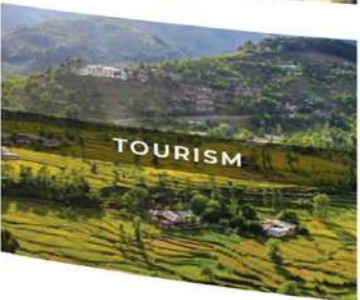
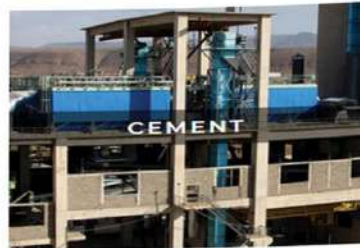




# Pak China Bilateral Trade Country Report



# Contents

<b>1.</b>	<b>Introduction.....</b>	<b>1</b>
<b>2.</b>	<b>Economic Overview .....</b>	<b>2</b>
<b>2.1.</b>	<b>Pakistan at a glance .....</b>	<b>2</b>
<b>2.2.</b>	<b>China at a glance.....</b>	<b>3</b>
<b>2.3.</b>	<b>Trade Profile of China.....</b>	<b>4</b>
<b>2.3.1.</b>	<b>Major imports &amp; trading partners of China from World .....</b>	<b>4</b>
<b>2.3.2.</b>	<b>Major exports and trading partner of China to the World .....</b>	<b>6</b>
<b>2.4.</b>	<b>Bilateral Trade Analysis.....</b>	<b>7</b>
<b>3.</b>	<b>Pak - China Trade Scenario.....</b>	<b>9</b>
<b>3.1.</b>	<b>Pakistan's top 15 exports to China.....</b>	<b>9</b>
<b>4.</b>	<b>Potential Export Items.....</b>	<b>14</b>
<b>5.</b>	<b>Value Chain Mapping .....</b>	<b>15</b>
<b>5.1.</b>	<b>Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns in... (030617) .....</b>	<b>15</b>
<b>5.2.</b>	<b>Fresh or dried guavas, mangoes and mangosteens. (080450) .....</b>	<b>17</b>
<b>5.3.</b>	<b>Grain splits leather "incl. parchment-dressed leather", of the whole hides and skins of bovine ... (410712) .....</b>	<b>19</b>
<b>5.4.</b>	<b>Leather further prepared after tanning or crusting "incl. parchment-dressed leather", of goats ... (411310) .....</b>	<b>21</b>
<b>5.5.</b>	<b>Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s. (901890) ....</b>	<b>23</b>
<b>6.</b>	<b>Demand and Supply side issues of the products .....</b>	<b>25</b>
<b>6.1.</b>	<b>Inputs from concerned trade missions abroad (Demand-side Issue) .....</b>	<b>25</b>
<b>6.2.</b>	<b>Inputs from concerned trade associations (Supply-side Issues) .....</b>	<b>26</b>
<b>7.</b>	<b>Market Initiatives by TDAP (China) .....</b>	<b>28</b>
<b>8.</b>	<b>SWOT Analysis .....</b>	<b>30</b>
<b>8.1.</b>	<b>Strengths.....</b>	<b>30</b>
<b>8.2.</b>	<b>Weaknesses.....</b>	<b>30</b>
<b>8.3.</b>	<b>Opportunities .....</b>	<b>31</b>
<b>8.4.</b>	<b>Threats .....</b>	<b>32</b>
<b>9.</b>	<b>Conclusion and Recommendations .....</b>	<b>33</b>
<b>10.</b>	<b>References.....</b>	<b>35</b>

## List of Figure:

FIGURE 1: PAKISTAN'S POPULATION (WORLD BANK) .....	2
FIGURE 2: GDP GROWTH OF PAKISTAN (SBP) .....	2
FIGURE 3: GDP IN USD (ECONOMIC SURVEY OF PAKISTAN 2017-18) .....	3
FIGURE 4: IMPORT & EXPORTS OF PAKISTAN (SBP) .....	3
FIGURE 5: CHINA'S POPULATION (WORLD BANK) .....	4
FIGURE 6: CHINA'S GDP GROWTH (NATIONAL BUREAU OF STATISTIC-CHINA) .....	4
FIGURE 7: IMPORT & EXOPORTS OF CHINA (WORLD BANK DATABASE) .....	4
FIGURE 8: GDP IN USD (WORLD BANK DATABASE) .....	4
FIGURE 9: TOP WORLD IMPORTS OF CHINA & SHARE (TARDE MAP) .....	5
FIGURE 10: TOP SUPPLIERS TO CHINA & SHARE (COMTRADE) .....	6
FIGURE 11: TOP EXPORTS OF CHINA & SHARE (TRADE MAP) .....	7
FIGURE 12: TOP CUSTOMERS OF CHINESE PRODUCTS (COMTRADE) .....	7
FIGURE 13: BILATERAL TRADE BETWEEN PAK - CHINA (COMTRADE) .....	8
FIGURE 14: TOP 15 EXPORTS OF PAK TO CHINA (TRADE MAP) .....	10
FIGURE 15: TRADE UNDER CHAPTER 52 - COTTON (TRADE MAP) .....	10
FIGURE 16: TOP SUPPLIERS OF HS 6-DIGIT 520512 TO CHINA .....	11
FIGURE 17: TOP SUPPLIERS OF HS 6-DIGIT 261000 TO CHINA .....	12
FIGURE 18: TOP SUPPLIERS OF HS 6-DIGIT 740200 TO CHINA .....	12
FIGURE 19: TOP SUPPLIERS OF HS 6-DIGIT 100630 TO CHINA .....	13
FIGURE 20: LIST OF INDICATIVE POTENTIAL EXPORTS TO CHINA .....	14
FIGURE 21: TRADE INDICATORS (030617) .....	16
FIGURE 22: PAKISTAN'S TOP EXPORT DESTINATION (030617) .....	16
FIGURE 23: PRODUCTS AT 8-DIGIT DIVERSIFICATION .....	16
FIGURE 24: TOP EXPORTERS (030617) .....	17
FIGURE 25: TRADE INDICATORS (080450) .....	17
FIGURE 26: PAKISTAN'S TOP EXPORT DESTINATIONS (080450) .....	18
FIGURE 27: PRODUCTS AT 8-DIGIT DIVERSIFICATION .....	18
FIGURE 28: LIST OF NON-TARIFF BARRIERS (080450) .....	19
FIGURE 29: TOP 10 EXPORTERS (080450) .....	19
FIGURE 30: TRADE INDICATORS (410712) .....	19
FIGURE 31: PAKISTAN'S TOP EXPORT DESTINATIONS (410712) .....	20
FIGURE 32: LIST OF NON-TARIFF BARRIER (410712) .....	20
FIGURE 33: TOP 10 EXPORTERS (410712) .....	21
FIGURE 34: TRADE INDICATORS (411310) .....	21
FIGURE 35: PAKISTAN'S TOP 5 EXPORT DESTINATIONS (411310) .....	22
FIGURE 36: LIST OF NON-TARIFF BARRIERS (411310) .....	22
FIGURE 37: TOP 10 EXPORTERS (411310) .....	22
FIGURE 38: TRADE INDICATORS (901890) .....	23
FIGURE 39: PAKISTAN'S TOP 5 EXPORT DESTINATIONS (901890) .....	24
FIGURE 40: LIST OF NON-TARIFF BARRIERS (901890) .....	24
FIGURE 41: TOP 10 EXPORTERS (901890) .....	24
FIGURE 42: MARKETS INITIATIVE BY TDAP (CHINA) .....	29

## 1. Introduction

Pakistan with a turbulent past and tarnished economy has always struggled to resolve internal political disputes, negative trade balance and low levels of foreign investment. Many attempts have been made to liberalize economy in the past. Unfortunately, consistent changes in national policy from privatization to nationalization and backwards caused losses to state<sup>1</sup>. Amongst these numerous initiatives, Pak-China trade relations since 1951 and later on trade liberalization through multiple agreements proved to be the stepping stone towards regional integration. As a result, China has now become the third-largest trading partner of Pakistan<sup>2</sup>.

Trade relations between Pakistan and China that took leap in 1950s could only translate into real development with the start of this millennial. In May 2001, Pakistan and China signed six MOUs on trade in areas of tourism, mining, tele-communication and railroad infrastructure. In December 2004, further 7 MOUs in areas of trade, communication and the energy sector were signed; and then in 2005, 21 agreements and MOUs on defense, energy, infrastructure, and social sector were also agreed upon.

Later on, in January 2006, an Early Harvest Program further wired both countries into trade and paved way for the Free Trade Agreement signed on 24 November 2006 titled as “China-Pakistan Free Trade Agreement (CP-FTA)”.

Owing to the ambitions and desires of Chinese President Xi Jinping to assimilate Asia, Europe and Africa through Trans-regional integration (Silk Road Economic Belt and 21st-Century Maritime Silk Road), an infrastructure arrangement was unveiled in late 2013 with \$46 billion (now around \$63 billion) investment in China-Pakistan Economic Corridor (CPEC) – further strengthening bilateral trade relations.

Given the trade volume, size of Chinese economy and opportunities lying ahead encourage us to conduct this study. The study examines bilateral trade between Pakistan and China, expanding upon trade profile of China, some of the top exports from Pakistan to China and barriers faced thereby. Detailed analysis will help us understand Pak-China bilateral trade, eliminate barriers to trade, assiduously explore avenues for potential exports and learn from best practices in the industry.

---

<sup>1</sup> “Nationalization and Land Reforms” by Abdul Ghafoor Bhurgui; Sani H. Panhwa. Zulfiqar Ali Bhutto: The Falcon of Pakistan.

<sup>2</sup> The World Fact book, Field Listing: Imports – Commodities, Central Intelligence Agency.



## 2. Economic Overview

### 2.1. Pakistan at a glance

In 2017, Pakistan's population as reported by Pakistan Economic Survey, 2017-2018 stood at 200.7 million making it the 6<sup>th</sup> largest country by population in the world<sup>3</sup>. Since 2014, the economy has consistently registered a smooth upward trend in GDP growth. The economy witnessed higher GDP annual growth of 5.28% in 2017<sup>4</sup>, increased by 0.8 percent from 4.51% last year in 2016 which is the highest in last 10 years. Nominal GDP in Pakistan remained worth \$304.3 billion<sup>5</sup> in 2017 reaching all time high increasing from 283.66 billion in 2016. Amongst these indicators, Pakistan also achieved the milestone of a trillion-dollar economy<sup>6</sup> based on purchasing power parity (PPP) in 2017. By PPP ranking, Pakistan is now the 25<sup>th</sup> largest economy in the world.

Pakistan's growth reflects acceleration but balance of payment is highly constrained due to high current account deficit with 4.1% of GDP. Pakistan's exports sought recovery in 2017 after three years' consecutive decline but import growth caused trade deficit to climb up to \$35.5 billion. Government initiated regulatory measures to slowdown imports; even depreciated exchange rates and raised policy interest rates yet failed to sustain depleting international reserves which as of April, 2018 were at \$11.3 billion. In this regard, instant focus on export promotion to neutralize trade imbalance is the dire need of time.

