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PAKISTAN & EU: TRADE POTENTIAL

The Bottlenecks and Roadmap for Reforms

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POLICY PAPER

Imprint

Publisher
Friedrich Naumann Foundation for Freedom - Pakistan
P.O. Box 1733
Islamabad 4000

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/FNFPakistan
/FNFPakistan

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Date
October 2023
ISBN: 978-969-629-180-0

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1 Executive Summary

Trade plays a vital role in driving economic growth, but Pakistan's trade performance has been volatile, with stagnant export growth and a rising trade deficit. The Generalized Scheme of Preferences (GSP) Plus is offered to a select group of exporters to the European Union (EU) based on a set of pre-defined criteria and the fulfillment of various conventions regarding human rights, labor rights, good governance, climate change and environment protection. Pakistan received the status on January 1, 2014. Pakistan currently is a signatory to all the 27 conventions and is also a signatory to the additional conventions proposed under a new revised scheme that is likely to replace the current one that is expiring at the end of this year. Although, Pakistan is not in imminent danger of losing the preferences awarded to its exporters, uncertainties loom as Pakistan faces challenges that can adversely impact its status. While Pakistan has experienced growth in trade with the EU during the GSP Plus period, it is imperative that the exporters continue to receive the preferences. To fully exploit trade potential and effectively compete with counterparts, it is essential to assess the trade patterns. This report undertakes a comprehensive exercise to not only determine the trading patterns with the EU but also bring forward recommendations that can help boost Pakistan's exports to the EU and to the world.

This study outlines and evaluates the pattern of imports into the European Union (EU) from Pakistan, highlighting not only on the significance of the trading relationship between the EU and Pakistan but also emphasizing on the potential threats and risks if the preferences to Pakistani exporters offered through the GSP Plus Scheme are revoked. The main objective of this report is to identify the bottlenecks hindering trade growth between Pakistan and the EU and propose reforms to enhance bilateral trade relations such that Pakistan can benefit more from the GSP Plus scheme. The study undertakes a comparative analysis as it considers the trade patterns between the EU and Bangladesh, India and Vietnam. These three countries are major regional counterparts that are likely to influence the trading relationship between Pakistan and the EU.

Pakistan is the largest beneficiary of the GSP Plus scheme. The EU imported $9.1 billion from Pakistan in 2021, increasing from $5.4 billion in 2013. More than $6 billion of the imports in 2021 were under the GSP Plus preferences. The largest industry was the textile industry, accounting for approximately 80 percent of the imports. While imports into the EU from Pakistan in rice has increased significantly since 2017, the imports in leather have decreased. The share of leather products in imports decreased from 10 percent in 2013 to 5 percent in 2021. Further, the set of top market destinations in the EU for the four Asian countries is approximately the same, suggesting that import demand is likely to be generated from within these markets. This highlights the need to emphasize product diversification. Analysis on the patterns of imports in other non-traditional industries is crucial for policymakers seeking export diversification. This study further considers four major products from industries which are not traditionally export-oriented in Pakistan, namely denatured ethy-alcohol, medical instruments, inflatable balls, and footwear as products in which Pakistan has shown relatively higher potential in terms of trade with the EU.

This report presents various challenges with the help of different trade indicators. For instance, Pakistan reports higher values of revealed comparative advantage in the exports of textile products, leather products and rice, but Pakistan and Bangladesh report relatively lower unit values, particularly in the exports of textile products to the EU. Indian and Vietnamese exporters are less likely to compete against Pakistan in terms of the unit value of imports into the EU, while Pakistani exporters may face competitive pressures from Bangladeshi exporters. Further, this report considers the imposition of technical non-tariff measures and the degree of regulatory convergence achieved towards those imposed by the EU. Although the indicator on the adoption of NTMs scores high for the Asian counterparts of Pakistan, the indicator on regulatory convergence scores low for all countries. Pakistan with low frequency and coverage of technical NTMS, lacks technical NTMs on its imports. This suggests that Pakistan does not impose pre-defined measures to counter the imports of substandard and

dangerous goods into the country as observed in its counterparts, which has implications on quality of goods imported and produced in Pakistan. Customs and transport-related firm-level obstacles are briefly discussed towards the end of the report. Pakistani firms are the most constrained in this aspect.

