



PAKISTAN-UK BILATERAL TRADE

Country Report



Usama Ehsan Khan

Trade Development Authority Pakistan

Table of Contents

Introduction	7
Bilateral Trade Analysis	10
Pakistan’s Major Exports and Imports	11
Potential Products Scenario	15
Analysis of Pakistan’s top export items to the UK	15
Identification of Potential items	17
Value Chain Mapping	19
Women's or girls' trousers, bib and brace overalls (HS- 620462)	19
T-shirts, singlets and other vests of cotton, knitted or crocheted (HS-610910)	21
Instruments and appliances used in medical, surgical etc. (HS-901890)	23
Men's or boys' shirts of cotton, knitted or crocheted (HS-610510)	25
Articles of apparel, of leather or composition leather (HS-420310)	27
Non-tariff barriers	29
Non-tariff measures for top-5 potential products	30
Demand and Supply Side Issues	33
The Existence of International Brands	35
Top Ten Pakistani Exporters to the UK	35
Market Initiatives by TDAP	36
SWOT Analysis	36
Recommendation/conclusions	38
Bibliography	41
ANNEXURE:	42

List of Figures

Figure 1: United Kingdom's Real GDP growth rate per annum	9
Figure 2: Nominal Exchange rate of Eurozone and the United Kingdom	9
Figure 3: UK-Pakistan Bilateral Trade overview	11
Figure 4: Sector-wise Composition of Pakistan's Merchandise Trade with the UK	12
Figure 5: Top-15 merchandise exports to the UK (HS 06), 2016-17	13
Figure 6: Top-15 merchandise imports from UK (HS 06), 2016-17	14
Figure 7: Comparison of export value and average unit price (HS-630231)	15
Figure 8: Comparison of export value and average unit price (HS-630222)	16
Figure 9: Comparison of export value and average unit price (HS-620342)	16
Figure 10: Comparison of export value and average unit price (HS-630232)	17
Figure 11: Comparison of export value and average unit price (HS-611020)	17
Figure 12: Women's or girls' trousers, bib and brace overalls (HS-620462)	21
Figure 13: T-shirts, singlets and other vests of cotton, knitted or crocheted (HS-610910)	23
Figure 14: Instruments and appliances used in medical, surgical etc. (HS-901890)	25
Figure 15: Men's or boys' shirts of cotton, knitted or crocheted (HS-610510)	27
Figure 16: Articles of apparel, of leather or composition leather	29
Figure 17: Apparel (Knitted or Crocheted) (HS-61)	44
Figure 18: Apparel (without Knitted or Crocheted) (HS-62)	45
Figure 19: Cereals (HS-10)	46
Figure 20: Leathers (HS-42)	47

List of Tables

Table-1: Key Economic Indicators.....	08
Table-2: Bilateral trade figures.....	10
Table-3: Recent trade figures.....	11
Table-4: Potential Products.....	18
Table-5: HS- 620462.....	20
Table-6: HS- 610910.....	22
Table-7: HS- 901890.....	24
Table-8: HS- 610510.....	26
Table-9: HS- 420310.....	28
Table-10: List of Non-tariff barriers for the top-5 potential products.....	30
Table-11: Global Competitive Index Rankings-2017.....	34
Table-12: List of top ten exporters.....	35
Table-13: International Exhibition Calendar, 2016-17.....	36
Table-14: Other trade promotion activities, 2017-18.....	36
Table-15: Investment promotion activities, 2017-18.....	38
Annexure	
Table-1: Top-15 Exports at (HS-6 digit)	44
Table-2: Top-15 Imports at (HS-6 digit)	45
Table-3: Pakistan top exports to World (HS-02)	46
Table-4: Competitors' export of Apparel (HS-61)	47
Table-5: Competitors' export of Apparel without Knitted or Crocheted (HS-62)	48
Table-6: Competitors' export of Cereal (HS-10)	49
Table-7: Competitors' export of Leathers (HS-42)	50

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

Executive Summary

The United Kingdom remains one of the major trading partners of Pakistan. The economic climate for both countries has significantly changed over the recent years. Pakistan's growth outlook appears favorable with the real GDP growth rate of 5.3 percent in 2017 and target to be above 6 percent in the subsequent fiscal year on the back of stepped-up China Pakistan Economic Corridor (CPEC) investments. UK's economic conditions have also been subjected to variations since the referendum in mid-2016. The UK government has started the process to exit from the European Union, intending at new economic relationships with EU and countries with close trade ties with EU. Pakistan has been enjoying GSP+ status with the EU since January 2014. It enables Pakistan to get duty free access to over 6000+ tariff lines. After the implementation of GSP+, the export share of Pakistan as a percentage of UK's overall imports has increased substantially but declined in the years afterward. This study advocates that the Pakistan's government should pursue aggressive negotiation with the UK for signing a *Free Trade Agreement (FTA)* as early as possible to retain similar trade terms with the UK.

Recent statistics reveal that Pakistan's exports have increased (year-on-year basis) in first three months of 2018 with nearly 9 percent increases in exports during March 2018. The primary composition of exports of Pakistan to the UK is hovering around the textile sector, and such over-reliance could be harmful. Most of the top textile products have faced significant decline over 2016-17 indicating an immediate need to diversify export base to maintain and improve export share.

The product 'Bed linen of cotton (HS-630231)', the top export item to the UK, has expanded by 8.5% over 2016-17 and occupied 50% of the total import of the same by UK. It still bears the substantial potential to expand further. Other products with good potential are 'Instrumental and appliances used in medical, surgical or veterinary sciences (HS-901890)', 'Women's or girls' trousers, bib and brace overalls (HS-620462)', 'T-shirts, singlets and other vests of cotton, knitted or crocheted (HS-610910)', and 'Men's or boys' shirts of cotton, knitted or crocheted (HS-610510)'. Potential also lies in 'Cereals,' but the product is not covered in GSP+. Moreover, it is exposed to a considerable number of non-tariff measures.

The Trade Development Authority of Pakistan is playing an active role to explore potential trade opportunities and introducing Pakistani products to the UK. There are annual exhibitions on textile and food-related items. This study recommends extending product categories in current displays

and inclusion of the products mentioned above in subsequent exhibitions. New exhibitions should also be scheduled for leather products and surgical instruments as these products currently occupy negligible share.

Introduction

United Kingdom is the world's 6th and EU's 3rd largest economy by 2017 regarding GDP. The economy with the nominal GDP of \$2.565¹ trillion faced hard times in recent years after the electorate of the United Kingdom on June 23, 2016, decided to quit the European Union (UK) for the first time. It has also deteriorated the exchange rate as the rate touched the lowest of the decade in 2016 against US dollar, i.e. 1 GBP= 1.23 USD. The sharp decline in the sterling pound following the June 2016 decision which pushed up the Consumer Price Index (CPI), squeezing household real income and thus consumption. The significant recovery has been witnessed in the real exchange rate that reached around 1 GBP= 1.40 USD in the first quarter of 2018 but a reversal of the adverse CPI trend is still due. The British exit from EU or Brexit impose threats to the economies whose trades are heavily dependent on EU and UK.

Despite anticipation of the significant economic downturn, the UK's economic outlook appears stable, and most of the key economic indicators (Table-1) performed better than perceived. The population growth rate is less than the real GDP growth rate over last five years indicating the rise in purchasing power which in turn would generate higher demand for goods and services. Net migration from EU declined sharply in 2017, resulting in unemployment rate reaching a historic low of 4.4 percent [IMF, Country Report No. 18/42(2018)]. As much migration to the UK took place after Greece bailout of 2015 because of the economic union and it is one of the primary reasons behind the Brexit decision. The migrants had claimed social security benefits and greater supply of labor force raised the unemployment rate and had driven the wages down. The moves in real GDP per capita appear unpropitious. The Government has taken various actions to appease the economic downturns by easing monetary and fiscal policy. For instance, the counter-cyclical buffer was lowered to prevent a tightening of credit conditions.

The presence of UK in the European Union is crucial as it remains the primary trading partner for all EU countries. The top trading partners of the UK are EU countries along with the USA, China, and Canada. Pakistan stands one of the historical trading partners since Pakistan's independence in 1947. Despite favorable trade relations under GSP+ status, issues have also been cited. For instance, Pakistan was facing countervailing duty (CD) on Polyethylene Terephthalate (PET) containing products (HS-39) by European Union since 2010. It could be the main reason for

¹ International Monetary Funds (IMF)

dwindling export of these products. This duty was imposed on Pakistan, Iran, and UAE of which China and India are taking advantage. Pakistan's 80% export of the PET containing products was toward the EU before CD that accounted for only 10% in 2013. Pakistan dragged EU to the World Trade Organization on this issue with the claim that EU violated WTO rules by imposing duties on PET (European Union – Countervailing Duties on certain Polyethylene Terephthalate from Pakistan, 2017). WTO, in July 2017, has settled the dispute which upheld in the Pakistan position and rejected the EU's claim. Furthermore, the Canadian government, on March 16, 2018; has also withdrawn 5.5% anti-dumping duty on PET imports from Pakistan.

Other trade-related aspects include the fact that Pakistan's NTBs mainly protect rent seekers, like agriculturalists; however, India and China protect strategic industries, such as small businesses, electronic manufacturers, etc. (Kayani & Shah, 2014).

Table-1: Key Economic Indicators for the UK

	2013	2014	2015	2016	2017
Population Growth rate (%)	0.63	0.77	0.80	0.60	0.70
GDP Per Capita (USD p.a)	42452.95	46478.84	43976.42	40049.78	38846.79
GDP Growth	1.9	3.1	2.2	1.8	1.7
Unemployment rate (%)	7.6	6.2	5.4	4.9	4.4
Consumer Price Index (Annual %)	2.6	1.5	0	0.7	2.6
Average Exchange Rate	0.6072	0.6407	0.6748	0.8129	0.7401
FDI net (% of GDP)	-0.4	-5.8	-4.0	-8.2	2.2

Source: International Monetary Funds (IMF)

The Figure-1 below portrays fluctuations in real GDP growth rate of United Kingdom. It is evident that economic growth is roughly around 2% in recent years, though, declining since 2014. It touched the lowest in 2008-09 due to the sub-prime mortgage crisis and then normalized again.



Figure 1: United Kingdom's Real GDP growth rate per annum

The Figure-2 illustrates the volatility and trends in the nominal exchange rate of Euro area and the United Kingdom. Both EU and UK are practicing flexible exchange rate policy historically. Similar trends and volatility patterns appear for both EU and UK; however, Brexit decision has depreciated both currencies. Noticeably, Brexit decision narrowed the gap between the sterling pound and euro suggesting that euro depreciated more than a pound. Alternatively, the pound is recovering at a higher rate than that of euro.

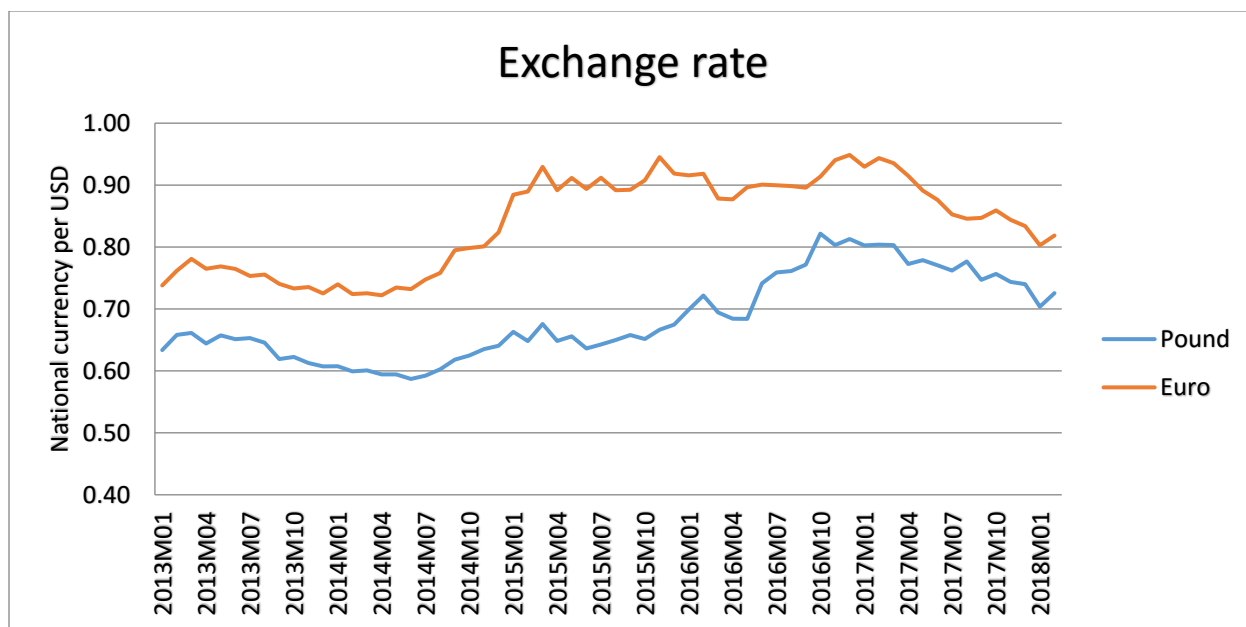


Figure 2: Nominal Exchange rate of Eurozone and the United Kingdom

Bilateral Trade Analysis

The UK has been an important trading partner of Pakistan well before the creation of EU. The United Kingdom (UK) stands Pakistan's 2nd largest destination regarding exports in 2017 with the total volume of USD 2400 million. The countries have been trading allies since Pakistan's independence in 1947.

