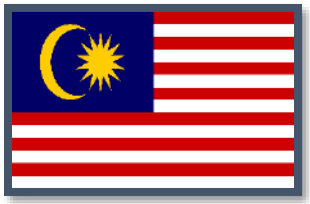
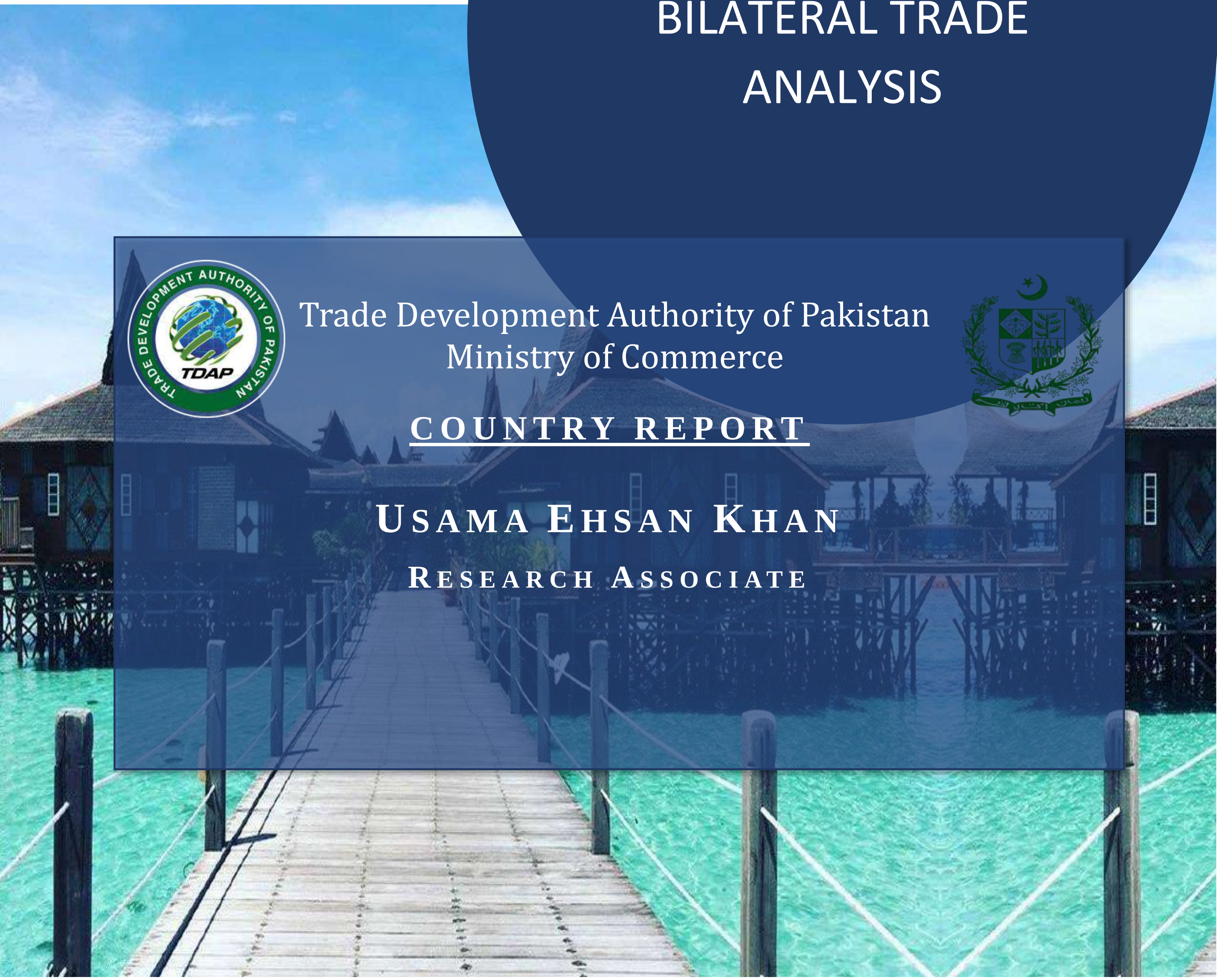


PAKISTAN-MALAYSIA BILATERAL TRADE ANALYSIS



Trade Development Authority of Pakistan
Ministry of Commerce

COUNTRY REPORT

USAMA EHSAN KHAN

RESEARCH ASSOCIATE

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List of Acronyms

AUP:	Average Unit Price
CAGR:	Compounded Annual Growth Rate
CD:	Countervailing Duties
ECI:	Export Competitiveness Index
GSP:	Generalized System of Preferences
IMF:	International Monetary Funds
NTBs:	Non-Tariff Barriers
SBP:	State Bank of Pakistan
TDAP:	Trade Development Authority of Pakistan
WTO:	World Trade Organization
ECI:	Export Competitiveness Index
PBS:	Pakistan Bureau of Statistics

EXECUTIVE SUMMARY:

Malaysia is located in Southeast Asia bordering Thailand and northern one-third of the Island of Borneo, Indonesia, Brunei, South China Sea, and Vietnam. Geographically, a country is divided into Peninsular Malaysia and East Malaysia with the overall coastline of 4,675 km. The Malaysian economy is on its way to achieve high-income status. The 11th Malaysian Plan (over 2016-2020) paves a path toward advanced-economy status and more comprehensive inclusion. It includes six strategic pillars that systematically influence the range of development issues including equity, inclusiveness, environmental sustainability, human capital development, and infrastructure. The country has witnessed the robust growth in last two decades.

The bilateral relationship between Pakistan and Malaysia touched the new altitudes after a trade agreement has been signed between the two Muslim countries. The Malaysia-Pakistan Close Economic Partnership Agreement (MPCEPA) was signed in November 2007, which came into effect in January 2008. The trade balance between two countries is continuously favoring Malaysia while Pakistan's position is critical as many argued that the FTA is underutilized from a Pakistani perspective. The recent trend, however, reflects that the Pakistan exports to Malaysia have stretched by 49.5 percent in first six months of 2018 as compared the same in 2017 whereas imports have enhanced by 1.46 percent and hence the trade balance of Pakistan has expanded by 5.38 percent.

Pakistan major exports to Malaysia include rice, fish, and potatoes but Pakistan's position is not competitive and is continuously losing its market share. For instance, Pakistani rice enters the Malaysian territory after paying 40 percent tariff while rice from India and Thailand face 20 percent tariff. Since both India and Thailand are the primary competitors of Pakistan for rice in most of the markets, therefore, any privilege to these countries would hurt Pakistan's position. Regarding textile products, Pakistani exporters generally do not prefer Malaysian market even zero tariff restriction as similar treatment is given under EU GSP+ status. Textile products may be sold in EU and USA with the premium over Malaysian market. In addition to this, most of the Pakistani products have not marketed with true essence to Malaysia and the market is largely ignored by exporters.

The product with potential for exports related to the market under consideration include **'Semi-Wholly milled rice (HS-100630)', 'Fresh or chilled potatoes (HS-070190)', 'Frozen shrimps and prawns (HS-030617)', 'Instrument and appliances (HS-901890)'**, and **'Medicaments**

(HS-300490)’ having trade potential of USD 326 million, USD 70.3 million, USD 53.3 million, USD 286 million and USD 70 million respectively. It is suggested to first re-negotiate FTA between the two countries. The benefits of Pak-Malaysia FTA have blurred after Malaysia-India FTA came into effect.

It is recommended to improve marketing activities and increase bilateral relationships. Trade Development Authority of Pakistan should include trade fairs other than Halal foods as well in order to diversify the export basket and improve participation of the exporters. Moreover, to normalize trade balance it is imperative to cultivate palm oil domestically as Pakistan bears conducive environment and potential of profitability. However, fruits of palm oil cultivation take 3 to 4 years to yield, therefore, government intervention is inevitable in terms of subsidies at least in initial years. The government should also undertake awareness programs to reduce Vanaspati products from food as it incurs health risk. Another crucial thing is to ask Malaysian officials to provide level playing field to Pakistani rice exporters.

1- INTRODUCTION

1.1- BILATERAL TRADE

1. INTRODUCTION:

Malaysia is situated in Southeast Asia, lying just north of the Equator, that is composed of two noncontiguous regions: Peninsular Malaysia also called West Malaysia and East Malaysia, on the Island of Borneo. It has a coastline of 4,675 km. The overall area of the country comprises of 329,613 km^2. The country shares a border with Thailand and Indonesia. Malaysia remains one of Asia's best-performing economy. The economy was once heavily dependent on products like tin and rubber expanded to the multisector economy. The country was subjected to various reforms since independence. The New Economic Policy (NEP) over 1971-1990 was most successful in terms of restructuring. The main emphasis of the policy is to bring export-oriented industrialization. Free Trade Zones, concessions on raw material and massive foreign investment were also the characteristics of NEP. The period of two decades (1970-1990) witnessed exceptional economic growth and expansion of the export base. The country is currently observing 11th Malaysian 5-year plan which is the final leg of the Vision 2020 launched in 1990. The plan is based on the theme 'anchoring growth on people' has six strategic thrusts and six-game changer that transform the ideas into reality and address specific goals set out in Vision 2020. Malaysia has one of the highest standards of living in Southeast Asia and has witnessed robust growth. The recent economic slowdown is, however, the outcome of the low oil and commodity prices which is accompanied by weak Malaysian currency.

The Asian Financial Crisis (AFC) of 1997 spelled the end of the decade of impressive growth. The Malaysian economy was severely affected by both the Asian Financial Crisis 1997 and Global Financial crisis (GFC) 2008. The economy was acutely affected by AFC as real GDP fell by 10 percent. The GFC, however, has indirect effects on the Malaysian economy. As it was not the financial crisis or currency crisis for Malaysia but was export-crisis because major export destinations were subjected to these financial vulnerabilities.

The Table-1 below depicts the key economic indicators of Malaysia. The economic slowdown was evident since 2014 before recovery in 2017. Both real GDP and GDP per capita have grown over last year supporting a positive economic outlook. Decline in unemployment rate also indicating the same. But the substantial increase in inflation brings some evidence of overheated economy. Moreover, economic growth appeared positively correlated with imports endorsing the fact that import is the function of economic growth. Malaysia has established bilateral Free Trade Agreements with Pakistan, India, Australia, Chile, New Zealand, and Turkey. Moreover, Malaysia is a member of ASEAN[1]- a regional trade agreement.

Malaysia is Pakistan's one of the traditional trade partner. The Malaysian economic growth is mainly driven by trade. The major exports of Pakistan to Malaysia are cereals, chemicals, seafood, and textile. However, major imports of Pakistan from Malaysia are Palm oils, Chemicals, Electrical and Electronic products. Malaysia-Pakistan bilateral trade has been historic. The countries established the Malaysia-Pakistan Close Economic Partnership Agreement (MPCEPA) in November 2007 which came into force on January 2008[2]. The agreement has opened the vast avenue for mutual cooperation and promotes liberalization in trade in goods and services.

[1] ASEAN members: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam

[2] Details are in subsequent section.

Table 1: Key Economic Indicators of Malaysia

Indicators	2013	2014	2015	2016	2017
Real GDP Growth (%)	4.7	6	5	4.2	5.4
Unemployment Rate (%)	3.3	2.9	3.2	3.5	3.4
Population (in Millions)	30.21	30.70	31.18	31.63	32.07
Consumer Price Inflation (%)	2.1	3.1	2.1	2.1	3.8
GDP per capita ($)	11008.87	9505.32	9374.09	9659.87	10489.65

Source: International Financial Statistics, IMF

The map below presents the list of supplying market of Malaysia in 2017. The major suppliers include China, the US, and Thailand. The width of the arrow is proportional to the magnitude of exports to Malaysia. Pakistan's share in Malaysian total imports is somewhere between 0 and percent.