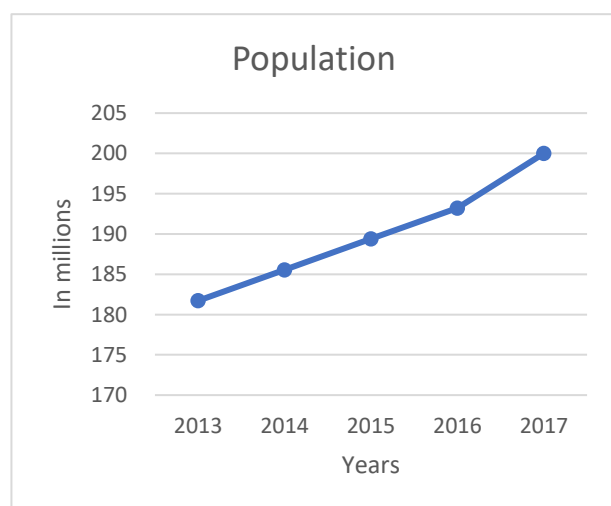


Figure 1: Pakistan's Population (World Bank)

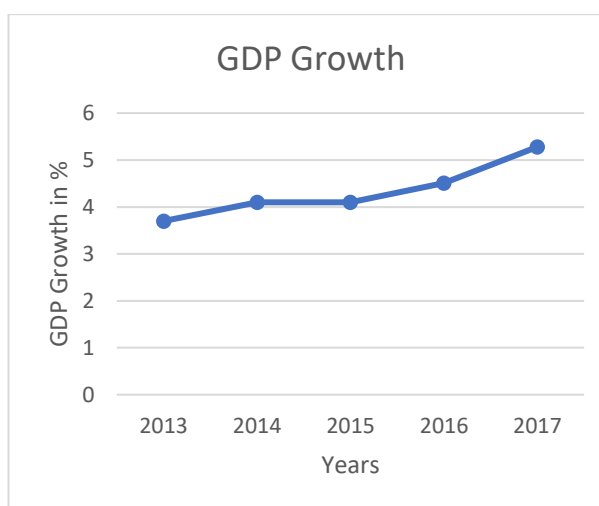


Figure 2: GDP Growth of Pakistan (SBP)

<sup>3</sup> Pakistan Economic Survey, 2018.

<sup>4</sup> "MACRO ECONOMIC INDICATORS 2018" - Pakistan Bureau of Statistics.

<sup>5</sup> Ibid.

<sup>6</sup> World Data Atlas, 2017.



Figure 4: Import & Exports of Pakistan (SBP)

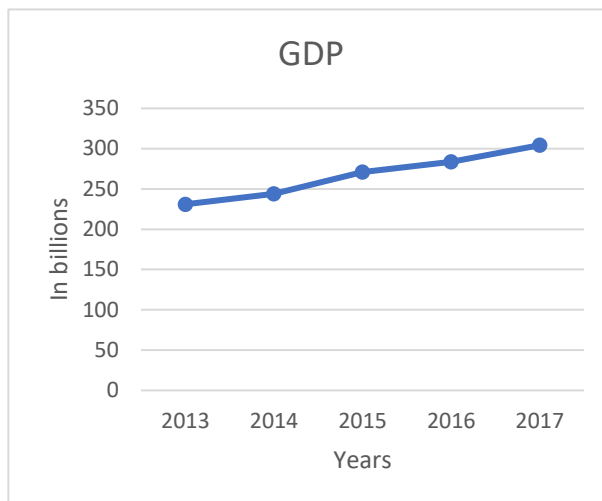


Figure 3: GDP in USD (Economic Survey of Pakistan 2017-18)

## 2.2. China at a glance

China is among the world's fastest growing economies with its second-largest nominal GDP at 11,937 billion USD and GDP per capita at \$8,583 in 2017. China outperformed market expectations of 6.7% and registered 6.8% annual GDP growth<sup>7</sup>. In January 2018, international reserves of China were 3.16 trillion US dollars<sup>8</sup>. International reserves of China increased from 146 billion US dollars in 1997 to 3,097 billion US dollars in 2016 growing at an average annual rate of 18.72%<sup>9</sup>.

China is the biggest trading nation holding top position in world exports at 2.28 trillion USD making around 20% of its GDP<sup>10</sup> and second largest importer of goods with 1.32 trillion USD<sup>11</sup>. China's trade potential with its humongous market size, growth rate, consumption capacity and commercial infrastructure makes it one of the most favorable export destination for Pakistani products.

<sup>7</sup> IMF – World Economic Outlook Database, 2017.

<sup>8</sup> Peoples Bank of China – China's Foreign Exchange Reserves.

<sup>9</sup> Ibid.

<sup>10</sup> World Trade Organization: Country Profile - China

<sup>11</sup> National Bureau of Statistics, China, 2017.

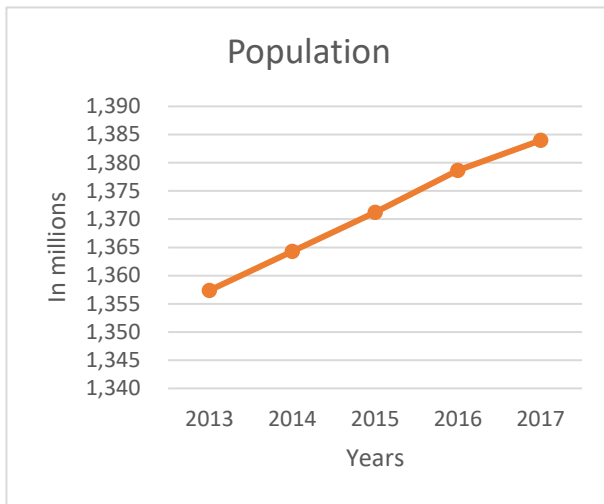


Figure 5: China's Population (World Bank)

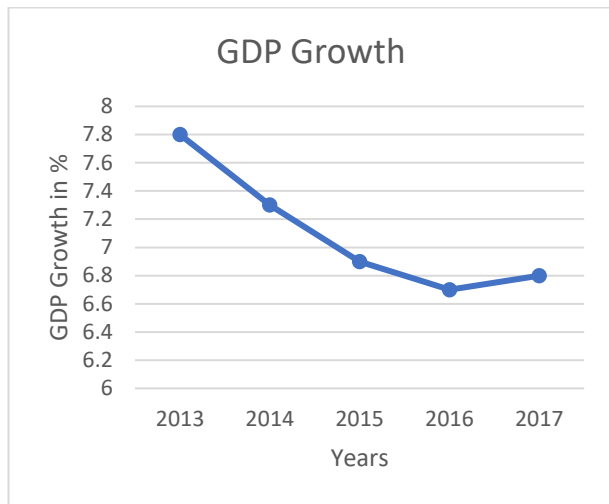


Figure 6: China's GDP Growth (National Bureau of Statistic-China)

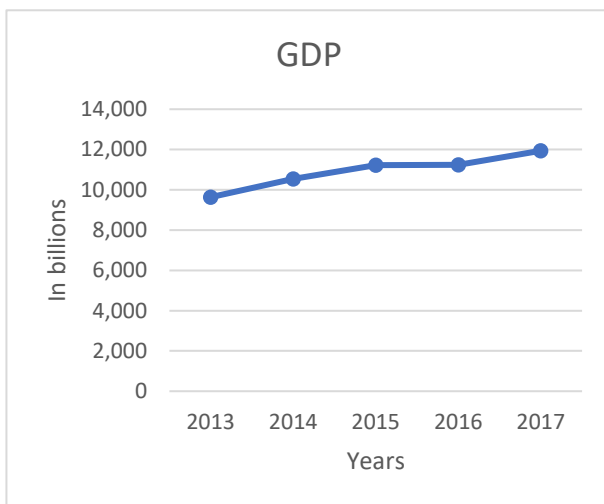


Figure 8: GDP in USD (World Bank Database)



Figure 7: Import & Exports of China (World Bank Database)

## 2.3. Trade Profile of China

### 2.3.1. Major imports & trading partners of China from World

China is the second-biggest importer in the world after United States of America with 1.8 trillion USD imports in 2017. Chinese economy has the potential to facilitate imports at all three levels of production; primary, intermediate and finished goods. The major imports of China constitute electronic integrated circuits (HS Code – 854231, 854232, 854239); overall contributing 13.48% in the total exports followed by petroleum oils and oils obtained from bituminous minerals (HS Code - 270900) with 8.81% share in total imports. Non-agglomerated iron ores and concentrates (HS Code – 260111) is the fourth biggest import commodity with import value at 74 billion USD in 2017. The imports of electrical apparatus for line telephony, soya beans and motor cars and other motor vehicles having HS Codes 851770, 120190 and 870323 respectively contribute around 2% in total imports of the country.

China's major share of imports comes from Republic of Korea at 10%, Japan at 9%, United States of America at 8%, Germany and Australia at 5% each, and from Brazil capturing 3% market share in

China's imports. India is the 26<sup>th</sup> import partner for China in 2017 after improving its rank from 28<sup>th</sup> position whilst Pakistan's position in China's imports against the world has consistently been deteriorating which fell from 57<sup>th</sup> to 67<sup>th</sup> from 2013 to 2017.

Code	Product label	2013	2014	2015	2016	2017
'TOTAL	All products	1,949,992	1,959,235	1,679,564	1,587,921	1,840,957
'270900	Petroleum oils and oils obtained from bituminous minerals, crude	219,660	228,288	134,343	116,661	162,191
'854231	Electronic integrated circuits as processors and controllers, whether or not combined with ...	115,320	105,227	108,099	104,749	111,363
'854232	Electronic integrated circuits as memories	46,165	54,255	61,416	63,714	88,271
'260111	Non-agglomerated iron ores and concentrates (excluding roasted iron pyrites)	102,080	90,751	55,220	56,866	74,279
'999999	Commodities not elsewhere specified	104,735	82,764	7,135	12,910	66,855
'854239	Electronic integrated circuits (excluding such as processors, controllers, memories and amplifiers)	50,130	49,134	49,251	48,513	48,614
'851770	Parts of telephone sets, telephones for cellular networks or for other wireless networks and ...	39,798	36,708	39,917	38,203	41,295
'120190	Soya beans, whether or not broken (excluding seed for sowing)	38,009	40,262	34,790	33,981	39,627
'870323	Motor cars and other motor vehicles principally designed for the transport of persons, incl. ...	36,289	48,735	36,114	35,444	37,905
'901380	Liquid crystal devices, n.e.s. and other optical appliances and instruments not elsewhere specified ...	49,896	44,174	40,150	32,060	30,541

1840.96 bn USD of products imported in 2017	
Electronic integrated circuits and microassemblies	13.48%
Petroleum oils and oils obtained from bituminous...	8.81%
Iron ores and concentrates, incl. roasted iron...	4.03%
Motor cars and other motor vehicles principally...	2.06%
Electrical apparatus for line telephony or line...	2.24%
Liquid crystal devices not constituting articles...	1.66%
Soya beans, whether or not broken	2.15%

Figure 9: Top World Imports of China in Millions & % Share (Tarde Map)



