



# CPFTA Import Analysis

Trade Development Authority of Pakistan



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## Acronym

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## Acronym

20% Margin of Preference (MOP), 33	International Standard Industrial Classification (ISIC), 10
ACD (Additional Custom Duty), 32	ITC (International Trade Centre), 8
Additional Custom Duties (ACD), 11	Margin of Preference (MOP), 4
China Pakistan Free Trade Agreement (CPFTA)	MFN (Most Favored Nation), 10
CPFTA, 1	Pakistan Bureau of Statistics (PBS), 2
CPEC (China Pakistan Economic Corridor), 9, 18	Regulatory Duty (RD), 11
custom duty (CD), 11	UNCTAD (United Nations Conference on Trade and Development), 10
DAP (Diammonium Phosphate), 20	Weboc (Web Based One Customs), 5
Free Trade Agreement (FTA), 3	World Integrated Trade Solutions (WITS), 10
Harmonized System classification (HS), 10	

## 1. Introduction

Imports from China has increased from 2.9 Billion USD to 15.177 Billion USD between 2006 to 2021. China has become largest import partner of Pakistan since 2014 and her share in imports is growing steadily. On the other hand, Pakistan export share to China has remained on average around 1.96 Billion USD between 2012 to 2020. Exports from Pakistan in 2020-2021 were recorded at 2.33 Billion USD up from 1.745 Billion USD in 2019-2020. Trade Deficit between exports and imports from China is increasing and peaked in 2021 to 12.84 Billion USD.

First trade agreement between China and Pakistan was signed in 2003. This was a preferential trade agreement where Pakistan reduced its tariff to 5 percent on 386 items which mainly included Chemicals and Machinery. In reciprocity China gave Pakistan tariff free access on 767 items. (Kazmi & Shabir, 2007) China Pakistan Free Trade Agreement (CPFTA) was initiated in 2006 where concessions on 35.6 % of Tariff lines were granted by Pakistan to China. In the phase-I of CPFTA Pakistan offered concession on 3918 tariff lines which compose 60% of traded tariff lines between China and Pakistan. China reciprocated by giving concession on 5889 tariff lines which composed 69.3% of total traded tariff lines between Pakistan and China.

CPFTA was reviewed in 2019 mainly due to three reasons. Firstly, exports of Pakistan remained stagnant while imports of China increased from 2.9 Billion USD in 2006 to 15.177 Billion USD in 2021. Secondly, local production was replaced with Chinese imports due to tariff concessions granted to China. This caused trade diversion to China due to tariff differences rather than competitive advantage and local production stopped due to higher production cost in Pakistan. Thirdly, Pakistan was seeking concessions at par with ASEAN and other countries from China to improve its market share in Chinese imports.

In the second phase which was signed in 2019 Pakistan further expanded these tariff lines making it 70.26% of the total traded tariff lines. China reciprocated with concessions on 83.6% of the total traded tariff lines. This study will mainly focus on analyzing impacts of CPFTA on Pakistan imports from 2006 to 2018 and short-term impacts of CPFTA phase-II.

### 1.1. Total Imports in Pakistan from the World:

Pakistan imports from 1985-1986 to 2019-2020 has shown following trend. Following trend is indicative of import led growth starting from 2002-2003 onwards and peaking in 2018. It can be attributed to War on Terror, Energy Crisis and an average population growth of 2.1%. Imports in Pakistan show a consumer led economy as well. Import trend is given in the following chart using Pakistan Bureau of Statistics (PBS) data

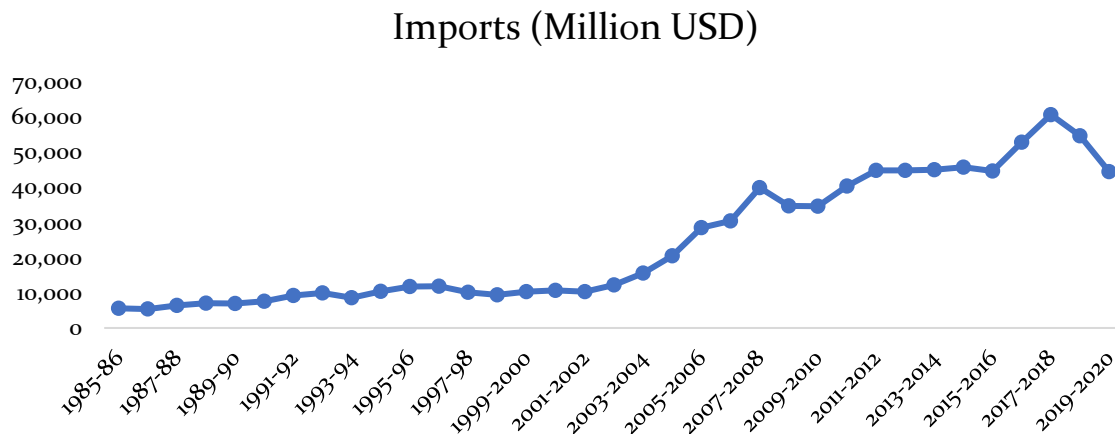


Figure 1: Imports (Million USD)

Source: PBS

Trade Deficit in case of Pakistan also validates the point that economy has undergone through a period of high trade deficit. Trade deficit of Pakistan started rising in 2002-2003 while peaking in 2018. Rise in trade deficit is indicative of import led growth and pressure on Pakistan Rupee. This has also added in to financial woes in terms of Debt Management and sustainability with rising inflation levels in Pakistan.



### 1.2. FTA Impact on Imports from China:

Free Trade Agreement (FTA) between Pakistan and China started picking up in imports of Pakistan from 2006 onwards where average growth on imports from China remained 8.4%. China joined WTO in 2001 and its share since then has increased reaching up to 15% even during pandemic in 2020. [UNCTAD, 2021] Share of China in Pakistan imports is consistent with global trend. In 2008 global recession somehow changed the trend but effects were reinstated as recession effect disappeared.

Imports from China (Million USD)

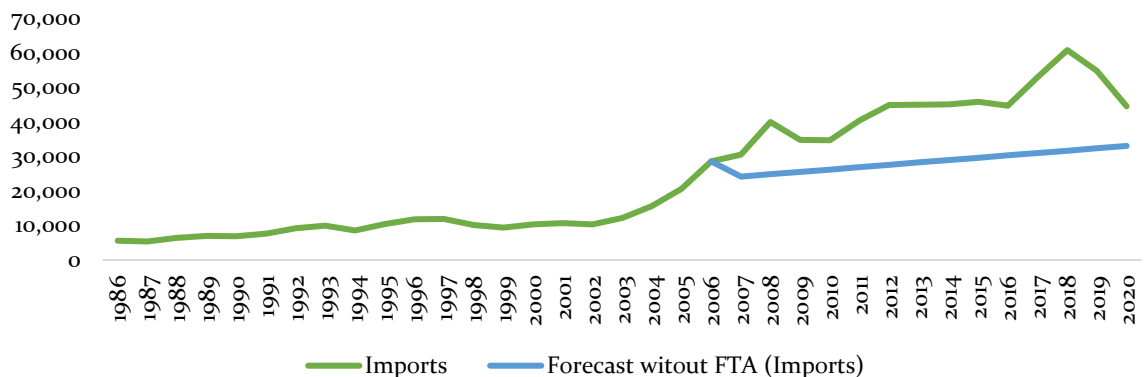


Source: PBS

Figure 3: Imports from China (Million USD)

In order to check whether CPFTA impacted trade or not a growth forecast on the basis of average imports from the world to Pakistan since 1986 to 2006 was developed then forecast was compared with the actual import value from the World.

Counterfactual Without FTA



Source: Author

Figure 4: Counterfactual if no CPFTA

Counterfactual indicates a clear increase in imports as a result of FTA with China. This indicates that CPFTA affected China's exports to Pakistan positively. This analysis indicates that signing an FTA has impacted total imports in Pakistan which could have been USD 31 Billion instead of USD 60 Billion in 2018. Imports cannot be

categorized as bad news for Pakistan economy. Therefore, in order to check impact of these imports from China in Pakistan further analysis is done in the next section.

### 1.2.1. Import Partners of Pakistan

CPFTA has resulted in consistent decline in import share of Pakistan by other trade partners while imports from China has grown over time as China became top exporter to Pakistan in 2014 onwards. Under CPFTA phase-II import from China is expected to increase further.

Percentage Share in Imports of 5 Top Trading Partners

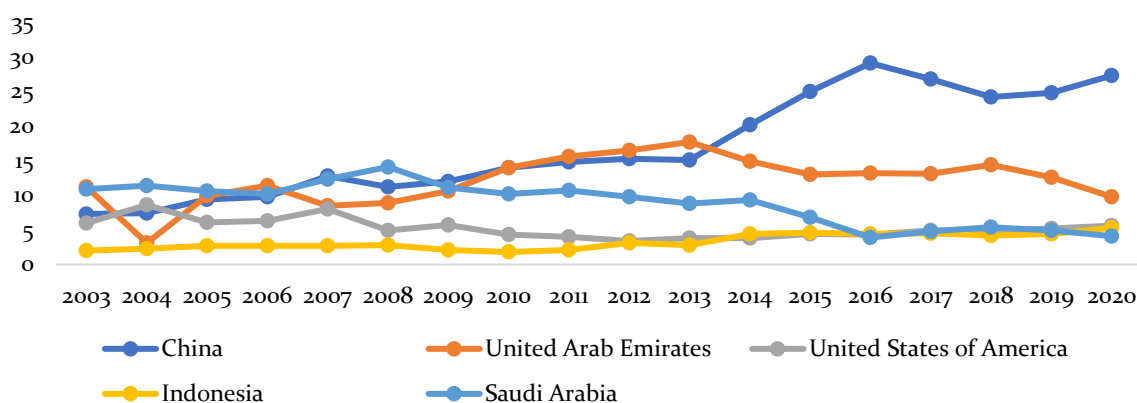


Figure 5: Percentage share of Importing Partners

Source: PBS

### 1.2.2. Concessions given by Pakistan under CPFTA phase-II:

A protocol in continuation to CPFTA phase-II was signed between Pakistan and China on 28<sup>th</sup> April, 2019. Article 79(2) <sup>1</sup>of give provision for integration of amended protocol in China Pakistan Free Trade Agreement. Under the protocol China will immediately give priority concession on 313 tariff lines and both countries will liberalize 75% of tariff lines. China has already liberalized 268<sub>1</sub> Tariff lines under CPFTA phase-I and under phase-II she will liberalize 1026 new tariff lines with zero duty. 1760 tariff lines are under sensitive list and Margin of Preference (MOP) (20%). MOP means a 20% margin below MFN tariff that will be given under this preferential trade system to Chinese exports in Pakistan. Similarly, China will give zero duty concession on 1235 and 1236 tariff lines in 5 years and 10 years' time respectively. In reciprocity Pakistan has offered following

<sup>1</sup> Chapter XII: Final Provisions under Article 79 states that 1. The Parties may agree on any amendment to this Agreement. 2. When so agreed, and entered into force according to Article 81 (Entry into Force), the amendment shall constitute an integral part of this Agreement.