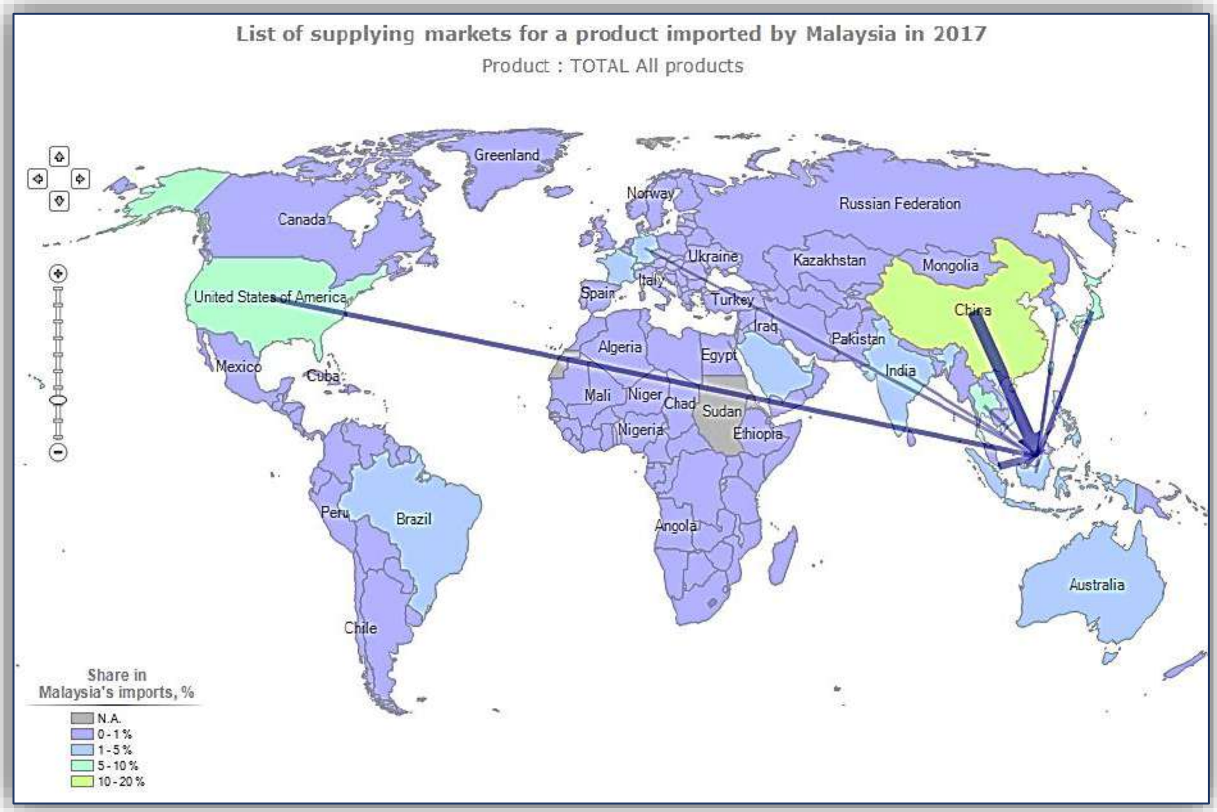

Figure 1: Supplier to Malaysia in 2017

1.1. BILATERAL TRADE ANALYSIS

Bilateral trade volume between Pakistan-Malaysia has increased multiple times in the last two decades, however, a large volume is accounted by Malaysian exports to Pakistan. This section is devoted to analyze bilateral trade scenario between the two countries.

Malaysia-Pakistan Free Trade Agreement (FTA)[3]:

The negotiation on FTA with Malaysia was first started in 2005. The Early Harvest program was successful in which both countries provided market access to the limited number of products. The Malaysia and Pakistan developed the Malaysia-Pakistan Closer Economic Partnership Agreement

[3] http://www.commerce.gov.pk/about-us/trade-agreements/pak-malaysia-trade-agreements/

(MPCEPA) which had come into effect in January 2008. This agreement is the first bilateral agreement among two OIC member countries. Under the agreement, Pakistan has offered tariff concession on 43.2 percent tariff lines while 78 percent tariff lines are subjected to the concession by Malaysia. It remained the first trade agreement between the Muslim majority countries. The agreement covers concession in trade of goods & services, investments, as well as bilateral technical cooperation and capacity building.

Pakistan was asked to reduce the tariff on 7 palm oil tariff lines by 15 percent Margin of Preference that was 10 percent in 2008 and an additional 5 percent in 2010. There will, however, no reduction of sales/Federal excise duty on palm oil. Moreover, the goods have to satisfy rules of origin in order to qualify for preferential treatments. Trade Development Authority of Pakistan is designated to provide these certificates.

Figure 2 below represents the bilateral trade statistics between Pakistan and Malaysia. The vertical line (in red) divides the figures between pre and post FTA periods. The trade balance is roughly a mirror image of the import trends which reflects the dominance of Pakistan's imports from Malaysia. Pakistan imports have first decreased after FTA but have expanded exponentially till 2011. The imports witnessed a decline over 2011 to 2015 and have been increasing since then. It may increase further as the price of palm oil has been increasing. In addition to this, the Malaysian exchange rate has appreciated which further made their exports (or imports from Malaysia) expensive. Since demand is inelastic therefore a likely impact is the surge in import bills.

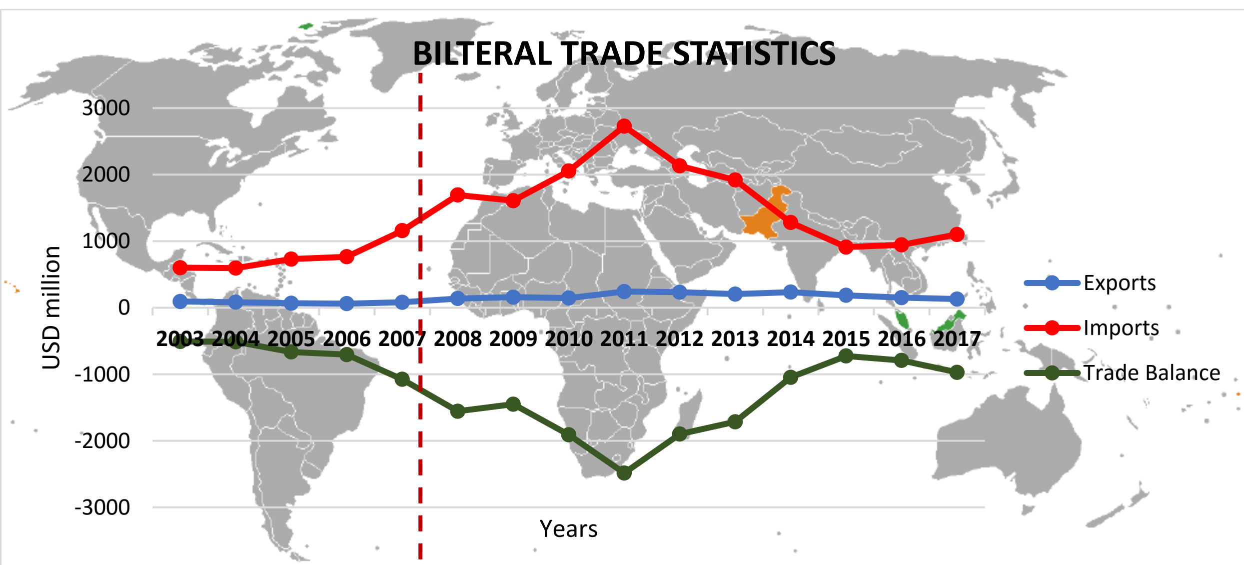

Figure 2: Bilateral Trade Scenario

Table 2 shows the analysis on the year-on-year basis. It is evident that there is an increase in exports of 49.5 percent for the first six months of 2018 as compared to 2017. However, imports over the period of Jan-June has witnessed an increase of 1.5 percent as compared to the same period of the previous year. Similarly, the trade balance has improved by 5.4 percent in favor of Pakistan. It can be concluded that the recent bilateral trade scenario is favoring Pakistan.

Table 2: Bilateral Trade Statistics (Monthly)

Exports (USD million)	Jan	Feb	Mar	Apr	May	June	Total (Jan-June)
2018	15.901	12.157	16.201	14.696	17.395	12.348	88.697
2017	11.060	8.845	13.428	7.519	9.608	8.850	59.310
Percent change	43.77	37.45	20.65	95.46	81.04	39.53	49.55
Imports (USD million)	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**Total (Jan-June)**
2018	90.928	73.566	63.558	79.992	93.574	81.557	483.176
2017	78.162	79.813	80.968	74.549	70.963	91.763	476.216
Percent change	16.33	-7.83	-21.50	7.30	31.86	-11.12	1.46
Balance (USD million)	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**Total (Jan-June)**
2018	-75.028	-61.409	-47.357	-65.297	-76.179	-69.209	-394.478
2017	-67.102	-70.968	-67.540	-67.030	-61.354	-82.913	-416.907
Percent change	-11.81	13.47	29.88	2.59	-24.16	16.53	5.38

Source: State Bank of Pakistan

Table 3 illustrates the annual trade statistics related to bilateral trade between Pakistan and Malaysia. The trade balance is tilted towards Malaysia since 2013. The export has been continuously declining while the import is increasing simultaneously since 2014.

Table 3: Pakistan-Malaysia Bilateral Trade Statistics (Annual)

	2013	2014	2015	2016	2017
Exports	204.46	233.93	186.23	151.75	129.07
Imports	1,919.74	1,280.08	910.96	944.63	1,101.01
Trade balance	-1,715.27	-1,046.15	-724.73	-792.89	-971.94

Source: ITC Trade map

Figure 3 represents the share of top-15 commodity groups (based on the PBS classification) of Pakistan exports to Malaysia over the fiscal year 2017-18. The non-basmati rice account for the major chunk of Pakistan exports to Malaysia with USD 23.7 million accounts for 16 percent of total exports of Pakistan to Malaysia. It is followed by Fish & Fish Prep and Vegetables, both account for 13 percent with $19.7 million and $19.1 million respectively.

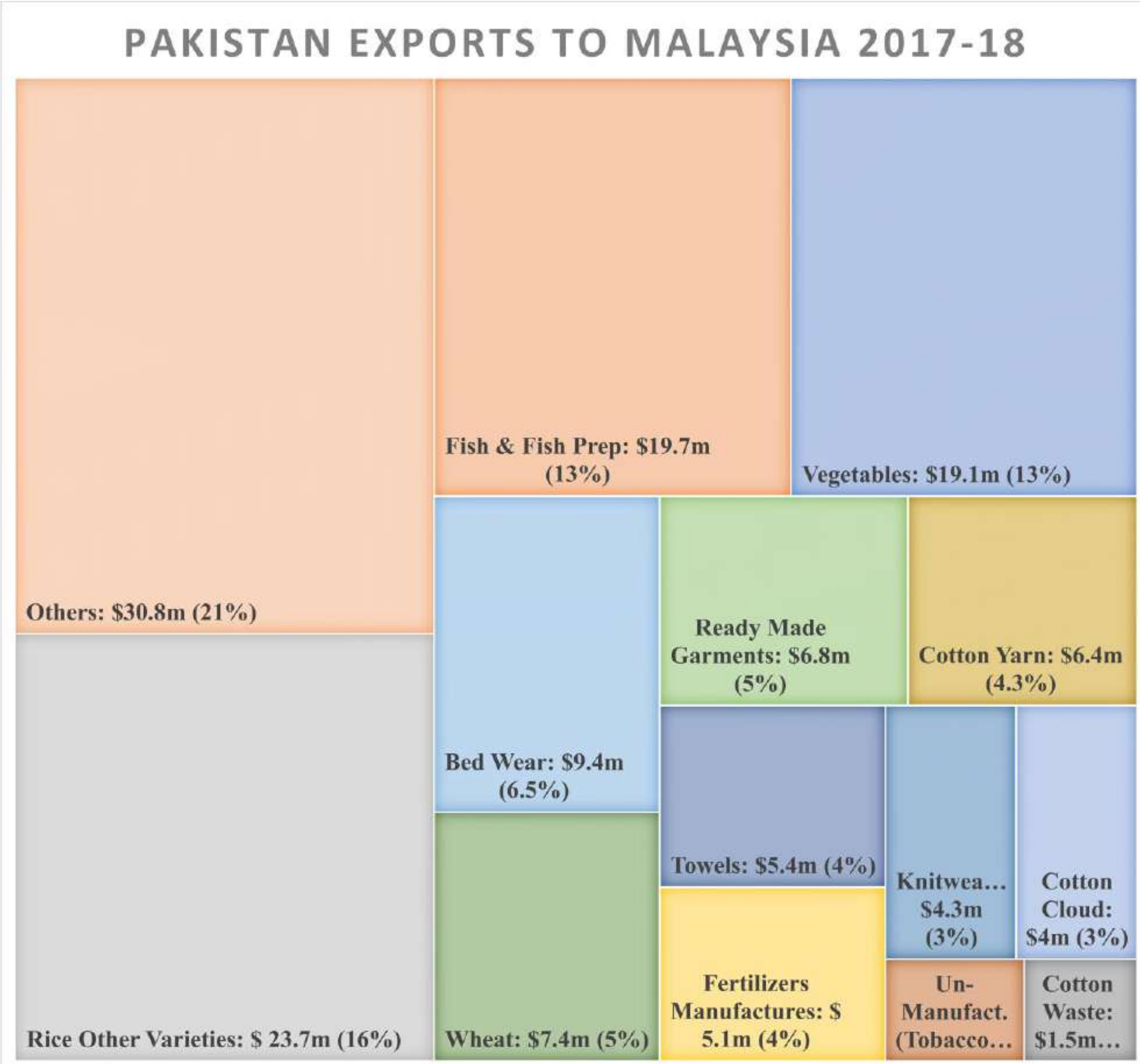

Figure 3: Pakistan Exports to Malaysia (commodity groups), 2017-18

Figure 4 below depicts the composition of Pakistan's exports to Malaysia. It is at HS-02-digit level. The composition of exports to Malaysia has been evolved significantly over 2003-2017. Export basket appeared diversified with the major chunk derived from Cereals, Fish and Crustaceans, and Other made-up textiles. It is also evident that the diversification is highly pronounced in 2017 with cereals, fish and other made-up textiles as the major products.