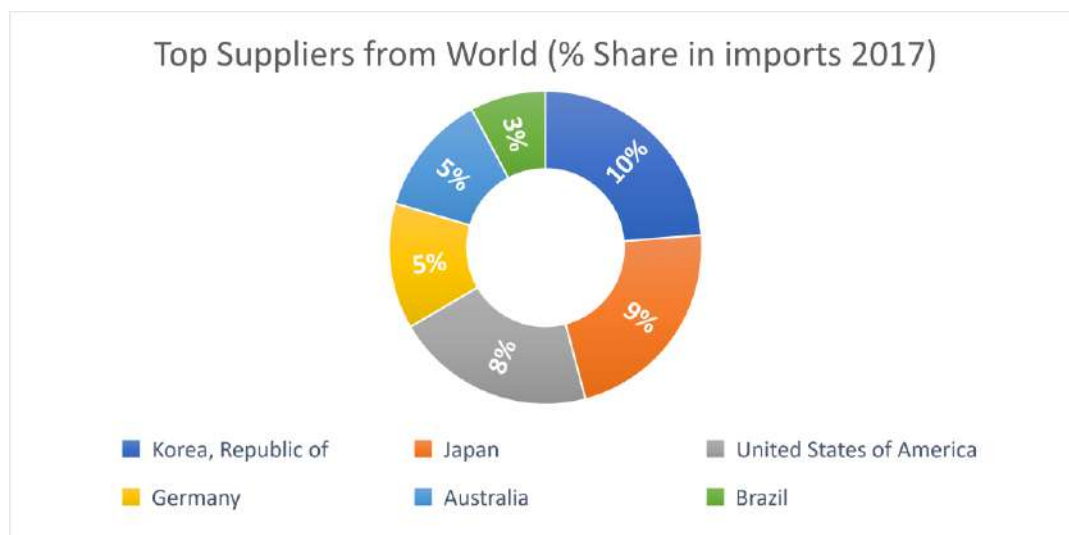


Figure 10: Top Suppliers to China & Share (Comtrade)

### 2.3.2. Major exports and trading partner of China to the World

China is the leading supplier of products in the world with its exports reaching around 2.2 trillion USD in 2017. Top export products of China include machinery, mechanical appliances, electrical machinery, medical and surgical instruments. Telephone sets, incl. telephones for cellular networks or for other wireless networks (HS Code 851712, 851770, 851762) contribute to 9.7% of the world exports of China. Automatic data-processing machines and units thereof; magnetic or optical readers, machines (HS Code 847130) make 6.3% share in world exports followed by 3% share of Electronic integrated circuits; parts thereof (HS Code 854232, 854232) in world exports.

United States of America is the biggest customer of products from China as 19% of the world exports of China landed in USA with export value of 432 billion USD in 2017. Hong Kong, Japan, Republic of Korea, and Vietnam are also amongst the top export destinations for China. In 2017, Pakistan was the 27<sup>th</sup> export destination for Chinese products indicating over-reliance on China (34<sup>th</sup> position in 2013). This surge in Pakistan's imports from China can be traced to the signing of China Pakistan Economic Corridor (CPEC) in 2014.

Code	Product label	2013	2014	2015	2016	2017
'TOTAL	All products	2,209,007	2,342,293	2,273,468	2,097,637	2,271,796
'851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	95,626	115,919	124,266	116,091	127,266
'847130	Data-processing machines, automatic, portable, weighing <= 10 kg, consisting of at least a ...	110,802	108,658	90,387	79,577	89,749
'851770	Parts of telephone sets, telephones for cellular networks or for other wireless networks and ...	47,116	45,105	49,583	48,320	50,776
'851762	Machines for the reception, conversion and transmission or regeneration of voice, images or ...	26,879	28,640	32,436	31,907	36,156
'847330	Parts and accessories of automatic data-processing machines or for other machines of heading ...	28,599	30,450	28,044	25,009	32,012

'854232	Electronic integrated circuits as memories	17,692	17,566	21,543	23,015	29,621
'854231	Electronic integrated circuits as processors and controllers, whether or not combined with ...	37,458	26,922	30,313	26,221	27,198
'901380	Liquid crystal devices, n.e.s. and other optical appliances and instruments not elsewhere specified ...	36,048	31,987	31,190	25,954	25,929
'950300	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; ...	12,379	14,135	15,664	18,383	24,261
'271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	19,489	20,552	15,556	15,175	19,759

2,271.80 bn USD of products exported in 2017	
Telephone sets, incl. telephones for cellular networks or for other wireless networks; other.	9.7%
Automatic data-processing machines and units thereof; magnetic or optical readers, machines ...	6.3%
Electronic integrated circuits; parts thereof	2.9%
Parts and accessories (other than covers, carrying cases and the like) suitable for use solely.	1.5%
Monitors and projectors, not incorporating television reception apparatus; reception apparatus ...	1.4%
Parts and accessories for tractors, motor vehicles for the transport of ten or more persons, ...	1.4%

Figure 11: Top exports of China in millions & % Share (Trade Map)

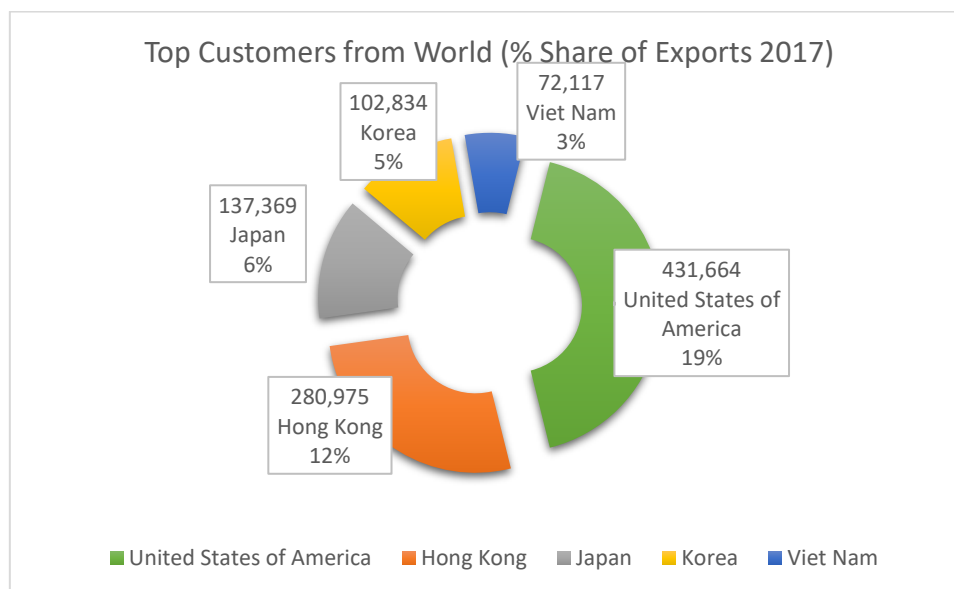


Figure 12: Top Customers of Chinese Products (Comtrade)

## 2.4. Bilateral Trade Analysis

China is our 3<sup>rd</sup> biggest export destination following United States of America (\$3,429.74 million) in 2017. Bilateral trade between Pakistan comprises mainly the bulk of imports from China and happens to be the only plausible explanation for a huge trade deficit standing around 13.875 billion USD in 2017. As described in the table below, percentage share of imports from China made up over 29% of Pakistan's total imports in 2016 - highest ever. Import statistics reported by SBP for the year 2017 stand at 15,383 million USD (27% share of total imports), reporting further increase in imports from China by 1.7 billion USD. Imports from China have witnessed a steadily increasing trend from 6,687 million USD (15%) in 2012 to 15,383 million USD (27%) in 2017.

Irrespective of the fact that Pakistan signed Free Trade Agreement with China but unfortunately Pakistan's exports failed to capture market share in China rather lost its rigor through time. Pakistan's exports to China could only make up to 7% of the World export of Pakistan in 2017 whilst steadily losing its share from 11% in 2012. Furthermore, Pakistan's share in China's imports from world has decreased during this time period from 0.16% to 0.10%.

	2012	2013	2014	2015	2016	2017
Pak Imports from China	6,687	6,626	9,588	11,019	13,680	15,383
% of total imports from world	15%	15%	20%	25%	29%	27%
Pak Exports to China	2,619	2,652	2,252	1,934	1,590	1,508
% of total exports to world	11%	11%	9%	9%	8%	7%
Trade Balance	(4,068)	(3,974)	(7,336)	(9,085)	(12,090)	(13,875)

Figure 13: Bilateral Trade between Pak – China in millions (Comtrade)

### 3. Pak - China Trade Scenario

#### 3.1. Pakistan's top 15 exports to China

Pakistan's exports to China have witnessed a significant decrease in the last few years. The export value registered a decrease of 5% from \$1,590 million in 2016 to \$1,508 million in 2017. The export basket of Pakistani products to China has presented the relatively unchanged pattern with Cotton yarn, chromium ores, rice (semi milled or wholly milled and broken rice), split leather, frozen fish and dry fruits being amongst the top 15 exports commodities to China.

In the year 2017, Pakistan's top 15 exports to China posted a negative change of 8% in total. These top 15 exports contributed to 75% of the Pakistan's total exports to China indicating lack of product diversification.

HS	Product	2015	2016	2017	% Change	% Share	Tariff Post FTA
'TOTAL	All products	1,935	1,591	1,508	-5%		
'520512	Single cotton yarn, of uncombed fibres, containing >= 85% cotton by weight and with a linear ...	829	670	624	-7%	41%	4
'261000	Chromium ores and concentrates	60	74	94	28%	6%	0
'100630	Semi-milled or wholly milled rice, whether or not polished or glazed	114	194	79	-59%	5%	65
'520511	Single cotton yarn, of uncombed fibres, containing >= 85% cotton by weight and with a linear ...	72	62	75	21%	5%	4
'520912	Woven fabrics of cotton, containing >= 85% cotton by weight and weighing > 200 g/m <sup>2</sup> , in three-thread ...	89	64	42	-35%	3%	0
'520532	Multiple "folded" or cabled cotton yarn, of uncombed fibres, containing >= 85% cotton by weight ...	54	34	34	-1%	2%	4
'520522	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear ...	50	27	31	15%	2%	4
'520812	Plain woven fabrics of cotton, containing >= 85% cotton by weight and weighing > 100 g to 200 ...	51	27	29	7%	2%	0
'901580	Instruments and appliances used in geodesy, topography, hydrography, oceanography, hydrology, ...	0	3	24	595%	2%	0
'251512	Marble and travertine, merely cut, by sawing or otherwise, into blocks or slabs of a square ...	35	24	21	-13%	1%	0
'030339	Frozen flat fish "Pleuronectidae, Bothidae, Cynoglossidae, Soleidae, Scophthalmidae and Citharidae" ...	17	13	18	39%	1%	8
'740319	Copper, refined, unwrought (excluding copper in the form of billets, wire-bars, cathodes and ...	2	3	17	415%	1%	0
'230120	Flours, meals and pellets of fish or crustaceans, molluscs or other aquatic invertebrates, ...	7	7	17	151%	1%	0

'620322	Men's or boys' ensembles of cotton (excluding knitted or crocheted, ski ensembles and swimwear)	4	7	16	147%	1%	14
'081340	Dried peaches, pears, papaws "papayas", tamarinds and other edible fruits (excluding nuts, ...)	27	26	16	-38%	1%	24
<b>Total</b>		<b>1,411</b>	<b>1,235</b>	<b>1,137</b>	<b>-8%</b>	<b>75%</b>	

Figure 14: Top 15 Exports of Pak to China in millions (Trade Map)

Cotton being the largest export commodity to China has suffered a steady decrease over the past couple of years. Top exports of Pakistan in Chapter 52 at HS Code 520512, 520912, and 520532 have suffered negative change in 2017 except three cotton products at HS code 520511, 520522, and 520812 which have recovered from previous year's exports.