Tariff Reduction Tracks	No. of Tariff Lines	% of Tariff Lines	% of Imports from China in (2016-17)
Immediate to Zero Rate (A-0)	3146	44.96	46.80
Zero Rate in 7 Years (A-7)	1044	14.92	5.42
Zero Rate in 15 years (A-15)	1047	14.96	18.04
Protected List (No Concession + 20% MOP)	1760	25.15	32.28
<b>Total</b>	<b>6997</b>	<b>100</b>	<b>100</b>

Table 1: Tariff Elimination Classification (2019)

Source: MOC

Further comparison of given tariff lines is explained in Annexures under Tariff Elimination section.

### 1.3. Data Description

Data used for the analysis has been retrieved from WEBOC (Web Based One Customs) and Ministry of Commerce data which has some data limitations due to multiple entries. However, data is taken for fiscal year-based analysis. Classification data from WITS is used in order to categorize the products.

## 2. Pakistan Major Imports from China

Pakistan’s major imports from China include following. Comparison between 2019-2020 and 2020-2021 indicates an increasing trend in terms of imports from China.

### Top 10 Imports from China (Million USD)

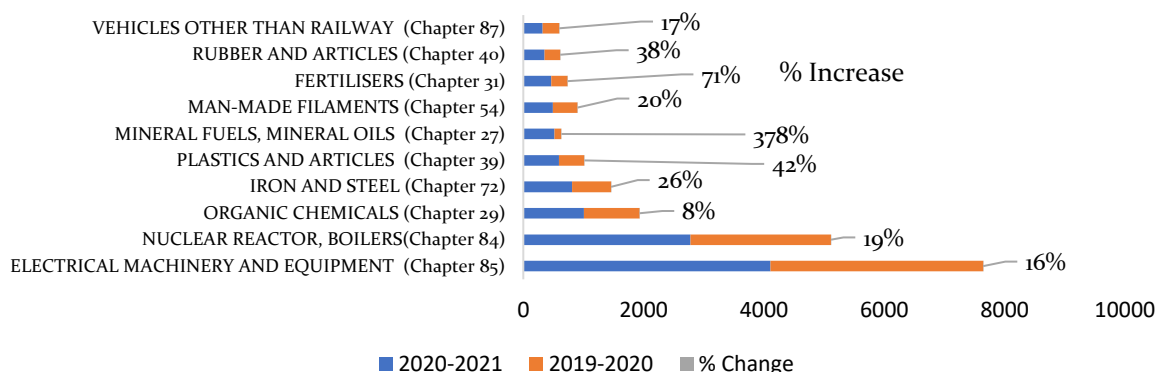
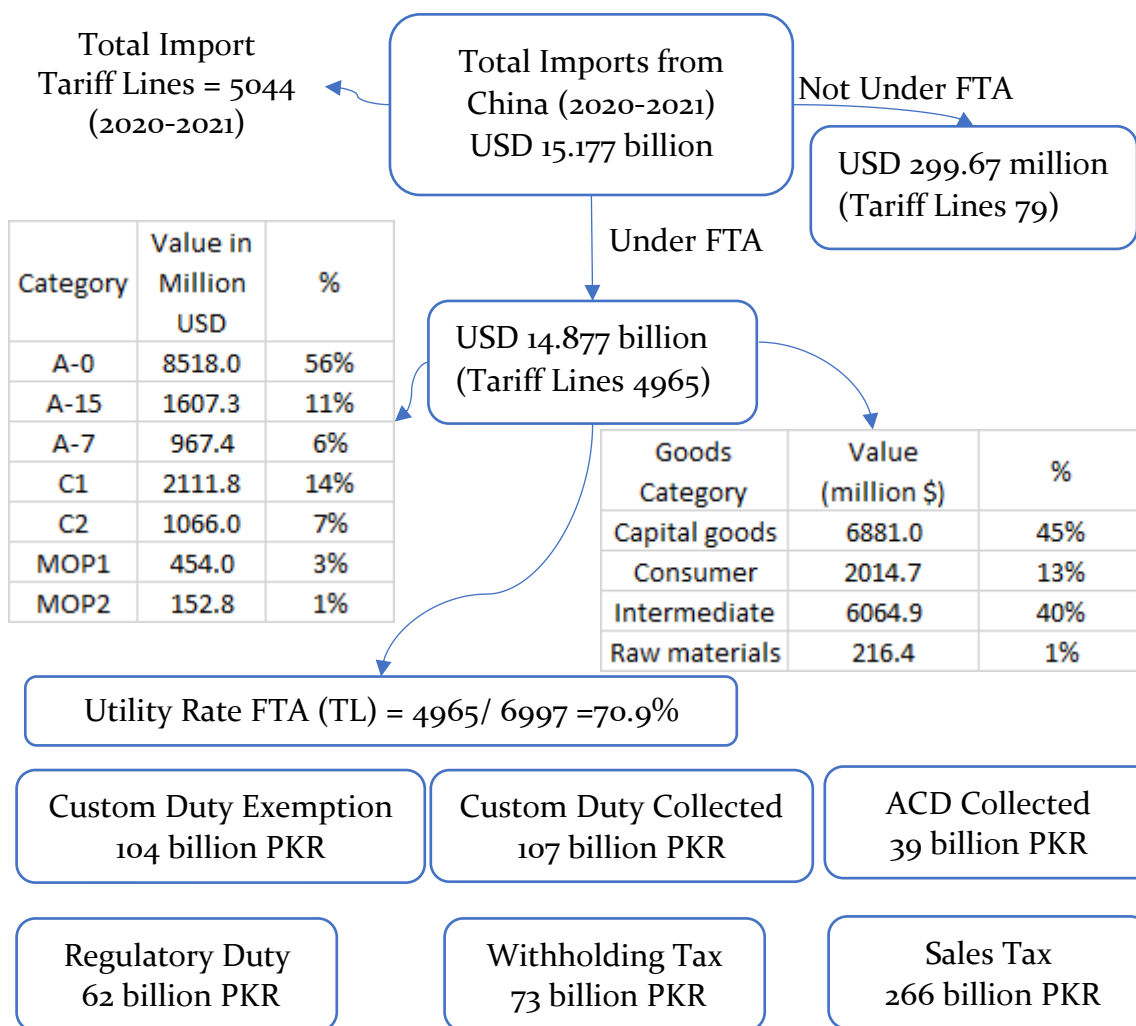


Figure 6:Percentage Change in Imports from China 2019-2020 to 2020-2021 (Million USD)

CPFTA phase-II seems to be taking effect as under concessional tariff lines import of Pakistan is diverting towards China mainly in sectors of Mineral fuels, Fertilizer and Plastics. Rise in coal and mineral imports are due to increased investment in coal powered energy projects built under China Pakistan Economic Corridor (CPEC). However, product-based trend is further reviewed while taking in to account product classification given by WITS (World Integrated Trade Solutions) reference data. [WITS, 2021]

## 2.1. Snapshot of Imports from China



## Pakistan Major Imports from China

Top Imported goods are included in following sectors taken using ITC (International Trade Centre)

Sectors	Import Value (Million \$)
Electrical equipment	4088.5
Machinery	2724.0
Chemicals	2527.3
Textiles	1198.0
Articles of iron and steel	1122.8
Plastics, Articles of plastic	594.2
Mineral products	533.1
Vehicles	355.5
Rubber	351.3
Base metals	334.0
Surgical and Musical instruments	244.5
Agricultural Products	242.2
Manufactured articles	181.0
Paper and paperboard	171.2
Articles of apparel	142.1
Glass and glassware	102.6
Ceramics	55.8
Footwear and headgear	49.4
Prepared Food Stuff	48.0
Articles of stone, plaster	35.3
Agricultural Oils	27.5
Wood and articles	20.5
Leather	18.4
Pearls and precious stones	6.1
Arms and ammunition	3.3
Works of art	0.3
Diary and Animal Products	0.1

Table 2: Sector Wise Imports 2020-2021

Most imported sector included Electrical equipment, Machinery, Chemicals and Textiles and Iron and Steel. These sectors collectively compose 11.66 billion USD in total. Most imported goods under CPFTA included goods only from these five



sectors. This indicates a trend that imports under CPFTA are affected by CPEC (China Pakistan Economic Corridor). Most of the imports are of either capital goods like machinery or electrical equipment reaching up to 60 % of total imports of top five sectors. The surge can be explained through power sector development and infrastructure development under CPEC projects.

### 3. CPFTA Product Classification 2019-2021

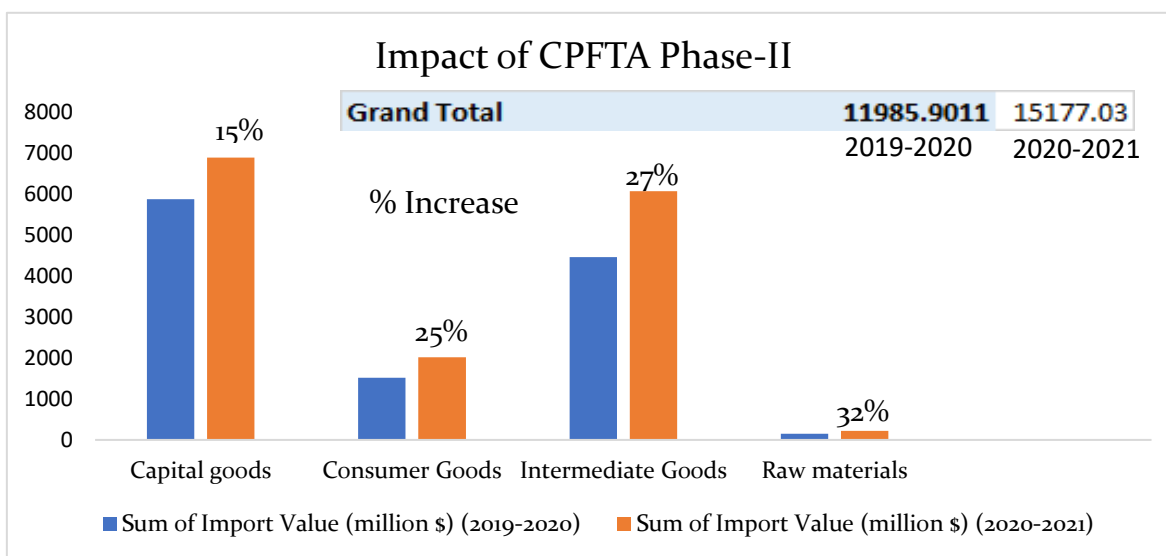


Figure 7: Impact of CPFTA 2019-20 to 2020-2021

In order to check how trade with china has changed between 2019-2020 to 2020-2021 an analysis on the basis of category already used in terms of raw materials, intermediate goods, consumer goods and intermediate goods is used as under.