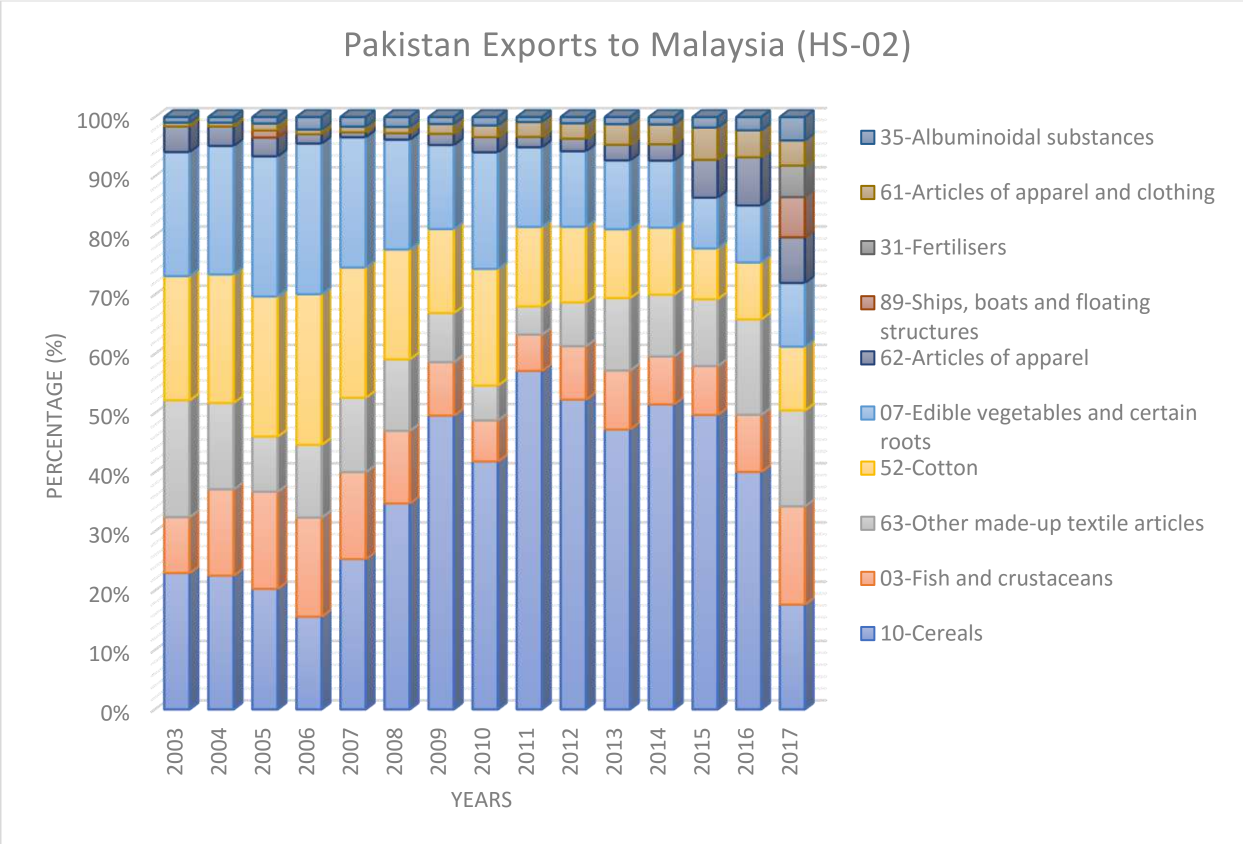

Figure 4: Export Composition of Pakistan to Malaysia

Pakistan Top-15 Exports

The graph in Figure 5 compares Pakistan's export to Malaysia at HS-06-digit level. The topmost product in this context has faced a decline of nearly 59 percent. The product 'Semi-wholly milled' rice accounted for USD 16 million but the share has declined significantly. The potential reason for the decline could be the shift of export of Pakistani rice toward Europe. As Indian rice got restricted in EU because of the reduction of the threshold of the pesticide **'Tricyclazole'** from 0.03 mg/kg to 0.01 mg/kg. Pakistani exporters prefer EU over Malaysia because of comparatively low tariff in EU.

All other products including 'Bedlinen of textile', 'Light-vessels, fire-floats', and 'Double-salts and mixtures of ammonium sulphate' have recorded some increase but Pakistan's overall exports to Malaysia witnessed a decline if compared using data from ITC trade map which is based on the calendar year.

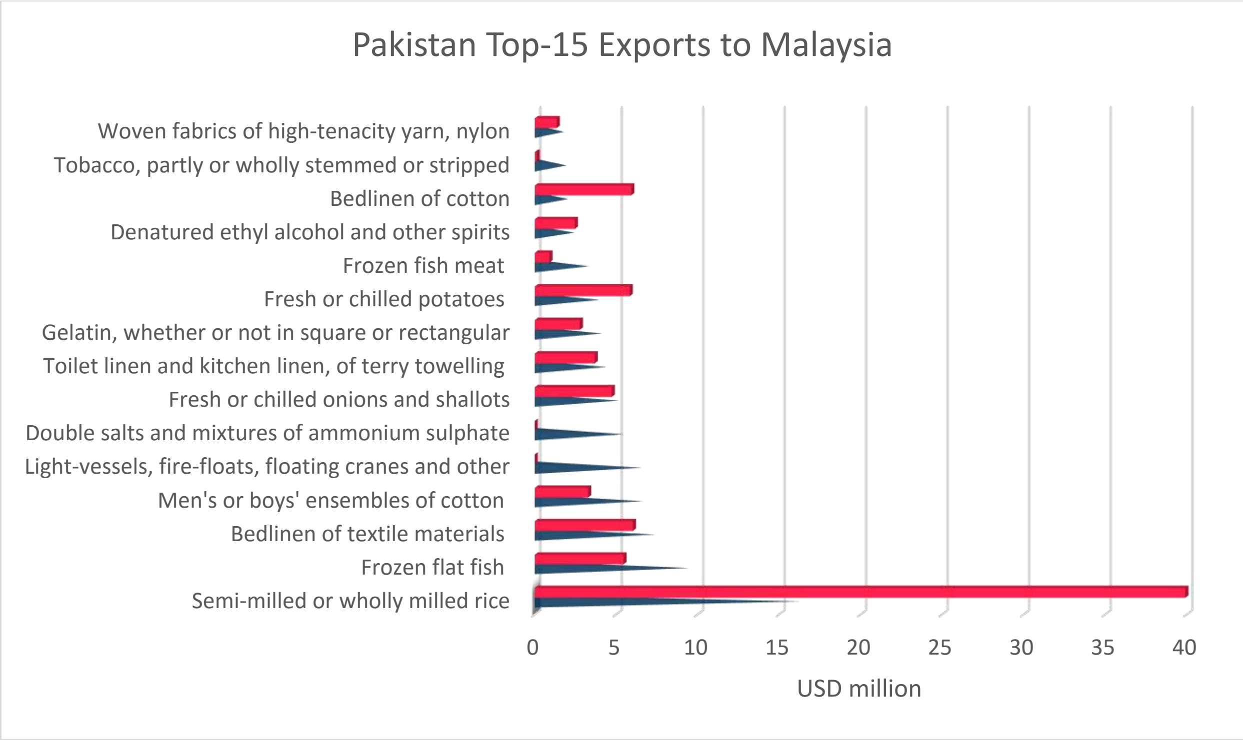

Figure 5: Pakistan Exports to Malaysia (HS-06-digit)

Pakistan Top-15 Imports

The oil remains the major import commodity from Malaysia. It accounts for 50.1% alone of the total imports. Others include chemicals, electronic appliances, and machinery. Palm oil is the major import item among the top-15 import items at HS-06-digit.

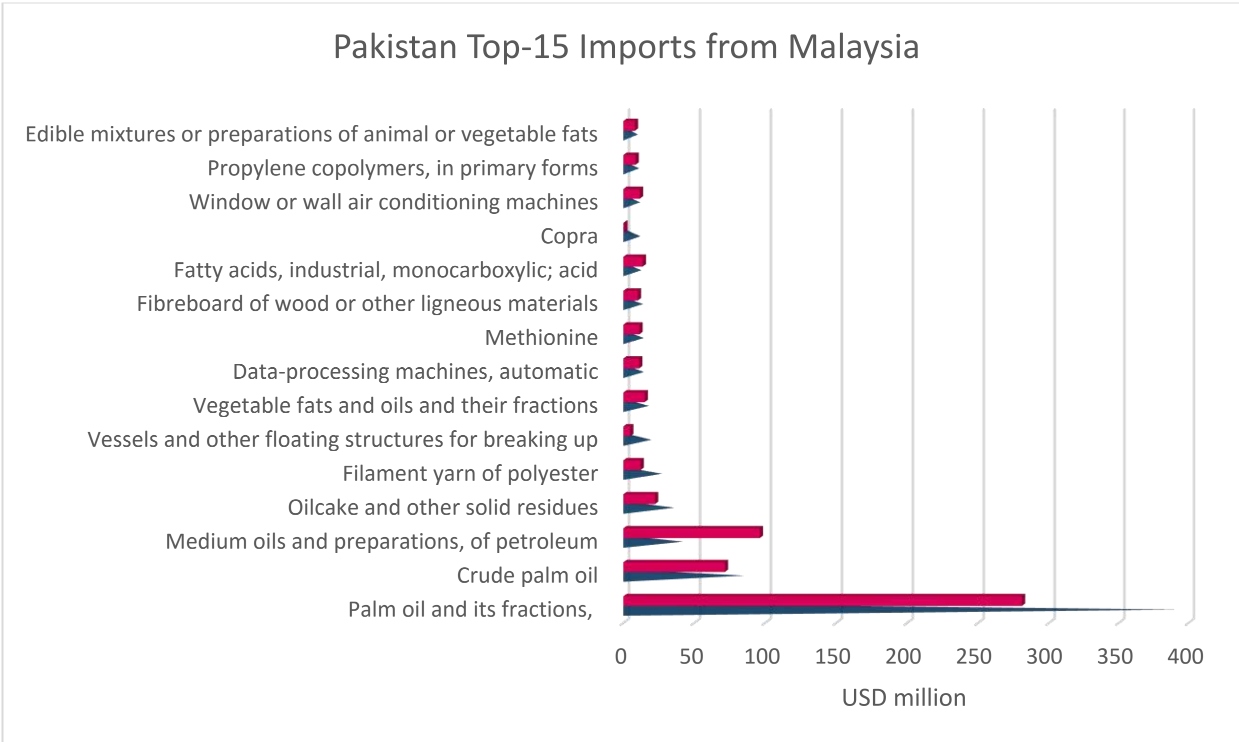

Figure 6: Pakistan Imports from Malaysia (HS-06-digit)

2- VALUE CHAIN MAPPING

2.1.1- SEMI-WHOLLY MILLED RICE

2.1.2- FRESH CHILLED POTATOES

2.1.3- FROZEN SHRIMPS AND PRAWNS

2.1.4- MEDICAMENTS

2. Value Chain Mapping

2.1. POTENTIAL PRODUCTS

This section is concerned in identifying potential products of Pakistan and their competitiveness in the global market. This is done by simultaneously applying two criteria:

(1) If exports of Pakistan to the world of that item is greater than 50 USD million and imports of Malaysia from the world is greater than 50 USD million.

(2) If the market share of Pakistan is less than 10%.

Table 4 below depicts the top-15 potential products that are qualifying the criteria mentioned above. The last column of the table indicates the trade potential of each product.