The Table-2 is devoted to the figures related to bilateral trade analysis. Pakistan's exports to the UK peaked in 2014, the year when GSP+ was implemented. However, there has been a decline in subsequent years. The difference between Pakistan's exports and imports (trade balance) has consistently been narrowing since 2014. Among many factors, a positive correlation between UK's GDP growth rate and trade balance with Pakistan is visible. It suggests that Pakistan's export to the UK is demand-driven and appears sensitive to economic conditions.

Table-2: Bilateral trade figures

**Figures are in USD Million*

Trade (USD million)	2013	2014	2015	2016	2017
Pakistan's Exports to the UK*	1431.95	1654.64	1572.80	1557.63	1634.95
Pakistan's Imports from the UK*	544.92	599.72	610.55	623.12	766.02
Pakistan's Trade Balance*	887.036	1054.929	962.25	934.511	868.94
Pak's share in the UK's Import (%)	0.22	0.24	0.25	0.24	0.26
Change in Pakistan's Exports to the UK (%)	--	15.55	-4.95	-0.96	4.96
Ranking of Pakistan as an exporter	52	48	45	43	46
Total Trade Volume*	1976.876	2254.361	2183.352	2180.749	2400.97

Source: ITC Trade map

The Figure-3 below illustrates that both imports and exports have increased last year, however, increment is more pronounced in imports thus contracted the trade balance.

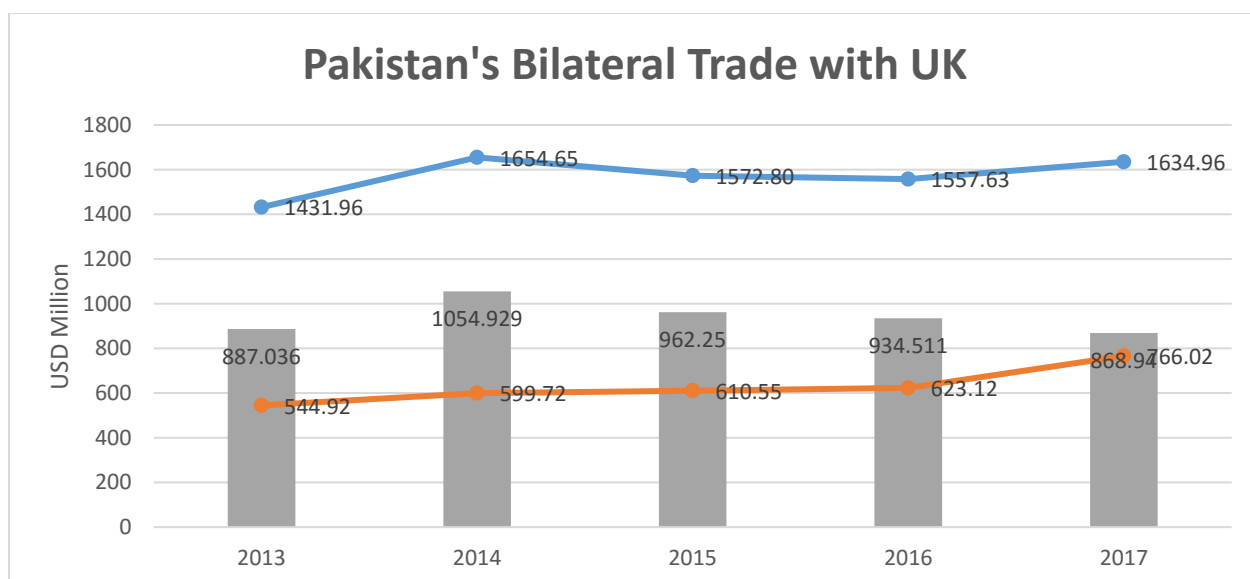


Figure 3: UK-Pakistan Bilateral Trade overview

The recent trade scenario remains favorable for Pakistan. Over the first three months of 2018, exports have increased year-on-year basis. Meanwhile, imports rose for the first two months and then decreased in March as compared to the same month of the previous years. There is also evidence of remarkable improvement in the trade balance in March which is primarily driven by the import decline of nearly 34%.

Table-3: Recent trade figures of Pakistan with UK

*Figures are in USD Million

	Monthly Comparison of Trade Statistics						% Change YoY		
	Jan-17 * (R)	Feb-17* (R)	Mar-17 * (R)	Jan-18 * (R)	Feb-18 * (R)	Mar-18 * (P)	Jan 17- 18	Feb 17- 18	Mar 17- 18
Exports	132.671	127.911	150.417	150.232	150.077	164.133	13.237	17.330	9.119
Imports	63.467	49.542	85.353	67.170	79.378	56.163	5.833	60.225	-34.200
Trade Balance	69.203	78.369	65.064	83.062	70.699	107.971	20.026	-9.787	65.946

Source: State bank of Pakistan

P=Projected, R=Revised

Pakistan's Major Exports and Imports

Pakistan's exports were highest in 2014 and started decreasing in subsequent periods. In January 2014, Pakistan received GSP+ status and export peaked in the same year. Post GSP+ figures are still higher than pre-GSP+. Moreover, though exports are signaling downward trend, the ranking of Pakistan as an exporter to the UK has improved over 2017. The share of Pakistan has been fluctuating around 0.25% over the last five years.

Pakistan's import from the UK depicts a mixed trend. However, share of UK in Pakistan's imports appears stagnant over the last three years. The Figure-4 below illustrates the sector-wise composition of Pakistan's exports to the UK. It is evident that Bed Ware exports remain highest in the fiscal year 2016-17 with 29% of the total exports to the UK. It is followed by Knitwear (25%), Readymade garments (19%) and so on. Whereas surgical, leather and sports-related goods touch the bottom regarding overall export composition.

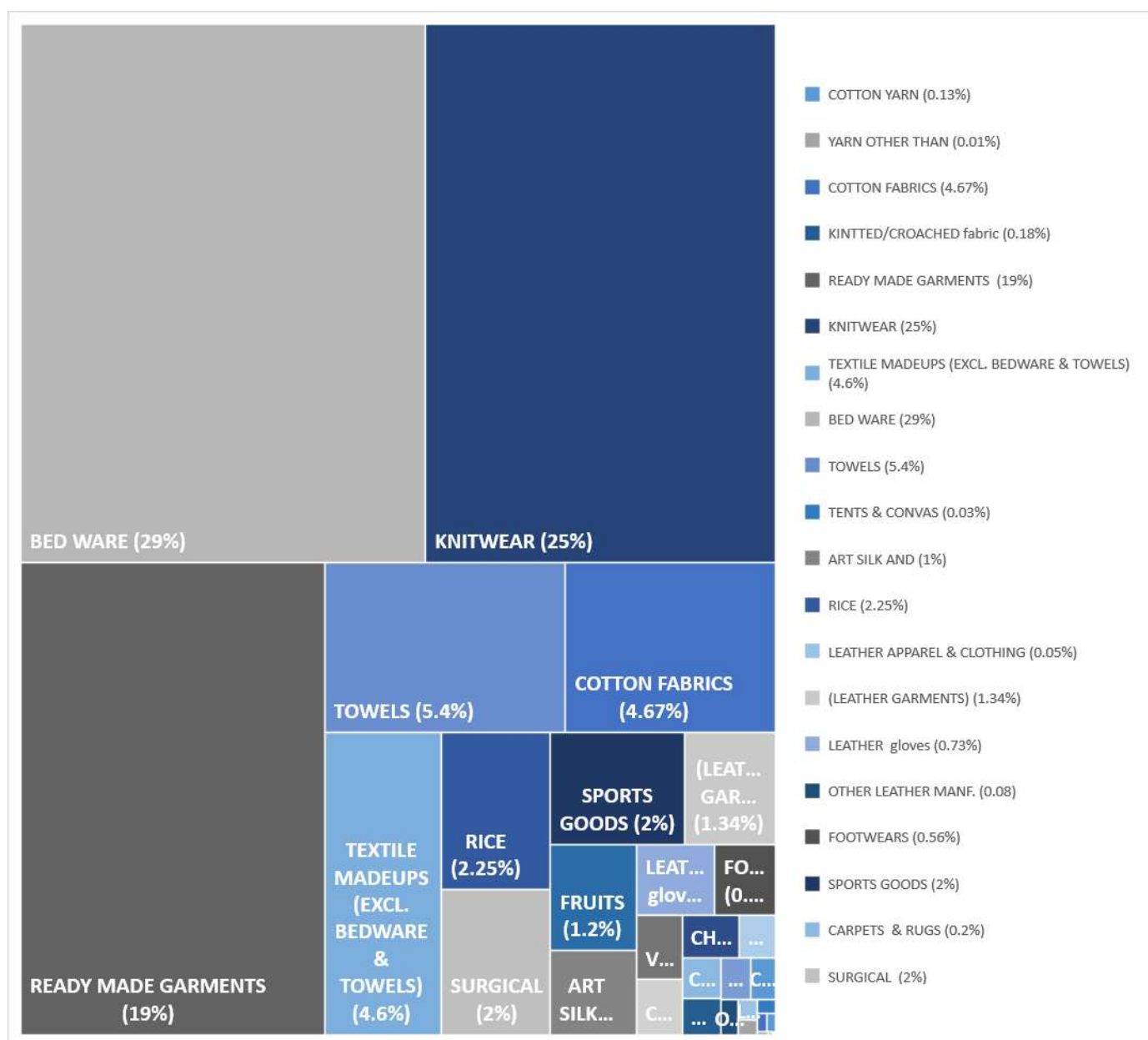


Figure 4: Sector-wise Composition of Pakistan's Merchandise Trade with the UK

Source: Pakistan Bureau of Statistics (FY 2016-17)

Export of Pakistan's top export items to the UK plunged over 2016-17. The Figure-5 below depicts the adverse trend in the significant export items. The product titled 'Men's or boys' trousers, bib and brace overall' (HS-620342) faced the highest decline over 2016 and 2017. The current share of the same is around 10%. The condition is even worse with 'Printed bed linen of man-made fibers' in a sense that the product corresponds to 73% in terms of market share and faced decline of nearly 17%. It is worth noticing that most of the top export items in Pakistan are duty-free products. Only 'Husked or Brown rice' (HS-100620) is exposed to 3% of the tariff in the UK (see Table-1 in Annexure).