Fiscal data analysis indicates that there is a significant change in terms of intermediate goods growth and Capital goods. However, growth in terms of raw material and consumer goods remained negligible. Growth in terms of capital goods and intermediate goods indicate a healthy trend of economy building industrial base.

### 4. Decomposition of Imports under Nature of Products

Pakistan under A category (mentioned in Tariff Elimination Classification) has given zero duty concession or plan to give zero duty concessions to China. In order to check whether these tariff lines provide suitable conditions for the domestic industry to develop or not. These tariff lines are checked for nature of products on the basis of classification provided by World Integrated Trade Solutions (WITS) listing under HS product group classification. [WITS, 2021] In order to check the nature of imports following type of products are checked for trade analysis in each category

1. Raw Materials
2. Intermediate Goods
3. Consumer Goods
4. Capital Goods

Definitions of the categories generated are taken from UNCTAD (United Nations Conference on Trade and Development) report (Nations, 2013). Primary products or raw materials comprise materials and resources used in the productive process at the first stage of manufacturing process. Intermediate products comprise semi-finished goods that are used in the production of other products. Consumer products are those that are intended for final consumption. Capital goods are manufacturing goods such as machinery that are intended to be used in the production of other goods. Product sectors are categorized according to the International Standard Industrial Classification (ISIC) augmented by five broad agricultural sectors based on the Harmonized System classification (HS). (Nations, 2013)

This analysis is based on 6-digit HS Code rather 8-digit HS Code due to data and classification limitations. Analysis gives a look in to how phase-II of CPFTA is affecting trade between Pakistan and China. At 6-digit level there are 2654 Tariff lines where Pakistan imported from China during 2020-2021. Further classification gives an insight of all these tariff lines.

Tariff liberalization was done mainly under three different categories. These include A, C and MOP (Margin of Preference). C and MOP category is divided into two parts as C<sub>1</sub> and MOP<sub>1</sub> refers to the agreement in 2006 and C<sub>2</sub> and MOP<sub>2</sub> refers to the agreement in 2019. A category includes mainly three different tracks for tariff liberalization while C category refers to No concession or sensitive list under CPFTA and divided in to two tracks (C<sub>1</sub> and C<sub>2</sub>). MOP means a tariff concession below 20% of MFN (Most Favored Nation) under CPFTA which is divided in to MOP<sub>1</sub> and MOP<sub>2</sub>. These are as under



## Decomposition of Imports under Nature of Products

Tariff Category	Tariff Liberalization Tracks
A-0	1 <sup>st</sup> track tariff immediately liberalized to zero
A-7	2 <sup>nd</sup> track tariff liberalized to zero gradually from 2021 to 2028
A-15	3 <sup>rd</sup> track tariff liberalized to zero gradually from 2023 to 2038
C <sub>1</sub> & C <sub>2</sub>	No Concession on MFN Tariff (Sensitive List)
MOP	Tariff applied below 20% of MFN Tariff

Table 3: A Category Tracks

All of the above-mentioned liberalized tariff lines may have Additional Custom Duties (ACD), Regulatory Duty (RD), Sales Tax and Income Tax with liberalized custom duty (CD). Therefore, even with liberalized trading regime under CPFTA these tariff lines still face on average 30% of taxes including additional custom duty (ACD), sales tax and income tax.

### 4.1. Raw Material imports under A Category:

Traded products between Pakistan and China during 2020-2021 are analyzed for all the categories under A category from A-0, A-7, A-15. This analysis is based on 6-digit HS code classification used from WITS reference data. Following products falls under A category and traded during 2020-2021.

Sum of Import Value Million USD	Count of HS Code	Sum of CD Exemption	Sum of ACD Collected	Sum of CD Collected	Sum of RD Collected	Average of Duty Rate
203.19	119	1000	151	254	52	7%

Table 4: Raw Material Imports under A (Category)

Analyzing share of raw materials under WITS provided classification out of total trade of USD 11.09 Billion under A category total share of raw materials provided is mere 1.3 % or USD 203.19 million. Top 10 imports under CPFTA from July 2020- June 2021 are given below for Raw Materials

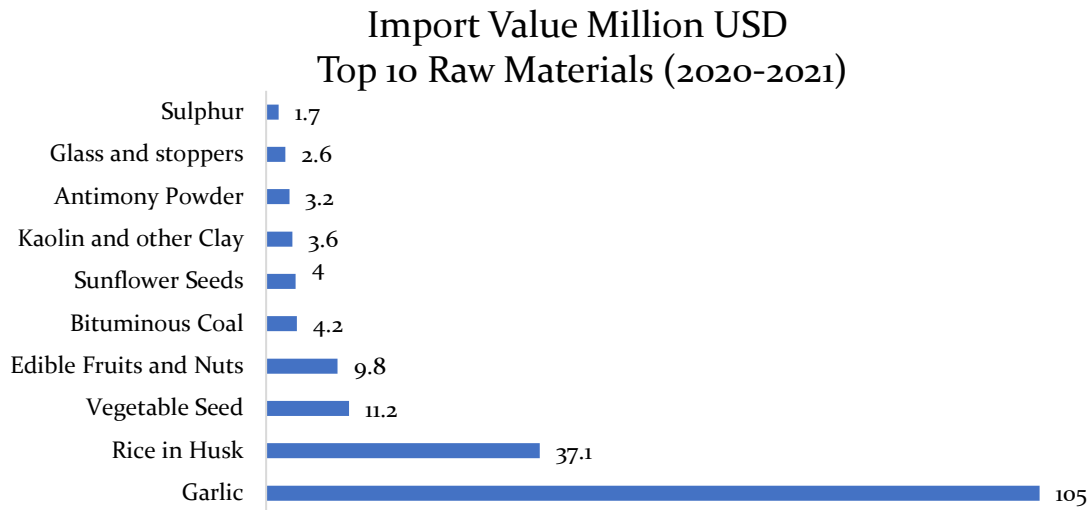


Figure 8: Top 10 Imported Raw Materials under A Category

In terms of Raw materials major imports from China mainly consist agricultural raw materials which is directly consumed by Pakistan. Pakistan top imported product in terms of raw material is Garlic due to lower productivity growth and higher demand. Pakistan produced nearly 70 thousand tons of garlic in 2016 while imported 37 thousand tons from China. Pakistan per acre yield of garlic growth is just 0.6% against global growth rate of 3.1%. [Planning Commission of Pakistan, 2020] Similarly, other raw materials include mainly agriculture related or mineral products. A total of 1 billion PKR worth of duty exemption is given on raw material imports from China under CPFTA. The trend must continue in order to increase industrial production in Pakistan by liberalizing raw materials further. National Tariff Commission has liberalized by removing 2% of Additional Custom duty from Raw Materials under National Tariff Policy (2019-2024). (Commission, 2022)

On average raw materials under CPFTA faces zero duty regime but 2% ACD, 17% sales tax and 11% income tax on average. This makes imports of Raw material under CPFTA expensive. Therefore, raw material imports represent a very small portion of total imports under CPFTA. Raw material imports require further value addition for industrial production but taxes and ACD makes the production cycle expensive. However, taxes are paid back to export oriented raw material imports upon exporting products generated using imported raw materials.

## Decomposition of Imports under Nature of Products

### 4.1.1. Raw Materials Tariff Categories:

Pakistan has immediately given concessions on 3146 tariff lines under CPFTA phase-II. These tariff lines have zero duty in 2020-2021 other than that 2091 tariff lines are given concessions under A-7 and A-15 category these are concessional tariff lines which will be liberalized gradually. Following table indicates imports of raw materials from china under CPFTA phase-II between July 2020 – June 2021

Category	Million USD	Percentage Terms
A-0	194.16	89%
A-15	1.39	0.6%
A-7	7.64	4%
C1	13.13	6%
MOP1	0.11	0.4%

Table 5: Raw Material Imports by Tariff Category

89% of imports from raw material are done under A-0 category while a mere 6.4% is traded under no concession or MOP category. Main challenges in raw material imports under CPFTA phase-II includes lower amount of imports and higher taxes on imported raw materials.

### 4.2. Intermediate Goods under A Category:

Composition of intermediate goods which are further processed for domestic use and exports constitute USD 6.064 Billion in the total imports from China. This represents 39.96 % from the total share of imports from China. Intermediate goods imports under A-Category (A-0, A-7 and A-15) are USD 4.5 Billion. Import of these intermediate goods is indicative of growing consumer market of Pakistan and it helps in ensuring export led growth. Most imported intermediate goods during June 2020 – July 2021



Figure 9: Top 10 Imported Intermediate Goods under A Category

## Decomposition of Imports under Nature of Products

Sum of Import Value Million USD	Count of HS Code	Sum of CD Exemption	Sum of ACD Collected	Sum of CD Collected	Sum of RD Collected	Average of Duty Rate
		(Million PKR)				
6064	1098	22079	5721	10506	8347	13%

Table 6: Intermediate Goods imported under A-Category

A total of 22 Billion PKR custom duty exemption is given during July 2020 – June 2021. This indicates that CPFTA imports are designed to make intermediate goods cheaper in Pakistan. Duty structure on these goods after giving custom duty exemption is still high as regulatory duty and additional custom duty with withholding taxes and other taxes increases the cost of production in Pakistan. This can be credited as one of the reasons of Pakistan not becoming part of global value chains. Vertical FDI which integrates countries in global value chains is dependent on easy accessibility and cheap intermediate goods. CPFTA phase-II has provided an opportunity in this regard.

