	8,922	9,515	(6.23)
6	PRECIOUS/SEMI-PRECIOUS STONE	6,683	4,627	44.43
7	COKE	141	203	(30.54)
	<b>Engineering Manufacturing Goods</b>	<b>2,961,436</b>	<b>2,637,477</b>	<b>12.28</b>
1	CHEMICALS AND PHARMACEUTICAL PRODUCTS	1,171,483	874,376	33.98
	(I) PLASTIC MATERIALS	350,626	380,078	(7.75)
	(II) PHARMACAUTICAL PRODUCTS.	175,733	169,618	3.61
	(III) FERTILIZER MANUFACTURES	-	74	(100.00)
	(IV) OTHER CHEMICAL	645,124	324,605	98.74
2	RUBBER MANUFACTURES	10,056	9,336	7.71
3	PAPER AND PAPER BOARD	45,346	37,972	19.42
4	CUTLERY	88,275	81,294	8.59
5	MACHINERY & TRANSPORT EQUIPMENT	326,664	290,384	12.49
	(I) ELECTRIC FANS	39,215	37,837	3.64
	(II) TRANSPORT EQUIPMENT	13,123	21,243	(38.22)
	(III) OTHER ELECTRICAL MACHINERY	87,896	65,676	33.83
	(IV) MACHINERY SPECIALIZED FOR PART. IND.	33,919	35,106	(3.38)
	(V) AUTO PARTS	23,944	23,633	1.32
	(VI) OTHER MACHINERY	128,567	106,888	20.28
6	HOUSE-HOLD EQUIPMENT	36,049	36,397	(0.96)
7	SPORTS GOODS	364,250	334,225	8.98
	(I) FOOT BALLS COMPLETE	193,968	143,409	35.26
	(II) GLOVES (SPORTS)	103,435	124,621	(17.00)
	(III) OTHER (SPORTS)	66,847	66,195	0.98
8	CEMENT	508,159	577,441	(12.00)
9	SURGICAL GOODS	337,764	303,537	11.28
10	ARTICLES OF PLASTIC	65,351	83,743	(21.96)
11	FURNITURE	7,331	6,953	5.44
12	HANDICRAFTS	708	1,819	(61.08)

## Study on Reasons of Decline in Exports Prepared by National Tariff Commission

	<b>Other Sectors</b>	<b>3,242,211</b>	<b>3,334,801</b>	<b>(2.78)</b>
		3,242,211	3,334,801	
1	LEATHER	551,413	499,890	10.31
2	CARPETS,RUGS AND TAPESTRIES ETC	125,251	122,420	2.31
	(I) WOOLLEN CARPETS AND RUGS	122,159	118,728	2.89
	(II) WOOLLEN CARPET MACHINE MADE	65	36	80.56
	(III) TAPESTRY CLOTH	-	-	#DIV/o!
	(IV) CARPETS KNOTTED & OTHER FLOOR COVERINGS	3,027	3,656	(17.20)
3	RAW WOOL AND ANIMAL HAIR	15,866	14,434	9.92
	(I) RAW WOOL	7,858	8,167	(3.78)
	(II) ANIMAL HAIR	8,007	6,266	27.78
4	RAW HIDES AND SKINS	727	156	366.03
5	FOOTWEARS	119,124	104,417	14.08
	(I) LEATHER FOOTWEAR	98,803	83,473	18.37
	(II) CANVAS FOOTWEAR	294	650	(54.77)
	(III) OTHER FOOTWEAR	20,028	20,294	(1.31)
6	LEATHER MANUFACTURES(EXCL. LEATHER FOOTWEAR)	625,114	561,292	11.37
	(I) LEATHER GLOVES	202,548	168,755	20.02
	(II) APPAREL & CLOTHING	406,254	377,998	7.48
	(III) OTHER LEATHER MANUFACTURES	16,312	14,540	12.19
7	BOOKS AND PRINTED MATTERS	7,589	7,612	(0.30)
8	PARTS OF FOOTWEAR	1,128	1,252	(9.90)
9	OTHER ITEMS	1,795,999	2,023,328	(11.24)
		25,109,639	24,460,456	
	<b>Grand Total</b>	<b>25,109,639</b>	<b>24,460,456</b>	<b>2.65</b>