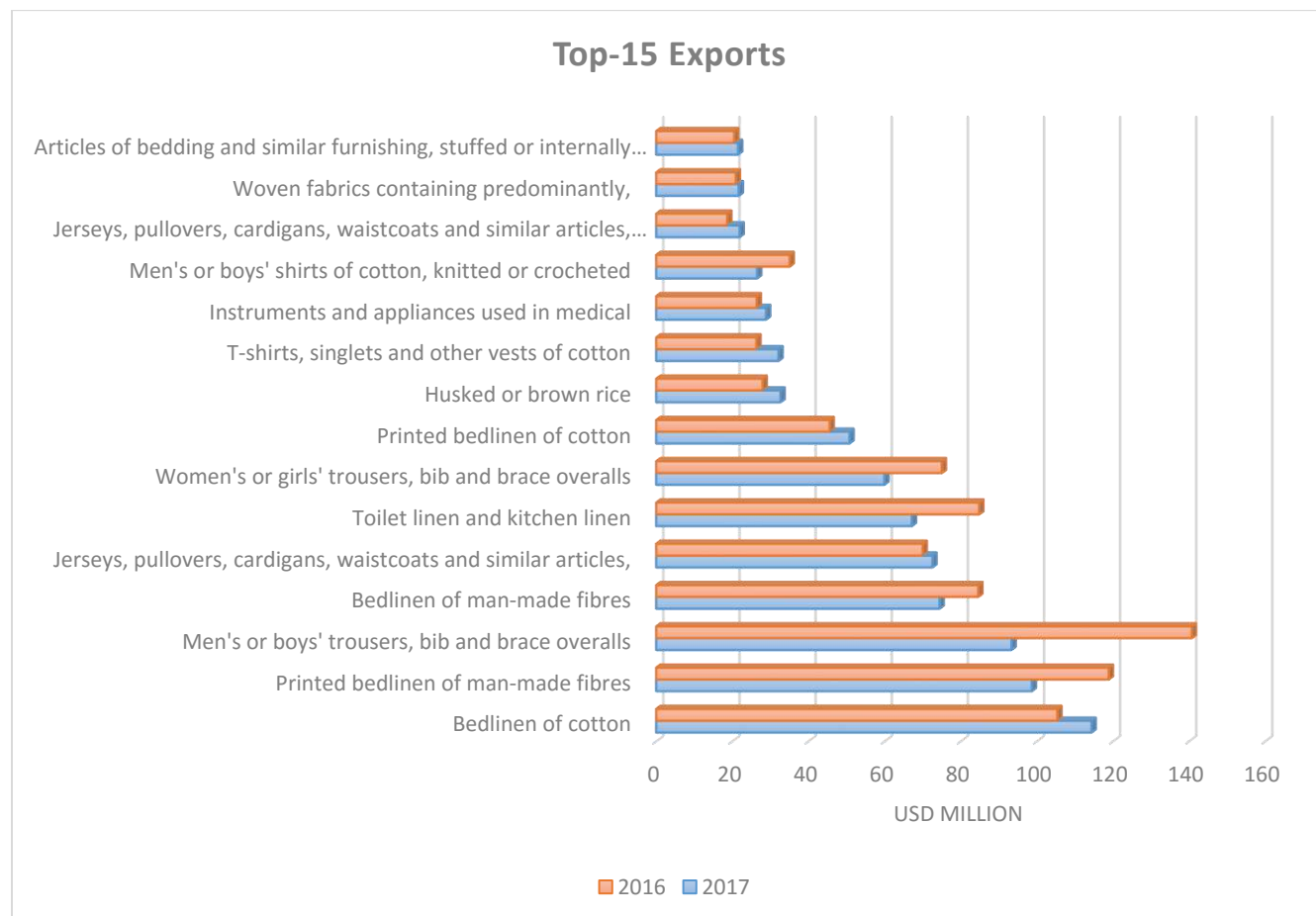


Figure 5: Top-15 Merchandise exports to the UK (HS 06), 2016 and 2017

Next graph (Figure-6) demonstrates the import composition of Pakistan at HS-06 level. The significant import items are '**Waste and scrap of iron or steel (720449)**', '**Waste and scrap of alloy steel (720429)**', '**Worn clothing and clothing accessories (630900)**' and '**Parts of turbojets or turbo propellers (841191)**'. The imports of these items have increased significantly over 2016-17 (See Table-2 in Annexure). Various infrastructure projects lead to the increased demand for wastes of iron and steel. The imports of parts of turbojets have also increased from 0 to 20 million approximately. The need is mainly for the military purposes.

It can be inferred that Pakistan's export basket is elastic relative to imports. For example, the demand for textile can quickly be shifted; however, defense and infrastructure related imports appear to be inelastic.²

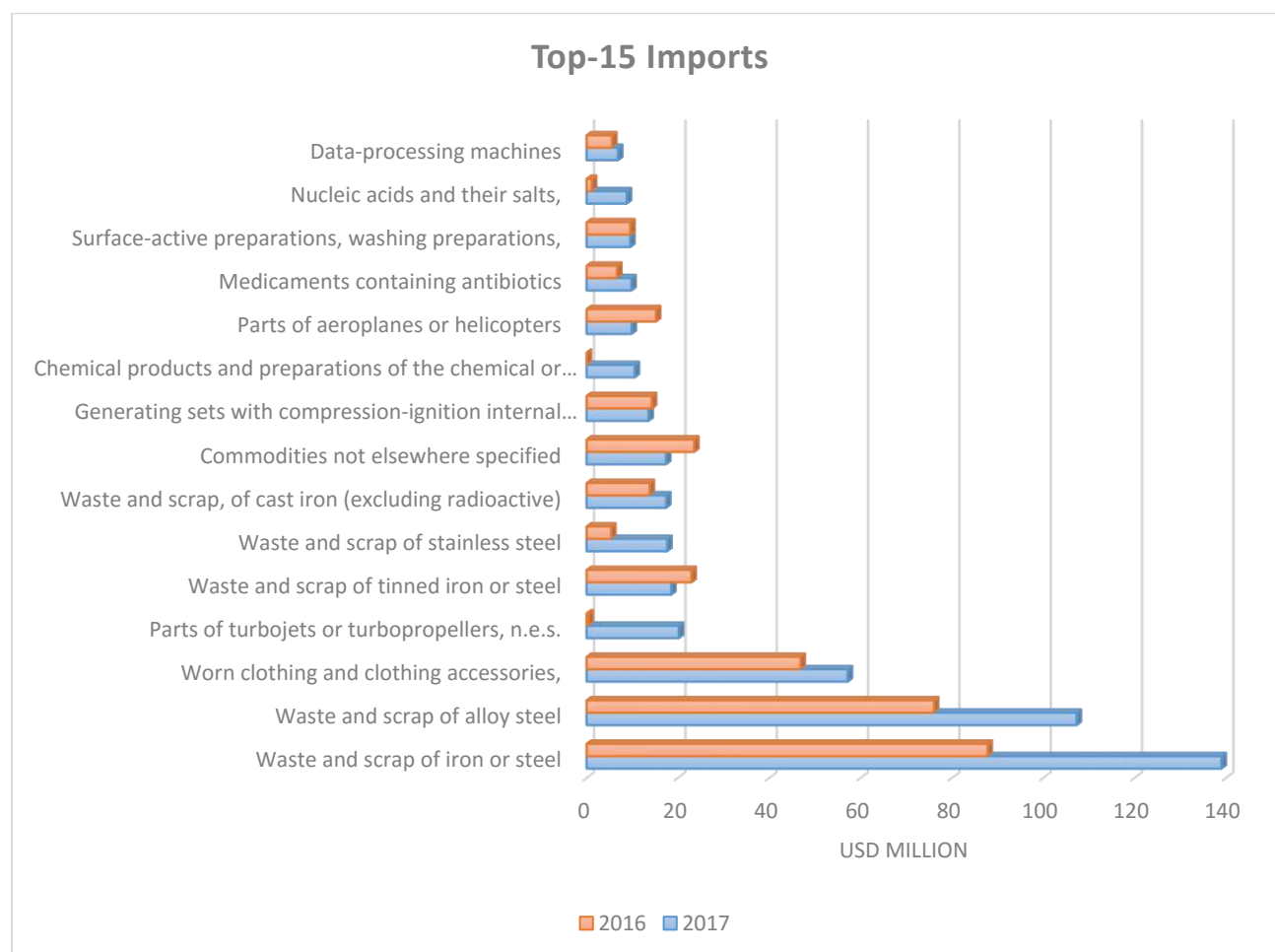


Figure 6: Top-15 merchandise imports from UK (HS 06), 2016 and 2017

² Data source: ITC trade map's mirror data is used for product-wise analysis of imports and exports.

Potential Products Scenario

This section is based on the product-wise analysis. It first examines trends in export values and average unit prices of top five export items of Pakistan. Identification of potential products then follows it by applying several criteria explained in the subsequent section

Analysis of Pakistan's top export items to the UK

Figures below depict trends in export values and average unit prices for the top five export items of Pakistan. It can be seen that Pakistan is leading the market for 'Bed linen of Cotton' and the share has increased in 2017 after a slight decline over 2015-16. The comparative advantage to Pakistan may correspond to the lowest average unit price. But there is evidence of other factors as well because in the prior period's decline in the average unit price has not inflated exports. If the trade war is on value basis then India or if on AUP basis then Bangladesh would be likely competitors.

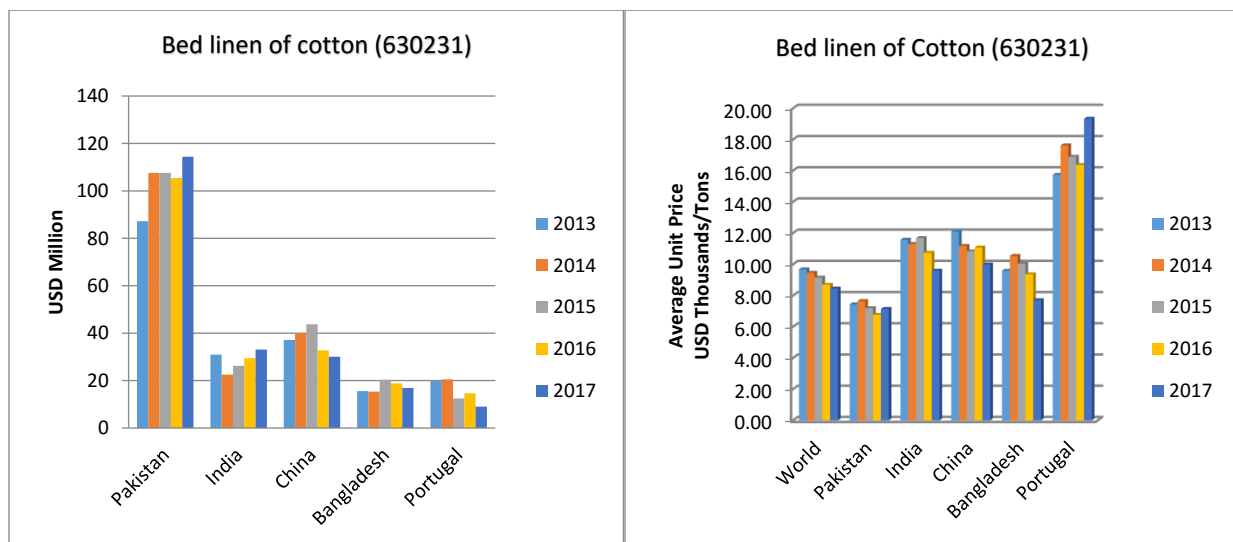


Figure 7: Comparison of export value and average unit price (HS-630231)

The condition is, however, critical for the 'Printed Bed linen of man-made fibers' (Figure-8) as Pakistan's share has decreased over the last three years. Furthermore, Bangladesh has been offering lowest AUP. There is need to take appropriate action to recapture lost market share.

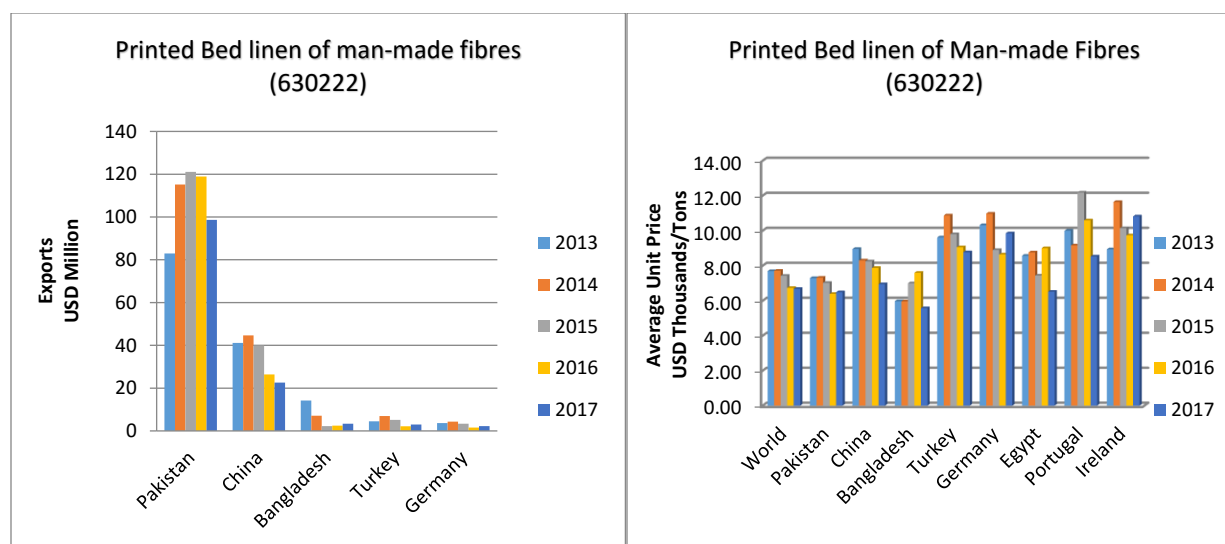


Figure 8: Comparison of export value and average unit price (HS-630222)

In the context of ‘Men’s or boy’s trousers’ (Figure-9), all of the five top exporters have faced decreasing trend which indicates an overall decrease in demand. The average unit price for most of the countries has remained the same. It appears that demand for the product has deteriorated and there is an urgent need for Pakistan to figure out emerging demand pattern and align it with existing production possibilities.