The leading cause of decline in exports of cotton yarn is noted to be the low prices of cotton yarn in international market. Amongst other causes; decline in China's demand for Yarn (in lieu of New Cotton Reserve Policy of China, 2014), competitive price of India, and better-quality yarn from Vietnam have also affected the demand for Pakistani cotton yarn.

Trade (HS 52)	2014	2015	2016	2017	% Change
China's imports from world	12,756.18	10,254.13	7,743.52	8,615.70	11.26%
Pakistan's exports to world	4,731.37	4,040.27	3,497.38	3,497.69	0.01%
Pakistan's exports to China	1,525.34	1,261.71	968.23	885.40	-8.55%
Viet Nam's exports to China	1,281.75	1,456.51	1,717.08	2,106.30	22.67%

Figure 15: Trade under Chapter 52 – Cotton in millions (Trade Map)

Rice is another major export commodity of Pakistan which in 2017, witnessed a massive downtrend. The exports of Semi-milled or wholly milled rice (100630) to China were down 59% from \$194 million in 2016 to just \$74 million in 2017. The decline in export of rice is due to both tariff and non-tariff barriers imposed by China. At present, tariff rates on rice export from Pakistan go as high as 65% outside quota. At the same time, anti-competitive non-tariff barriers (where only State-owned enterprises can export Rice to China) are also a hindrance.

Other major exports to China include chromium ores and concentrates (261000) showed positive change of 28% with export value of \$94 million, copper refined unwrought (740319) posted a positive change of 415% from \$3 million export last year to \$17 million in 2017. Similarly, nuts fresh or dried, whether or not shelled or peeled (080290), light oils and preparations, of petroleum or bituminous minerals (271012), flours, meals and pellets of fish or crustaceans or other aquatic invertebrates (230120), and grain splits leather incl. parchment-dressed leather (410792) witnessed positive growth.

### 3.2. Pakistan's Competitors of Single cotton yarn (520512)

If we look at the competitors' profile and trend of exports against Pakistan's top exports to China; "Single cotton yarn of uncombed fibers containing  $\geq 85\%$  cotton by weight (520512)" is supplied to China in competition with Vietnam, India, Indonesia and United States of America. In 2017, Vietnam's export value of Single cotton yarn (520512) stood at \$906 million – leading the market. Pakistan and India followed with \$650 million and \$308 million worth of exports to China respectively. Vietnam has taken over the Chinese market as the trend suggests a stagnant increase in year on year exports; up by 124% from \$405 million in 2013 to \$906 million in 2017. Contrastingly, Pakistan's market share is on the losing streak since exports have plummeted from \$1.26 billion in 2013 to the lowest of 5 years; down 49% at \$650 million in 2017.

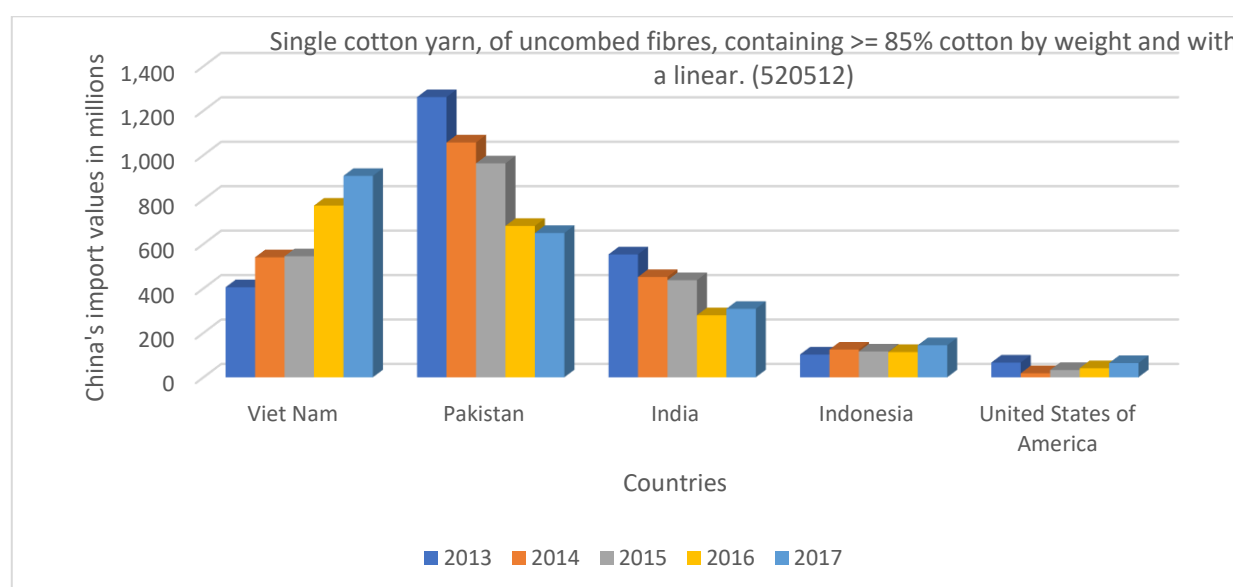


Figure 16: Top suppliers of HS 6-digit 520512 to China

### 3.3. Pakistan's Competitors of Chromium Ores and concentrates (261000)

China's world import value for Chromium Ores and concentrates (261000) in 2017 stands at \$3.4 billion of which \$2.3 billion is supplied by South Africa alone – up 118% from \$1.05 billion in 2016. South Africa single handedly provided for 70% of the Chinese demand followed by \$348 million, \$172 million and \$114 million worth exports from Turkey, Albania and Pakistan respectively. Chromium is used in making stainless steel and is highly demanded by China (90% growth recorded in 2017). Furthermore, the current increase in prices of chromium ores and concentrates (261000) in 2017 presents a lucrative market over the next couple of years. In this regard, Kazakhstan and India have already started their investment in ferrochrome-production to increase output<sup>12</sup>.

<sup>12</sup> World Chromium Ores and Concentrates Market Report 2018 - Analysis and Forecast to 2025



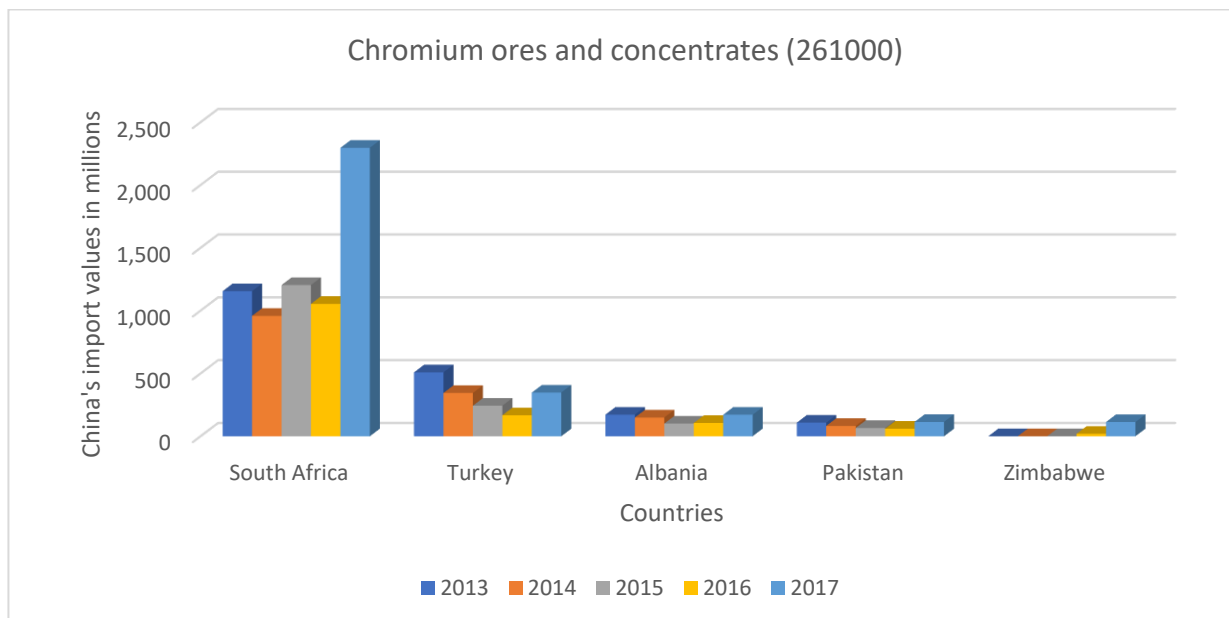


Figure 17: Top suppliers of HS 6-digit 261000 to China

### 3.4. Pakistan's Competitors of Copper, unrefined; copper anodes for electrolytic refining (740200)

China's world import for Copper, unrefined; copper anodes for electrolytic refining (740200) amounts to \$4.8 billion whereas Zambia and Chile accounted for 85% of China's world import value with their exports reaching to \$2.6 billion and \$1.45 billion each. Pakistan's export of Copper has had a fair share in Chinese market as 97% of Pak world export of copper (740200) landed in China in 2017 - \$101 million of total \$125 million world exports. China, being the biggest importer of copper consumes around 65% of the world export. Interestingly, Pakistan is offered zero tariff duty and there exist no non-tariff barrier to export of this product.

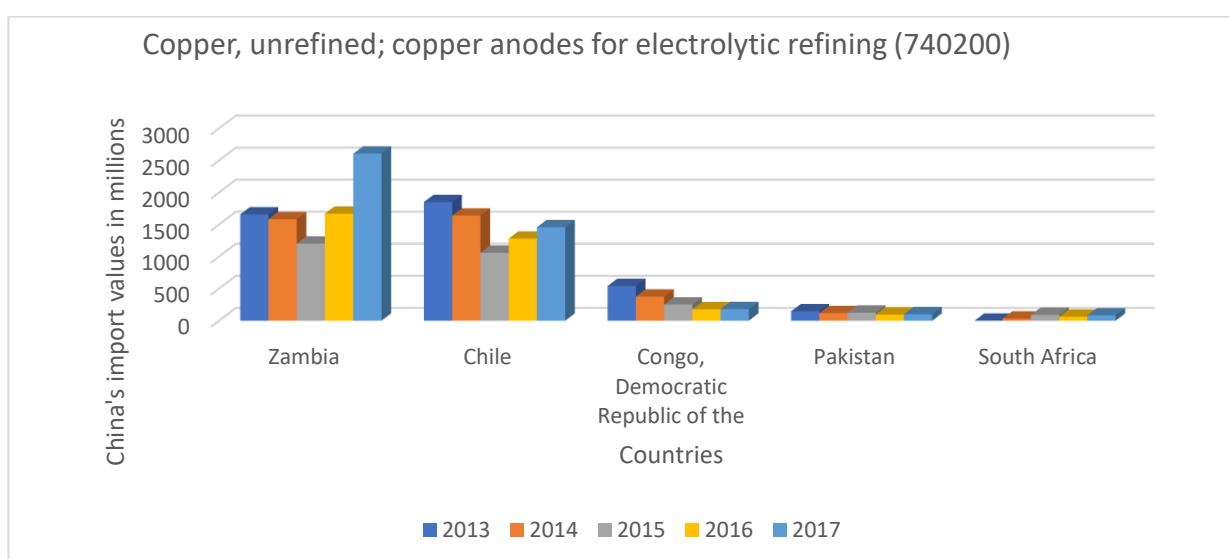


Figure 18: Top suppliers of HS 6-digit 740200 to China

### 3.5. Pakistan's Competitors of Semi-milled or wholly milled rice, whether or not polished or glazed (100630)

Rice is one of the top export commodity of Pakistan to the world with total exports of 2.59 million metric tons amounting to \$1.224 billion in 2017. China's world import of semi-milled or wholly milled rice stood at \$1.46 billion but Pakistan could only capture market of worth \$74 million with export quantity of 174,000 metric tons.