### 4.2.1. Intermediate Goods Tariff Category:

Intermediate goods according to Tariff category are mainly imported under A category. Out of the total imported intermediate goods under CPFTA phase-II 74% of intermediate goods were imported under A category while 22% were traded under sensitive list or no concession. Following table indicates the imports of intermediate goods between July 2020 to June 2021 category wise

Category	Million USD	Percentage Terms
A-0	3080.94	51%
A-15	816.91	13%
A-7	606.12	10%
C	1351.74	22%
MOP	82.43	1%
Not under CPFTA	126.7	2%

Table 7: Intermediate Goods import by Tariff Category

Intermediate goods imports are composed of mainly Diammonium Phosphate, Steel and Iron and Vaccine. On average even under CPFTA Phase-II these imports come under 30% of taxation other than imports targeted for exports under Trade Facilitation schemes.

### 4.3. Consumer Goods under A Category

Pakistan imported USD 2.01 Billion dollars' worth of consumer goods from China during July 2020 – June 2021. It constitutes 13.33 % of Pakistan total imports from China. Consumer goods imported under A-Category (A-0, A-7 and A-15) are worth USD 967.2 million. Most of the consumer goods imported from China falls under concessionary terms. These consumer goods indicate some distortions in the trade between Pakistan and China. This trend should be addressed. Pakistan is trying to develop export led growth but Pakistan has witnessed a raise in consumer goods imports between July 2019 – June 2021. Consumer goods import between 2019-2020 to 2020-2021 increased from USD 1.52 Billion to USD 2.01 Billion. There is an overall increase of 32%. This increase is alarming as it is transforming Pakistan towards consumption led economic growth. Following table indicates import value and concessions given to intermediate goods under A-category

Sum of Import Value Million USD	Count of HS Code	Sum of CD Exemption	Sum of ACD Collected	Sum of CD Collected	Sum of RD Collected	Average of Duty Rate
967.23	675	7532	3863	7526	6014	14%

Table 8: Intermediate Goods Import under A-Category

Consumer goods were given a total of PKR 7.5 Billion concession in terms of custom duty. Consumer goods concessions have the potential to increase revenues from tariff through tariff rationalization for consumer goods. These consumer goods displace local production at the cost of production and cost to economy and reduce productivity through reduced manufacturing. Top 10 imported consumer goods under



Figure 10: Top 10 Imported Consumer Goods under A Category

## Decomposition of Imports under Nature of Products

Most imported goods under the category of consumer goods includes consumer goods which has some local manufacturing base. One example is ceramics and tricycles which have local manufacturing base but due to higher raw material cost production is not price competitive. Therefore, suitable policies are required to make existing sector grow and meet the local demand in terms of consumer needs. Research work on such sectors is required with adjustment in the tariff structure under second phase of CPFTA. There can be two viable policy choices available. First to keep the tariff structure on consumer goods same and reducing taxes from raw materials and machinery required for manufacturing of imported Consumer goods. Second to increase tariff on consumer goods imports using provisions given under Article 79 of CPFTA which gives provisions for revision of tariff under CPFTA.

### 4.3.1. Consumer Goods Tariff Category:

Imports of consumer goods between July 2020 to June 2021 based on tariff category is given below

Category	Million USD	Percentage Terms
A-0	392.12	19%
A-15	328.01	16%
A-7	247.11	12%
C	744.31	37%
MOP	215.6	11%
Not under CPFTA	87.53	4%

Table 9: Consumer Goods Import by Tariff Category

A-Category represents 48% of consumer goods imports whereas no concessions are given on 37% of consumer goods import from China between July 2020 – June 2021. Data indicates that consumer goods are given higher level of concessions which require revision in order to improve gains from trade and build domestic base for consumer products manufacturing. Import substitution strategy is required in terms of consumer goods through taxation changes for raw material and machinery to produce consumer goods locally.

#### 4.4. Capital Goods under A Category

Capital goods imported in Pakistan under CPFTA phase-II between July 2020 – June 2021 are worth USD 6.881 Billion. It represents 35.6 % of total imports from China between July 2020 – June 2021. Capital goods imported under A Category are USD 5.4 Billion. Capital goods import indicates weak production and industrial base of Pakistan economy which need capital goods for infrastructure and industrial development. Pakistan imports of Capital goods are good for increasing pace of industrial production. However, some diversification and domestic production is also required in order to ensure sustainability of economic growth in the long run. Following table indicates capital goods import between July 2020 – June 2021 under A Category of CPFTA Phase-II

Sum of Import Value Million USD	Count of HS Code	Sum of CD Exemption	Sum of ACD Collected	Sum of CD Collected	Sum of RD Collected	Average of Duty Rate
5418.3	668	13137	4116	6375	4285	6%

Table 10: Capital Goods import under A Category

Pakistan has given a total of PKR 13 Billion exemptions on custom duty during June 2020 to July 2021 to imported capital products from China under CPFTA. This will be beneficial in order to speed up industrial growth and large-scale manufacturing in Pakistan. Capital goods require joint ventures and local production which can be brought in through import substitution policies and investment initiatives through declaration of tax-free zones for capital goods production. Reforms has a potential of reducing capital goods imports up to USD 5.4 Billion. Top 10 capital goods which are imported under CPFTA between July 2020 to June 2021 under A-Category are given as under

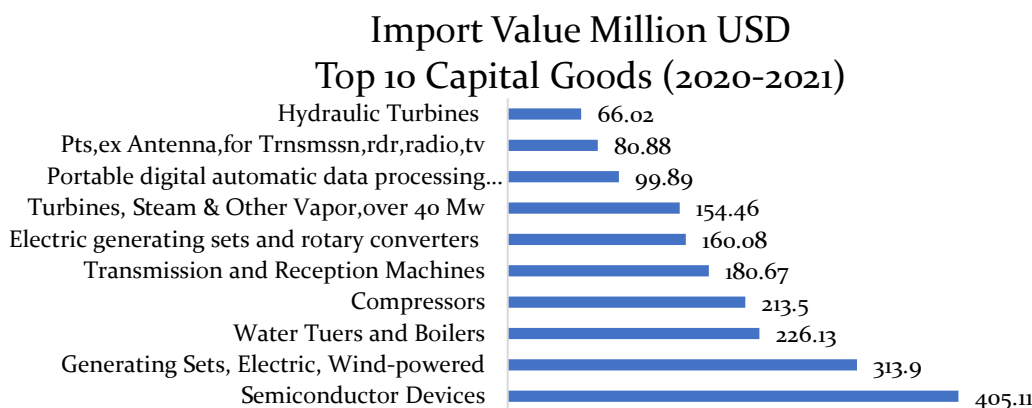


Figure 11: Top 10 imported Capital Goods under A Category

## Decomposition of Imports under Nature of Products

Semiconductor devices, electricity generating equipment and transmission devices are leading in terms of imports from China. This represents a positive trend in terms of meeting industrial needs and reducing cost of capital goods until these are replaced by domestic production. Import substitution strategy through raw material and machinery tax incentives and joint ventures is required in this regard.

Growth in terms of quantity Pakistan import from China has increased by 13% on average since 2006. There is a consistent increase in terms of import increase from China. This is related to aspects of trade diversion and growth in trade.

### 4.4.1. Capital Goods under Tariff Category:

Following table indicates imports of capital goods imported between July 2020 to June 2021 category wise

Category	Million USD	Percentage Terms
A-0	4850.78	70%
A-15	461.01	7%
A-7	106.55	2%
C	1068.58	16%
MOP	308.69	4%
Not under CPFTA	85.41	1%

*Table 11: Capital Goods Import by Category*

79 % of the capital goods imports come under A category whereas only 16% of these products include protected list. Capital goods imports indicate a healthy trend where Pakistan economy is going towards industrialization. However, one important factor in import of Capital goods is medium term projects under CPEC (China Pakistan Economic Corridor)



## 5. Import Diversion between 2012 -2018

In order to check for that how CPFTA is affecting imports in Pakistan a comparison is made between top imports in 2012 and 2018 in Pakistan. This analysis has intentionally excluded years between 2006 to 2012 in order to check for the effects of global recession and 2019 onwards in order to understand the effect of CPFTA Pre-Pandemic. Pakistan top imports in 2006 are given in Annexure 1. Pakistan top imports in 2006 at HS code level 8 are included in annexures under Imports from china in 2006.

Comparison of Table 18: Main Chinese imports in 2006 and Table 19: Major Imports from China in 2008 in annexures indicates that China has made inroads only in DAP, Iron and Steel and Semiconductors which were top imports of Pakistan in 2006 from the world. China has targeted the structural change and she has grown in other sectors suitable for sustainable growth in Pakistan Market. China has targeted the areas which are structurally changing the trading system. China has remained away from region specific sectors and she has made inroads in tech driven and other capital and consumer goods sectors.

China was unable to target petroleum, palm oil, gold, tea and sectors which do not have potential to grow in Chinese perspective. However, it is important to note that China has not expanded its exports in raw material sectors like Cotton as most of the cotton is consumed in China while a marginal quantity is exported.