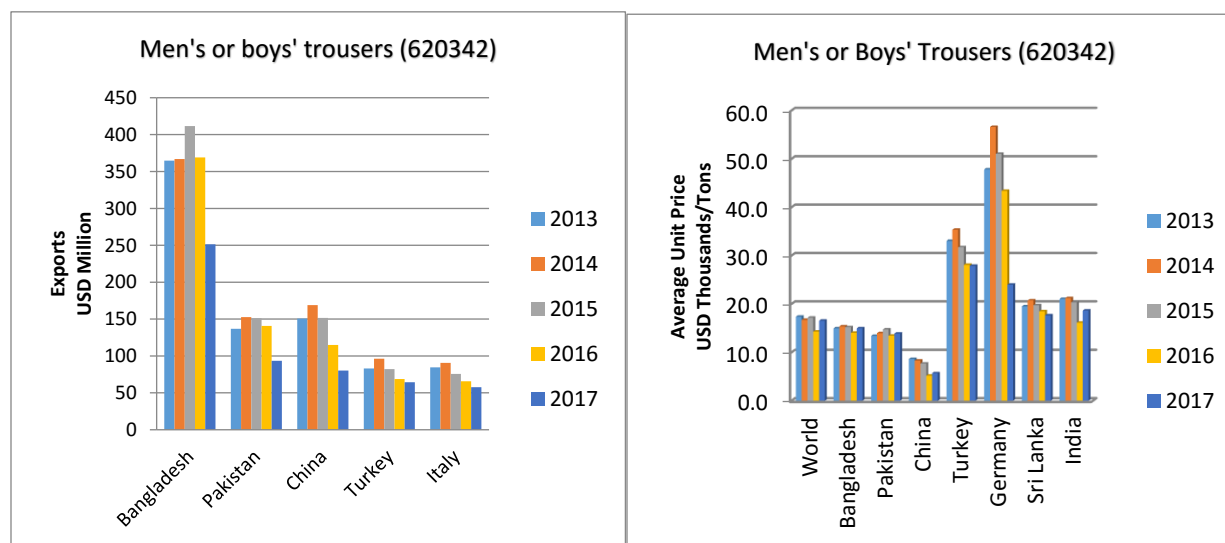


Figure 9: Comparison of export value and average unit price (HS-620342)

Regarding ‘Bed linen of man-made fibers’, it has witnessed similar pattern to that of the ‘Men’s or boy’s trouser’. There is however similar AUP among the competitors.

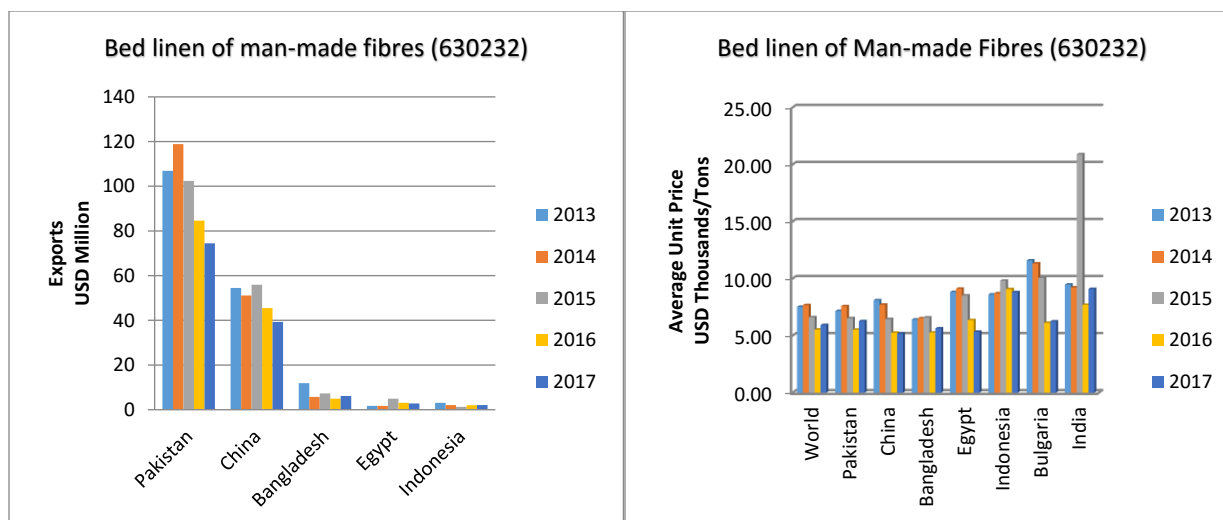


Figure 10: Comparison of export value and average unit price (HS-630232)

For the product ‘Jerseys, pullovers, cardigans, waistcoats, and similar articles, of cotton’, Pakistan’s share is only marginal even after offering similar price structure to that of China. Nonetheless, steady growth has been witnessed over last five years and exports swelled by 3.65% from 2016 to 2017. The Figure-11 below depicts the trend and average unit price for the same.

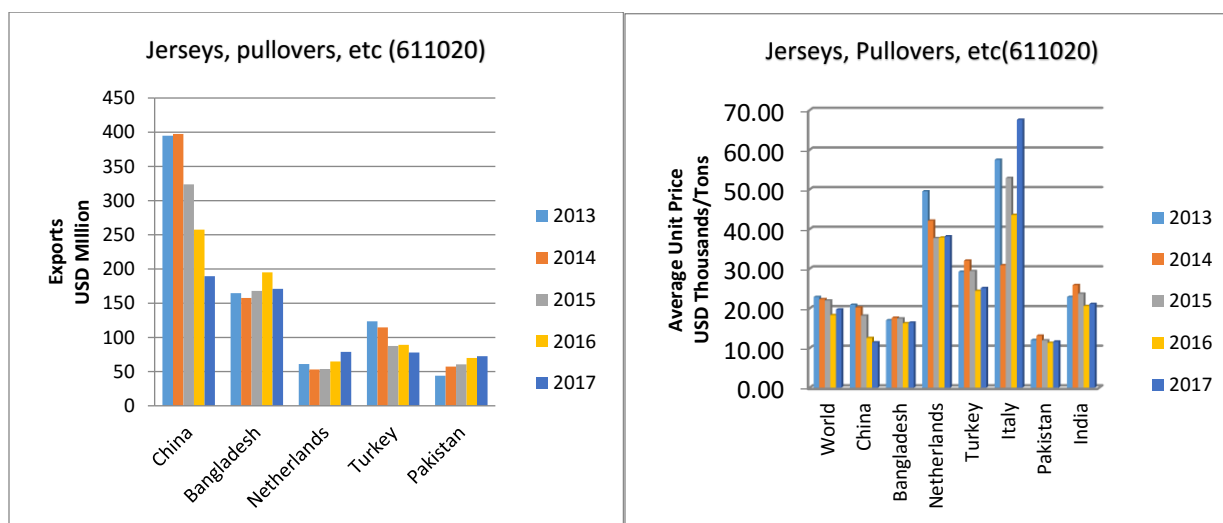


Figure 11: Comparison of export value and average unit price (HS-611020)

Identification of Potential items

For identification of potential products at HS-06³, the analysis has been based on the following two criteria:

³ The potential product at HS-02 has also analyzed. See annexure for details.

(1) The product whose exports of Pakistan to the world is higher than USD 100 million and UK's import of the same is greater than USD 10 million.

(2) Pakistan's share of the product (identified in the previous step) in the UK's imports is less than or equal to 10%.

Both these criteria should be met simultaneously for the product to qualify as the potential product.

The Table-4 below provides the list of 10 possible items based on the said criteria.

Table-4: Potential Products

**Figures are in USD Million*

S.No.	HS – Code	Product Level	Pakistan's Exports		% Change 2016-17	Market Share	
			2016*	2017*		2016(%)	2017 (%)
1	'620462	Women's or girls' trousers,	75.047	59.952	-20.11	6.35	6.08
2	'610910	T-shirts, singlets knitted or crocheted	26.337	32.131	22.00	1.68	2.21
3	'901890	Instruments and appliances used in medical,	26.434	28.866	9.20	1.43	1.65
4	'610510	Men's or boys' shirts of cotton, knitted or crocheted	35.065	26.52	-24.37	8.65	7.24
5	'420310	Articles of apparel, leather or composition leather	18.677	16.871	-9.67	9.99	10.15
6	'611595	Full-length or knee-length stockings, socks and other hosiery, incl. footwear	25.824	16.839	-34.79	6.63	5.21
7	'100630	Semi-milled or wholly milled rice, whether or not polished or glazed	5.949	6.798	14.27	2.59	3.10
8	'611090	Jerseys, pullovers, cardigans, waistcoats and similar articles	4.274	4.333	1.38	4.26	6.47
9	'081340	Dried peaches, pears, papaws "papayas", tamarinds and other edible fruits	0.056	0.104	85.71	0.13	0.23
10	'611530	Women's full-length or knee-length hosiery, knitted or crocheted, measuring per single yarn	0.036	0.038	5.56	0.33	0.32

Source: ITC trade map

Value Chain Mapping

This section analyzes the performance of Pakistan's potential product (identified in the previous section) concerning the British market. The top five potential products among the list of ten products (Table-4) have been examined. The export competitiveness index analyzes the international dynamics of the value chain. It provides the overview of the export competitiveness of the product utilizing 'Export Competitiveness Index (ECI)'. The index is used to rank the countries, the country with the high value of ECI corresponds to a high rank, where ECI is the average of two elements 'Trade Indicator' and 'Capacity Indicator'.

Women's or girls' trousers, bib and brace overalls (HS- 620462)

In the context of 'Women's or girl's trouser etc.(HS-620462)', Pakistan's rank based on ECI has improved by five places over 2013-17. It suggests that the competitiveness of the product has enhanced. Furthermore, there is no edge to any country over Pakistan regarding tariff and non-tariff barriers. Major competitors for the product are Bangladesh, Turkey, and China. Pakistan has a comparative advantage over Turkey facing similar tariff and non-tariff restrictions since Pakistan is offering a lower average unit price. On the other hand, Bangladesh is at the top regarding value of exports with the average unit price slightly below that of Pakistan. Turkish export strategy is to capture the market through product differentiation. It includes programs like 'Turquality Programme'. China's policy is to grab market share through price leadership because of the availability of low cost labors. The 'Everything But Arms (EBA)' status allows Bangladesh to sell any number of units. Nonetheless, GSP+ (applied to Pakistan) has an export-share ceiling. But there is still considerable scope because EU has recently raised the export-share ceiling of GSP+ member countries to 6.5% enabling Pakistan to compete within an enhanced upper bound.

Table-5: HS- 620462

*Figures are in USD Million

Ranks Based on Export values	Countries	Value of Exports in 2017*	CAGR (%) 2013-17	Rank Based on ECI		Average Unit Price (USD thousand/Ton)	Tariff	Number of Non-tariff barriers
				2013	2017			
1	Bangladesh	247.368	3.760	1	1	16,580	0	7
2	Turkey	191.138	2.732	6	2	32,551	0	7
3	China	118.635	-14.505	4	5	6,874	12	7
4	Pakistan	59.952	-2.759	13	8	18,206	0	7
5	Cambodia	48.513	-7.496	15	13	17,699	0	7
6	Spain	46.876	5.945	2	3	30,459	0	7
7	Germany	43.378	10.709	8	7	44,582	0	7
8	Sri Lanka	32.775	-9.364	10	4	20,307	9.6	7
9	Egypt	31.649	-12.368	12	12	28,157	0	7
10	Netherlands	27.36	-4.508	3	11	45,373	0	7
11	Italy	20.837	-9.244	5	6	52,886	0	7
12	India	19.183	-13.087	11	15	22,203	9.6	7
13	USA	14.094	-2.491	14	9	93,338	12	7
14	France	13.415	-4.680	7	10	60,977	0	7
15	Viet Nam	9.976	-0.170	9	14	17,975	9.6	7

Source: ITC Trade map

The graph below depicts the market share of the top exporters and the rest of the world. It implies that market appears to be diversified since the market concentration of the top exporters is low. Pakistan, despite being the 4th major exporter of this product only possesses 6% of the market.

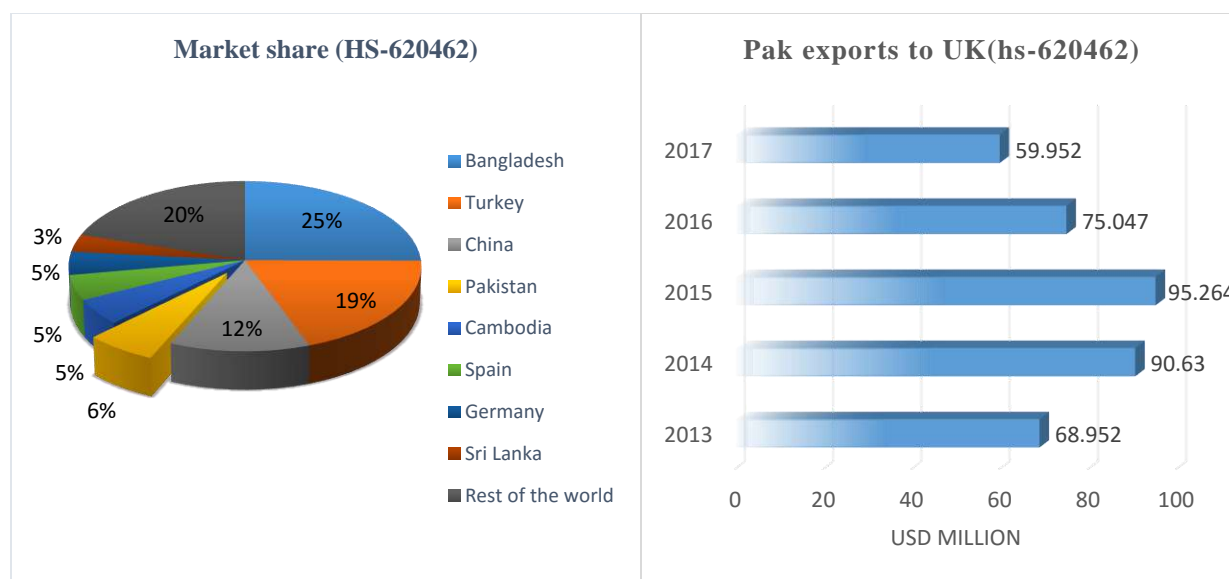


Figure 12: Women's or girls' trousers, bib and brace overalls (HS-620462)

T-shirts, singlets and other vests of cotton, knitted or crocheted (HS-610910)

As regards to the mentioned-product, the ranking of Pakistan has deteriorated over 2013-17 and stood at 12th position regarding value and 15 in terms of ECI. Bangladesh is ranked 1st in terms of value as well as ECI with a 16% market share. Pakistan is offering lower unit price and facing zero tariffs clearly has a comparative advantage over India. Pakistan's export of the said product is much lower than that of Bangladesh, Turkey, India, and China but the compounded annual growth rate (CAGR) of these countries are negative over 2013-17. Pakistan's share has improved if viewed in terms of CAGR.