Table 4: List of potential products (HS-06-digit)

S. No.	HS-codes	Product Name	Pak to Malaysia*	Malaysia Import from World*	Pakistan Export to World*	Trade Potential[4] *
		Total products	129.066	193855.9	21877.79	21748.72
1	'100630	Semi-milled or wholly milled rice	16.294	342.62	1,512.69	326.32
2	'070190	Fresh or chilled potatoes	3.905	74.23	80.84	70.32
3	'030617	Frozen shrimps and prawns	1.359	71.57	54.69	53.33
4	'901890	Instruments and appliances used in medical	1.039	287.35	360.58	286.31
5	'300490	Medicaments consisting of mixed or unmixed products	0.751	917.62	70.79	70.035
6	'610910	T-shirts, singlets and other vests of cotton	0.577	136.16	197.76	135.57
7	'620342	Men's or boys' trousers, bib and brace overalls	0.144	57.40	410.42	57.25
8	'610990	T-shirts, singlets and other vests of textile	0.104	74.34	106.42	74.23
9	'640399	Footwear with outer soles of rubber, plastics or composition leather	0.06	74.48	68.99	68.93
10	'620349	Men's or boys' trousers, bib and brace overalls,	0.032	58.62	113.54	58.58
11	'170490	Sugar confectionery not containing cocoa	0.025	59.96	61.78	59.93
12	'080410	Fresh or dried dates	0.021	54.09	107.49	54.071
13	'520819	Woven fabrics of cotton	0.004	1,369.00	64.48	64.47
14	'110100	Wheat or meslin flour	0	28,991.00	97.03	97.02
15	'520100	Cotton, neither carded nor combed	0	169,404.00	60.95	60.94

Source: ITC Trade map * Values in USD millions

2.1.1. SEMI-WHOLLY MILLED RICE (HS- 100630)

The product Semi-Wholly milled rice (100630) includes **'Semi-milled or wholly milled rice, whether or not polished or glazed; other (10063090)'** and **'Semi-milled or wholly milled rice,**

[4] Trade potential= Minimum (Pakistan's World Exports, Malaysian's World Import) – Pakistan exports to Malaysia

whether or not polished or glazed; basmati (10063010)'. The product is among the top-15 items also possess the potential of $326 million. Thailand and India outstrip Pakistan in terms of export value of the same. Pakistan is losing its competitiveness of the product in the market despite having FTA. Some of the export performance indicators given below endorse the same, for instance, there is nearly 27% and 59% decline in terms of CAGR over 2013-17 and percent change over 2016-17 respectively. On the other hand, the share of India and Singapore have grown substantially over 2016-17 by 42% and 327% respectively.

Table 5: Trade statistics for 'Semi-Wholly Milled rice (HS-100630)'

Ranks based on exports	Countries	Value of Exports in 2017 ($ million)	CAGR (2013-17) (%)	Share in Malaysia's imports (%)	Unit value ($)	Growth 2016-17 (%)	Average tariff	ECI	
								2013	2017
1	Thailand	119.08	7.20	65.8	406	-28	20	1	1
2	India	36.098	19.39	20	917	42	20	3	3
3	**Pakistan**	**16.294**	**-26.80**	**9**	**558**	**-59**	**40**	**2**	**4**
4	Singapore	8.119	123.22	4.5	806	327	20	4	2
5	Japan	0.409	110.08	0.2	2235	27	40	10	8
6	USA	0.361	-32.47	0.2	557	-67	40	5	9
7	Taipei, Chinese	0.266	98.89	0.1	1209	28	40	9	7
8	Korea	0.105	-24.02	0.1	1615	40	40	6	10
9	Uruguay	0.063	-	0	955	-22	40	14	6
10	Italy	0.054	-6.61	0	2077	-17	40	8	12

Source: ITC Trade map

The Figure-7 below depicts the market share and the trend related to the competitors in the Malaysian market. The highest share is captured by Thailand (66%) which is followed by India (20%) and Pakistan (9%). The trend analysis shows that India and Singapore are relatively new entrants and are capturing the share of Pakistan and Thailand. Pakistan's share remained highest in 2014 and have been declining since then in this particular market.

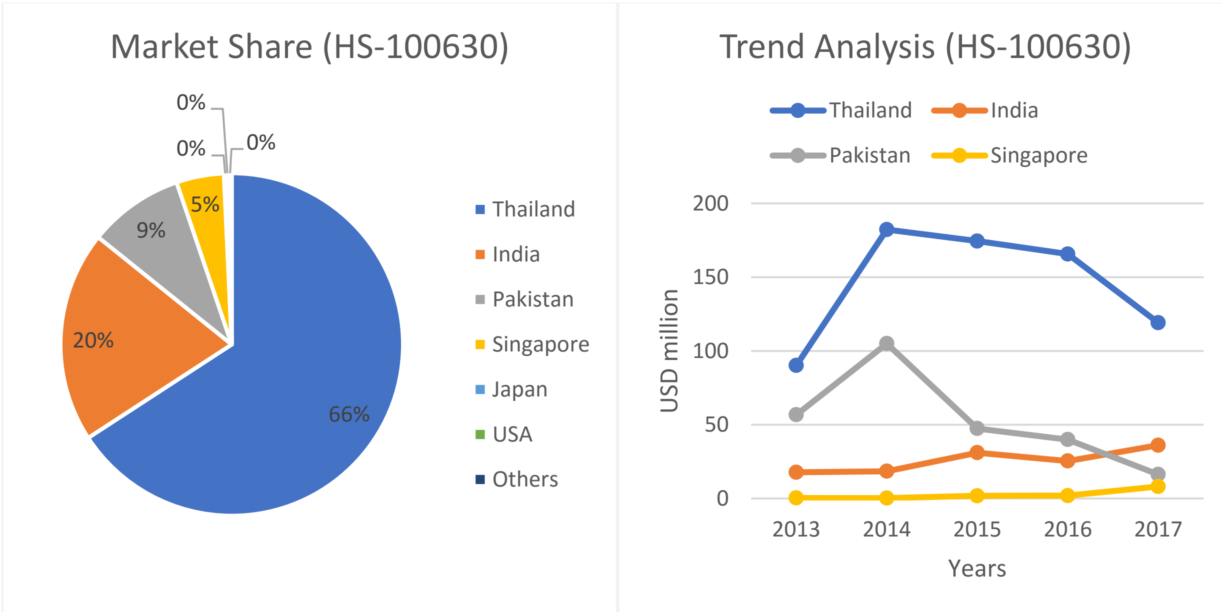

Figure 7: Market Share and Trend (HS-100630)

The primary competitor of Pakistan for the product stated above is Thailand which is followed by India. Thailand mainly exports sticky 'Semi-wholly milled' rice whereas Pakistani and Indian based rice is premium basmati rice with an aroma. Pakistan is currently facing the water-scarcity that threatens the exports of rice in the future.

Competitors Analysis

Despite having FTA, Pakistan's competitive advantage over rice is fading out as compared to India and Thailand. Nearly 65 percent of the rice of Malaysia has been imported from Thailand which is mainly a long grain white Jasmine fragrant rice. While basmati rice suppliers are India and Pakistan but the major share is captured by India.

1. THAILAND: Thailand's major variety of rice include white rice and jasmine rice. Yingluck government's rice scheme of 2011 supported rice farmers with a plan to purchase rice at above market price. In June 2011, rice prices were at a record high and Thailand was the world's leading exporter when Thailand supplied 28.79 percent of the rice to the world [see (Poramacom, 2014)]. Moreover, Prayut government's rice scheme allocated eight billion Thai baht for the provision of soft loans to the farmers.

Competitive strategies of Thailand:

Government Initiatives: Thailand has long been spending to develop their agricultural sector since initiating its first national development plan in 1961. The government took multiple initiatives to support and improve the agricultural sector. These policies are related to production policy, price intervention policy, and the rice-pledging policy.

Two major initiatives taken by different regimes are Apisit's government's '*Income Guarantee Scheme*' for rice in 2011, and Yingluck's government '*Rice Pledging Policy*' scheme remained successful in promoting rice exports. The former policy is focused to lift Thai farmers' well-being and promote confidence among farmers. While later is to support farmers by providing an opportunity to pledge and then provide an unlimited supply of rice to the government at a higher price for their crops than the market prevailing prices. Other policies include Agricultural crop insurance, pledging programs, and revenue assurance measures.

Certification: In 2013, Thung Kula Ronghai region of Thailand was awarded by the European Union's Geographical Indication certification. This has created a positive image of Thai-rice in the world.

E-selling: Thailand has registered a variety of rice on online trading websites like Amazon, alibaba.com, pawineetscsupplies.com, and many others. These online selling methods facilitate Thai farmers to sell and market their products easily. Moreover, it supports exporters for both business to business (B2B) as well as business to consumers (B2C) interactions.

Member of ASEAN: Both Malaysia and Thailand are the member of ASEAN. It allows Thailand to export rice to Malaysia at the rate of 20 percent while Pakistani rice is facing 40 percent tariff.

Border sharing: Since Malaysia and Thailand are border sharing countries, therefore, posses low freight cost advantage. Moreover, consumer preferences may not vary much across borders because of regional similarity.

<u>2. INDIA:</u> India is the second biggest rice producer and consumer of rice in the world. It offers relatively more varieties of basmati rice than Pakistan and Thailand. In addition to this, UNDP and FAO sponsored projects for the development and use of hybrid rice technology. India was a net importer in mid-1960s and became a net exporter of quality rice by early 1990s.

Competitive strategies of India[5]:

Hybrid Rice seeds[6]: India has followed a strategy similar to China to make use of hybrid seeds to improve cultivation. Several international agencies like UNDP, FAO, ADB, and International Rice

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[5]http://www.fao.org/docrep/x7164t/x7164t05.htm

[6] https://www.jstor.org/stable/4412746?seq=1#page_scan_tab_contents

Research Institute have supported R&D in the early 1990s. It received USD 8 million between 1990 and 2000. In the 1990s, the huge influx of private sector expecting a huge business of seed.

Production capacity: India grows rice at the area of 43,950 HA while Pakistan is using 2,789.2 HA for cultivating rice. Although per hacter productivity of Pakistan high than that of India but India has a greater excess supply of rice because of the larger area. Moreover, greater production allows for economies of scale and reduce the per unit freight cost.

India-Malaysia FTA: The Malaysia-India Comprehensive Economic Cooperation Agreement was signed on February 2011 and became effective on July 2011. The FTA has provided a competitive advantage to India in terms of tariff barrier. India faces 20 percent tariff while Pakistan is exposed to 40 percent tariff.

Non-tariff Measures[7]

Partners affected: Bangladesh, India, Indonesia, Morocco, Myanmar, Pakistan, Philippines, Sri Lanka, Sudan, Thailand, Turkey.

Sanitary and Phytosanitary (SPS-A19, SPS-A83): Prohibition of import of plant etc. except under permit - Plants which are exempted under regulation 4(1), (a), (b) and (c) and imported from countries where the khapra beetle is found shall be treated by the exporting countries according to the dosage rates.

Partners affected: All members.

Technical Barrier to Trade (TBT-B31): The measure refers to labeling requirement applied for food products. Further information regarding this requirement can be accessed through faolex.fao.org/docs/texts/mal27305.doc.

Technical Barrier to Trade (TBT-B7): Standards and Particular Labelling Requirements for Food- Cereal, Cereal Product, Starch and Bread- (2) Milled rice shall not contain more than 14 per cent of water calculated on the wet basis.

Technical Barrier to Trade (TBT-B14): Special Requirements in Handling, Preparing, Packing, Serving, Storing and selling of Specific Food- Carriage of Food.

Sanitary and Phytosanitary (SPS-A14): Approval for sale of food obtained through modern biotechnology - No person shall import, prepare or advertise for sale or sell any food and food ingredients obtained through modern biotechnology without the prior written approval of the Director.

[7] https://trains.unctad.org/

Sanitary and Phytosanitary (SPS-A31, A-22): The measure refers to the labelling requirement, applied to food products. The measure refers to incidental constituent (any foreign, extraneous, toxic, noxious or harmful substances that are contained or present in or any food) for food.

2.1.2. FRESH OR CHILLED POTATOES (HS-070190)

The product stated above provides the level playing field in terms of average tariff. However, the export performance of Pakistan in this context is vulnerable. It has lost its competitiveness depicted by ECI (i.e. downgraded by 1 point) along with a 33% decline over 2016-17. China remains the leader in this market with nearly 69% share. Noticeably, India's share has plunged by 113% accompanied with improvements in ECI ranking (i.e. upgraded by 3 points) despite offering high unit value than that of Pakistan.

Table 6: Trade statistics for 'Fresh or Chilled Potatoes (HS-070190)'

Ranks based on exports	Countries	Value of Exports in 2017 (USD million)	CAGR (2013-17) (%)	Share in Malaysia's imports (%)	Unit value ($)	Growth 2016-17 (%)	Average tariff	ECI	
								2013	2017
1	China	36.785	-0.69	69	265	-3	0	1	1
2	USA	5.059	-11.72	9.5	526	0	0	3	6
3	**Pakistan**	**3.905**	**-10.89**	**7.3**	**199**	**-33**	**0**	**4**	**5**
4	India	2.945	49.47	5.5	288	113	0	11	8
5	Australia	1.593	4.85	3	985	-12	0	5	2
6	Germany	1.185	1.06	2.2	198	-20	0	7	7
7	Netherlands	0.925	75.28	1.7	236	-44	0	10	4
8	France	0.425	4.75	0.8	434	76	0	9	9
9	Singapore	0.317	-28.26	0.6	403	-26	0	2	3
10	Indonesia	0.096	-18.91	0.2	113	-38	0	12	12

Source: ITC Trade map

It is appeared from the graph below that China (69%) remains the market leader for the product mentioned-above. It is followed by USA (9%) and Pakistan (7%). The trend analysis reflects the fact that Pakistan's share remained highly volatile over the period 2013-2017.