### 5.1. Import Shift 2012 to 2018

2012 was the year where recession impacts disappeared after four years. Therefore, 2012 is considered here as a point in time when recession of 2008 disappeared and global trade came back to normal. Changes between 2012 to 2018 will be helpful to understand how China has become largest import destination of Pakistan. 2019 is not considered due to Pandemic effects. Pakistan imports above 40 million USD from China indicated following table

HS Code	Product Area	2011 1000 \$	2018 1000 \$	CAGR	Market Effect
TOTAL	All products	6470653	14599749	14%	
840681	Steam and other Vapor turbines	54963	97003	88%	New
310530	DAP Fertilizer	225361	651891	24%	Replacement
070320	Garlic	54523	36073	15%	Same
294190	Antibiotics	41660	56814	9%	Replacement
871120	Motorcycles and Engines	42374	75891	9%	Replacement

## Import Diversion between 2012 -2018

540331	Yarn of viscose rayon filament (Semi Synthetic)	71466	120086	8%	New
540247	Filament yarn of polyester (Synthetic)	53964	56860	7%	New
844790	Embroidery Machines etc.	42587	45153	3%	Replacement
851762	Transmission Machines	118981	171958	3%	New
390720	Polyether	41730	51758	1%	New
871419	Parts and accessories for motorcycles	44825	0	0%	Local
091010	Ginger	44251	0	0%	Local
540233	Textured filament yarn of polyester	194274	126428	-1%	Local
851712	Cell Phones	537212	524040	-4%	Local
401120	New pneumatic tyres of rubber	123496	84857	-5%	Local
721049	Flat-rolled products of iron or non-alloy steel	53994	45447	-6%	Local
851769	Apparatus for the transmission	62433	72089	-9%	Local
550320	Staple fibres of polyesters	214970	50919	-12%	Local
853939	Discharge lamps	69656	89	-67%	Local
310210	Urea	160447	58	-72%	Local

Table 12: Imports from China between 2012 to 2018 (40 million USD or more)

Imports from china between 2012 and 2018 has indicated three major trends. First creation of new markets in Pakistan in terms of Vapor Turbines, Viscose Manmade Yarn, Synthetic Polyester yarn, transmission machines and polyesters. New market refers to products which have little or no market in Pakistan before Chinese imports in Pakistan started to build up market demand. These imports are responsible for technology transfer and industrial development. Secondly, imports from China has replaced some products already existing in Pakistani market. These include DAP fertilizer, antibiotics, motorcycles and engines and embroidery machines. In terms of antibiotics Chinese antibiotics have replaced Indian based antibiotics due to tariff concessions under CPFTA. Motorcycle and engines along with embroidery machines have been replaced by Chinese products against Japanese or German products due to concessionary tariffs and price competitiveness.

DAP (Diammonium Phosphate) fertilizer top exporter in 2018 was Morocco while China is at second position in terms of DAP exports and in 2006 it was Russia as the top exporter of DAP fertilizer however in Pakistan DAP market has shifted to

China from Russia and Morocco. In order to understand full spectrum of CPFTA on DAP it is further discussed in next section.

Thirdly, imports from China has localized production of many products like motorcycle parts, ginger, textured yarn, tyres, iron and alloy steel sheets, transmission apparatus, staple fibers of polyester, discharge lamps, and urea. Motorcycle parts, ginger, urea and tyres are replaced by local production due to higher growth and gradual tariff rationalization measures regarding raw materials. Steel demand slowed in Pakistan between 2016-2019 which resulted in lower imports. (Economics, 2021) Discharge lamps demand went down due to technological replacement with LED based electronic devices. Finally, staple polyester fiber and textured synthetic yarn faced anti-dumping duties as a result imports from china reduced.

DAP, Iron and Steel and Semiconductors made 3.1 billion USD worth of products imported from China in Pakistan in 2018 out of 14.6 billion USD. These products made 21% of all products imported from China. These products represent lion's share of Chinese exports in Pakistan.

In order to check the impact of CPFTA on domestic producers and manufacturers some of the manufacturers were contacted. A survey was conducted in order to have stakeholder input. Target areas in those surveys included DAP fertilizer companies, Semi conducting industries and Metal industries. However, visit to semiconductor-based industries was not materialized. Therefore, cotton yarn stakeholder was interviewed.

## **5.2. Case of DAP Fertilizer:**

Fatima Fertilizer which is 3<sup>rd</sup> major stakeholder in Fertilizer industry of Pakistan was approached and interviewed regarding the effects of CPFTA on fertilizer industry in Pakistan. Some of the main findings about DAP fertilizer having HS Code:31053000 are as under

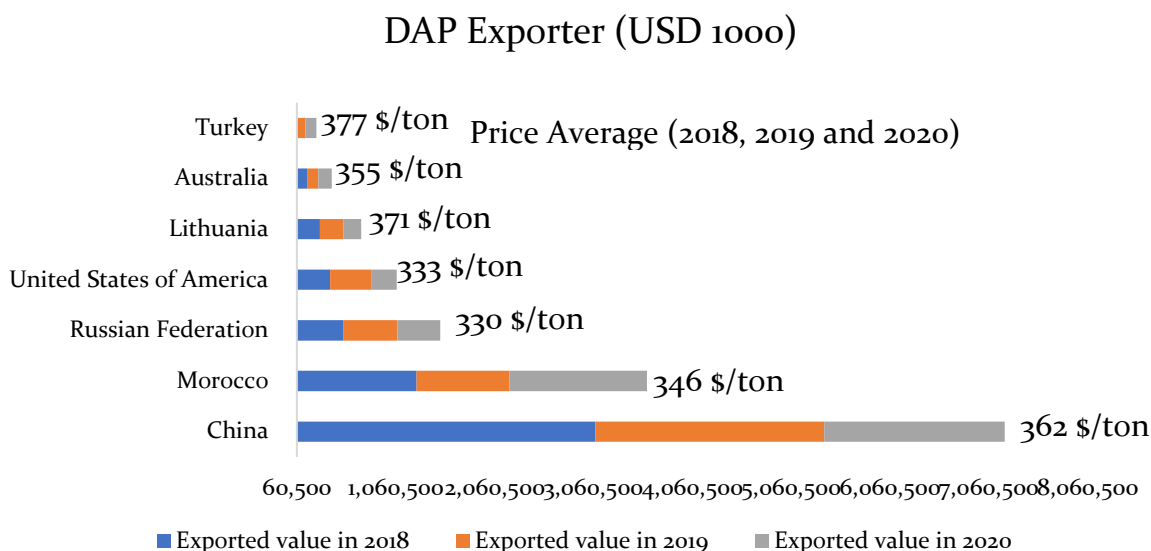


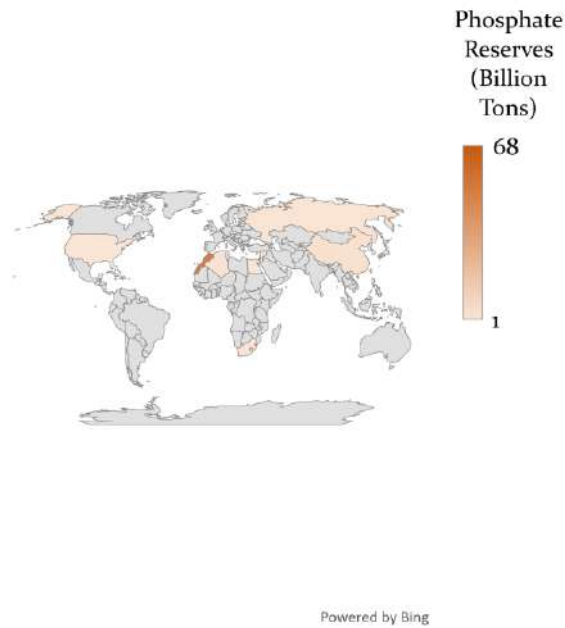
Figure 12: DAP Exporters

Source: Trade map (Unit Values) HS code:31053000

Pakistan’s market for DAP has been shifted from Russia, USA and other countries to China. China has gradually become largest exporter of DAP due to its production capacity and domestic usage. DAP is critically dependent on two basic raw materials. These include ammonia and Phosphoric Acid. Therefore, following chart indicates why Morocco is on the second number after China in terms of DAP exports.

## Import Diversion between 2012 -2018

### Phosphate Reserves



### Phosphate Reserves (Billion Tons)

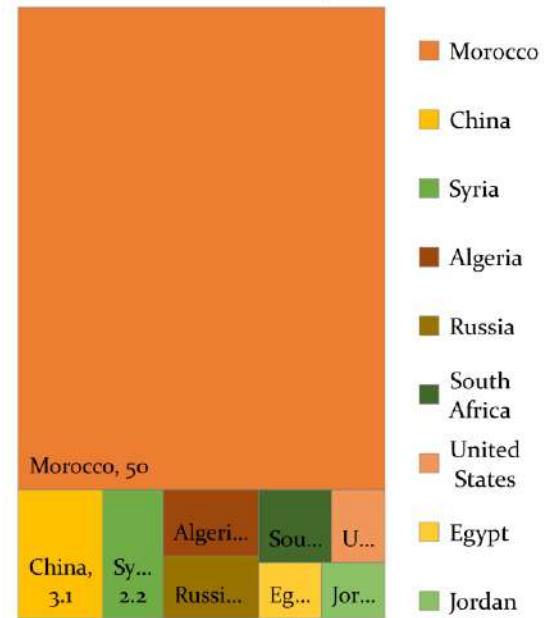


Figure 13: Global Phosphorous Reserves

Source: US Geological Survey (Misachi, 2021)

Morocco has the largest reserves of Phosphorous but largest producer of Phosphorous and DAP is China due to its mining ability. However, this might expire in almost 15 years as estimated by geologists. Morocco is expected to become the largest producer in future due to huge phosphorous deposits (Misachi, 2021). Pakistan also has phosphorous reserves but those ranges somewhere between 12 to 14 million tons known as Hazara phosphates.

## Import Diversion between 2012 -2018

Pakistan has a significant demand of DAP fertilizer.

Total composition of Phosphate based fertilizer among all fertilizers is 18%. 1 50 kg bag is required for two times a year on average for one acre. Most of the DAP is consumed in Punjab and Sindh. Estimated annual DAP demand is 2.1 Million tons. However, only one manufacturing plant of

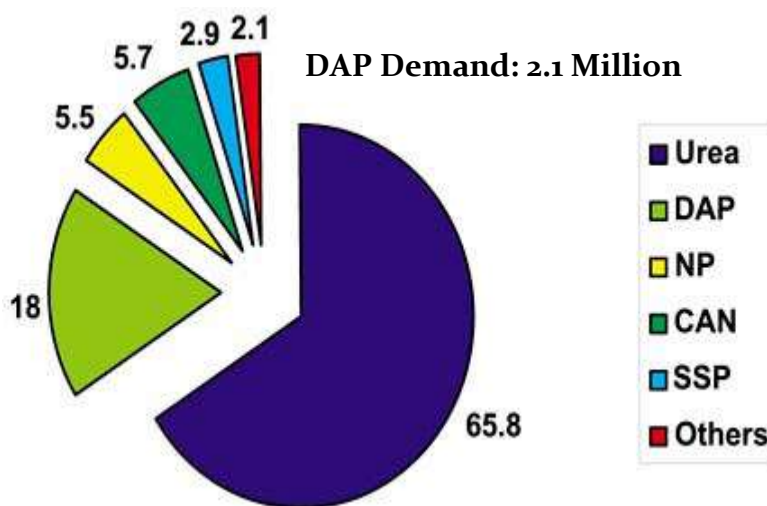


Figure 15: DAP Demand Composition (Organization, 2004)