Improvements in CAGR and 0% tariff signify better scope to compete with India and China. If a comparison is to be made on the basis of AUP, Pakistan can compete with India, Turkey, and Sri Lanka.

Table-6: HS- 610910

*Figures are in USD Million

Ranks Based on the Export value in 2017	Countries	Value of Exports in 2017	CAGR (%) 2013-17	Rank Based on ECI		Average Unit Price (USD thousand/ton)	Tariff	Number of Non-tariff barriers
				2013	2017			
1	Bangladesh	362.53	-3.22	2	1	12,886	0	6
2	Turkey	198.831	-7.38	3	3	27,286	0	6
3	India	123.335	-6.80	4	6	18,266	9.6	6
4	Netherlands	87.034	9.00	7	4	39,453	0	6
5	China	85.691	-9.01	5	10	8,888	12	6
6	Germany	72.089	15.37	13	9	16,027	0	6
7	Italy	70.545	8.45	11	8	98,941	0	6
8	Belgium	52.906	9.46	10	5	32,578	0	6
9	France	46.774	2.41	12	12	54,835	0	6
10	Sri Lanka	38.487	-11.48	6	11	20,703	9.6	6
11	Portugal	35.305	-3.56	8	7	20,502	0	6
12	Pakistan	32.131	10.61	14	15	14,699	0	6
13	Spain	25.869	15.02	15	14	27,638	0	6
14	Cambodia	25.614	-10.26	9	13	18,561	0	6
15	Mauritius	20.294	-16.65	1	2	30,656	0	6

Source: ITC Trade map

Pakistan in this case occupies 2% only of the market share. The trade environment again seems conducive for Bangladesh as it remains a major export partner of UK with 25% share throwing challenges for Pakistan. Pakistan can at least compete with India and Turkey on the basis of its average unit price.



Figure 13: T-shirts, singlets and other vests of cotton, knitted or crocheted (HS-610910)

Instruments and appliances used in medical, surgical etc. (HS-901890)

The city of Sialkot is trendy in Europe for the manufacturing of surgical instruments. One of the significant strengths of Pakistan lies in surgical goods, however, due to lack of value addition the product's demand and the average unit price have fallen considerably. The surgical industry of Pakistan is labor intensive because of lack of technology and availability of cheap labor. Analysis of ECI ranking suggests a stagnant position for Pakistan's surgical goods (ranked at 14) that enjoys only 2% of the market share. Countries like Germany, France, and Italy imports surgical items from Pakistan and re-export to the UK with some value addition.

Table-7: HS- 901890

*Figures are in USD Million

Ranks Based on Export values	Countries	Value of Exports in 2017	CAGR (%) 2013-17	Rank Based on ECI		Average Unit Price (USD thousand/ton)	Tariff	Number of Non-tariff barriers
				2013	2017			
1	Belgium	374.018	4.91	1	1	87466	0	11
2	USA	306.547	-3.50	3	3	103577	0	11
3	Netherlands	262.807	1.76	2	2	64007	0	11
4	Germany	231.254	-3.15	4	4	22438	0	11
5	Japan	97.029	-2.89	8	5	484141	0	11
6	China	86.462	-1.60	10	8	19130	0	11
7	France	54.451	-13.87	5	10	10041	0	11
8	Italy	31.88	-2.15	13	12	22971	0	11
9	Ireland	29.645	-2.98	6	6	23994	0	11
10	Pakistan	28.866	2.09	14	14	25689	0	11
11	Switzerland	27.221	5.35	11	11	155062	0	11
12	Finland	26.731	-5.84	7	9	296031	0	11
13	Lithuania	21.24	1.01	9	7	10608	0	11
14	Israel	14.647	-6.44	12	13	17287	0	11
15	Poland	14.362	-4.44	15	15	276818	0	11

Source: ITC Trade map

The market for surgical items in the UK appears highly diversified. Belgium enjoys the highest market share (21%). There is a great potential for Pakistan made surgical items (HS-901890) in the UK that can be further enhanced if value addition is increased. Among regional competitors, China is competing by offering a lower price. In international markets, conventional surgical instruments are being replaced with modern instruments.

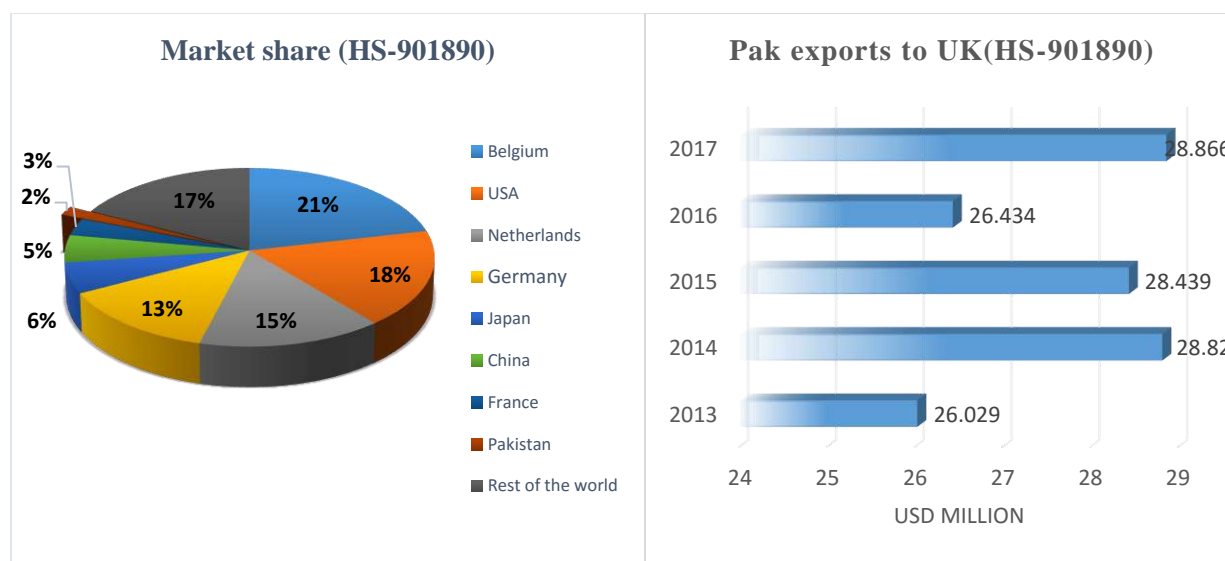


Figure 14: Instruments and appliances used in medical, surgical, etc. (HS-901890)

Men's or boys' shirts of cotton, knitted or crocheted (HS-610510)

The export competitiveness of Pakistan for 'Men's or boy's shirt of cotton' has declined and could be the reason for a decrease of 24.3% in Pakistan's export of the UK over 2016-17. The comparison based on CAGR reveals that Bangladesh, India, and China have also faced export declines over 2013-17; nonetheless, the reduction is acute in the case of Pakistan.

Table-8: HS- 610510

*Figures are in USD Million

Ranks Based on Export values	Countries	Value of Exports in 2017	CAGR (%) 2013-17	Rank Based on ECI		Average Unit Price (USD thousand/ton)	Tariff	Number of Non-tariff barriers
				2013	2017			
1	Bangladesh	80.054	-1.17	1	1	13,662	0	6
2	Italy	37.33	-3.40	4	3	28,059	0	6
3	China	33.496	-9.13	8	10	7,766	0	6
4	Germany	31.059	7.84	11	4	51,576	0	6
5	India	29.778	-7.43	9	12	18,482	12	6
6	Pakistan	26.52	-12.53	6	9	14,617	0	6
7	Turkey	24.039	0.87	10	7	34,668	0	6
8	France	22.586	5.38	12	6	70,587	0	6
9	Netherlands	20.318	-1.30	2	2	50,948	0	6
10	Spain	7.612	-1.91	13	14	30,078	0	6
11	Portugal	6.926	-6.23	5	5	47,152	0	6
12	Belgium	5.805	-8.04	7	8	24,507	9.6	6
13	Viet Nam	4.974	-0.77	14	15	29,530	0	6
14	Tunisia	4.837	61.01	15	11	26,634	0	6
15	Cambodia	4.801	-23.69	3	13	17,567	0	6

Source: ITC Trade map

The product mentioned-above has faced a significant decline over the last few years. However, decline is sharp over the last two years. Hamid *et al.* summarizes a manufacturer's response that there is an immediate need to enhance competitiveness by incorporating IT (e.g. ORACLE based accounting systems, online product tracking etc.), meeting global standards (like Worldwide Responsible Accredited Production, Global organic textile and so on). The study further argued that moving up the value chain is also critical. For instance, product design development, developing niche markets, and developing new products is the need of the time.

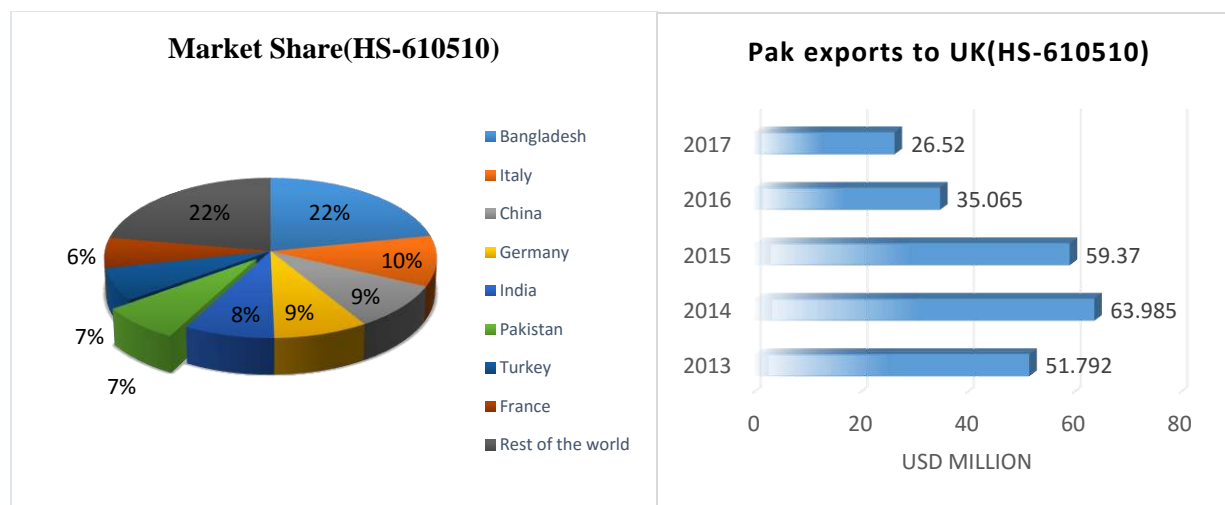


Figure 15: Men's or boys' shirts of cotton, knitted or crocheted (HS-610510)

Articles of apparel, of leather or composition leather (HS-420310)

The Pakistani leather products are well-known over the world because of their quality. Production requires continuous energy supply, however, disruption in electricity supply not only hinder production but also downgrade quality. The export competitiveness of Pakistani made articles of apparel has slightly decreased over the last five years which is accompanied by a decline in the export value as well.

India, Turkey, China, and Vietnam can be treated as Pakistan's competitors in the context of the leather industry. India has created Special Economic Zones (SEZ) to promote this particular sector and remained successful. China is again the price leader while Turkish strategy is to capture share through product differentiation. Vietnam's leather industry is labor intensive and the availability of cheap labor supports the industry.