**Annex-II****Major Exports and Destinations of Pakistan's Regional Competitors****India**

Thousands US\$ (2014)

Country	Total Value	%age share in Total Exports	Products	Total Value
United States of America	42,684,740	13.44	Mineral Fuels, Oils, Distillation products, etc	62,348,539
European Union	51,377,683	16.18	Pearls, Precious stones, Metals, Coins, etc.	40,703,544
United Arab Emirates	32,919,602	10.37	Vehicles other than railway, Tramway	14,481,959
China	13,434,251	4.23	Machinery, Nuclear Reactors, Boilers, etc	13,596,129
Hong Kong, China	13,412,018	4.22	Organic Chemicals	12,035,145
Saudi Arabia	13,063,511	4.11	Pharmaceutical Products	11,663,326
Singapore	9,676,616	3.05	Iron and Steel	9,080,606

**Indonesia**

Thousands US\$ (2014)

Country	Total Value	%age share in Total Exports	Products	Total Value
Japan	23,127,089	13.12	Mineral Fuels, Oils, Distillation Products, etc.	51,133,125
China	17,605,944	9.99	Animal, Vegetable Fats and Oils, Cleavage Products, etc	21,059,510
European Union	16,921,685	9.60	Electrical, Electronic Equipment	9,745,714
Singapore	16,752,340	9.50	Rubber and Articles thereof	7,100,023
United States of America	16,560,076	9.39	Machinery, Nuclear Reactors, Boilers, etc.	5,969,080
India	12,248,960	6.95	Vehicles other than railway, Tramway	5,213,659
Korea	10,606,478	6.02	Pearls, precious stones, metals, coins, etc	4,648,183

**Bangladesh**

Thousands US\$ (2011)

Country	Total Value	%age share in Total Exports	Products	Total Value
European Union	12,945,768	53.24	Articles of apparel, accessories, knit or crochet	99,36,305
United States of America	5,106,780	21.00	Articles of apparel, accessories, not knit or crochet	92,257,34
Canada	1,024,426	4.21	Other made textile articles, sets, worn clothing etc	10,734,91
Turkey	655,406	2.70	Footwear, gaiters and the like, parts thereof	3,456,43
Japan	543,742	2.24	Fish, crustaceans, molluscs, aquatic invertebrates nes	6,36,458
Area Nes	471,989	1.94	Vegetable textile fibers nes, paper yarn, woven fabric	8,229,79

**Turkey**

Thousands US\$ (2014)

Country	Total Value	%age share in Total Exports	Products	Total Value
European Union	68,279,855	43.29	Vehicles other than railway, tramway	18,065,263
Iraq	10,896,203	6.91	Machinery, nuclear reactors, boilers, etc	13,599,014
United States of America	6,345,416	4.02	Articles of apparel, accessories, knit or crochet	10,034,391
Russian Federation	5,945,713	3.77	Electrical, electronic equipment	9,698,275
United Arab Emirates	4,662,881	2.96	Iron and steel	9,260,602
Iran	3,888,292	2.47	Pearls, precious stones, metals, coins, etc	7,716,615

**Vietnam**

Thousands US\$ (2013)

Country	Total Value	%age share in Total Exports	Products	Total Value
European Union	24,324,122	18.42	Electrical, electronic equipment	32,282,861
United States of America	23,869,949	18.08	Footwear, gaiters and the like, parts thereof	8,721,913
Japan	13,544,245	10.26	Machinery, nuclear reactors, boilers, etc	8,239,729
China	13,177,694	9.98	Articles of apparel, accessories, not knit or crochet	8,828,950
Korea, Republic of	6,682,945	5.06	Articles of apparel, accessories, knit or crochet	7,916,531
Malaysia	4,984,468	3.78	Mineral fuels, oils, distillation products, etc	9,685,333