DAP exists in Pakistan. Fauji fertilizer is the only producer of DAP in Pakistan. It has produced 737000 tons of DAP in 2021. (Agency, 2021) Pakistan imports rest of its demanded capacity from China and Morocco mainly. Major importers include Engro Fertilizer & Fatima Fertilizer Limited. Over the years the importing origin has changed. It is shown in the following chart (The chart is for the fiscal year data)

### Total DAP Imports (Million USD)

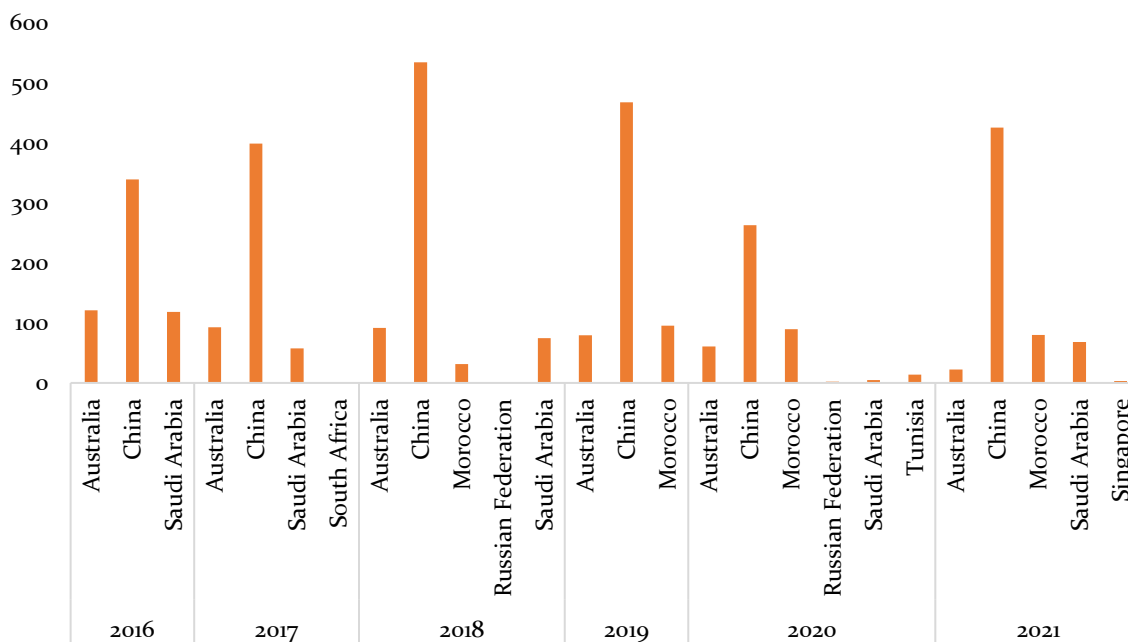


Figure 14: Year wise DAP Import Composition

This graph explains how China is leading in terms of DAP imports by Pakistan. Morocco, USA and Russia which are competitors and cheaper than China are lagging behind in Pakistan market in terms of DAP exports. Duty and tariff infrastructure for Pakistan is same but locally produced fertilizer is capable of reducing on average an import bill worth 450 million USD if supplemented with certain tax incentives for local production.

#### **5.2.1. CPFTA Impacts on DAP:**

There are direct impacts of CPFTA on DAP imports as all the imports of DAP are concentrated towards China. Local producers are not affected much due to the fact that China is the largest exporter of DAP and freight cost is competitive. However, imports are not diversified for sustainable supplies. Concentration of imports towards china are not good for future as China will be dependent soon on Morocco for Phosphoric acid supplies due to depleting reserves. CPFTA has provided import orientation for local importers and producers therefore even though with high domestic demand average growth in production capacity of DAP fertilizer is stagnant for almost last 5 years to a level of 700,000 tons which is only 33% of local demand.

##### *5.2.1.1. Covid-19 Price Hike:*

Covid-19 has led to a price hike of DAP across the globe. Pakistan was saved from price impacts as fertilizer importers in Pakistan immediately imported DAP fertilizer at a rate of 600 USD/ton unlike Indian importing price of 700 USD/ton. This has led to lower food inflation in Pakistan due to fertilizer in comparison to India. Indian delay was mainly caused by governmental procedures as a result price surged. However, food inflation rose due to increasing fertilizer prices. It is expected that these prices will keep rising till the middle of next year due to supply cutoffs to almost 100 USD as per Argus market trend predictions.

This may lead to an additional import in terms of value of worth 200 million USD. Pakistan is self-sufficient in Urea, Calcium ammonium nitrate or CAN but import dependent in case of DAP. In order to cut the import bill by a significant amount reaching up to 450 billion USD short term and long-term plans are required.

#### **5.2.2. Possible Way out:**

Possible way out of import dependency include two steps. These steps can be short term or long term. Short term plan is capable of reducing almost 200 million USD worth of import bill. However, long term plans may affect total imports by almost 450 billion USD.

#### 5.2.2.1. *Short Term Plan*

Facilitation of chartered party agreement in order to fix price of imports may reduce import bills by taking care of price hikes and ensuring stability of Supply. Integrated state-owned production facilities in China and Morocco mainly OCP can be contacted to facilitate a B2B based chartered party agreement.

#### 5.2.2.2. *Long Term Plan*

Long term plan includes establishment of joint ventures with OCP and other integrated DAP producers across the globe. Integrated DAP producing plants are mainly located in China, USA and Russia along with Morocco. These production plants can be contacted and joint ventures to kick start local production can be arranged.

One such plan is of Fauji Fertilizer who is trying to build 1-million-ton plant through a joint venture with OCP a state-owned Morocco firm. The plan is conditional to supplies of natural gas for production purposes. However, this facility is expected to be completed by 2024. There is a need for further joint ventures with other importers like Engro, Fatima Fertilizer and other groups to ensure competitive production of DAP to meet domestic demand.

One area of long-term plan is about development of mining facilities for Phosphorous extraction in Pakistan near Hazara. Mining facilities are required to upgrade local production capacities and to ensure sustainable supplies of raw material. Further, green ammonia development incentives and facilitation scheme should be introduced in order to introduce not only green energy but also raw material for fertilizer production.

### 5.3. **Case of Yarn**

Polyester yarn demand in Pakistan is higher than cotton yarn. Polyester yarn is used extensively in textile products mainly sports and casual wear. Globally synthetic fiber based to cotton yarn-based textile ratio is 70:30. Polyester yarn fabric is imported as laca (Stretchable yarn one sided and two sided), nylon and other fabrics. These are protected under CPFTA by Pakistan under C-1 Category. In Pakistan, the domestic production of polyester viscose blended yarns is approximately 165,000 tons per annum. More than 50,000 tons of Polyester yarns are imported per annum. Pakistan mainly import these yarns from China and Vietnam for their textile productions which are big part of Textile exports and local consumption. Pakistan yarn imports are concentrated in China while Germany, India, United Arab Emirates are also the suppliers of viscose yarn. Pakistan have polyester yarn in protected list in order to boost local production of Polyester yarn.



Polyester yarn raw materials mainly include Polyester Staple Fiber bearing an HS code 55032010 & 55032090. This is the raw material for the production of polyester fiber required for textile manufacturing. However, this raw material is protected under sensitive list given by Pakistan. Tariff line 55032010 comes under No concession under CPFTA and 55032090 comes under A-15 category which will be liberated over 15 years' time. However, a tariff comparison of the same is made as under for textile competitors in Pakistan.

Pakistan	China	Bangladesh	Vietnam
<b>HS Code: 55032000</b>			
11% (CD) + 17% (ST) + IT (11%) + 2% (ADC) + 11.51% (Dumping)	4% (CD)	5 % (Only CD)	2 % (CD)

Table 13: Polyester Staple Fibre Duty Comparison

Pakistan has the highest tariff structure in terms of polyester staple fiber among all textile-based exporting countries. (Recorder, 2018) This structure is protecting domestic polyester staple fiber producers but the prices for Polyester fiber has spiked in Pakistan due to duty structure. This is directly affecting textile exports in Pakistan therefore Pakistan is dependent on exports of Denim based products instead of sportswear. Vietnam and China are leaders in the market of polyester fiber-based textile due to duty infrastructure and low cost of raw materials.

Pakistan has also applied anti-dumping duty on Chinese companies for dumping polyester yarn in Pakistan making local production of polyester fiber expensive. Therefore, Pakistan's local producers of polyester fiber are unable to match international market prices and polyester fiber face almost 33% duty which is similar to peer countries like Bangladesh with 27%. Anti-dumping duties are still under the process of review as those were applied between 2015 to 2020. (Alert, 2021)

### 5.3.1. CPFTA Impact

CPFTA has not targeted this sector and it has remained under protection as both the tariff lines for polyester synthetic fiber and under No concession list or under A-15 category. This means that synthetic fiber producers need to pay higher duties making synthetic fiber-based textile products expensive. On the other hand, global demand of synthetic fiber is rising. The reason of declining textile exports can be explained through synthetic fiber duties. Impact of CPFTA on synthetic fiber need changes regarding reduction of duty structure to boost final goods rather than transferring production cycle towards manmade fiber through these measures.

Demand of manmade fiber is consistently declining across the globe. Spike in prices due to Covid-19 are only temporary due to supply shortages.

#### 5.4. Case of Iron and Steel:

KBS metal group was contacted regarding metal products iron and steel. Pakistan has imported under CPFTA between July 2020- June 2021 from the sector of iron and steel a total of USD 1122 Million dollar worth of goods. Iron and steel represent 7.4 percent of the total imports from China. Iron and steel products are used in more than 80 affiliated industries. Iron and steel demand in Pakistan on average during last 5 years remained around 7.3 million tons. Domestic production provides only 3.8 million tons on average for last 5-year years. Demand of steel is expected to increase up 9 to 10 million tons by 2023-24. Local production has hit 4.7-million-ton figure in 2021. (Khan, 2021) Pakistan imports almost 48% of demand of iron and steel from reaching up to 3.5 million tons on average from China and USA, UK and Japan etc. (Complexity, 2022) Pakistan imports under Iron and Steel Sector during July 2020 – June 2021 were as under

Country	Million USD	Percentage Share
China	1122.8	29%
United Kingdom	350.6	9%
United States	325.5	9%
Japan	286.2	8%
European Union	213.4	6%
United Arab Emirates	189.9	5%

Table 14: Steel and Iron Import by Origin and Share

In terms of Steel and Iron import China is leading importing origin for Pakistan. Steel and iron are used in more than 80 industries related to capital, intermediate and consumer goods production. Pakistan in this perspective has only 35 Kgs of steel consumption lowest in South Asia and against the global average of 229 Kgs this is alarming.