Table-9: HS- 420310

*Figures are in USD Million

Ranks Based on Export values	Countries	Value of Exports in 2017	CAGR (%) 2013-17	Rank Based on ECI		Average Unit Price (USD thousand/Ton)	Tariff	Number of Non-tariff barriers
				2013	2017			
1	Italy	34.974	-8.77	1	1	49293	0	4
2	India	32.653	-2.92	3	4	59357	0	4
3	France	25.534	2.31	5	3	100566	0	4
4	Pakistan	16.871	-8.15	4	5	27186	0	4
5	Germany	14.635	10.78	8	6	103842	0	4
6	Spain	7.989	3.30	9	7	56702	0	4
7	Turkey	6.497	-13.40	7	9	146587	0	4
8	China	5.811	-19.75	6	11	35723	4	4
9	Netherlands	4.424	-2.32	10	8	132688	0	4
10	Viet Nam	2.612	63.58	14	13	85267	0	4
11	Mauritius	1.933	-23.73	2	2	100692	0	4
12	Belgium	1.901	-5.56	12	12	69667	0	4
13	USA	1.689	-0.89	13	15	93538	4	4
14	Denmark	1.667	-2.00	11	10	78391	0	4
15	Poland	1.641	68.73	15	14	116300	0	4

Source: ITC Trade map

In the context of the stated product, Pakistan's share in UK's market is nearly 10%. It is to be noted that competition in the market of 'Article of apparel, of leather or composition leather' is induced by product differentiation as India, despite offering higher per unit price than that of Pakistan, has grabbed the share of 19%. Market concentration of the stated product is lowest among all of the top-five potential products. It is imperative to consider market penetration power in order to formulate the export strategy.

Pakistan's Leather Garments Manufacturers and Exporters Association (PLGMEA) representative highlighted the fact that continuous contraction of the leather industry appears to be alarming. The primary reason was the customs duty of 3% and withholding tax of 1%. Leather exporters' import 60% to 70% of the raw material which contributes to the higher cost of production that eventually makes the product uncompetitive forcing exporters shut down.

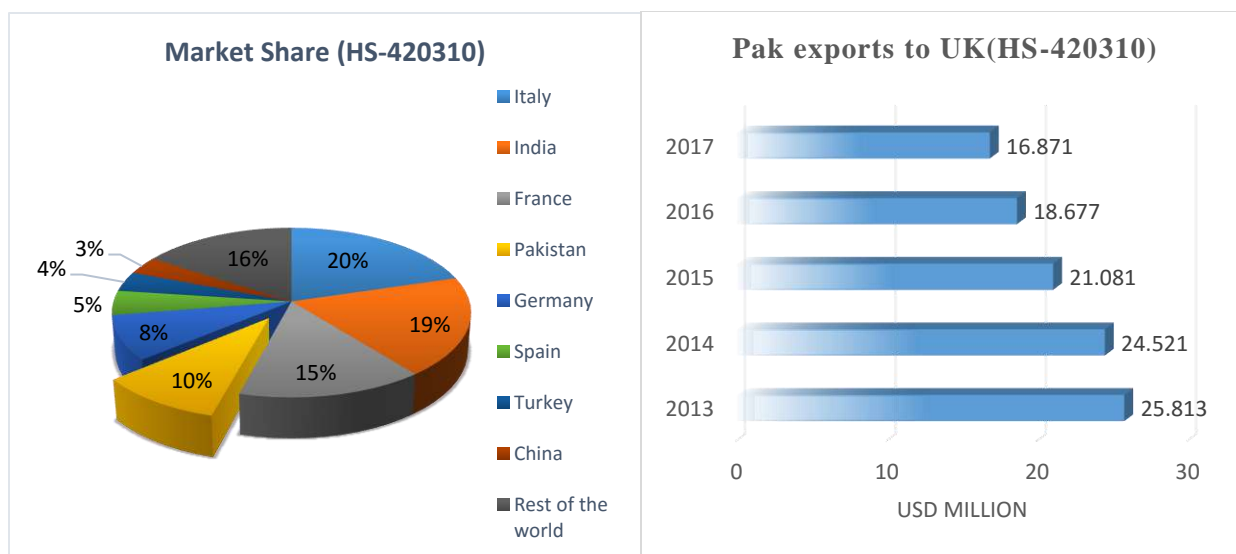


Figure 16: Articles of apparel, of leather or composition leather

Non-tariff barriers

This section is devoted to the identification of the non-tariff barriers faced by the top five potential products described in the previous section. Non-tariff barriers to trade are the trade barriers that limit export and import of goods and services besides imposition of tariffs.

Non-tariff measures for top-5 potential products

Table-10: List of Non-tariff barriers for the top-5 potential products

620462: Women's or girls' trouser etc.	610910: T-shirts, singlets and other vests of cotton	901890: Instruments & appliances used in medical	610510: Men's or boys' shirts	420310: Articles of apparel
(1) Prohibition for TBT reasons - (TBT) (2) Labeling requirements - (TBT) (3) Marking requirements - (TBT) (4) Product quality or performance requirement - (TBT) (5) Testing requirement - (TBT) (6) Certification requirement - (TBT) (7) Inspection requirement - (TBT)	(1) Labelling requirements - (TBT) (2) Marking requirements - (TBT) (3) Product quality or performance requirement - (TBT) (4) Testing requirement - (TBT) (5) Certification requirement - (TBT) (6) Inspection requirement - (TBT)	(1) Registration requirement for importers for TBT reasons - (TBT) (2) Restricted use of certain substances - (TBT) (3) Labelling requirements - (TBT) (4) Packaging requirements - (TBT) (5) Production or Post-Production requirements not elsewhere specified. - (TBT) (6) Product quality or performance requirement - (TBT) (7) Conformity assessment related to TBT - (TBT) (8) Testing requirement - (TBT) (9) Certification requirement - (TBT) (10) Inspection requirement - (TBT) (11) Import monitoring and surveillance requirements and other automatic licensing measures - (C)	(1) Labelling requirements - (TBT) (2) Marking requirements - (TBT) (3) Product quality or performance requirement - (TBT) (4) Testing requirement - (TBT) (5) Certification requirement - (TBT) (6) Inspection requirement - (TBT)	(1) Prohibition for TBT reasons - (TBT) (2) Product quality or performance requirement - (TBT) (3) Certification requirement - (TBT) (4) Inspection requirement - (TBT)

Source: Market Access Map

1.Prohibition for TBT reasons - (TBT)

Imports are prohibited for hazardous substances including explosives covered by Basel conventions such as aerosol sprays containing CFCs, etc.

The UK prohibits products related to raw fur skins of certain seal pups and any article made of these fur skins. Among top five potential items stated above, this barrier goes to Women's or girl's trousers and Articles of apparel.

2. Labeling Requirements- (TBT)

Labeling requirements include the product description. It may include the requirement to use official languages. Moreover, EU eco-label or 'flower logo' is awarded to the products that help improve the environment. It applies to all of the five potential products mentioned above.

3. Marking Requirement- (TBT)

These are the measures for defining the information for transport and customs that the transport/distribution packaging of goods should carry. In the context of above products, marking

requirements are applied to Women's or girls' trousers (620462), T-shirts, singlets and other vests of cotton (610910), and Men's or boys' shirts (610510).

4. Product quality or performance requirement - (TBT)

Conditions to be satisfied regarding performance (e.g., durability, hardness) or quality. It is also the mutual requirement of the above potential products.

5. Testing requirement - (TBT)

A requirement for products to be tested against a given regulation, such as performance level. It includes sampling requirement.

6. Certification requirement - (TBT)

Certification of conformity with a given regulation: required by the importing country but may be issued in the exporting or the importing country. These requirements apply to all of the top five products. However, some additional certificates like *GMP*, *ISO 9001*, *ISO 13485*, *NID* are required for **'Instruments & appliances used in medical'**.

7. Inspection requirement - (TBT)

The requirement for product inspection in the importing country: may be performed by public or private entities. It is similar to testing, but it does not include laboratory testing. It is also common among top five potential items.

Below is the requirement specific to **'Instruments & appliances used in medical (901890)'**

8. Registration requirement for importers for TBT reasons - (TBT)

The requirement that importers should be registered to import certain products: To register, importers need to comply with certain requirements, documentation and registration fees. It also includes the registration of establishments producing certain products.

9. Restricted use of certain substances - (TBT)

Restriction on the use of certain substances as components or material to prevent the risks arising from their use: Example: a) Restricted use of solvents in paints; b) the maximum level of lead allowed in consumer paint.

10. Packaging requirements - (TBT)

These measures regulate the mode in which goods must be or cannot be packed and defining the packaging materials to be used.

11. Production or Post-Production requirements not elsewhere specified. - (TBT)

12. Conformity assessment related to TBT - (TBT)

The requirement for verification that a given TBT requirement has been met: it could be achieved by one or combined forms of inspection and approval procedure, including procedures for sampling, testing & inspection, evaluation, verification and assurance of conformity, accreditation, and approval, etc. It also includes ‘**CE marking**’ which indicates the identification number of the notified body involved in the assessment.

Others:

If Nonyl Phenols and Nonyl Phenol Ethoxylates (NPEs) are used then we have to take into account the EU restriction as it is specific to EU territory. Among top five potential products described above, the restriction applies to women’s or girl’s trousers (HS-620462), T-shirts, singlets and other vests of cotton (HS-610910), Men's or boys' shirts (610510), and Articles of apparel (420310).

4.2. Non-tariff measures to food products

Sanitary and Phytosanitary Requirements (SPS): Goods imported into EU must satisfy the SPS requirements. The primary requirements are classified in four sectors: Food and feed safety, Animal health, Plant health, Public health.

SPS include relevant laws and regulations, process and production method, testing, inspection, and certification. According to the working paper on SPS Management and Controls in Pakistan, 26% of the samples on plant food shows that level of pesticides are more than acceptable limits. The SPS control authorities reject at least 25 consignments per annum in EU. Furthermore, Pakistan is facing difficulty in meeting food safety requirements by EU for the exports of fisheries.

Environmental Requirements:

EU have enacted environmental laws to protect consumers and the environment. The main requirement can be classified into four ways: Chemicals, Ozone-depleting substances (ODS), Fluorinated greenhouse gases, endangered species and waste. Before placement of chemicals into the EU market, they must be classified, labeled, and packaged following United Nation’s Globally Harmonized System (GHS).

Demand and Supply Side Issues

Demand-side issues:

In general, demand is the function of own price, the relative price of substitutes, the relative price of complements, income, and preferences. The effect of the exchange rate is also crucial and embedded in the price of the product. For instance, a relatively weaker currency can be bought by only spending few dollars. Pakistan's export basket to the UK is concentrated in textile products mainly and the demand is highly sensitive [see (Hussain, 2010)]. It can be seen that the Brexit decision hindered the export demand from the UK but the things are normalizing continuously. On the other hand, Pakistani rupee devaluation of December 2017 has improved exports to the UK (see Table-3). Several factors can anticipate higher demands in future. First of all, population growth rate of UK is less than that of real GDP growth rate which would divide higher income into the less number of people, therefore, increase in purchasing power will create demand. Valls, Andrade & Arribas (2011) studied and concluded that consumption pattern of overall Europe had evolved significantly and the demand is shifted towards brands. This is among one of the core issues for most of the Pakistani made products as there are only a few brands in the textile sector and others are labeled according to the importer's choice. The situation is relatively weak in the case of 'Instruments & appliances used in medical' as Pakistan is mainly the whole seller and produce less technically innovative products. Germany, Italy, and the US mainly import this product in the less value-added shape from Pakistan and re-export to the UK. This weakens demand for Pakistani made products and Pakistan has to charge a lower unit price to retain some market share.

Supply-side issues:

The European Commission has broadened the vulnerability criteria regarding import share, i.e. import share (three-year average) of GSP-covered imports must be lower than 6.5%. This relaxation has made the environment more attractive for Pakistan. On the one hand, there is a now an increased export ceiling for Pakistan to enjoy GSP+ status. On the other hand, new countries which lie in this bracket could also become eligible and start competing on the products covered by GSP. Pakistan's current export share to EU is 0.12%, and the new export ceiling is now increased to 6.5%. So, Pakistan now has to compete with less vulnerable countries relative to the previous criteria.

Issues specific to the surgical instrument industry include lack of technology, unskilled labor force, branding, and others. Therefore, buyers for the surgical instruments (e.g., 901890: Instruments & appliances used in medical) are mainly distributors or whole sellers. According to the representative of Surgical Instrument Manufacturers Association of Pakistan (SIMAP), exports of surgical forgings and semi & unfinished products had faced major decline. In addition to this, Pakistan was exposed to countervailing duties for Polyethylene containing products since 2010 (removed in 2017).

Furthermore, ease of doing business and overall competitiveness of Pakistan's remains poor. Among competitors, Pakistan is ranked lowest which is also a significant reason for the low exports. Table-11 provides the Global Competitiveness Index ranking which states that Pakistan as the lowest ranked (i.e., 115) among its competitors.

Table-11: Global Competitive Index Rankings-2017

Countries	Rank
China	27
India	40
Turkey	55
Veit Nam	60
Sri Lanka	85
Bangladesh	99
Pakistan	115

Source: World Economic Forum

In addition to this, there exist a highly competitive regional environment. For instance, India remains one of Pakistan's top competitors because of similar product baskets and culture. In 2005, India enacted the Special Economic Zone (SEZ) Act with several distinctive features likes the duty-free imports, 100% Income Tax exemption, and Sales and Services tax exemptions.

