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Trade Related Challenges Facing Exporters in Pakistan

by

Pakistan Institute of Development Economics
Quaid-i-Azam University Campus, Islamabad

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1. INTRODUCTION

Over the last 10 to 15 years, Pakistan has taken concerted efforts to liberalize its international trade. Net exports have been the key driving force behind restoration of growth, but increased consumption and investment have also played a part. Total exports responded favorably to liberalization, rising from US$6.7 billion in 1992 to US$9.1 billion in 2002. Manufacturing makes up 16 percent of Pakistan's GDP, while its exports rose from US$3.6 billion in 1992 to US$5.3 billion by 2002 (World Bank, 2006). Real GDP growth rose from four percent in 1990 to 6.1 percent in 2003 (Lorie and Iqbal, 2005). Following three years of steady decline during 1998 to 2000, the period 2001 to 2005 witnessed significant economic growth.

Pakistan's exports are highly concentrated by commodity; currently the majority of exports originate in the textiles and apparels sectors. The bulk of Pakistan's trade is with countries outside of South Asia. For example, textile exports are concentrated in China, Bangladesh and Hong Kong. Leather exports are concentrated in Hong Kong, Italy and Republic of South Korea. Vegetables and fruits are mainly exported to the United Arab Emirates, India, Japan and Sri Lanka. Fish and fish products are exported to China, Japan, UK and USA, while surgical instruments are largely destined for Germany and the USA (World Bank, 2006). This pattern reflects in part Pakistan's specialization in products that are also exported by its neighbors. Recent analysis by the World Bank indicates the potential for greater trade with India, notably in light manufactured products (for example bicycle components and fans) (World Bank, 2006).

Much has been done in recent years to improve the business climate in Pakistan. Foreign direct investment as a percent of GDP increased from 0.3 percent in 1990 to one percent in 2003(Lorie and Iqbal, 2005). However, Pakistan still lags behind other South Asian countries such as India, China and Thailand and further progress can be made. For example, property rights remain weak and there is still too much government intervention with the market in some key commodities. In addition, red tape is still excessive, labor laws inhibit proper functioning of labor markets and corruption is still high. There is much room for improvement in physical infrastructure and current impediments to domestic and foreign investment. The challenge of sustaining this growth hinges on how existing and potential industrial capacity responds to the requirements of importing countries.

Nevertheless, like many developing countries, Pakistan continues to struggle with the task of effectively accessing export markets . In this regard, the role of standards and technical regulations cannot be overlooked, nor can Pakistani exporters' capacity to react effectively to obstacles presented by such standards or regulations. Clearly, the obstacles to trade and capacity to react to these will shape exporting firm's performance. This report discusses the export performance of Pakistan's manufacturing sector within the context of evolving standards and technical regulations in import markets. In particular, the report aims to:

- Explore the nature and extent of challenges to the trade capacity of Pakistan exporters.
- Determine the factors associated with standards compliance across sub-sectors.
- Assess the impact of technical standards and regulations on the value of export sales.
- Identify mechanisms through which export performance could be enhanced.

The analysis is based on a survey of Pakistan exporting firms to assess and identify the nature of trade-related challenges facing Pakistani exporters. This data was collected as part of UNIDO's trade capacity building support, covering four major exports of Pakistan: textiles/apparel, leather, agro-processing and fisheries. Each of these sectors comprises various sub-sectors as follows: textiles (yarn, fabrics, knitwear, garments, bed sheets and towels); leather (tanning, footwear and leather products); agro-processing (horticulture products and rice); and fisheries (fish processing and fish exports).

The report is structured as follows. The next section provides a background to the report, including issues related to the proliferation of standards and their potential impact on developing country exports. Section 3 contains a profile of Pakistani exporters, the pattern of exports and level of market diversification and other supply capacity related challenges, followed by trade capacity challenges facing exporters in Section 4. Section 5 focuses on motivation and extent of certification and product testing. Section 6 examines the level of awareness on trade issues, followed by an evaluation of overall export performance in Section 7 and conclusions and recommendations in Section 8.