There are 20 main iron and steel producers in Pakistan. Amreli Steel and Mughal Steel are the major players in terms of iron and steel production in Pakistan. However, steel produced in Pakistan is on average 38% expensive in comparison to world market according to internationally traded price available at Comtrade. The table below indicates the figures for traded quantities during 2020

Price in dollars per ton	Pakistan	World	China
	USD/ Metric ton		
<b>Billets</b>	610	383	460
<b>Hot rolled coil</b>	712	488	530
<b>Cold rolled coil</b>	668	573	590

Table 15: Price Comparison of Iron and Steel Articles Source: Comtrade

#### 5.4.1. CPFTA Impact:

There is an overall increase of 26% in iron and steel sector in 2020-2021 from last fiscal year. Iron and steel imports are rising due to CPFTA phase-II. China constitute about 53% of global production of steel. Therefore, imports of steel and iron articles are surging from China in Pakistan. The trend can be further explained using the following snapshot between July 2019- June 2020 to July 2020- June 2021

Category /Goods	Import Value (million \$) 2020-2021	Import Value (million \$) 2019-2020	Growth
<b>A-0</b>	<b>564.5</b>	<b>368.3</b>	<b>53%</b>
Consumer	6.5	9.8	Minor
Intermediate	557.4	358.1	<b>Major</b>
Raw Materials	0.6	0.4	None
<b>A-15</b>	<b>43.0</b>	<b>37.0</b>	<b>16%</b>
Capital	4.2	0.6	Minor
Consumer	16.8	11.4	Minor
Intermediate	21.5	24.5	Minor
Raw Materials	0.4	0.5	None
<b>A-7</b>	<b>77.4</b>	<b>65.9</b>	<b>17%</b>
Capital	1.2	0.7	Minor
Consumer	17.1	31.4	Minor
Intermediate	59.0	33.8	Minor

Table 16: Category Wise Iron and Steel Sector Growth between (2019-2020 to 2020-2021)

Most of the effect of surge in imports is recorded under A-0 category. Intermediate goods imports from China has increased during July 2019- June 2020 to July 2020 – June 2021. Mainly CPFTA Phase-II has affected imports by increasing imports in following intermediate goods under A-0 Category



HS Code	Description	2020-2021	2019-2020	Growth
72253000	Hot Rolled Steel Coil	229.3	376.6	64%
72193590	Flat Rolled Steel (600 mm or more)	27.4	42.1	54%
72199010	Steel Sheets	20.0	29.1	45%
72193490	Circular Sheets	14.4	21.9	52%
72254000	Hot Rolled not in coils	12.9	19.9	55%
72193390	Hot Rolled not in coils	11.4	19.5	70%

Table 17: Growth under Intermediate Goods A-o

5.4.1.1. *Production Challenges of Iron and Steel Sector in Pakistan:*

Iron and Steel production in Pakistan is facing many different challenges. Following are some of the important challenges.

1. Iron and steel in Pakistan are mainly produced by main industries as commercial importers are facing higher duty rate and no tax returns at the time of export. Commercial importers face higher tax rate in comparison to industrial producers under S.R.O 212/2013 and Article 148 of Income Tax Ordinance (2001). Commercial importers and small and medium enterprises are unable to expand production of steel and iron in Pakistan. Steel production is concentrated in the hands of 20 main dominant market players.
2. Pakistan have almost 1.427 Billion tons of iron ore reserves which are enough for Pakistan iron and steel needs for next 100 years. (Maqbool, 2015) Pakistan have only two ore-based blast furnaces. One is in Public sector with Pakistan Steel Mills and it is not functional. Second one is established under CPEC in 2018 fueled by coal but its annual capacity is only 100,000 metric tons. This has raised cost of iron and steel production in Pakistan. (AHMED, 2018) One possible reason for lacking blast furnace in Pakistan is cost of blast furnace which is almost a 100 million dollar for electric arc furnace. Therefore, steel manufacturing process mostly starts from casting in Pakistan.
3. Iron and steel are produced in Pakistan using iron and steel scrap imported mainly from USA, UAE, UK, Afghanistan and Kuwait. During fiscal year July 2020- June 2021 USD 833 million worth of scrap was imported in Pakistan. There was an increase of 3.4% from last fiscal year.
4. Duties applied on machinery in order to produce iron and steel products face heavy duties. Steel production process starts from Blast furnace and moves to casting and then onwards to rolling process. This makes production of iron and

## Import Diversion between 2012 -2018

steel expensive in Pakistan even with higher demand as imports are cheaper. Bangladesh is self-reliant in iron and steel production in comparison to Pakistan. (Haque & Abdullah, 2019) A comparison of taxes and duties on main machinery used in Iron and steel product manufacturing is given with Bangladesh.

Blast Furnace (Slag) HS Code: 26180000	Pakistan	CD	S.T	R.D	I.T	ACD
		3%	17%	0%	11%	2%
Bangladesh	CD	S.T	R.D	I.T	ACD	
	5%	15%	0%	5	5%	
Casting Machine HS Code: 84543000	Pakistan	CD	S.T	I.T	R.D	ACD
		0%	17%	11%	0%	2%
Bangladesh	CD	S.T	I.T	R.D	ACD	
	1%	15%	5%	0%	5%	
Rolling Process HS Code: 84552100	Pakistan	CD	S.T	I.T	R.D	ACD
		0%	17%	11%	0%	2%
Bangladesh	CD	S.T	I.T	R.D	ACD	
	1%	15%	5%	0%	5%	

Source: Federal Board of Revenue (FBR) & Bangladesh Customs

Pakistan is an expensive investment destination for international investment in comparison to Bangladesh. Pakistan average taxes and duty rate ranges to 31% against Bangladesh with 26%. Duty structure and taxes need revision in order to encourage investment in boosting production of iron and steel in Pakistan.

- Final product under Iron and Steel which are used as intermediate goods for industrial production includes Slabs, Blooms and Billets. These products are heavily protected to protect domestic producers in Pakistan. Slabs were given duty free Category of A-7 under CPFTA Phase-II. However, average duty over slabs is

HS Code	CD	S.T	I.T	R.D	ACD
25151200	16%	17%	11%	10%	4%

Whereas imports of Blooms and Billets are included in sensitive list or protected list under CPFTA Phase-II. Overall duty structure on Billets and Blooms is as under

HS Code	CD	S.T	I.T	R.D	ACD
72071900	11%	17%	11%	15%	2%

Production of almost 80 related industries is 30-40% more expensive due to higher duties on iron and steel intermediate products or due to production inefficiencies. Furthermore, National Tariff Commission is conducting inquiry and in process to apply antidumping duties on Iron and Steel Blooms, Billets and Slabs.

6. Pakistan has imported on average USD 71 million articles of iron and steel every year during last five fiscal years. This can be reduced up to zero with more than 80 potential industries replacing imports and boosting exports from Pakistan. All of this can be achieved through tariff and tax rationalization for iron and steel intermediate goods and machinery for production.

#### 5.4.2. Possible Way out:

Iron and steel sector challenges can be resolved through following measures

1. Reducing taxes on import of Blast furnace, casting machine and rolling process up to a level below 25% in order to ensure industrial production and investment in Iron and Steel sector.
2. Removing SROs related to manufacturer advantage to boost small and medium enterprises production in iron and steel sector. Difference of income tax between commercial importer of scrap and iron and steel with Manufacturer must be abolished. This will ensure level playing field in Pakistan. Industrial manufacturing in scrap sector is already protected through high tariffs on automobile scrap.
3. Reduction or removal of ACD (Additional Custom Duty) can also reduce cost of production specially in terms of raw material as scrap imports.
4. Pakistan can encourage and give investment incentives in formalizing and building steel manufacturing near area of Kalabagh and Chiniot which have more than 65% of high-quality iron ore reserves.

## 6. Main Findings

Conclusively, imports under CPFTA has caused trade diversion in terms of import destinations towards China. There is a significant change in terms imports from china since CPFTA became effective in 2006. This can be credited to growth in China and Chinese cost-effective production. Secondly, Pakistan has given some concessions which need review to boost raw material imports and reduction in consumer and intermediate goods through import substitution. This report has following main findings.

1. CPFTA has resulted in import diversion towards China. Counterfactual indicates that imports from China due to CPFTA has affected overall imports up to 10 Billion USD.
2. CPFTA utilization in terms of value is 85% this accounts for all imports from China. In terms of tariff lines utilization in 2020-2021, China utilizes 62% tariff lines under A Category and 83% under MOP. Out of the total traded tariff lines 94% tariff lines falls under CPFTA arrangement.
3. China is growing as largest import partner of Pakistan since 2013 and peaked in Pakistan imports in 2016 by 29%. China has grown globally as importing of majority economies. However, in case of Pakistan there is a compound effect as China's share as importing partner increased from 11% in 2008 to more than 25% since 2015. Between July 2020 to June 2021 Chinese share in Pakistan imports was 26.9%.
4. CPFTA import trends from 2019-2020 to 2020-2021 indicates significant increase in coal imports, plastic products, and fertilizers. The trend of coal imports is mainly caused by coal power plants.
5. China has used 70.9 % of tariff lines under CPFTA for exports to Pakistan during July 2020 to June 2021. 73% of Chinese imports in Pakistan falls under A-Category while 21% under no concession list and 4% under 20% Margin of Preference (MOP).
6. On the basis of nature of imported product following analysis is generated
  - a. Capital goods constitute 45% of goods imported in Pakistan from China during July 2020 to June 2021 with a yearly increase of 15% from July 2019 to June 2020.
  - b. Consumer goods constitute 13% of goods imported in Pakistan from China during July 2020 to June 2021 with a yearly increase of 25% from July 2019 to June 2020. Increase in consumer goods represents an alarming trend for domestic production in Pakistan.