China's economic zones are the most successful economic zone in the region. Their industry is technology intensive. China's initiative of The Belt and Road is a long-term policy initiative which would reshape global trade outlook. Furthermore, China has signed 17 FTAs (some are under negotiation). Moreover, China has narrowed down its focus on quality competition rather than only price competition. China also devalued its currency to promote exports. Altogether allow China to offer low prices, therefore, it appears price leader for most of the products.

Bangladesh has eight economic zones already working. Latest policy framework emphasized support to multiple sectors rather than just textile-like Agro, Plastic, Leather, Pharma, and Software is prioritized over home textile.

The Existence of International Brands

This section is devoted to identifying the existence of international brands of Pakistan in the context of its exports to the UK. Most of the branded products are related to textile as the textile sector of Pakistan value addition and is the major export strength of Pakistan. Following are names of some Pakistani brands available in the UK market:

- Bareeze
- Junaid Jamshed,
- Amir Adnan
- Gul Ahmed
- *Sha* Posh
- Ideas
- Nakkashi
- Sobia Nazir
- Sana Safinaz
- Alkaram
- Khaadi

Top Ten Pakistani Exporters to the UK

The top ten Pakistani exporters to the UK market are listed below under Table-12.

Table-12: List of top ten exporters to the UK

	Exporters	Address
1	Junaid Jamshed	Address: Korangi Industrial Area, Karachi, Pakistan, Phone:0092 21 38797470
2	Fortune Corporation	Address: Chundrai road, Lahore, Phone: 0092 42 35402331
3	Circle One	Address: DHA Karachi, Pakistan, Phone: 0092 21 35857556
4	Gul Ahmed	Landhi Industrial Area, Karachi, Phone: 00 92 21 35018906
5	Khaadi	Sindh Industrial Trading Estate, Karachi, Phone: 00 92 111 542234
6	Leather Field (Pvt) Ltd.	Address: Sialkot, Pakistan, Phone: 0092 52 3556272
7	M/s. Nova Leathers (Pvt) Ltd	Address: Korangi Ind Area, Karachi, Pakistan, Phone: 0092 21 38100108
8	Royal Leather Industries Ltd.	Address: Lahore, Pakistan Phone: 0092 42 36363140
9	M/s. Hub Leather (Pvt) Ltd.	Address: Korangi Ind Area, Karachi, Pakistan, Phone: 0092 21 35121578
10	VIP Wears (Pvt) Ltd.	Address: Said Pur/Rondal Road Sialkot, Pakistan

Source: Pakistan's Commercial Counsellor to the UK

Market Initiatives by TDAP

Trade Development Authority of Pakistan (TDAP) has played a vital role in promoting exports and facilitating trade activities. A list of international fairs to be held in the UK forming part of TDAP's annual exhibition calendar for 2017-18 is provided under Table-13.

Table-13: International Exhibition Calendar, 2017-18

S.No.	Details of Events	Dates	Products
1	Spring Fair, Birmingham, UK	February 2018	Textile & Home Decore
2	Hotel & Catering Show, UK	March 2018	Tableware (Cutlery)
3	International Food Event, London, UK	March 2018	Food Products
4	Safety & Health EXPO, UK	June 2018	Healthcare
5	Autumn Fair NEC, Birmingham, UK (In addition to Spring Fair)	September 2017	Furniture
6	Spring Fair Birmingham, UK	February 2017	Textile & Home Decore
7	International Food Event, London, UK	March 2017	Food Products
8	Safety & Health Expo, UK	June 2017	Healthcare

Source: Pakistan's Commercial Counsellor

SWOT Analysis

Strengths:

- GSP+ status has provided duty-free access to Pakistan for export of over 6000+ tariff lines to the UK. The revised vulnerability criteria of 6.5% provide a much wider playing field. Primary regional competitors namely India and China, however, have Standard GSP status.
- Pakistan has strengths, particularly in textile and cotton products. For instance, Pakistan is the top exporter of Bed linen of Cotton and the share is continuously increasing. The item has captured nearly 50% of UK market for the same. Moreover, Pakistan has an edge with average unit price over competitors. Fortunately, these products are covered in the zero-tariff line under GSP+.
- Devaluation of Pak rupee has made our exports cheaper in the international market providing an advantage over others. It would also assist in improving trade balance by reducing imports (as imports become expensive) and increasing exports (exports grow cheaper).
- UK's export portfolio complements Pakistan's import needs more strongly than vice versa. For instance, T-shirts (HS-610910) and Instrumental & appliances (HS-901890) are among top 15 export items of Pakistan and top 50 items of UK exports. Furthermore, surgical

instruments of Pakistan are in high demand in the UK as the industry remains popular since British rule. There is no direct competitor of Pakistan in surgical instruments and economies like Germany, Italy, and the USA import these instruments in less value-added form before re-exporting it to the world.

Weakness:

- Pakistan is continuously losing its competitiveness and has performed relatively poor among regional competitors. According to Global Competitiveness Index, Pakistan is ranked at 115, lower than Bangladesh, India, and China.
- Lack of value-addition is continuously eroding Pakistan's exports. Pakistan's Surgical instruments only account for 1.65% of the total imports of the same by the UK.
- Fierce competition with Bangladesh because of their special status of 'Everything But Arms (EBA) group'. Other regional competitors, i.e., India and China are too big to compete under the current economic scenario.
- UK's macroeconomic conditions are relatively not as favorable with the CPI touching the five-year highest and per capita GDP touching the five-year lowest. Both these factors have adverse effects on the demand for imports.
- Pakistan has strengths in producing cereals and leathers, however, possess only 2% and 1% share respectively in the UK market for these products. Conflict over the country of origin issue with India has also negatively impacted the rice export base of Pakistan.
- Leather products of Pakistan rely on 60% to 70% of imported raw materials which is contributing towards higher production cost due to the incidence of customs duty and withholding tax.

Opportunities:

- The UK is the large market with huge imports covering from all type of products and price levels.
- Pakistan may sign FTA with the UK before the completion of Brexit due in 2019. Appropriate negotiation may benefit Pakistan with the UK through further relaxation of the strict non-tariff measures of the EU.
- Despite GSP+ status, 9% of the tariff lines are still not covered. Many of these products are of immense potential and are highly demanded by the UK.

- Pakistan's share in '**Husked or Brown rice (HS: 100620)**' has increased in 2017. However, there is potential for Pakistan to increase it further. Major share is captured by India which has similar geographic location as that of Pakistan.
- Products '**Instrumental and appliances used in medical, surgical or veterinary sciences (HS-901890)**', '**Women's or girls' trousers, bib and brace overalls (HS-620462)**', '**T-shirts, singlets and other vests of cotton, knitted or crocheted (HS-610910)**', and '**Men's or boys' shirts of cotton, knitted or crocheted (HS-610510)**' possess enormous untapped potential in the context of UK market.

Threats:

- Brexit, if not properly tackled, would restrain Pakistan from enjoying zero tariffs for the UK.
- Signing FTA may increase import share of Pakistan from the UK as a consequence domestic market would suffer.
- Pakistan's share for most of the textile related products has declined in the UK market over the last couple of years. If this trend continues then Pakistan may lose share in the UK market further.
- Bangladesh is emerging as a major competitor in the textile sector.
- Consumption patterns in the UK are undergoing a transition, however, Pakistan's export to the UK is heavily reliant on the textile sector.
- Pakistan's ease of doing business ranking is 144 which is also a threat for future exports.

Recommendation/conclusions

While Pakistan's exports to the UK have decreased after 2014, reversal is evident in 2017 as well as in the first three months of 2018 which is followed by the Pak rupee devaluation in December 2017. Continuous effort is needed in order to bolster the momentum of trade in the same direction. The cheaper rupee could assist further in improving trade balance as it could automatically be dragged down the average unit prices of the Pakistani export items.

Pakistan, while focusing on CPEC, should also look beyond at the aftermath of Brexit. The EU is a market of 460 million people which should be explored to tap investment and trade activities. There is an immediate need to formulate strategies in order to gain more from trade with the EU

and UK in the post-Brexit scenario. It could be done by diversifying the export base toward minerals, pharmaceuticals, polyethylene products and other higher value-added products.

The UK has ensured to set up similar preferential access to the UK market after Brexit. As there is limited time to reach, Pakistan should sign FTAs as early as possible so that continuous duty-free access into the UK can be assured for the tariff lines that are currently covered by GSP+ status. In negotiating FTA, Pakistan should also pay attention towards protecting domestic market because an undue preferential access to the UK may reverse the direction of existing trade benefits.

Most of Pakistan's top export products faced severe decline over 2016-17. The necessary measures should be taken in order to recapture the lost share. Contrary to this, export of '**Bed linen of cotton (HS-630231)**' has expanded by 8.5% over the same period with the 50% share in UK market. The product still possesses massive potential and the share could be increased further.

At HS-02 level (see Table-3), '**Apparel (Knitted or Crocheted) (HS-61)**', '**Apparel (Without Knitted or Crocheted) HS-62**', '**Cereals (HS-10)**' and '**Leathers (HS-42)**' bear an immense potential to compete in UK's market. These are the top categories in terms of Pakistan's exports to the World and imported by the UK from the World. For the first two products, Pakistan has an advantage over India and China in terms of tariff, through it, has to compete with Bangladesh. Cereals are not covered by GSP+. Pakistan and India are exposed to similar equivalent ad valorem tariff of 9.88%. The product is, however, exposed to the high number of non-tariff barriers. India is the only regional competitor of Pakistan for Cereals. Pakistan should press for preferential access and urge for less stringent SPS requirements.

Among the top ten potential products at HS-06 level (depicted in Table-6), '**Instrumental and appliances used in medical, surgical or veterinary sciences (HS-901890)**' is related to the surgical equipment industry of Pakistan and possess immense potential for the exports to the UK. Pakistan's share has been increased recently but still accounts for less than 2% of the UK's imports. It suggests an immediate need to devote trade promotion activities in this particular area. In the last two years, no exhibition was held in the UK related to these items. The exhibition related to

surgical instruments should be prioritized in the first stage. There is also an urgent need to provide training to workers in the core areas relevant to exports.

Textile products like **‘Women's or girls' trousers, bib and brace overalls (HS-620462)’**, **‘T-shirts, singlets and other vests of cotton, knitted or crocheted (HS-610910)’**, and **‘Men's or boys' shirts of cotton, knitted or crocheted (HS-610510)’** are also among the items that bear immense potential. These products should be included in the existing yearly exhibition related to textile.

Regarding **‘Articles of apparel, of leather or composition leather (HS-420310)’**, the export value has been decreasing over last five years. The major reason cited is the customs duty on the raw material which accounts for nearly 70% in the manufacturing of leather products. This issue needs to be addressed.

Bibliography

1. European Union – Countervailing Duties on certain Polyethylene Terephthalate from Pakistan, WT/DS486/R (World Trade Organisation July 6, 2017).
2. Hussain, F. (2010). Pakistan's Exports Demand: A Disaggregated Analysis. SBP Research Bulletin, 6(2), 1-13.
3. Hamid, Nabi, Zafar. (n.d.). Pakistani Textiles: A Case for Moving up the Value Chain.
4. IMF. (2018). 2017 Article IV Consultation—PRESS RELEASE;. International Monetary Funds.
5. ITC Market Access Map. (2018, 04 01). Retrieved from <http://www.macmap.org/>
6. ITC Trade Map. (2018, 04 01). Retrieved from <https://www.trademap.org/Index.aspx>
7. International Monetary Funds. (2018, 04 01). Retrieved from <http://www.imf.org/>
8. Kayani, U. J., & Shah, S. A. (2014). A Legal and Economic Analysis of Non-Tariff Barriers in Pakistan, India, China and Sri Lanka. International Growth Centre.
9. Mustafa, K., & Ahmad, S. (2003). Barriers against Agricultural Exports from Pakistan: The Role of WTO Sanitary and Phytosanitary Agreement [with Comments]. The Pakistan Development Review, 487-510.
10. Valls, J. F., Andrade, M. J., & Arribas, R. (2011). Consumer attitudes towards brands in times of great price sensitivity. Four case studies. Innovative Marketing, 7(2), 60-70.
11. International Monetary Funds. (2018, 04 01). Retrieved from <http://www.imf.org/>
12. State Bank of Pakistan. (2018, 04 01). Retrieved from <http://sbp.org.pk/>

ANNEXURE:

Table-1: Top-15 Exports at (HS-6 digit)