China was once the second-largest export destination for Pakistani rice. Heavy tariff lines (65%) and limited quotas have caused export of Semi milled rice to decline. Pakistan offers competitive unit value price and high quality against the rice of Vietnam and Thailand but under ASEAN Free Trade Agreement (AFTA); Vietnam and Thailand enjoy lower tariffs (25%) and face no quota restriction.

The rice industry has witnessed the growth of 27% in the first quarter of 2018 but in spite of all favorable indicators and best quality of rice, bilateral trade with China for this product has been dismal. India has recently negotiated certain requirements on Indian exports of rice during SCO Summit held in June 2018 in China<sup>13</sup>. Government of Pakistan needs to seek such favorable terms of trade for this product in recent negotiations during 2<sup>nd</sup> round of China-Pak FTA.

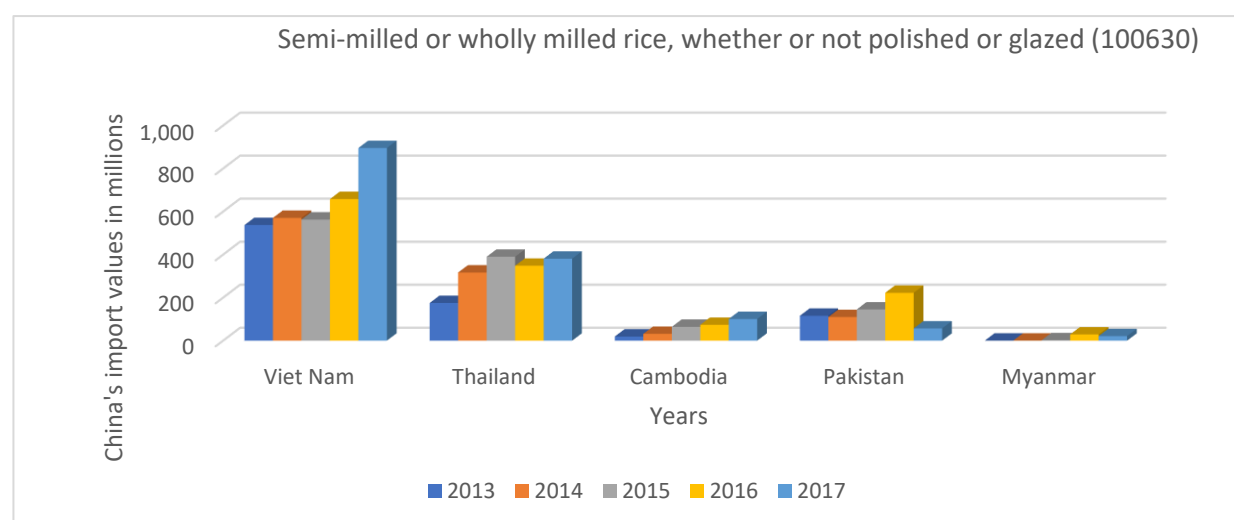


Figure 19: Top suppliers of HS 6-digit 100630 to China

<sup>13</sup> Statement issued by India's foreign ministry spokesman, Raveesh Kumar

#### 4. Potential Export Items

Given below is an analysis on export commodities for which Pakistan can potentially increase its exports to China. Alternatively, Pakistan can also divert its resources to China if the competitive advantage is expected at current rate of production.

In order to enhance our export base; a number of filters have been employed to identify potential exports of Pakistan to China at HS – 6-digit level. Given the volume and trade of Chinese market across the globe; a four-tier methodology is used.

- At first tier, top exports of Pakistan to China are selected which are in high demand by Chinese market and import value of China for the same is greater than \$300 million.
- At second tier, top exports of Pakistan to China are selected for which Pakistan's world export is greater than \$30 million.
- At third tier, after filtering products through first two tiers, top exports of Pakistan to China which have successfully captured 10% market share in Chinese market were excluded from potential list.
- At fourth tier, any potential product that befalls under the Textile sector is also excluded from the list so that new untapped avenues and sectors may be explored.

Some of potential products identified for export promotion are detailed as under:

Product code	Product label	Pak Export to China 2017	China World Import 2017	Pak World Export 2017	Tariff
'030617	Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns in ...	12.14	473	52.28	0
'080450	Fresh or dried guavas, mangoes and mangosteens.	0.03	167	113.24	0
'410712	Grain splits leather "incl. parchment-dressed leather", of the whole hides and skins of bovine ...	3.15	550	119.32	4
'411310	Leather further prepared after tanning or crusting "incl. parchment-dressed leather", of goats ...	13	136	87	10
'901890	Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.	7.92	2,463	329	0
'100630	Semi-milled or wholly milled rice, whether or not polished or glazed.	79.50	1460	1512	65
'640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather ...	0.04	902	62	5
'030339	Frozen flat fish "Pleuronectidae, Bothidae, Cynoglossidae, Soleidae, Scophthalmidae and Citharidae" ...	2.38	262	135	8
'250100	Salts, incl. table salt and denatured salt, and pure sodium chloride, whether or not in aqueous ...	4.22	316	43	0
'271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	-	10,311	108	4
'270900	Petroleum oils and oils obtained from bituminous minerals, crude	-	162,191	76.99	0
'300439	Medicaments containing hormones or steroids used as hormones but not antibiotics, put up in ...	0.014	1,236	38.70	0
'300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, ...	-	11,911	73.32	0

Figure 20: List of Indicative Potential exports to China in millions

## 5. Value Chain Mapping

In order to gain a better perspective on the potential export products, value chain mapping is utilized in full spectrum coupled with numerous analytical tools. These analyses are inferred upon:

- Import value of China from different competitors,
- Market share of competitors,
- Average unit price of the potential product,
- Tariff and non-tariff barriers faced by the said product,
- Export Competitiveness Index (ECI),
- Pakistan's top export destinations for the product,
- Product diversification in the target market,
- Top 10 exporters of the same product.

### 5.1. Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns in... (030617)

Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns at HS 6-digit 030617 is selected that truly fulfills the criteria. The import value of China for Frozen shrimps and prawns from world in 2017 was \$473 million with majority market share captured by India, Thailand and Indonesia at 15%, 15% and 3% respectively. Pakistan even with its lowest average unit price of 5,226 USD/ton, zero tariff rate, and in absence of any non-tariff barriers could only capitalize 3% market share - way short of its potential. If we examine Export Competitiveness Index (ECI), the competitiveness of Pakistan against the supplying markets in the world is ranked 8<sup>th</sup> in 2017 - upgraded one position from its 9<sup>th</sup> rank of 2013. Leading competitors for Frozen shrimps and prawns are India with its 3<sup>rd</sup> rank on ECI followed by Thailand at 4<sup>th</sup>, Indonesia at 5<sup>th</sup> and Myanmar at 6<sup>th</sup> Position in the world ECI ranking.

Countries	China's Import 2017 (mn)	Market Share	Avg. Unit Value (USD/ton)	Tariff	Non-Tariff	ECI Ranking	
						2013	2017
<b>World</b>	473						
<b>India</b>	69	15%	6,784	3%	N/A	2	3
<b>Thailand</b>	69	15%	9,048	0%	N/A	4	4
<b>Indonesia</b>	14	3%	6,952	0%	N/A	8	5
<b>Myanmar</b>	5	1%	8,446	0%	N/A	5	6
<b>Pakistan</b>	<b>12.4</b>	<b>3%</b>	<b>5,226</b>	<b>0%</b>	<b>N/A</b>	<b>9</b>	<b>8</b>
<b>Viet Nam</b>	11.24	2%	10,037	0%	N/A	6	9
<b>Malaysia</b>	7.6	2%	6,767	0%	N/A	10	10

In 2016, Pakistan's top export destinations were United Arab Emirates receiving exports of Frozen shrimps and prawns worth \$22 million, then China with \$7.14 million, Egypt and Vietnam with \$6.72 million and \$6.45 million respectively. There lies an untapped potential in Chinese market as Pakistan has geographical advantage, lowest unit price and zero tariff on Frozen shrimps and prawns which indicates that Pakistan can divert its exports from other parts of the world to Chinese market.

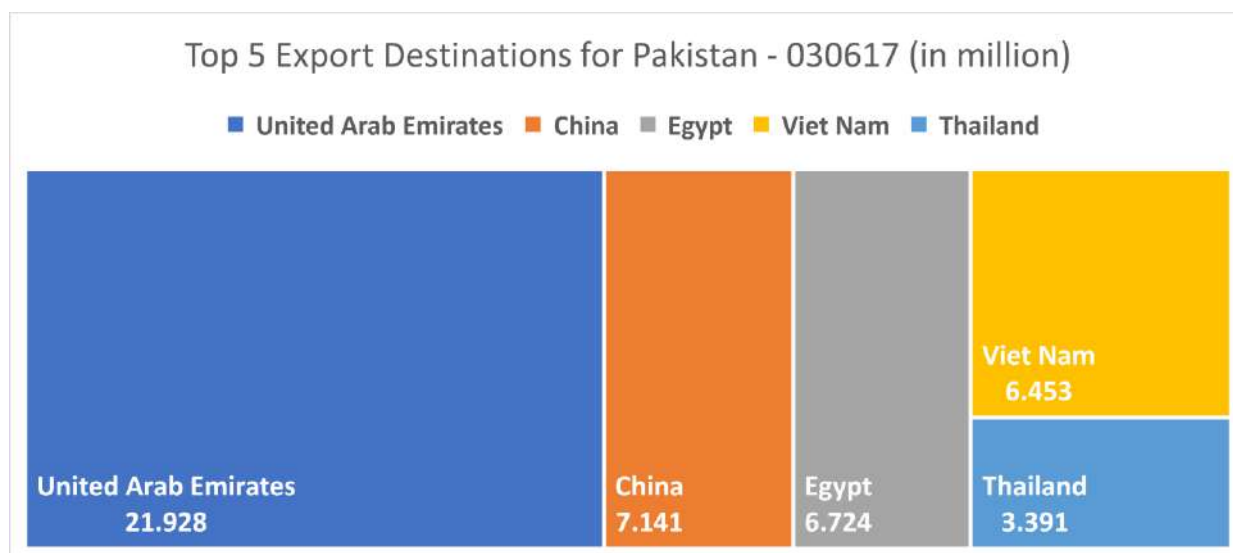


Figure 22: Pakistan's Top Export Destination (030617)

Export of frozen shrimps and prawns at tariff lines (HS code 8-digit) reveals growth in this sector. China's imports from Pakistan have registered a promising positive change in 2017 in comparison to Pakistan's exports of the same product in 2016.