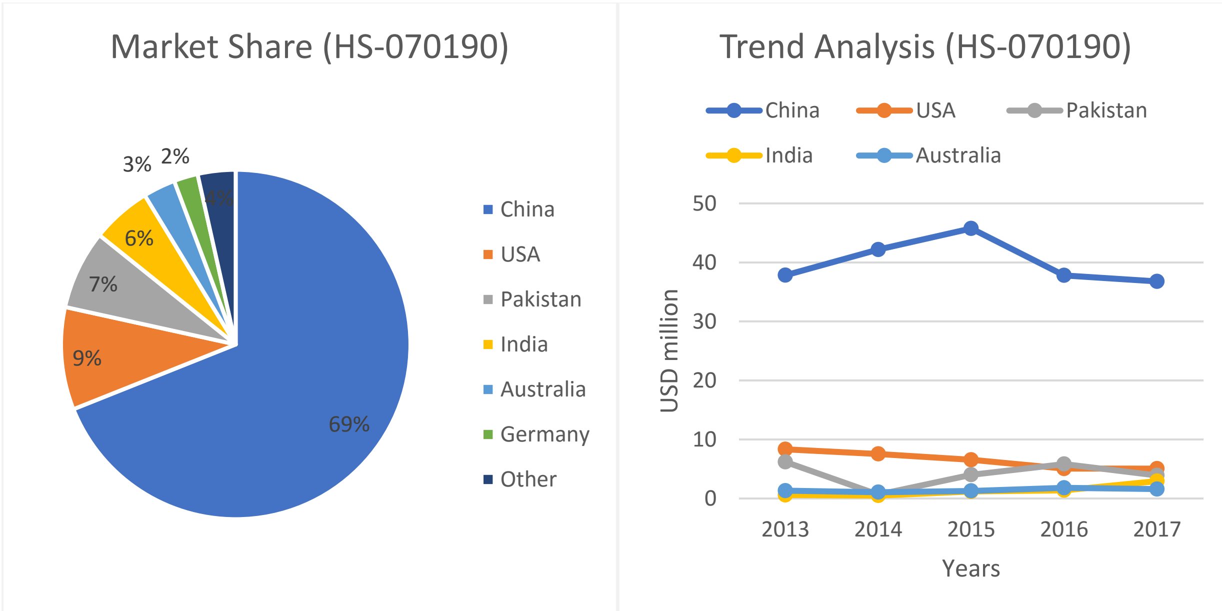

Figure 8: Market Share and Trend (HS-070190)

Over the years, the potato has become one of the major crops of Pakistan for both farmers and consumers. Potato is the most important crop in Pakistan with the potential of earning in terms of exports. The quality of Pakistani potatoes is better than that of India[8]. It is grown approximately 110,000 ha over eight different agro-ecological zones. Approximately 70-80 percent of the production is concentrated in the irrigated plains of Central Punjab and KPK.

The lack of high-quality seeds forms an impediment along with poor harvest handling, including transport and storage practices, causes unnecessary damages and losses and reduction of consumption quality[9].

1. CHINA: It is the world's biggest producer of potatoes. Potatoes remained a staple in Chinese kitchen after its introduction by Portuguese traders in 1600s. Over the past decade, the planted area of potato in China has been growing and remained the major driver to alleviate poverty especially in rural areas.

Competitive strategies of China:

Research and Development: China has established a research center in Ulanqab city of China. Moreover, a new potato research institute established in China's Xinjiang Uygur autonomous region. It is co-founded by Kazakhstan which aims to increase regional exchanges for development

[8] https://www.dawn.com/news/1334570

[9] http://www.pakissan.com/english/allabout/horticulture/vegetables/potato.shtml

of the potato industry. By 2020, China is expected to have 6.67 million hectares of potato planting areas.

The Newest Breed of potato: The Chinese new variety of potato- Quingshu 9- add much to the production capacity. It increased the average yield up to 30 tons per hectare which is one and a half times greater than the yield for average potatoes of China.

United States: It is the leading vegetable crop of US. Together Washington and Idaho produce more than half of the annual supply. Potatoes are grown nearly in every state of US. Only about one-third is consumed fresh and rest is processed into frozen products.

Competitive strategies of US?

Marketing: A marketing and research organization 'Potatoes USA' played a vital role in promoting US produced potatoes around the globe. It was established in 1971 and today is the largest vegetable commodity board. It is recognized as an innovator in the production industry.

Product Differentiation: The value has been added to the US-based potatoes by adding brands. Brands like 'Heritage Potatoes', 'Eco-labeled' Potatoes and many others have attracted the demand for US-based potatoes.

Promotional Campaigns: There are a plethora of promotional campaigns for domestically produced potatoes at both state and national levels. It includes Organic Production, 'Chef's potatoes', 'Get Real, Get Maine!', 'Wal-Mart Local Food Initiative', 'Potatoes to Plastics' and etc.

Non-Tariff Measures[10]

Partners affected: All members.

Sanitary and Phytosanitary (A84): The inspection, quarantine, treatment or destruction of plants imported into a component region - Every consignment of plants imported into a component region shall be examined by the import officer either at the place of entry or at any other place approved by the Director.

Sanitary and Phytosanitary (A14): Prohibition of import of plant etc. except under permit - The importation into a component region of any beneficial organism is prohibited except under a permit contained in the Eighth Schedule issued by the Director in accordance with the regulations and subject to such conditions as the Director may, by endorsement on permits, impose.

Sanitary and Phytosanitary (A83): Prohibition of import of plant, etc. except under permit - (2) Subject to the prohibitions and restrictions contained in regulation 6, each consignment of plants

[10] https://trains.unctad.org/

imported into a component region shall be accompanied by a phytosanitary certificate as contained in the Second Schedule.

Technical Barrier to Trade (TBT B7, B31, B6): Standards and Particular Labelling Requirements for Food -Vegetable and Vegetable Product - (2) Where a vegetable product is canned, it shall also comply with the standard prescribed for a particular type of vegetable product.

Technical Barrier to Trade (TBT B-6): The measure refers to labelling requirement applied for food products.

Technical Barrier to Trade (TBT B14): Requirement for a permit, license or certificate - No person shall import any plant, animal, carcass, fish, agricultural produce, soil or microorganism without a permit, license or certificate issued under this Act.

2.1.3. FROZEN SHRIMPS AND PRAWNS, EVEN SMOKED (HS-030617)

Pakistan's share has increased over 2013-17 with an average growth rate of 4 percent. However, ECI indicates that Pakistan has lost its competitiveness over the same period. The regional competitors include China and India where China remains the market leader with the share of nearly 74 percent.

Table 7: Trade statistics for 'Frozen Shrimps and Prawns, even smoked (HS-030617)'

Ranks based on exports	Countries	Value of Exports in 2017 (USD million)	CAGR (2013-17) (%)	Share in Malaysia's Imports (%)	Unit value ($)	Growth 2016-17 (%)	Average tariff	ECI	
								2013	2017
1	China	110.892	-13.35	73.8	13928	-19	0	1	1
2	India	10.138	-13.50	6.7	9546	-43	0	4	8
3	Indonesia	8.486	29.67	5.6	4594	7	0	6	7
4	Australia	6.724	12.81	4.5	8447	196	0	3	3
5	Argentina	6.016	95.96	4	7274	528	0	8	4
6	Myanmar	3.254	30.35	2.2	2676	572	0	5	6
7	Singapore	1.79	-14.69	1.2	8861	-42	0	2	2
8	**Pakistan**	**1.359**	**4.06**	**0.9**	**6597**	**34**	**0**	**9**	**10**
9	Thailand	1.181	37.54	0.8	3384	3	0	10	9
10	Peru	0.21	-	0.1	10500		0	15	11

Source: ITC Trade map

The diagram below represents that China has captured the highest share of the market. Pakistan accounts for only 1 percent. Another competitor in this market is India with a share of nearly 6 percent. The trend shows that the demand of the product has been decreasing both China and India faced a decline while Pakistan's share has been increasing since 2013.

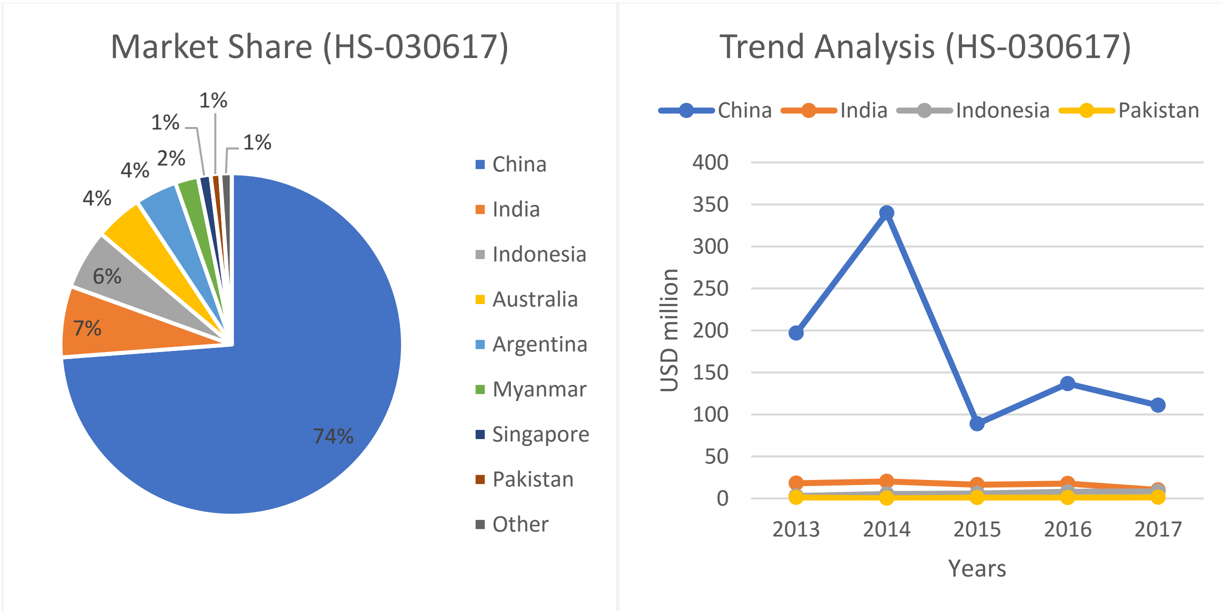

Figure 9: Market Share and Trend (HS-030617)

Competitors' Analysis

Fisheries and fishing industry play a vital role in Pakistan's economy. It has a total coastline of 1,120 km including the coastlines of Karachi and Baluchistan. The major marine harbours of Pakistan include Karachi Fish Harbor, Karachi Fisheries Harbor, Korangi Fish Harbor, Pasni Fish Harbor, and Gwadar Fish Harbor.

Despite having immense potential, the product is subjected to several challenges related to SPS measures. More advanced and updated training of processing plants in HACCP is required to meet the global standards.

1. INDIA: It is the fourth largest producer of fish in the world and the industry is contributing much to their GDP. It also contributes about USD 70 million per annum to the country's exchequer. The industry has attracted several foreign investors through a liberalized policy of the government. There are five main fishing harbours at Karnataka, Kerala, Tamil Nadu, Andhra Pradesh, and West Bengal. In 2016, India became the biggest exporter of shrimps.

Competitive strategies of India:

Wider coastline: India has long coastline running 8,118 km in length and an Exclusive Economic Zone. The country is the fourth largest fish producer in the World. It offers diversified fishing communities in India.

Feed for fishes: A report by FAO suggested, on the behalf of 12 farms surveyed at Andhra Pradesh, that raw materials for feeds were almost all sourced from within India (except one feed mill that used a source of ready mixed raw materials from Indonesia).

Export Development Authority: India has a separate export development authority named as **'The Marine Products Export Development Authority'**. National Fisheries Development Board (NFDB) is also playing a vital role in developing the fisheries industry of India. There are some seasonal bans where the government uses a smartcard system for all fishermen.

Exclusive Economic Zone (EEZ): The exclusive economic zone is the area beyond and adjacent to the territorial sea. In EEZ, Coastal States have exclusive rights for exploring and exploiting living and non-living resources of water. India complies United Nation Convention on the law of the sea in 1982 which prescribes 200 nautical miles as the limit of EEZ. It is currently seeking to extend its EEZ to 350 miles. Pakistan, on the other hand, managed to have EEZ of 150 nautical miles.

2. CHINA: Chinese fish industry has established prior to World War II and is largely based on the marine water fishing. It accounts approximately 18% of the global catches of the world which is greater than any other country.

Competitive strategies of China:

Subsidies: China paid more than any other country in fishing subsidies in 2013. It provided a subsidy of USD 418 million[11]. China's fuel subsidies for its fishing fleet were also significant and remained controversial in WTO ministerial meetings.

Long-distance Fishing Fleet: China has the world's largest fleet of deep-sea fishing. China's armada of long-distance fishing vessels has grown to 2,600 vessels. It can catch fishes in one week which is more than the Senegalese vessels' catch in one year.