Rank	HS code	Product Label	Value in 2016, USD Million	Value in 2017, USD Million	Annual growth in value between 2016-2017, %	Equivalent ad valorem tariff applied	Pakistan's exports share as a % of total UK's imports
1	'630231	Bed linen of cotton	105.40	114.38	8.52	0	50.12
2	'630222	Printed bed linen of man-made fibres	118.91	98.68	-17.01	0	73.37
3	'620342	Men's or boys' trousers, bib and brace overalls	140.74	93.38	-33.65	0	10.10
4	'630232	Bed linen of man-made fibres	84.62	74.45	-12.02	0	57.58
5	'611020	Jerseys, pullovers, cardigans, waistcoats and similar articles,	70.01	72.57	3.65	0	6.72
6	'630260	Toilet linen and kitchen linen	84.88	67.18	-20.86	0	27.54
7	'620462	Women's or girls' trousers, bib and brace overalls	75.04	59.95	-20.11	0	6.08
8	'630221	Printed bed linen of cotton	45.57	50.78	11.43	0	43.28
9	'100620	Husked or brown rice	27.96	32.67	16.81	3	12.57
10	'610910	T-shirts, singlets and other vests of cotton	26.33	32.13	22.00	0	2.21
11	'901890	Instruments and appliances used in medical	26.43	28.86	9.20	0	1.65
12	'610510	Men's or boys' shirts of cotton, knitted or crocheted	35.06	26.52	-24.37	0	7.24
13	'611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres	18.67	21.92	17.41	0	1.92
14	'551412	Woven fabrics containing predominantly,	20.93	21.69	3.61	0	88.30
15	'940490	Articles of bedding and similar furnishing, stuffed or internally filled	20.48	21.519	5.05	0	5.59

Table-2: Top-15 Imports at (HS-6 digit)

Rank	HS code	Product Label	Value in 2016, USD Million	Value in 2017, USD Million	Annual growth in value between 2016-2017, %	Equivalent ad valorem tariff applied	Pakistan's import share as a % of UK's export to world
1	'720449	Waste and scrap of iron or steel	87.82	139.03	58.31	9	7.05
2	'720429	Waste and scrap of alloy steel	76.09	107.31	41.02	3	45.60
3	'630900	Worn clothing and clothing accessories,	46.86	57.19	22.05	3	12.04
4	'841191	Parts of turbojets or turbopropellers, n.e.s.	0.43	20.20	4545.29	3	0.23
5	'720430	Waste and scrap of tinned iron or steel	22.97	18.53	-19.33	3	7.39
6	'720421	Waste and scrap of stainless steel	5.37	17.64	228.50	3	13.74
7	'720410	Waste and scrap, of cast iron (excluding radioactive)	13.81	17.41	26.10	14	8.75
8	'999999	Commodities not elsewhere specified	23.56	17.39	-26.19	N/A	0.10
9	'850213	Generating sets with compression-ignition internal combustion piston engine	14.296	13.57	-5.07	10	2.12
10	'382499	Chemical products and preparations of the chemical or allied industries	0	10.53	---	9	1.18
11	'880330	Parts of aeroplanes or helicopters	15.189	9.85	-35.10	3	0.07
12	'300420	Medicaments containing antibiotics	6.682	9.81	46.83	11	1.04
13	'340290	Surface-active preparations, washing preparations,	9.559	9.55	-0.09	20	2.35
14	'293499	Nucleic acids and their salts,	1.159	8.79	658.67	9	0.95
15	'847130	Data-processing machines	5.591	6.87	22.88	16	0.79

Other Potential Products (HS-02)

Table-3: Pakistan top exports to World (HS-02)

Product Code	Product label	Value in 2016, USD Million	Equivalent ad valorem applied by UK
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	3803.98	0
'52	Cotton	3497.37	0
'61	Articles of apparel and clothing accessories, knitted or crocheted	2347.47	0
'62	Articles of apparel and clothing accessories, not knitted or crocheted	2253.02	0
'10	Cereals	1717.08	10
'42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	644.93	0
'25	Salt; sulphur; earths and stone; plastering materials, lime and cement	448.06	0
'08	Edible fruit and nuts; peel of citrus fruit or melons	435.23	2
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	364.22	0
'41	Raw hides and skins (other than furskins) and leather	349.00	0

Apparel (Knitted or Crocheted): HS-61

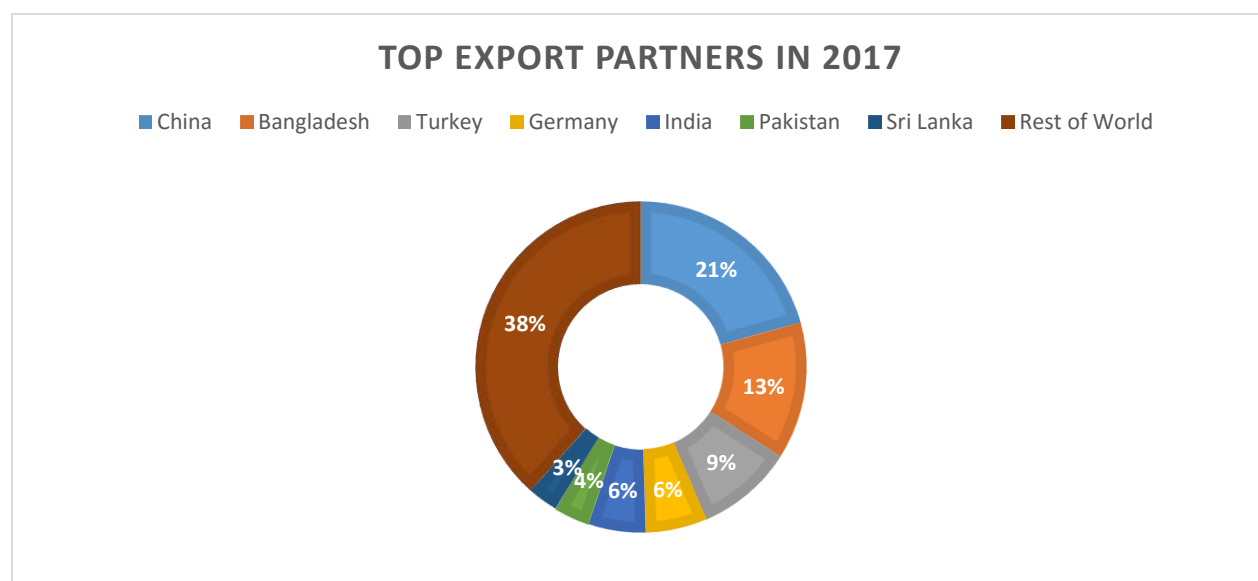


Figure 17: Apparel (Knitted or Crocheted) (HS-61)

Table-4: Competitors' export of Apparel (HS-61) to UK

Countries	Exports to UK (USD Million)	CAGR (2013-17)	Total Equivalent ad valorem tariff
China	2329.27	-0.09	12
Bangladesh	1509.98	0.02	0
Turkey	1064.83	-0.07	0
Germany	673.06	0.13	0
India	631.30	-0.05	9.6
Pakistan	391.93	0.07	0
Sri Lanka	335.07	-0.06	9.6
Rest of World	4323.24	-0.02	

Apparel (Without Knitted or Crocheted): HS-62

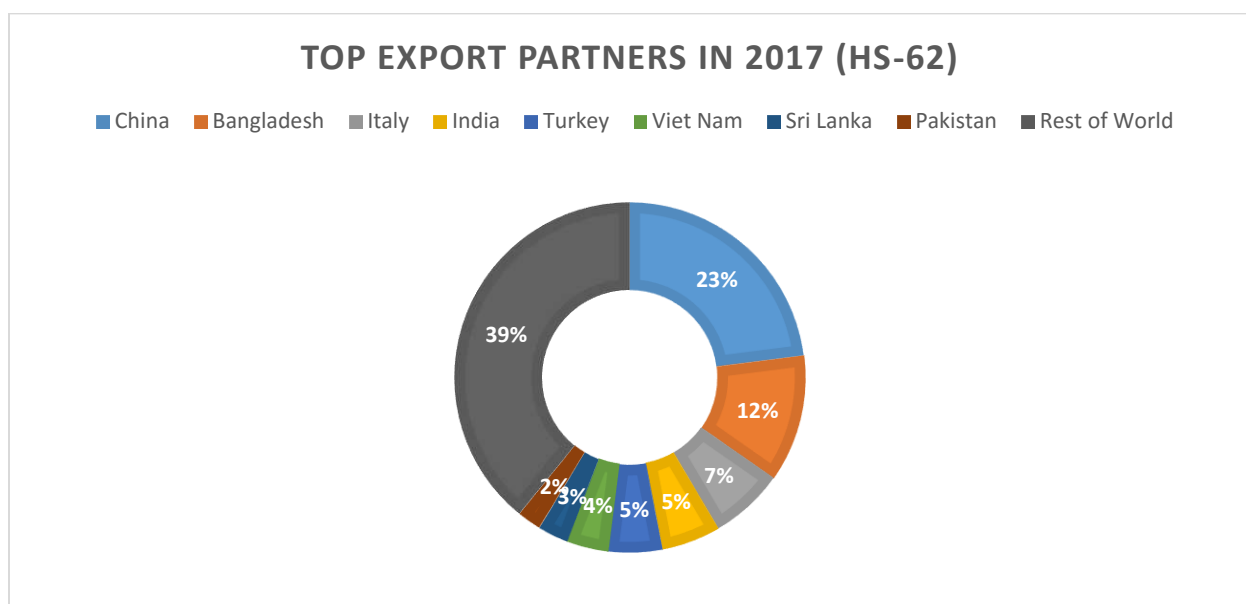


Figure 18: Apparel (without Knitted or Crocheted) (HS-62)

Table-5: Competitors' export of Apparel (Without Knitted or Crocheted): HS-62

Countries	Imported Value in 2017	CAGR	Equivalent ad valorem tariff
China	2523.33	-0.08	2
Bangladesh	1288.36	0.01	0
Italy	751.68	0.02	0
India	594.81	-0.07	9.22
Turkey	546.31	-0.04	0
Viet Nam	422.30	0.01	9.22
Sri Lanka	309.96	-0.07	9.22
Pakistan	240.87	-0.02	0
Rest of World	4297.05	-0.02	

Cereals: (HS-10)



Figure 19: Cereals (HS-10)

Table-6: Competitors' export of Cereal (HS-10)

Countries	Imported Value in 2017	CAGR	Equivalent ad valorem tariff
India	220.40	0.07	9.88
France	213.82	-0.16	0
Canada	137.49	-0.04	9.9
Italy	80.22	0.01	0
Germany	72.95	-0.29	0
Ireland	71.23	-0.05	0
Ukraine	71.08	-0.11	6.05
United States of America	66.21	0.04	9.9
Pakistan	39.49	-0.11	9.88
Rest of World	576.75	-0.08	

Leathers (HS-42)

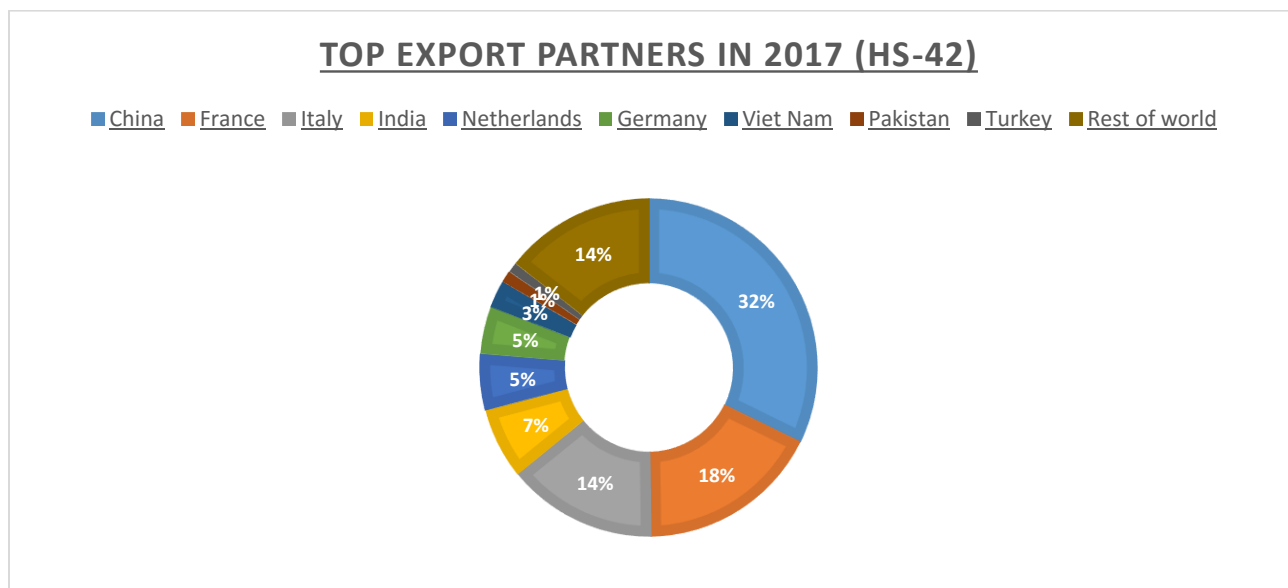


Figure 20: Leathers (HS-42)

Table-7: Competitors' export of Leathers (HS-42)

Countries	Imported Value in 2017	CAGR	Equivalent ad valorem tariff
China	1120.29	-0.05	4.75
France	609.24	0.08	0
Italy	500.62	0.00	0
India	234.99	-0.04	0.92
Netherlands	185.94	0.11	0
Germany	157.58	0.07	0
Viet Nam	91.44	0.12	0.92
Pakistan	39.56	-0.02	0
Turkey	33.60	-0.09	0
Rest of world	501.67		