Product code	Product label	China's imports from Pakistan			China's imports from world		
		Value in 2016	Value in 2017	Change	Value in 2016	Value in 2017	Change
'03061721	Other frozen shelled prawns	3.678	5.875	60%	17.494	26.172	50%
'03061711	Other frozen shelled shrimps	3.925	4.039	3%	19.396	23.16	19%
'03061729	Other frozen prawns	0.821	1.648	101%	234.382	280.464	20%
'03061719	Other frozen shrimps	0.82	0.86	5%	173.542	142.914	-18%

Figure 23: Products at 8-digit Diversification in millions

Top 10 Exporters of Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns in... (HS 6-digit code 030617) are:

Exporters	Category
Seagreen Enterprises Pvt Ltd.	- - Other Shrimps And Prawns
M A Muhammadi And Co	- - Other Shrimps And Prawns
Arsila Sea Foods	- - Other Shrimps And Prawns

A G Fisheries (Pvt) Limited	-- Other Shrimps And Prawns
National Seafood (Private) Limited	-- Other Shrimps And Prawns
Coastal Seafoods	-- Other Shrimps And Prawns
Mukhi Noordin & Sons	-- Other Shrimps And Prawns
Int'l Fisheries (Pak) Pvt Limited	-- Other Shrimps And Prawns
Fish Deebil Pakistan	-- Other Shrimps And Prawns
Shanghai Northern Pole Fishries	-- Other Shrimps And Prawns

Figure 24: Top Exporters (030617)

## 5.2. Fresh or dried guavas, mangoes and mangosteens. (080450)

The second potential product identified for Chinese market is Fresh or dried guavas, mangoes and mangosteens at HS 6-digit 080450. Total import value of China in 2017 was recorded at \$167 million with lion's share capture by Thailand at 90% along with the lowest average unit price of 2,182 USD/ton. Thailand is also ranked 1<sup>st</sup> in export competitiveness in the globe for this product. Major export of Thailand for HS 6-digit 080450 were \$146 million in 2017. Pakistan's export share only makes 0.02% of China's import value. Exports of the said product remained low due to its comparative higher average unit value and non-compliance of quality standards which usually leads to embargos and ban due to presence of fruit fly. Export competitiveness of Pakistan has dropped from its 6<sup>th</sup> rank in 2013 to 7<sup>th</sup> position in 2017 but the product diversification at HS 8-digit level presents more opportunities for the trade to china.

Countries	China's Import 2017 (mn)	Market Share	Avg. Unit Value (USD/ton)	Tariff	Non-Tariff	ECI Ranking	
						2013	2017
<b>World</b>	167						
<b>Thailand</b>	150	89.82%	2,182	0%	14	1	1
<b>Australia</b>	4.8	2.87%	5,399	6%	14	4	2
<b>Malaysia</b>	0.762	0.46%	2,490	0%	14	2	4
<b>Viet Nam</b>	0.085	0.05%	-	0%	14	5	6
<b>Pakistan</b>	0.026	0.02%	3,600	0%	14	6	7

Figure 25: Trade Indicators (080450)

Pakistan's top export destination for fresh or dried guavas, mangoes and mangosteens (080450) were United Arab Emirates, United Kingdom, Saudi Arabia, Oman and Qatar. The successful exhibition of 'mango show' last year in September, 2017 (in collaboration with the Pakistan Horticulture Development and Export Company at Pakistan Embassy in Beijing) has created immense demand for Pakistani mangoes and has paved way for untapped potential to be explored.





Figure 26: Pakistan's Top Export Destinations (080450)

According to United Nations Food and Agriculture statistics, Pakistan is ranked 6<sup>th</sup> biggest producer with its total production share of 3.45% in 2016 for mangosteens with its harvest reaching up to 1.6 metric ton. Given the demand of mangosteens and suitability of Pakistan's climate to production of mangosteens, there arises a great opportunity to tap potential for this product.

Code	Product label	Exported value in 2014	Exported value in 2015	Exported value in 2016
'08045020	Mangoes	39.977	39.972	64.903
'08045010	Guavas	0.121	0.309	0.559
'08045090	Guavas, mangoes and mangosteens, fresh or dried: other..	1.596	0.622	0.373

Figure 27: Products at 8-digit Diversification in millions

The access of Fresh or dried guavas, mangoes and mangosteens at HS 6-digit 080450 from Pakistan to China is faced with 14 non-tariff barriers in total (Sanitary & Phytosanitary Barriers- SPS, and Technical barriers to trade - TBT). These barriers include food hygiene supervision and inspection, packaging and labelling restriction, registration, pesticide and safety testing, geographical prohibition & authorization requirement for products from epidemic areas, disclosure of production stages, and quarantine requirement on arrival at port for certain period. Unfortunately, Pakistan has suffered greatly in this arena.

Requirements	Barrier Type	NTM Code
Inspection	SPS	A84
Labelling	SPS	A31
Registration	SPS	A15
Microbiological limits	SPS	A41
Testing (Pesticides)	SPS	A82
Registration	TBT	B81
Testing (Safety)	TBT	B82
Temporary Geographic Prohibitions	SPS	A11
Special Authorization	SPS	A14
Geographical restrictions on eligibility	SPS	A12

Prohibitions/restrictions of imports for SPS reasons not elsewhere specified.	SPS	A19
Tolerance limits for residues of or contamination by certain (non-microbiological) substances - (SPS)	SPS	A21
Testing requirement	SPS	A82
Traceability requirements	SPS	A85
Quarantine requirement	SPS	A86

Figure 28: List of Non-Tariff Barriers (080450)

Top 10 Exporters of Fresh or dried guavas, mangoes and mangosteens (080450) are:

Exporters	Category
Sabri Enterprises	- - - Mangoes
Kath Traders	- - - Mangoes
Iftekhar Ahmed & Co	- - - Mangoes
Mohd Din Mohd Sharif & Co	- - - Mangoes
Roshan Enterprises	- - - Mangoes
Muhammad Ansar Muhammad Afsar	- - - Mangoes
Muhammad Tariq Khan & Co.	- - - Mangoes
Khas Trading Co.	- - - Mangoes
J.M.B.Exporters,	- - - Mangoes
Awan Auto Accessories	- - - Mangoes

Figure 29: Top 10 exporters (080450)

### 5.3. Grain splits leather incl. parchment-dressed leather, of the whole hides and skins of bovine ... (410712)

The third potential product identified for Chinese market is “Grain splits leather incl. parchment-dressed leather, of the whole hides and skins of bovine at HS6-digit (410712)”. World import of China for Grain split leather in 2017 was recorded as \$489 million. The leading competitors of Pakistan are Vietnam with 11% market share, India with 9% market share, Thailand and Indonesia with 4% and 1.6% market share each. Pakistan could only capture 1.1% share in China with its less competitive average unit price of 19,865 along with 4% tariff. In contrast, India is offering the lowest average unit price even with the highest tariff of 7%. If evaluated on competitiveness index, Vietnam has progressed from 11<sup>th</sup> rank in 2013 to 3<sup>rd</sup> position in 2017 making her grain split leather – the most competitive against the global suppliers in Chinese market. Unfortunately, Pakistan’s ECI ranking has dropped from 9<sup>th</sup> position in 2013 to 13<sup>th</sup> position in 2017.

Countries	China's Import 2017 (mn)	Market Share	Avg. Unit Value (USD/ton)	Tariff	Non-Tariff	ECI Ranking	
World	489				1	2013	2017
Viet Nam	52	11	18,777	0%	2	11	3
India	42	9	14,084	7%	1	6	6
Thailand	20	4	23,568	0%	1	10	11
Indonesia	8	1.6	21,808	0%	1	12	10
Pakistan	5	1.1	19,865	4%	2	9	13

Figure 30: Trade Indicators (410712)

Italy is the top export destination for Grain split leather (410712) from Pakistan as \$21.16 million worth of hides and skins of bovine were shipped to Italy followed by \$18.68 million ported to Hong Kong, and \$15 million worth of exports to Bangladesh. China owing to geographical proximity, presents with a potential market to divert exports of Grain split leather (410712) to China.

According to China Leather Industry Association (CLIA) bulletin, Leather industry experienced decline of 3.2% year-on-year sale of Chinese enterprises in 2016 which in turn affected Chinese imports. In early 2017, leather industry in China witnessed a 5.6% increase in sales revenue and an overall 10% increase in imports of finished, semi-finished leathers, raw hides and skins.



Figure 31: Pakistan's Top Export Destinations (410712)

In order to export grain split leather to China; product at HS 6-digit (410712) is required to fulfill 2 requirements including special authorization from Ministry of Health and temporary geographic prohibition. Pakistan does not fall under this geographic prohibition<sup>14</sup>.

Requirements	Barrier Type	NTM Code
Special Authorization	SPS	A14
Temporary Geographic Prohibition	SPS	A11

Figure 32: List of Non-Tariff Barrier (410712)

Top exporters for Grain splits leather incl. parchment-dressed leather, of the whole hides and skins of bovine ... (410712) are:

Exporters	Category
Eastren Leather Company Pvt Ltd	- - Grain Splits
Khawaja Tannries Pvt Limited	- - Grain Splits
H. Sadar Ali Akhtar Ali (Pvt) Limited	- - Grain Splits
Prime Tanning Industries Pvt Ltd	- - Grain Splits
Hafiz Tannery	- - Grain Splits

<sup>14</sup> Geographic prohibition on Pakistan lifted after acquiring Foot and Mouth Diseases free status by World Organization for Animal Health (OIE) in 2017.

Premium Leather Pvt Ltd	-- Grain Splits
Siddiq Leather Works (Pvt) Limited	-- Grain Splits
Leather Coordinator	-- Grain Splits
Pelle Classics	-- Grain Splits
Nova Leathers Pvt Ltd	-- Grain Splits

Figure 33: Top 10 Exporters (410712)

#### 5.4. Leather further prepared after tanning or crusting incl. parchment-dressed leather, of goats ... (411310)

Fourth product identified with indicative potential is “Leather further prepared after tanning or crusting incl. parchment-dressed leather, of goats... (HS 6-digit 411310)”. Import value of China from world in 2017 was \$166 million. India succeeded to capture 51% market share as compared to 9% and 2% of Pakistan and Bangladesh’s share respectively. Pakistan and India both are faced with 9.8% average ad-valorem tariff rate. Average unit price of Pakistan is lowest with 37,969 USD/ton yet Pakistan’s exports failed to acquire more than 9% market share. Pakistan is ranked 4<sup>th</sup> in 2017 on export competitiveness index after losing 3<sup>rd</sup> spot of 2013 against the supplying markets for this product whilst India has maintained its position throughout the global suppliers. Pakistan’s export competitiveness ranking and the current ongoing 2<sup>nd</sup> phase of negotiations on Pak-China Free trade agreement is an opportunity to demand tariff concessions on the said product and reap benefit from lowest unit prices along with tariff concessions.

Countries	China's Import 2017 (mn)	Market Share	Avg. Unit Value (USD/ton)	Tariff	Non-Tariff	ECI Ranking	
						2013	2017
World	166						
India	85	51	38,962	9.8%	1	1	1
Pakistan	16	9	37,969	9.8%	2	3	4
Bangladesh	3	1.8	43,522	0.0%	1	8	8
Turkey	1.6	1	46,914	14.0%	1	10	9
Indonesia	1.7	1.1	43,390	0.0%	1	9	10

Figure 34: Trade Indicators (411310)

Top export destinations of Pakistan for Leather further prepared after tanning (HS 6-digit 411310) are Hong Kong with \$16 million export value followed by Italy at \$11.25 million, Korea at \$10.44 million, China at \$9.5 million and Vietnam with \$9.29 million. With the successful negotiations on tariff and current lowest price offered by Pakistan; there is potential to enhance exports for this product to China.