## Main Findings

- c. Intermediate goods constitute 40% of goods imported in Pakistan from China during July 2020 to June 2021 with a yearly increase of 27% from July 2019 to June 2020.
  - d. Raw Materials constitute 1% of goods imported in Pakistan from China during July 2020 to June 2021 with a highest yearly increase of 32% from July 2019 to June 2020.
7. Analysis of imports under A Category has indicated following main imports under nature of imports
  - a. Raw materials major imports from China mainly consist of agricultural raw materials which is directly consumed by Pakistan. Pakistan top imported product in terms of raw material is Garlic.
  - b. Intermediate goods imports are composed of mainly Diammonium Phosphate, Steel and Iron and Vaccine.
  - c. Most imported consumer goods include Tricycles, Diagnostic regents.
  - d. Most imported capital goods include Semiconducting devices, power turbines and water boilers.
8. Due to CPFTA china has replaced Pakistan import origin between 2012 to 2018 in Diammonium Phosphate, Antibiotics, Motorcycle Engines, and Machinery. The analysis indicates Chinese product replacement within the existing market.
9. Capital goods and Intermediate goods collectively constitute 83% of goods imported under CPFTA by Pakistan. Capital goods import are dominated by Semiconductor devices. There is a requirement of local manufacturing which is lacking in Semiconductor sectors. Intermediate goods are dominated by fertilizer mainly Diammonium Phosphate.
  - a. Diammonium phosphate imports are mainly imported from China and Morocco. Due to high demand of DAP in Pakistan joint ventures for local manufacturing can reduce import bill by 325 million USD.
  - b. Intermediate goods require revision in terms of tariff concessions as some of the related raw materials like Terephthalic acid (29173610) used for yarn manufacturing of Polyester Staple Fiber is protected by 20%.
  - c. CPFTA has helped china grow in iron and steel import share of Pakistan. China share has increased from 9.3% in iron and steel sector to 28.4% in 2018 with a CAGR of 10%.
10. Raw materials imported under CPFTA composes only 1% of the total imports. Most of the raw materials are given a zero-duty tariff regime under National Tariff Rationalization. However, CPFTA is not contributing industrial development through raw material supply.



## Recommendations

11. China under CPFTA has targeted capital goods and intermediate goods sector in Pakistan.

## 7. Recommendations

On the basis of analysis mentioned above some recommendations are furnished in order to improve the situation after CPFTA Phase-II. These are as under

1. Imports have increasing percentage of intermediate goods over time. Intermediate goods import mainly include DAP, iron and steel products, Manmade and polyester fibers. Therefore, replacing DAP imports through joint venture with Morocco and Yuha China is capable of reducing import bill of worth 325 Billion USD. Phosphate rocks has a price of 76 USD/ton in comparison to DAP fertilizer price of 600 USD/ton (2021)
  - a. Yarn imports can be reduced if raw material duty structure on yarn can be reduced to a level equivalent to peer countries in terms of textile. This may reduce total yarn dependency. Rather than giving concessions through CPFTA only to China. It is recommended a minimum duty structure of 5% may be introduced mainly for Polyester Staple Fiber.
  - b. Product based approach regarding intermediate goods concession is required to pave out a strategy of long-term manufacturing capacity development.
2. Consumer goods sectors mainly tricycle and Diagnostic Laboratory reagents requires further study in order to understand and give equitable concessions to the industry as local manufacturing is replaced by Chinese products in these sectors. Therefore, revised duty structure with tariff rationalization on raw materials like Iron, Steel, Aluminum and rubber is required.
3. Capital goods require diversification in terms of import destinations as semiconductor devices, power generation sets are mainly coming from China. China is one of the largest exporters of these capital goods but she is not competitive in pricing terms. CPFTA concessions are granted to China which are working in her favor. Therefore, a complete review at HS 8 level is required.
4. CPFTA should be reviewed and renegotiated with a strategy of supplementing economic sectors in Pakistan. Imports should be directed to boost domestic productivity. One such example can be of duty structure on Hybrid seed of Cotton which has made long staple cotton in Pakistan almost uncompetitive. Similarly, industrial raw materials for textile sector, iron and steel, Ceramic sector, Pharmaceutical sectors should have lower duties. One major problem

## Recommendations

exists in terms of Tiles and ceramic sector. Ceramic sector is protected to ensure domestic development but duty structure for increasing manufacturing capacity is not really conducive.

- a. Pakistan is not competitive in terms of Tiles production due to higher level of duties on tile manufacturing machinery which includes following parts
    - i. Press (13% Custom Duty + 2% Additional Custom Duty)
    - ii. Dryer (20% Custom Duty + 6% Additional Custom Duty)
    - iii. Kiln (3% Custom Duty + 2% Additional Custom Duty)
    - iv. Polishing Line (0% Custom Duty + 2% Additional Custom Duty)
    - v. Ball Mills (0% Custom Duty + 2% Additional Custom Duty)
  - b. It is therefore recommended that these major machineries must not face undue duties and taxes in order to develop local production at competitive international prices.
5. Sector based rationalization is required in terms of domestic industrial development is required. CPFTA should be reviewed and certain concessions granted to china in terms of Consumer goods must be taken back or revised with new additions to boost local manufacturing capacities.
  6. Pakistan should align its domestic industries with global value chains existing in China. These include textile sector, automobile parts, sportswear, etc. Duty concessions must be given on these sectors strategically so that manufacturing facilities from China may find it beneficial to invest and reexport to China through Pakistan.
  7. One important environmental concern is growth of Coal imports which must be rationalized and imports should be targeted towards more sustainable technologies like Green Ammonia, Hydrogen and Solar Systems.
  8. One rising area which should be incorporated in FTA is semiconductor Chips. China's chip industry is threatened as Japan and other chip manufacturers are looking for new countries under US pressure. This can be utilized by Pakistan in order to develop chip manufacturing capacity and become part of global value chain.



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## 9. Annexures

### 9.1. Imports from china in 2006

Code	Product label	Imported value in 2006 (1000 USD)	Remarks (2006 to 2018)	Growth 2006-2012 (Value)
27090000	Petroleum oils	3758658	Not related to China	--
27101931	Medium oils of petroleum	2407186	Not related to China	--
27101941	Medium oils and preparations, of petroleum	1121490	Not related to China	--
85252010	Cellular mobile phone w/battry	853391	Tech Change	--
85251000	Transmission apparatus for radio-telephony	711686	Tech Change	--
17019910	Cane or beet sugar	653454	No impact from China	--
15119030	Palm oil and its fractions,	590638	Malaysia & Indonesia source origin (No China)	--
88024000	Aero planes and other powered aircraft	492797	No Impact from China	18.83
71081200	Gold in unwrought forms non-monetary	272138	Law for Smuggling prevention (Regulated)	--
52010090	Cotton, neither carded nor combed: other	268429	<b>Brazil to USA replacement in Raw Material sector (No China)</b>	15.67
39021000	Polypropylene, in primary forms	267076	India to Saudi Arabia Change (No China)	6.33
12051000	Low erucic acid rape or colza seeds	252929	Canada based (No China)	18.17
87089900	Parts and accessories	226096	Local Manufacturing (No China)	
9024090	Black fermented tea and partly fermented tea	220667	Kenya Based	33.83
29024300	P-xylene	215985	India to Saudi Arabia (No China)	17.833
31054000	DAP Fertilizer	203461	<b>China rose from 5<sup>th</sup> to 1<sup>st</sup> Position against USSR &amp; USA</b>	-7.71
87032210	Motor cars and other motor vehicles	198686	<b>Japan to Thailand shift. China is coming up 14<sup>th</sup> to 5<sup>th</sup></b>	8.33
71081210	Gold, incl. gold plated with platinum	195840	Regulated	

87032110	Motor cars and other motor vehicles	192409	Designed imports went to zero	
85251090	Transmission apparatus...	181013	Tech Change	
39012000	Polyethylene	169767	Qatar to Saudi Arabia (China Position almost same)	2.5

Table 18: Main Chinese imports in 2006

## 9.2. Product Wise Imports 2018 from China

Product code	Product label	2012	2013	2014	2015	2016	2017	2018
		USD 1000						
31054000	DAP Fertilizer	180861	137756	290473	325019	280827	450289	649436
85414000	Photosensitive semiconductor devices	8618	109935	181808	434865	469673	627009	358378
72253000	Flat-rolled products of alloy steel	558	27268	169957	325812	367004	401977	298230
85023100	Generating sets, wind-powered	20084	79706	2188	216163	329832	319029	282103
84021190	Water tube boilers	6238	10595	1844	52003	185669	326033	251413
85171210	Telephones for cellular networks	658588	575159	609282	552357	503644	509350	246756
85171219	Telephones for cellular networks	0	0	0	0	0	0	217709
7211990	Flat-rolled products of iron or non-alloy steel	67	73	58	29	480	89986	186452
84143010	Compressors for refrigerating equipment	32896	42992	62074	73004	102009	148059	152522
85176290	Machines for the reception, conversion	117970	116721	232094	147027	196937	223691	152334
55041000	Staple fibers of viscose rayon	27799	9454	27721	27242	72758	119547	134215
54023300	Textured filament yarn of polyester	137961	144928	178473	173072	162299	120241	125952
54033100	Yarn of viscose rayon filament	74704	79973	100750	96968	110088	116524	119634

Table 19: Major Imports from China in 2008

## 9.3. Concession Comparison

Comparison of concessions given by Pakistan to China and China to Pakistan is given for reference purposes

Annexures

Tariff Reduction Tracks	No. of Tariff Lines (2006)	No. of Tariff Lines (2019)	% Change
Immediate to Zero Rate (A-0)	2423(HS-07) 2461(HS-17)	3146	+29.8%
Zero Rate in 7 Years (A-7)		1044	
Zero Rate in 15 years (A-15)		1047	
Moderate (0-5% and 50% MOP on few lines)	1495		
Protected List (No Concession + 20% MOP)	2885	1760	-59%
<b>Total</b>	<b>6803</b>	<b>6997</b>	<b>2.8%</b>

Table 20: Concessions comparison between Pakistan and China (Pakistan)

Tariff Reduction Tracks	No. of Tariff Lines (2006)	No. of Tariff Lines (2019)	% Change
Immediate to Zero Rate (A-0)	2681(HS-07)	3707	+72%
Zero Rate in 7 Years (A-7)		1235	
Zero Rate in 15 years (A-15)		1236	
Moderate (0-5% and 50% MOP on few lines)	3208		
Protected List (No Concession + 20% MOP)	1661	2060	-57%
<b>Total</b>	<b>7550</b>	<b>8238</b>	

Table 21: Concessions comparison between Pakistan and China (China)