WTO Fisheries subsidy issue:

Fishery subsidy issue was first prompted by FAO in the 1990s, consequently, WTO Doha Ministerial Conference launched negotiation to improve disciplines on fishery subsidies. Moreover, Goal 14.6 of Sustainable Development Goals (SDGs) state that certain forms of fishery subsidies should be prohibited by 2020.

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[11] https://www.ft.com/content/6f74e83a-6afe-11e8-8cf3-0c230fa67aec

***Non-Tariff Measures*[12]**

Partners affected: All members.

Technical Barrier to Trade (TBT B31): The measure refers to labelling requirement applied for food products. Further information regarding this requirement can be accessed through faolex.fao.org/docs/texts/mal27305.doc.

Technical Barrier to Trade (TBT B9): Grading - The Lembaga may require any fish to be graded according to types; sizes; and degrees of freshness. For the purpose of paragraph 1(c), the degree of fish freshness shall be in accordance with the standard determined by the Lembaga.

Technical Barrier to Trade (TBT B41, B33, B14):

Fish quality control - Any fish which is processed, dealt with, exported or imported shall comply with the quality standard and good handling practices as specified in the Schedule.

Fish packing - The Lembaga may require any fish to be exported, imported, dealt with or transported to any place shall be packed in containers as prescribed by the Lembaga.

The requirement for the permit, license or certificate - No person shall import any plant, animal, carcass, fish, agricultural produce, soil or microorganism without a permit, licence or certificate issued under this Act.

Sanitary and Phytosanitary (A64): Special Requirements in Handling, Preparing, Packing, Serving, Storing and selling of Specific Food- Carriage of Food.

Sanitary and Phytosanitary (A42): Special Requirements in Handling, Preparing, Packing, Serving, Storing and selling of Specific Food- Fish.

Sanitary and Phytosanitary (A14): Control of exportation and importation of fish - (1) No person shall export or import any fish without a license. (3) The Lembaga may specify the quality, quantity and type of fish to be exported or imported; Prohibition on dealing with fish unsafe to be consumed - No person shall deal with, process, export or import any fish unsafe to be consumed by the human without written consent from the Lembaga.

2.1.4. INSTRUMENT AND APPLIANCES USED IN MEDICAL (HS-901890)

Since many decades, Pakistan remains famous for the surgical instruments and appliances but the share of the product come out vulnerable in the Malaysian market. The product bears immense potential and can be exploited by employing marketing strategies. The average growth rate over 2013-17 is nearly 12% while most of the competitors have lost the share in the same period.

[12] https://trains.unctad.org/

Table 8: Trade statistics for 'Instrument & Appliances used in medical (HS-901890)'

Ranks based on exports	Countries	Value of Exports in 2017 (USD million)	CAGR (2013-17) (%)	Share in Malaysia's imports (%)	Unit value ($)	Growth 2016-17 (%)	Average tariff	ECI	
								2013	2017
1	Singapore	53.798	-15.70	30.8		4	0	1	1
2	USA	31.013	-10.63	17.8		-23	0	2	2
3	Germany	29.442	-2.29	16.9	77479	-16	0	3	3
4	Korea	9.357	3.75	5.4	28615	28	0	5	4
5	China	8.884	-8.04	5.1	11782	30	0	4	5
6	Japan	6.639	-0.90	3.8	93507	-18	0	7	6
7	India	3.672	-0.18	2.1	1.61	-9	0	14	9
8	Italy	3.383	-10.61	1.9	62648	36	0	9	8
9	France	3.287	-7.04	1.9	149409	26	0	10	10
10	**Pakistan**	**1.039**	**11.72**	**0.6**	**3.16**	**-11**	**0**	**24**	**23**

Source: ITC Trade map

The diagram below endorses that market is segmented with Singapore with a leading share of 30 percent. The USA and Germany accounted the same share of 17 percent. The regional competitors found in this market are India (2%) and China (5%). The trend analysis below depicts that Pakistan's share is hovering around the same over 2013-17.

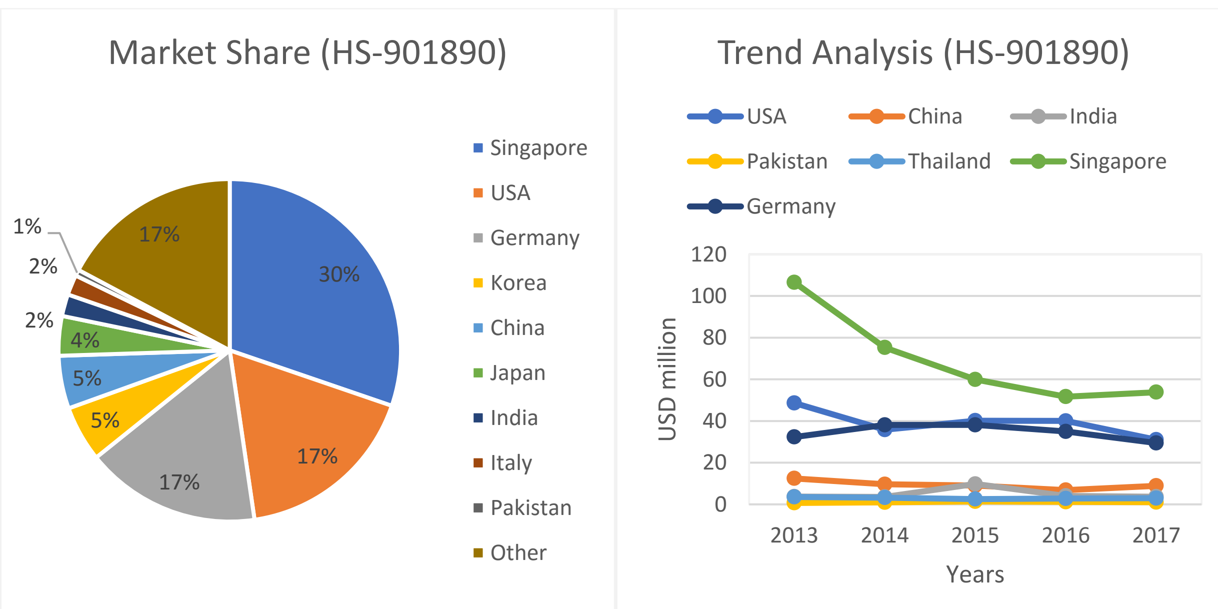

Figure 10: Market Share and Trend (HS-901890)

Competitors' Analysis

The exports of surgical instruments of Pakistan is comprised of two categories mainly; the export of disposable instruments and the exports of reusable instruments. Over 98 percent of the surgical units are located in Sialkot. The surgical sector of Pakistan is mainly based on less value-added products and are more focused on low-technology and low quality.

1. GERMANY: Due to its large number of well-trained physicians, researchers, and engineers remained the major reason for high standard medical technology. It also imports these products from Pakistan in less precise form and add value by improving its precision, branding, and get necessary certification requirements. Moreover, ample raw material and higher efficiency retain it among top exporter.

Competitive strategies of Germany:

Open and transparent market: German law does not make a distinction between Germans and foreign nationals regarding investments, incentives, or establishing a company. It attracted foreign investment as well.

Competitive Labor costs: The labor cost of the medical technology industry is relatively low and is not commensurate to their level of productivity.

Industry Associations: It includes the German Healthcare Export Group (GHE), SPECTARIS-German Hightech Industry Association, ZVEI, and VDDI. These association remained far more competitive and boosted export.

2. CHINA: The programs like healthy China 2030 and rising consumer demands compelled China to expand its industry. According to the World Economic Forum, more than 35 percent population will be more than the age of 60 by 2050. The government is anticipating aggressive demand for health care thus enhancing their own industry.

Competitive strategies of China:

E-commerce: China has registered surgical instruments and appliances on the websites (*Alibaba.com, Aliexpress.com).* These online retailing and whole selling methods facilitate selling of goods. China leads the world in e-commerce. More than 40 percent of the transaction of China is currently taking place in China through e-commerce. Transaction of non-Chinese products through Alibaba.com or Aliexpress.com also serve as a means of marketing of Chinese products. As these websites contain advertisements and pop-ups as well. A Chinese research firm has forecasted that the Chinese e-commerce will grow annually at the rate of 27 percent.

Mobile e-commerce, Popular Mobile Platforms, and Social Media: Online wallets are the top payment method of choice. Approximately half of the Chinese eCommerce sales are made through mobile devices.

Major Buying Holidays: These online methods offer discounts to attract customers. For instance, "Single Day", November 11, is the busiest day for shopping. In 2015, Alibaba witnessed sales of about USD 9 billion on Single Day, with transactions of 278 million orders.

Demography: Several key drivers are pushing forward the growth of China's medical industry. It includes (i) Ageing population as 230 million people in China are expected to be aged 65 or over by 2030. (ii) The increasing middle class has fueled China's cosmetic surgery industry. It is the third largest market for cosmetic surgery (SMEs, 2015).

Health Reform: The government of China has introduced the Healthcare reform in 2009 with the aim to have universal health insurance coverage by 2020 (Agency, 2016).

Artificial Intelligence (AI): The huge influx of AI in almost every walk of life is today's reality. AI has achieved practical applications in the field of life science, such as intelligent image processing with the help of Convolutional Neural Network (CNN), intelligent diagnosis and treatment, intelligent surgical navigation system and health big data.

2. INDIA: It has established surgical industries in the year 1958. The overall healthcare industry in India is expected to reach the value of USD 280 billion by the year 2020. There are about 1800 domestic firms in the country, mainly MSMEs[13], which are competing in the range of low to medium technology products.

Competitive strategies of India:

E-commerce: Indian surgical instruments are listed in e-commerce websites like tradeindia.com, indiamart.com, Alibaba.com and many others. These websites contain a detailed specification of the surgical instruments of India along with quoted prices and certification available to each instrument. It helps importer to get a deep insight into the range of products and can purchase them online.

Branding: The government of India consider the sector '*Sunrise sector'* of India and has identified the medical devices as one of the four sectors under 'Brand India Engineering'. In recent years, there is a paradigm shift in the manufacturing landscape and now the industry has expanded for producing cost-effective high-end products including R&D.

[13] https://www.indiainfoline.com/article/news-top-story/indian-surgical-equipments-market-shifting-focus-from-%E2%80%98trading-to-precision-manufacturing%E2%80%99-118061900363_1.html

Government Initiative: Government of India has taken multiple initiatives to develop their surgical sector. Indian medical devices industry is a sunrise segment in the healthcare space. Some of the recent initiative taken by the Government of India is listed below:

i. The Government introduced Indian Certification of Medical Devices to bring international respect to medical devices which are made in India.

ii. Since 2016, the Government has waived off the requirement of 'No Objection Certificate (NOC)' from Ministry of Health for exports.

iii. 100% FDI is allowed in order to enhance competencies in the local manufacturing.

iv. National Medical Device Policy 2015 also focuses on R&D to improve domestic manufacturing.

v. Ministry of Commerce and Industry has undertaken an initiative for technological upgradation for boosting engineering exports. These products are mainly related to Chapter-90.

3. UNITED STATES OF AMERICA: By 1901, German surgical instrument makers inroads in the American market and American Surgical Trade Association came into existence. The organization oversaw both domestic manufacturer and importers. However, German embargo on the exports of surgical instruments. This unanticipated event spilled over the bankruptcy in import-reliant companies and the emergence of American domestic surgical industry took place.

Competitive strategies of USA:

Health IT: The US has a competitive advantage because the medical industry relies upon including microelectronics, telecommunication, instrumentation, software, and biotechnology. Neuro-simulator, biomarkers, robotics, and implantable electronic devices are the example of technologically advanced devices.

Electrosurgical Instruments: Electrosurgical instruments are generally used for General Surgery, Neurosurgery, ENT surgery, Plastic surgery etc. It also offers an extensive array of multipurpose electrosurgical accessories and handpieces like pencils, forceps, cords, suction coagulator etc.

Non-tariff Measures[14]

Partners affected: All members.

Technical Barrier to Trade (TBT B14): Establishment license - Application for an establishment license - Any application for an establishment license shall comply to the requirements as specified in Third Schedule.

[14] https://trains.unctad.org/

Price Control Measures (PC F65): Establishment license - Application for an establishment licence - An application for an establishment license shall be accompanied with the following - (a) application fee as specified in Fifth Schedule.

Export Related Measures (EXP P13): Export permit - Application for an export permit - An application for an export permit shall be made to the Authority in Form MDA1 and accompanied with the application fee as specified in Fifth Schedule.

2.1.5. MEDICAMENTS (HS-300490)

Pakistan's pharmaceutical industry is growing to meet the prevailing huge domestic demand as well as exports. It is composed of both national and multinational companies. Medicaments, however, are subjected to stringent non-tariff barriers. Over the years, the low cost of production and the huge potential of the local market has attracted several multinationals to establish their businesses in Pakistan. GlaxoSmithKline is the largest multinational while Getz Pharma is the largest national firm.