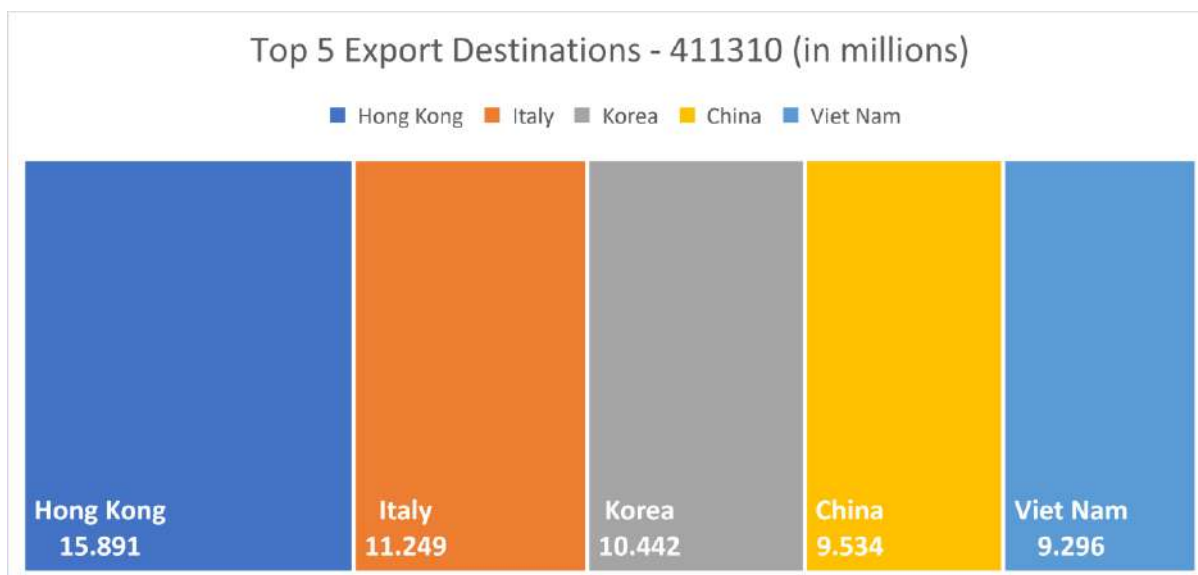


Figure 35: Pakistan's Top 5 Export Destinations (411310)

In order to export leather further prepared after tanning to China; product at HS 6-digit (411310) is also required to fulfill 2 requirements including special authorization from Ministry of Health and temporary geographic prohibition. Pakistan does not fall under this geographic prohibition<sup>15</sup>.

Requirements	Barrier Type	NTM Code
Special Authorization	SPS	A14
Temporary Geographic Prohibition	SPS	A11

Figure 36: List of Non-Tariff Barriers (411310)

Top exporters for Leather further prepared after tanning or crusting incl. parchment-dressed leather, of goats ... (411310) are:

Exporters	Category
Muhammad Shafi Tanneries (Private) Limited	-Of Goats Or Kids
Dada Enterprises Pvt Ltd	-Of Goats Or Kids
Din Leather (Private) Limited	-Of Goats Or Kids
Royal Leather Industries Limited	-Of Goats Or Kids
Leatherex Tanneries Pvt Ltd	-Of Goats Or Kids
Mima Leather (Private) Limited.	-Of Goats Or Kids
Prime Tanners Pvt Ltd	-Of Goats Or Kids
Tauheed International Pvt Ltd	-Of Goats Or Kids
Mehmood Brothers	-Of Goats Or Kids
H. Sadar Ali Akhtar Ali (Pvt) Limited	-Of Goats Or Kids

Figure 37: Top 10 Exporters (411310)

<sup>15</sup> Geographic prohibition on Pakistan lifted after acquiring Foot and Mouth Diseases free status by World Organization for Animal Health (OIE) in 2017.

## 5.5. Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.

(901890)

Fifth product identified with export potential is “Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s. (901890)”. World import of China for this product stood at \$2.46 billion in 2017 with major share contributed by United States of America at 28%, followed by Germany (21%), Japan (17%), Mexico (13%) and Vietnam (2%). Many of the Pakistan’s competitor countries belong to the developed world leaving little room for actual competition but the products at tariff lines at HS 8-digit indicates Pakistan’s export basket of basic syringes, scissors and surgical items. Interestingly, Pakistan is offered zero tariff rate for this product. Despite tariff concessions, Pakistan’s exports are required to comply with numerous Non-Tariff Barriers (NTBs). ECI ranking of Pakistan has remained consistent at 19 in both 2013 and 2017. Mexico and Vietnam being the only developing countries enjoy higher competitiveness against Pakistani products.

Countries	China's Import 2017 (mn)	Market Share	Avg. Unit Value (USD/ton)	Tariff	Non-Tariff	ECI Ranking	
						2013	2017
World	2,463						
United States of America	680	28%	5	4%	14	2	3
Germany	506	21%	25	4%	14	1	1
Japan	418	17%	33	4%	14	5	5
Mexico	329	13%	27	4%	14	11	7
Viet Nam	59	2%	13	0%	14	16	12
Pakistan	8	0.32%	1	0%	14	19	19

Figure 38: Trade Indicators (901890)

Top export destinations of Pakistan for Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s. (HS 6-digit - 901890) are United States of America (\$100m), Germany (\$46m), United Kingdom (\$32m), France (\$14.33m), and India (\$11m). Pakistan’s top 5 export destinations except India are far away from Pakistan whereas focus on exports to China can help reduce costs in terms of time and distance incurred on shipment.





Figure 39: Pakistan's Top 5 Export Destinations (901890)

Exports of Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s. (901890) to China are faced with following Non-tariff barriers.

Requirements	Barrier Type	NTM Code
Wate of Electrical & Mechanical Products	Quantity Control	E32
Prohibition of Hazardous substance (CFCs, HCFCs)	TBT	B11
Transportation under controlled Temperature	TBT	B42
Importer Registration	TBT	B15
Labelling Requirement	TBT	B6
Product Quality & Standard	TBT	B7
Product Registration	TBT	B81
Testing Requirement	TBT	B82
Certification Requirement	TBT	B83

Figure 40: List of Non-Tariff Barriers (901890)

Top exporters for Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s. (901890) are:

Exporters	Category
Elmed Instruments Pvt. Limited	--- Other
Mian Shahid Corporation	--- Other
Ultra Surgical (Pvt.) Limited	--- Other
Medical Devices Pvt Ltd	--- Other
Diligent Medical Services	--- Other
M. A. Arian & Brothers (Pvt) Ltd	--- Other
Surgikare.	--- Other
Q.S.A. Surgical Pvt Ltd	--- Other
Buraq Surgical Corporation	--- Other
Dr.Frigz International Pvt Ltd	--- Other

Figure 41: Top 10 Exporters (901890)

## **6. Demand and Supply side issues of the products**

### **6.1. Inputs from concerned trade missions abroad (Demand-side Issue)**

Pakistan has its three trade missions functioning in China that are placed in Shanghai, Guangzhou and Chengdu. Trade missions in their monthly and annual reports have requested some support from Pakistan and have also identified areas that are high in demand in China. The input from trade missions is detailed as under:

- Trade missions have identified potential for livestock, and meat products in Chinese market. The recent recognition of Pakistan as Foot and Mouth Diseases free status by *World Organization for Animal Health* (OIE) has also created demand for the same. In this regard, trade missions have suggested establishing new FMD free specialized production zones.
- China has around 30 million Muslim population which implies that there is demand for halal foods, dairy products, beverages, cosmetics, and pharmaceuticals which is another avenue. The recent initiative of Punjab Government of “Punjab Halal Development Agency (PHDA)” can play its role to promote export of halal goods to China.
- Trade missions have indicated an emerging market for the supply of donkeys to China as the internal demand has sky rocketed due to decreasing supply from 11 million to 6 million in 2017. In this regard, an investment proposal titled “KP-China Sustainable Donkey Development Programme” worth USD 10 million has also been signed for farming and supply of donkeys to China in August 2017. This opportunity ensures annual potential export value of around \$65 million. Furthermore, demand for animal products (HS 8-digit 05069090) such as bones and horns-cores, utilized in production of gelatin and gelatin derivatives for medicinal purposes is also specified as potential.
- In an effort to promote export of leather products, Trade mission in Chengdu also held meeting with President Sichuan Leather Association and indicated 50 categories of HS 8-digit items of raw leather that can be extended to China in low cost vis-à-vis China’s current import from Australia.

## **6.2. Inputs from concerned trade associations (Supply-side Issues)**

Pak-China bilateral trade despite 'Free Trade Agreement' and 'China-Pakistan Economic Corridor (CPEC)' has failed to flourish in favor of Pakistan. The challenges faced by Pakistani exporters detailed as under:

- Export basket of Pakistan to China consists of primary products which are subjected to excessively regulated Sanitary & Phytosanitary (SPS), and Technical Barriers to Trade (TBT) related sanctions. In 2017, China refused entry to around 89 products in total - 4 TBT cases were initiated against live animals and vegetable products, and 12 SPS cases were enforced on oil seeds, grains, seeds, medicinal plants and oleaginous fruits.
- Rice Exporters Association of Pakistan (REAP) lamented about higher tariff restrictions (65% tariff rate) in Chinese market. Exporters demanded to negotiate tariff and duty-free benefits in second phase of China-Pak Free Trade Agreement like that of ASEAN Free Trade Agreement (ASEAN FTA).
- In conversation with an exporter from leather industry from Sialkot; numerous issues related to export and production were highlighted. Exporter complained about:
  - Delayed payment of Sales Tax Rebate,
  - Load shedding,
  - Unskilled labour,
  - Lack of Research & Development,
  - Use of primitive machinery (15 years old methods of production),
  - Low quality chemicals leading to poor quality of production,
  - Unavailability of raw material (hides),
  - Visa rejection to small scale exporters, and
  - Higher cost of Certification & testing from Western laboratories – Chemical Analytical Testing II (e.g. from United Arab Emirates, Germany & United Kingdom)

These issues add fuel to the already least competitive industry of Pakistan. Furthermore, Pakistan Tanners Association (PTA) quoted some generic reason for decline in exports:

- Failure of domestic industry to meet environmental compliances,
- Higher tariff rates in China (average 9%),
- High cost of production, and
- Decline in supply of leather as raw material.

- Pakistan Readymade Garments Manufacturers & Exporters Association (PRAGMEA) and All Pakistan Textile Mills Association (APTMA) highlighted issue of higher cost of doing business (Pakistan 147 rank in ease of doing business) in contrast to other textile producing countries (India at 100 rank, Vietnam at 68 rank & China at 78 rank). High cost in turn affects average unit value making Pakistani product less competitive against products from India or Bangladesh.