**Thailand**

Thousands US\$ (2014)

Country	Total Value	%age share in Total Exports	Products	Total Value
China	25,084,369	11.02	Machinery, nuclear reactors, boilers, etc	38,672,183
United States of America	23,967,867	10.53	Electrical, electronic equipment	30,735,313
European Union	23,408,324	10.29	Vehicles other than railway, tramway	26,022,818
Japan	21,820,597	9.59	Rubber and articles thereof	14,327,692
Malaysia	12,764,450	5.61	Plastics and articles thereof	13,504,184
Hong Kong, China	12,609,968	5.54	Mineral fuels, oils, distillation products, etc	11,984,930
Singapore	10,454,679	4.59	Pearls, precious stones, metals, coins, etc	10,079,454

**Annex-III****World Top 15 Major Sophisticated Export Products**

<b>Code</b>	<b>Product</b>	<b>2014 (USD in million)</b>
'870323	Automobiles with reciprocating piston engine	274,721.55
'300490	Medicaments NES., in dosage	270,260.51
'851712	Telephones for cellular networks mobile	248,042.32
'854239	Electronic integrated circuits	194,206.69
'854231	Electronic integrated circuits as process	177,816.18
'847130	Portable digital computers <10kg	163,381.93
'870332	Automobiles with diesel engine	139,870.79
'870324	Automobiles with reciprocating piston engine	124,426.49
'851770	Parts of telephone sets, telephones for	123,962.12
'851762	Machines for the reception, conversion	108,588.34
'854232	Electronic integrated circuits as memory	98,394.20
'870210	Motor vehicle parts NES	95,358.75
'300210	Antisera and other blood fractions	86,462.23
'870322	Automobiles with reciprocating piston engine	75,505.51
'901380	Optical devices, appliances and instruments	74,154.15
'847170	Computer data storage units	73,945.76
'870829	Parts and accessories of bodies NES	63,604.27
'740311	Copper cathodes and sections of cathode	59,396.06
'870840	Transmissions for motor vehicles	59,074.77
'852872	Reception apparatus for television, col	58,332.41

**Annex-IV**

<b>Years</b>	<b>GDP (constant US\$)</b>	<b>Lending Interest Rate</b>	<b>Foreign Direct investment (US Million\$)</b>	<b>Saving Rate Domestic</b>	<b>CPI (Inflation)</b>	<b>Average Applied Tariff Rate</b>	<b>Merchandise Exports (Current US\$)</b>
<b>2000</b>	10.9336	13.41	322.4	17.8	3.8	20.16	9028000000
<b>2001</b>	10.94213	13.687	307.6	18.1	3.8	20.16	9238000000
<b>2002</b>	10.95591	11.487	484.7	17.6	3.1	17.17	9913000000
<b>2003</b>	10.97646	7.879	798	15.7	4.6	16.81	11930000000
<b>2004</b>	11.00734	7.2575	949.4	15.4	9.3	16.17	13379000000
<b>2005</b>	11.03942	9.071666667	1524	13.4	7.9	14.61	16051000000
<b>2006</b>	11.06546	10.9875	3038.2	12.3	7.8	14.79	16930100000
<b>2007</b>	11.08595	11.76833333	4160.2	9.1	12	14.9	17837500000
<b>2008</b>	11.09328	12.93583333	3481.6	9.4	17	14.08	20323100000
<b>2009</b>	11.10541	14.5375	2151	9.8	10.1	14.71	17523100000
<b>2010</b>	11.11233	14.0425	1635	9.7	13.7	14.71	21409500000
<b>2011</b>	11.1241	14.41916667	821	7.8	11	14.7	25382600000
<b>2012</b>	11.13907	13.51916667	1456	8.7	7.4	14.68	24567320000
<b>2013</b>	11.15781	11.98583333	1669	8	8.6	13.5	25120800000
<b>2014</b>	11.1807	11.73	2057	8.4	4.8	13.5	24713820000