The table below represents the statistics related to bilateral trade between Pakistan and Malaysia. Pakistan's share in the Malaysian imports is only 0.1 percent while China and India account for roughly 4 percent and 9 percent of the Malaysian overall imports of medicaments. Almost all countries presented in the table have enhanced their share over 2016-17 reflecting an increase in demand for these products. In addition to this, products can enter the market at zero tariffs.

Table 9: Trade Statistics for 'Medicaments (HS-300490)

Ranks based on exports	Countries	Value of Exports in 2017 (USD million)	CAGR (2013-17) (%)	Share in Malaysia's Imports (%)	Unit value ($)	Growth 2016-17 (%)	Average tariff	ECI	
								2013	2017
1	Germany	127.34	3.40	17	16219	10	0	4	2
2	Singapore	122.75	2.64	16.4	61779	19	0	1	1
3	Switzerland	77.74	0.60	10.4	462935	-3	0	2	3
4	China	70.92	1.04	9.5	89753	12	0	5	5
5	Belgium	41.34	-2.23	5.5	175906	8	0	6	6
6	Ireland	34.98	23.37	4.7	78600	13	0	10	4
7	France	32.66	-6.61	4.4	53635	3	0	7	8
8	Netherlands	31.25	6.85	4.2	143986	11	0	12	7
9	India	30.91	-0.99	4.1	32990	11	0	11	11
30	**Pakistan**	**0.751**	**10.76**	**0.1**	**15646**	**4**	**0**	**35**	**34**

Source: ITC Trade map

The Figure-11 reflects the market share and the trend of the top suppliers of medicaments to the Malaysian market. The left panel illustrates the percentage share of competitors of medicaments whereas the right panel explains the trend. Germany remains on the top across previous five years which is followed by Singapore and China.

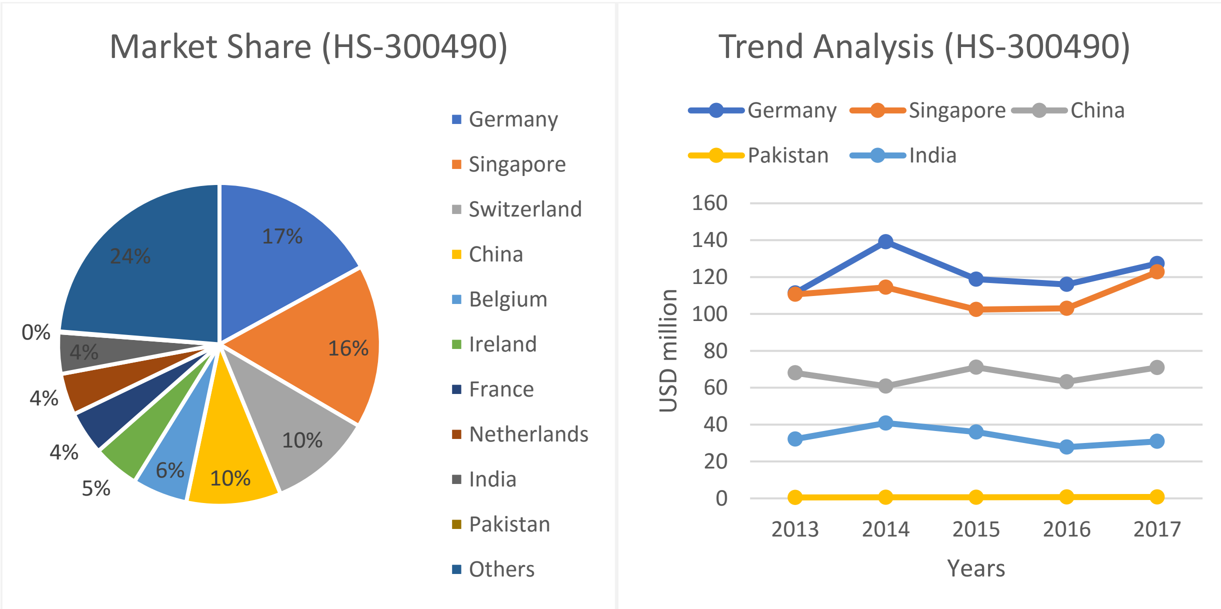

Figure 11: Market Share and Trend (HS-300490)

<u>Competitors' Analysis</u>

<u>1. INDIA:</u> It is the largest provider of generic drugs globally. Its biotechnology industry comprising bio-pharmaceuticals, bio-services, and bio-agriculture. According to India Brand Equity Foundation, Indian pharmaceutical sector industry supplies over 50 percent of the global demand for various vaccines, 25 percent of all medicine in the UK, and 40 percent of generic demand in the US.

Competitive strategies of India:

Cost Efficiency: Low cost of production and heavy expenditure on R&D allow economies of scale. The exports have reached USD 17.3 billion in FY18. In August 2018, the market grew by 8.7 percent year-on-year basis.

Government Initiatives: It includes the following:

(i) National Health Protection Scheme is the largest government-funded healthcare programme in the world, which is expected to benefit 100 million poor families. It was announced in budget 2018-19.

(ii) The single-window facility is available from March 2018 to provide consents and approvals by Drug Controller General, and 'Pharma Vision 2020' aimed at making India a global leader in end-to-end drug manufacturers.

(iii) Indian companies are investing for R&D that made them more competitive and the pharma sector of India is under various branding campaign which enables to sell products with higher per unit value.

2. CHINA: The pharmaceutical industry of China is one of the leading industries in China, ranging from synthetic chemicals, herbal and Chinese medicines, and pharmaceutical machinery. China accounts for the 20 percent of the world population and 1.5 percent of the drug industry.

Competitive strategies of China:

Drug approval method: It has modernized drugs approval led to more than 35 launches. More than 300 drugs were added to the National Reimbursement drug list. Chinese pharmaceuticals obtained approval for 38 generic drugs from the US Food and Drug Administration.

Medical Artificial Intelligence: It is penetrating so intensely and improving the efficiency of the medical treatment process. For instance, in pathology analysis, the accuracy of the medical imaging diagnosis has reached 99.5%. For innovative Chinese pharmaceuticals, 2018 is being considered as a year full of hopes and opportunities.

Non-tariff Measures[15]

Partners affected: 195 members affected (including China, Pakistan, India).

Technical Barrier to Trade (TBT B19): Prohibitions and exceptions -(1) Subject to the provisions of this Chapter, no person shall produce, acquire, retain, transfer or use toxic chemicals listed under Schedule 1 unless— (a) such production, acquisition, retention, transfer or use is for research, medical, pharmaceutical or protective purposes; (b) the types and quantities of the toxic chemicals are strictly limited to those which can be justified for such purposes; (c) the aggregate amount of such chemicals at any given time for such purposes is equal to or less than ten kilograms for each facility in a calendar year.

Export Related Measure (P13): Prohibitions and exceptions -(1) Subject to the provisions of this Chapter, no person shall produce, acquire, retain, transfer or use toxic chemicals listed under Schedule 1 unless— (a) such production, acquisition, retention, transfer or use is for research, medical, pharmaceutical or protective purposes; (b) the types and quantities of the toxic chemicals are strictly limited to those which can be justified for such purposes; (c) the aggregate amount of such chemicals at any given time for such purposes is equal to or less than ten kilograms for each facility in a calendar year.

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[15] https://trains.unctad.org/

Sanitary and Phytosanitary (A86): Quarantine - (1) Animals imported from any country, other than Singapore for the purpose of slaughter shall, unless they have undergone not less than ten days' quarantine in a quarantine station in Singapore and are accompanied by a certificate from a veterinary authority in Singapore that such animals are free from disease, immediately on arrival enter a quarantine station at a prescribed landing place and there undergo quarantine for a period of not less than ten days and shall thereafter proceed direct to an abattoir or to another quarantine station and there remain until required for slaughter. (2) No animal shall be released from a quarantine station except upon a certificate from the veterinary officer in charge of the quarantine station that the animal is free from disease. (3) The veterinary authority of the prescribed landing place may, subject to any directions that may be issued by the Director, exempt any animal from the provisions of this rule.

Partners affected: 249 members affected (including China, Pakistan, India).

Sanitary and Phytosanitary (A19, A83):

Prohibition of import of plant etc. except under permit - Plants which are exempted under regulation and imported from countries where the khapra beetle is found, as contained in the Ninth Schedule, shall be treated by the exporting countries according to the dosage rates to be determined by the Director and such a consignment of plants shall be accompanied by a phytosanitary certificate.

Table 10: Potential Products highlights

Potential Product Highlights

Semi and Wholly Milled Rice (HS-100630)

Trade potential: USD 326 million

Competitors: Thailand, India

Strengths of Pakistan: Low unit value than India, Production increased, new hybrid seeds available, two million tons more rice would be available in the next three years.

Challenges to Pakistan: Lack of exporters' interest, no rice related international fair, high tariff than India

Fresh or Chilled Potatoes (HS-070190)

Trade potential: USD 70.32 million

Competitors: USA, China

Strengths of Pakistan: Better quality than India

Challenges to Pakistan: Lack of quality seeds, poor transport and storage facilities

Frozen Shrimps and Prawn (HS-030617)

Trade potential: USD 53.3 million

Competitors: China, India

Challenges to Pakistan: Only limited excess supply for exports than India and China

Instrument and Appliances used in medical (HS-901890)

Trade potential: USD 286 million

Competitors: Germany, China

Strengths of Pakistan: Low average unit price

Challenges to Pakistan: Less value-added products than USA, Germany, and China

Medicaments (HS-300490)

Trade potential: USD 70 million

Competitors: India, China

Edges to Pakistan: Low unit value, the level playing field

Challenges to Pakistan: No WHO certified laboratories, licensing and regulatory issues.

3- DEMAND AND SUPPLY ISSUES

3.1- DEMAND-SIDE ISSUES

3.2- SUPPLY-SIDE ISSUES

3. DEMAND AND SUPPLY SIDE ISSUES

3.1. DEMAND-SIDE ISSUES:

This section is devoted to analyzing the demand side issues of Pakistani products in Malaysia.

- The Pakistani export basket in the context of Malaysia is heavily weighted by rice. Thailand, a major rice exporter, shares the border with Malaysia. Moreover, both India and Thailand are exposed to tariff halved to that of Pakistan. The implication of the relatively high price of Pakistani rice is that it decreases the demand, as predicted by the law of demand.
- Pakistani rice is demanded because of its quality which is generally preferred by people with high purchasing powers. Consumers of rice in Malaysia are segmented and basmati rice is generally preferred because of aroma and taste.
- Imports are the function of the purchasing power of the consumer in the importing country. Malaysian economic growth has declined over 2014-2016, therefore, the decline in demand can be anticipated.
- Inflation of the country has also been increasing as depicted in Table-1. Impact of inflation is straightforward as the consumer can purchase less amount of goods with the similar amount of income so the consumers have to pay higher prices for imported goods.

3.2. SUPPLY-SIDE ISSUES:

There exist supply-side issues as well that hampers Pakistan exports to Malaysia.

- Exports of any country depend upon the excess supply of domestic goods. Besides rice, the major export strength of Pakistan lies in textile products. Pakistani exporters have the privilege of EU GSP+ status which provides lucrative opportunities and profits are all the time high which make exporters reluctant to switch their exports towards Malaysia (or any other country). Pakistan-Malaysia FTA has also provided zero tariffs on most of the Pakistani tariff lines under the umbrella of the textile sector.
- A similar reason can be argued for the decline in rice exports to Malaysia. EU has recently imposed a ban on Indian rice which again creates an advantage to Pakistani exporters to send more rice in EU region. Again, EU market for rice is more worthwhile than any other for Pakistan exporters if ignoring non-tariff barriers.
- Pakistan’s exchange rate remained volatile especially since December 2017. It further impedes the supply of domestic products.

- Most exporters believe that using a local distributor or agent is the best first step in entering the Malaysian market. A local distributor is typically responsible for handling custom clearances. Pakistani exporters find it difficult to trace out local partners.
- Malaysian market does not provide a level playing field for domestic and exporting companies. This is because Malaysia is not a party to WTO Government Procurement Agreement and in most cases local partners are required before their bids to be considered.

The major regional competitors in this market are India and China. However, indicators in the table below reveal that Pakistan is less competitive than India and China. Table 9 depicts that Pakistan has underperformed than both India and China in terms of all three indicators given in the table.

Business conditions comparison:

Table 9 depicts the indicators related to competitiveness and business environment. According to GCI, Pakistan's performance is poorest among the regional competitors. Moreover, in the context of Ease of doing ranking Pakistan only manage to perform better than Bangladesh.

Table 11: Comparison of Indices for 2017

	Total Countries	Pakistan	India	China	Bangladesh	Nepal	Sri Lanka	Bhutan
Global Competitiveness Index (GCI)	137	115	40	27	99	88	85	82
Ease of Doing Business Index (EOB)	190	147	100	78	177	105	111	75
Economic Freedom Index (EFI)	180	131	130	110	128	133	111	87

Source: Pakistan Business Council

Next is the comparison of tariffs and wages of Pakistan with India and China. It can be seen that inputs are relatively expensive for Pakistan.