## 7. Market Initiatives by TDAP (China)

Trade Development Authority of Pakistan undertakes many initiatives to promote exports. In this regard TDAP also facilitates exporters to participate in international events & exhibitions in China that are detailed as:

S.No.	Exhibition	Date	Category
1	ISPO Shanghai, China	July, 2017	Sports Goods
2	Intertextile Shanghai, China	August, 2017	Textile
3	The 39 <sup>th</sup> China International Furniture Fair, CIFF, Shanghai, China	September, 2017	Furniture
4	WCIF, Import and Export Fair, Chengdu, China	September, 2017	General Items
5	China Dental Show, China	September, 2017	Dental instruments
6	Xi'an International Halal Expo (XIHE), Shaanxi, China	October, 2017	Halal Food
7	Canton Fair, China	October, 2017	Sports Goods
8	CISMEF, Guangzhou, China	October, 2017	Textile Garments, Leather, Furniture, Gems and Jewelry
9	China South Asia Matchmaking Forum, Chengdu, China	October, 2017	General Items
10	Intertextile Shanghai Apparel & Fabrics (Autumn), China	October, 2017	Apparel and fabrics
11	Automechanika Shanghai, China	November-December, 2017	Auto parts
12	21st China Seafood and Fisheries Expo, Qingdao, China	November, 2017	Sea Food
13	Xiamen Stone Fair, China	March, 2018	Stone and Marble
14	Intertextile Shanghai Apparel & Fabrics (Spring), China	March, 2018	Apparel and fabrics
15	Sial Food China, Shanghai, China	May, 2018	Food Items
16	Canton Fair, Phase 2, China	May, 2018	Electrical goods
17	China Medical Equipment Fair (CMEF), Shanghai, China	May, 2018	Medical equipment
18	6th China-South Asia Expo, Kunming, China	June, 2018	General Items
19	Harbin Trade Fair, China	June, 2018	General Items
20	ISPO Shanghai, China	July, 2018	Sports Goods
21	Intertextile Shanghai, China	August, 2018	Textile
22	China Dental Show, China	September, 2018	Dental instruments
23	Euro- Asia Expo, Urumqi, China	September, 2018	General Items
24	WCIF, Import and Export Fair, Chengdu, China	September, 2018	General Items
25	The 39th China International Furniture Fair, CIFF, Shanghai, China	September, 2018	Furniture
26	Canton Fair, China	October, 2018	Sports Goods
27	CISMEF, Guangzhou, China	October, 2018	Textile Garments, Leather, Furniture, Gems and Jewelry
28	China South Asia Matchmaking Forum, Chengdu, China	October, 2018	General Items
29	Intertextile Shanghai Apparel & Fabrics (Autumn), China	October, 2018	Apparel and fabrics

<b>30</b>	Xi'an International Halal Expo (XIHE), Shaanxi, China	October, 2018	Halal Food
<b>31</b>	17th Western China International Trade Fair WCIF, China	October, 2018	General Items
<b>32</b>	21st China Seafood and Fisheries Expo, Qingdao, China	November, 2018	Sea Food
<b>33</b>	Automechanika Shanghai, China	November-December, 2018	Auto parts

*Figure 42: Markets Initiative by TDAP (China)*



## **8. SWOT Analysis**

### **8.1. Strengths**

In Pak-China bilateral trade, Pakistani product enjoys certain benefits while exporting to China if compared against exports to the world. That are:

- China being the neighboring country provides geographical proximity which implies that exports to China will have an added advantage of reduced transportation costs and freight costs.
- Multi-billion-dollar initiative “CPEC” is emerging as a strength to facilitate trade through its vast rail connectivity and network of roads. In this regard, Gwadar (a deep seaport that can harbor large vessels) is also a strength factor to enhance bilateral trade.
- Top export products of Pakistan to China cover Cotton yarn, Rice, Raw hides, Agro Food, Seafood, and Dry Fruits) which are demanded excessively by China.
- Pakistan’s local industry requires mechanical and technological upgradation and bilateral trade with China provides local industry with easy access to low cost economical machinery.

### **8.2. Weaknesses**

- The current structure of Pakistan’s economy is insufficient and incapacitated to meet the global demands, competitiveness and standards owing to lowest level of industrial development, higher cost of doing business in the region, low skilled labour and higher per unit value in the market.
- Pakistan’s industry still employs decades old methods, techniques and processes which are outdated and produce low yield. Lack of research & development on part of manufacturers’ vision and motivation is another weakness.
- The product diversification of import-export pivot in Pak-China bilateral trade is unfavorable to Pakistan. Pakistan’s export basket contains only 350 products within the range of \$1 million share whereas Pakistan’s imports from China over \$1 million mark consists of 3000 products.
- The major percentage share of Pakistan’s exports comes from primary to intermediate products which yield low revenue and in turn add to negative trade balance for Pakistan.

- Pakistan and China have signed FTA to promote trade but there exist no tariff concessions/ marginal concessions on top exports of Pakistan to China as Rice, Leather and Cotton yarn still face higher tariff.
- Around 90% of the goods exported by ASEAN countries to China are also the top exports of Pakistan but under ASEAN FTA, these countries receive comparatively lower tariffs.
- Lastly, majority of the Pakistani products are banned or face sanctions due to their non-compliance of safety, quality, and environmental standards. Higher cost of certification and testing from outside the country further augments to the agony of exporters that in turn discourages exports.

### **8.3. Opportunities**

- Chinese economy has outperformed market expectations of annual growth of 6.8% in 2017 which signposts the hypothesis that higher GDP accelerates trade. Hence, an opportunity to encourage and divert trade to China.
- Chinese market has the potential to absorb all of Pakistan's current exports that are \$23 billion in 2017; such humongous size of Chinese market is also an opportunity.
- China Pakistan Economic Corridor (CPEC), believed to be the game changer for Pakistan started in 2014 and by now has completed 25% of its projects. Foreign Direct Investment in this regard will boost industrial development and production capacity of Pakistan.
- Operationalization of Gwadar port last year in 2017, installation of LNG terminal at Gwadar and other energy sector projects will help overcome energy shortfall and in turn will enhance industrial production with competitive prices.
- Operationalization of Gwadar port further generates revenue opportunity for transit trade route to Central Asian Republics (i.e. Quadrilateral Transit Trade Agreement Pak-China-Kyrgyzstan-Kazakhstan) and specially Afghanistan (which is a landlocked country).
- Recent trade rivalry and tariff war between China and United State of America is likely to fall out in favor of Pakistan. United States of America is China's biggest export destination with 19% products shipped to USA. In case of stringent tariff regime, Chinese investors will prefer

Pakistani origin for investment in lieu of CPEC initiatives (Special Economic Zones, cheap labour, easy access to raw material, port access and more...).

- Pakistan and China are currently negotiating 2<sup>nd</sup> phase of CP FTA which has surpassed around 10 rounds of negotiations. If Pakistan succeeds in any manner, either acquires preferential market access or receives concessions as the likes of ASEAN FTA; such achievement will be an incredible achievement for Pakistan hence an opportunity.

#### **8.4. Threats**

- Pakistan - China trade pivot mostly revolves around the imports of machinery (finished goods) from China and export of raw material (primary or intermediate goods) from Pakistan. The latest surge of China to establish competitiveness in primary goods is a threat. The success of Xinjiang Textile Park, Aksu Textile Park and further establishment of 22 new economic zones is a Chinese effort to have easy access to raw material but as a result demand for Pakistani exports has also declined.
- China is the biggest supplier to Pakistan and its exports have superseded all countries reaching \$15.88 billion in 2017. Such over reliance of Pakistan on Chinese products is a threat to local industry, labour and entrepreneur.
- Over-reliance along with free trade is also a threat and has far reaching effects as low tariffs lead to revenue loss causing budget deficit. In order to finance the deficit; Pakistan is seemed to be entrapped by huge debts.
- China has been severely criticized for dumping its goods. National Tariff Commission, Pakistan has recently charged Chinese products with anti-dumping duties i.e. Steel and tiles have been charged with 24% and 6-59% dumping duties each. Dumping is a grave threat to local industry.

## 9. Conclusion and Recommendations

Chinese market has the potential to absorb all of Pakistan's exports. The indicative potential exports stand at \$5 billion which can be achieved through product focus and market focus strategy. Some top potential sectors to focus for export are seafood (shrimps & prawns), fruits (fresh & dried guavas, kinnow & mangoes), leather (grain split, leather after tanning, footwear etc.), pharmaceutical (medicaments, medical & surgical instruments), agro-foods (rice & grains), minerals (chromium ores, copper, jewelry and marbles), cotton yarn, rice, livestock (bovine & donkey), and petro-chemicals (bituminous minerals, crude).

Given the competitiveness of Pakistan, there is potential in these sectors. China is our immediate neighbor hence transportation and freight cost can be saved. There are incentives to explore Chinese market and divert long haul exports to China.

Negotiations of Pakistan – China Free Trade Agreement have taken long span of time whereas new FTA-II is due since 2013. This delay has created a sense of stagnation in the market. Pakistan needs to acquire preferential concessions as the likes of ASEAN FTA if she wishes to get the better of bilateral trade with China. Pakistani products and industry do have the potential to reach the ambitious target of \$60 billion exports set in Strategic Trade Policy Framework (2018-2023). In order to achieve this target, the trade needs year-on-year growth of at least 20% but unfortunately at current snail's pace; the likeliness of success is marginal. Some improvements can be suggested covering policy measures, industrial, compliance issues and tariff regimes of Pakistan.

- Favorable FTA with China is the dire need of Pakistan. Pakistan should lobby for zero rated tariffs or at the most concessionary tariffs for her top and potential exports to China. On the other hand, imports from China have significantly increased posing negative trade balance to Pakistan; FTA-II negotiations must consider local producer and manufacturer while finalizing terms.
- Rice is the top exported product of Pakistan but our exports to China are on the decline due to high tariff rates and quota restrictions. The second CP-FTA needs to address tariff relaxations. Similarly, cotton yarn, fabric and garments are also top exports but export trends are discouraging which needs to be adhered through strategic intervention.
- Supply side issues have their fair weightage and are the major cause of declining exports. Long due sales tax refunds, absence of testing laboratories, unskilled labour, high cost of doing business (business environment, tax & utility), and tariff duties on import of raw material are some of the concerns. These concerns must be addressed and facilitated through establishment of world renowned testing and certification laboratories, and improvement of business environment (ease of doing business). In this regard, some measures such as research &

development, establishment of Special Economic Zones, tax holidays, effective marketing & branding strategy, access to liable & efficient energy, and relaxations offered to foreign corporations in corporate taxes can be availed.

- Agro-foods are the backbone of Pakistan but are faced with low production due to the use of decades old machinery. Government needs to support (i.e. 50% to 100% subsidy to farmers) local producers with the import of new plants & machinery (e.g. parboiling machines).
- Small Medium Enterprises (SMEs) in Pakistan consist of around 3 million business enterprises and contribute to over 30% to the GDP. SMEs provide the highest value addition in manufacturing but their share in export is neutralized due to lack of opportunities and incapacity to deliver. It is recommended to utilize SMEs in export promotion through formation of “SME Consortiums” with product focus and market focus strategy.

## **10. References**

- State Bank of Pakistan
- Trade map
- World Bank Database
- UN Comtrade
- Pakistan Bureau of Statistics (PBS)
- World Integrated Trade System (WITS)
- National Bureau of Statistics (China)
- Pakistan Tanners Association (PTA)
- Pakistan Readymade Garments Manufacturers & Exporters Association of Pakistan (PRAGMAEA)
- Rice Exporters Association of Pakistan (REAP)
- All Pakistan Textile Mills Association (APTMA)
- Trade Mission -China (Monthly, Quarterly & Annual Reports)