Table 12: Tariff comparison

	Labor cost (US$ /month)	Electricity cost (US cents/KwH)	Gas Cost (US$ /MMBTU)
Pakistan	143	14	5.72
Bangladesh	65	11	2.52
India	81	8	2.80

Source: Pakistan Business Council

4- MARKET INITIATIVES BY TDAP

4. Trade Promotion Activities

Trade Development Authority of Pakistan (TDAP) has played a vital role in promoting exports and facilitating trade activities. A list of international fairs held in Malaysia is given below:

Table 13: International Trade Fairs

S.No.	Details of Events	Dates	Products
1	MIHAS (Malaysia Hotel Show Case) Kuala Lumpur, Malaysia	April 2018	Halal Foods
2	IFSEC South East Asia, Kuala Lumpur, Malaysia	September 2015	-
3	Malaysia International Food & Beverages Fair (MIFB)	June 2013	Food & Beverages

Source: Trade Development Authority of Pakistan International Exhibition Calendar

Apart from International fairs, Pakistan-Malaysia Friendship Association (PMFA) was established in December 2005 at Karachi, Pakistan with the objective to strengthen bilateral relations between two countries in the field of commerce, trade, tourism, culture, health education etc. PMFA has more than one hundred members from Pakistan and Malaysia.

5- SWOT ANALYSIS

5. SWOT ANALYSIS

Strengths:

- Pakistan's major products of strength are rice and frozen fishes in the Malaysian market. After EU's ban on most of the Pakistan fisheries exports, exporter found it the next lucrative market for fisheries exports.
- Pakistan-Malaysia Free Trade Agreement (FTA) also serves as the strength for the two OIC member countries. It allows concessions on multiple tariff lines and can provide the edge over rivals in this market.
- The successive rounds of Pakistani rupee devaluation since December 2017 favors Pakistan's exports to the world as it lowers the average unit price of the products faced by importers.
- Pakistan and Malaysia have signed a double taxation avoidance agreement in 1980. It facilitates exporters in both countries.

Weaknesses:

- The Pakistan-Malaysia FTA was signed in 2008, but the trade volume is heavily dominated by Malaysian exports. Pakistani exporter reaped little or no advantage of the FTA between two countries.
- The Malaysian palm oil has dominated in Pakistan's imports and the price of palm oil and products related to palm oil have increased multiple times in recent years. Demand, on the other hand, appeared inelastic and the palm oil complements directly/indirectly the Pakistan's food industry.
- The share of Pakistani products is continuously being captured by competitors like India and Thailand as they offer similar product basket.
- Malaysia-India FTA was signed in 2011 and Indian negotiation ends up with the tariff of 20 percent on rice while Pakistan is exposed to 40 percent tariff duties on similar rice commodities. It weakens Pakistan's position for rice exports to Malaysia.

Opportunities:

- The Malaysian market bears an untapped potential of at least USD 1.5 billion for fifteen potential products identified in previous sections.

- The products with the largest potential include ‘Semi-milled or wholly-milled rice (HS-100630)’, ‘Instrument & appliances used in medical (HS-901890)’, and ‘T-shirts, singlets, and other vests of textile (HS-610990)’ with USD 326 million, USD 286 million, and USD 135.5 million respectively.
- Further negotiation from the Pakistani side is highly inevitable in order to improve share of Pakistani exports to Malaysia.
- Pakistan can save millions of dollars of foreign exchange by improving domestic production of palm oil. The domestic authorities should ask cooperation from Malaysian side in order to set-up feasibility of palm oil production.

Threats:

- The price of palm oil is rising continuously but the demand is stagnant which may surge the import bill further. Moreover, rupee devaluation has made import expensive so importers have to pay more rupees for a similar basket of goods.
- India may further capture Pakistan’s rice share in the Malaysian market as more rice is available in India because of EU’s restriction on Indian rice. Moreover, Pakistani exporters also prefer to export rice EU countries.
- Rice remains a major staple in Malaysia and the government is continuously providing subsidies to protect local farmers. Expansion of local production may further reduce their import dependency of rice. Domestic production of rice accounts for 60-70% whereas the remaining gap is filled imports.

6- CONCLUSION AND RECOMMENDATIONS

6. Conclusion And Recommendations:

The trade balance between Pakistan and Malaysia have witnessed a substantial increase but the worrying aspect is that the balance of trade is continuously shifted in favor of Malaysia. However, exports have increased in the first six months of 2018 as compared 2017 whereas imports have witnessed some decline over the same which pushed up the trade balance by 5.38 percent. The trade relation between Pakistan and Malaysia is historic and are the two Muslim countries that have signed FTA. Most of the exporters find it the best first step to find local agents or distributor for entering the Malaysian market. These local distributors are typically responsible for handling customs clearance, dealing with established wholesalers, and handling after-sales services. This study makes the following recommendation:

- It is highly recommended to renegotiate FTA as more privilege has been given in the FTA with India. Tariff on rice should be negotiated as soon as possible as India is enjoying low tariff on basmati rice. A world-leading Chinese company, Yuan Longping High-tech Agriculture, and Guard Agricultural Research & Services are actively involved in revolutionizing Pakistan's rice production. It is expected to add 2 million tons of rice in the next three years[16].
- Pakistan is losing precious forex reserves in billing palm oil and products related to it while the product can be planted in the belt of Sindh and Baluchistan. However, the benefits could be reaped after 3 to 4 years. Current local oil production can only meet 14 % of the domestic requirement and rest has been met through imports. Government initiatives should be taken to encourage the local production of oilseeds.
- It has been reported that more than 8000 acres of land in Sindh and nearly the same size along the coastal areas of Balochistan could be brought under oil palm cultivation in near future.
- It is also recommended that the Ministry of Health should start awareness programs through which public health issues related to usage of Vanaspati products in food items should be discussed.
- There exists only a single exhibition regarding Halal foods where Pakistani exporters annually participate. The FTA allowed many other potential products under tariff

[16] https://www.pakissan.com/2017/10/14/chinese-seed-could-make-country-major-rice-producer/

concession which are suggested to be included in the exhibitions. Particularly, most of the textile products are allowed to enter in Malaysia at zero-tariff but the exporters are continuously neglecting the Malaysian market.

- Textile exporters prefer destinations like the European Union and the USA where products can be sold over high markup. Most of the textile products are also allowed zero duty access to Malaysia as well, therefore, it is imperative to expedite the untapped potential of the Malaysian market also.

ANNEXURE-I

Top-15 Exports

S.No.	HS-codes	Product Name	Value in 2016	Value in 2017	% Change	Ad valorem Tariff
1	'TOTAL	All products	151.746	129.066	-14.946	
2	'100630	Semi-milled or wholly milled rice	39.912	16.294	-59.175	40
3	'030339	Frozen flat fish	5.446	9.417	72.916	0
4	'630239	Bedlinen of textile materials	6.026	7.311	21.324	0
5	'620322	Men's or boys' ensembles of cotton	3.277	6.554	100.00	0
6	'890590	Light-vessels, fire-floats, floating cranes	0	6.481	-	0
7	'310229	Double salts and mixtures of ammonium	0	5.394	-	0
8	'070310	Fresh or chilled onions and shallots	4.727	5.083	7.531	0
9	'630260	Toilet linen and kitchen linen, of terry toweling	3.68	4.318	17.337	0
10	'350300	Gelatin, whether or not in square or rectangular	2.765	4.049	46.438	5
11	'070190	Fresh or chilled potatoes	5.829	3.905	-33.007	0
12	'030499	Frozen fish meat	0.903	3.236	258.361	0
13	'220720	Denatured ethyl alcohol and other spirits	2.458	2.355	-4.190	34
14	'630231	Bedlinen of cotton	5.925	1.972	-66.717	0
15	'240120	Tobacco, partly or wholly stemmed or stripped	0.117	1.864	1493.162	230

Source: ITC Trade map

Top-15 Imports:

S.No.	HS-codes	Product Name	Value in 2016	Value in 2017	% Change	Ad valorem tariff
1	'TOTAL	All products	944.632	1101.005	16.554	
2	'151190	Palm oil and its fractions, whether or not refined (excluding chemically modified and crude)	280.927	392.5	39.716	7
3	'151110	Crude palm oil	71.599	84.341	17.796	7
4	'271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, **...**	96.242	40.833	-57.573	11
5	'230660	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting **...**	22.36	34.986	56.467	0
6	'540247	Filament yarn of polyester, incl. monofilament of < 67 decitex, single, untwisted or with a **...**	12.189	26.253	115.383	11
7	'890800	Vessels and other floating structures for breaking up	4.877	18.794	285.360	0
8	'151620	Vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, **...**	15.066	16.954	12.532	6
9	'847130	Data-processing machines, automatic, portable, weighing <= 10 kg, consisting of at least a **...**	11.217	13.609	21.325	0
10	'293040	Methionine	11.345	13.465	18.687	3
11	'441193	Fibreboard of wood or other ligneous materials, whether or not agglomerated with resins or **...**	10.253	12.84	25.232	16
12	'382319	Fatty acids, industrial, monocarboxylic; acid oils from refining (excluding stearic acid, oleic **...**	13.736	11.643	-15.237	9
13	'120300	Copra	0.696	10.961	1474.856	0
14	'841510	Window or wall air conditioning machines, self-contained or "split-system"	11.722	10.81	-7.780	20
15	'390230	Propylene copolymers, in primary forms	8.633	10.085	16.819	5

Source: ITC Trade map

Pakistan exports to Malaysia (Commodity Group-wise)

		Exports 2017-18	% Share	Exports 2016-17	% share	Change in value	% Change
Overall		146,045	0.63	129,954	0.64	16,091	12.38
	Product Increase			**Product Decrease**			
Commodities	**2017-18**	**2016-17**	**% Change**	**Commodities**	**2017-18**	**2016-17**	**% Change**
Vegetables	19,176	10,274	86.65	Ready Made Garments	6,885	9,528	(27.74)
Wheat	7,421	-	-	Rice Other Varieties	23,702	26,133	(9.30)
Fertilizer Manufactures	5,196	375	1,285.60	Other Chemical	7,820	9,767	(19.93)
Fish & Fish Prep.	19,750	14,957	32.05	Bed Wear	9,422	10,430	(9.66)
Feed. Stuff For Animals	2,270	155	1,364.52	Oil Seeds Nuts& Kernals	334	1,326	(74.81)
Un-Manuf. (Tobacco)	1,875	17	10,929.41	Cotton Yarn	6,347	6,992	(9.22)
Towels	5,432	3,834	41.68	Knitwears	4,398	4,972	(11.54)
Tents & Oth.Canvas Goods	699	194	260.31	Art Silk & Synthetic Tex.	2,167	2,728	(20.56)
Plastic Materials	528	57	826.32	Rice Basmati	554	1,108	(50.00)
Crude Fertilizer	792	448	76.79	Beef	63	555	(88.65)
Yarn Oth.Than C. Yarn	204	-	-	Cotton Cloth	4,063	4,468	(9.06)
Cotton Waste	1,524	1,353	12.64	Fruits	803	1,129	(28.88)
Foot Balls Complete	570	405	40.74	Spices (Incl. Chillies)	413	690	(40.14)
Sugar Refined	447	297	50.51	Leather Gloves	348	591	(41.12)
Gloves (Sports)	246	154	59.74	Surgical Goods,Medical	838	1,040	(19.42)
Guar And Guar Products	223	135	65.19	Other (Sports)	245	441	(44.44)
Articles Of Plastic	114	31	267.74	Waste Material Of Tex.	-	177	(100.0)
Kintted Or Croch. Fabrics	114	43	165.12	Cutlery	194	327	(40.67)
Other Machinery	163	109	49.54	Apparel & Clothing	434	567	(23.46)
Paper & Paper Board	49	-	-	Leather Footwear	85	215	(60.47)
Machinery Specialized	376	334	12.57	Manuf.Tobc.Ex.Cigarette	83	206	(59.71)
Tex. Fabrics Woven(Other	59	19	210.53	Mutton	-	94	(100.0)
Oth.Electrical Machinery	40	1	3,900.00	Crude Animal Material	51	116	(56.03)
Fruit & Veget. Juices	65	42	54.76	Wol. Carpets & Rugs	57	103	(44.66)
Leather	1,100	1,078	2.04	Tule,Lace,Embroid. Etc	445	490	(9.18)
Electric Fans	12	-	-	Marbles And Stones	-	27	(100.0)
House-Hold Equipment	13	4	225.00	Auto Parts	3	26	(88.46)
Oth. Leather Manuf.	10	3	233.33	Books & Printed Matters	47	70	(32.86)
Carpets Knotted & Other	5	-	-	Tex.Made Ups (Exc.T.& Bed).	366	384	(4.69)

Source: Pakistan Bureau of Statistics