One of the more important findings highlighted in this report is that the revocation of the GSP Plus status will lead to a trade loss of more than $3 billion, with significant loss in exports of bed linen, and men's and women's trousers. The biggest market affected will be Germany. The loss of $3 billion is significant as Pakistan faces critical balance-of-payment related challenges. Hence, it is crucial that all efforts are made to ensure that Pakistan complies with all the requirements to continue with the status. The loss of status will have a profound impact on the economy.

2 Introduction

Trade is imperative for economic growth, but Pakistan's trade performance has remained volatile with insignificant growth in exports. While Pakistan has experienced relatively higher growth in trade with the EU during the GSP Plus period, there are concerns as the preferential status is set to expire after December 2023. As a major export destination of Pakistan, it is imperative that Pakistan continues to receive the preferences. Therefore, it is crucial to evaluate Pakistan's trade potential with the EU after the GSP+ status and identify the bottlenecks and reforms required to enhance growth.

Pakistan's trade performance has been volatile in recent decades, with a stagnant export basket and a continuously rising trade deficit. While Pakistan has managed to sustain its presence in the market, it has failed to fully exploit its trade potential and effectively compete with its counterparts. Pakistan was granted GSP Plus status on January 1, 2014, with the aim of promoting economic stability and good governance in the country. The GSP Plus status provides duty-free access to most of the EU's tariff lines, subject to compliance with 27 international conventions. Five other conventions are likely to be added as the new framework is introduced. The conventions are listed in Appendix A and Appendix B. Pakistan complies with the current as well with the proposed conventions and is likely to continue to receive the status under the new framework. However, Pakistan can lose more than $3 billion in trade revenue from the loss in GSP Plus status, which is significant given the challenges on the external economic front.

The key objective of this report is to assess the trade potential of Pakistan with the EU post GSP, identify the bottlenecks and challenges hindering trade growth between Pakistan and the EU, explore potential reforms and measures to enhance bilateral trade relations and propose strategies to improve the competitiveness of the exporters. The report starts with the analysis of exports from the recipients of the GSP Plus status, of which Pakistan is the largest beneficiary. It then continues to analyze the trade patterns through various indicators and compares with those of the major regional counterparts, namely Bangladesh, India and Vietnam. It then calculates the value of trade loss if GSP Plus status is revoked.

As the regulatory framework adopted by a country on the flow of imports can have a substantial effect on the quality of goods produced in the country, particularly if it is import-dependent, the lack of technical non-tariff measures on the imports can lower the quality of goods produced in Pakistan. Hence, this report analyzes the frequency index and the coverage ratio of NTMs as well as compares their adoption across major regional counterparts and the EU countries to gauge the differences in the level of regulation on imports. The following section includes a discussion on customs and transport related obstacles faced by Pakistani firms as well as the lack of female participation in the labor force.

The report also introduces an analysis on the top products belonging to the industries that are not traditionally export-oriented in which Pakistan reports relatively higher levels of exports to the EU, namely, ethyl-alcohol, medical instruments, inflatable balls, and footwear, discussing some of the relevant indicators across the major regional counterparts. The report concludes with a section on the main findings and recommendations.

2.1 Data

The data on trade flows, as applied throughout the study, is borrowed from CEPII's BACI database as documented in Zignago and Gaulier (2010). The data on the preference utilization is borrowed from GSP Statistics provided by the European Commission. The data on tariffs used to calculate the level of trade loss if Pakistan is to lose its GSP Plus status and the trade loss from Bangladesh graduation from its least-developed status is extracted from World Bank's World Integrated Trade Solution (WITS).

The data on non-tariff measures is extracted from the researcher file available at the UNCTAD's (United Nation Conference on Trade and Development) NTM Hub. The data on firm-level obstacles and female labor force participation is borrowed from the World Bank Enterprise Surveys.

2.2 Trade flow analysis: Pakistan and other GSP Plus Recipients

The GSP Plus beneficiaries in 2019 were Armenia (ARM), Bolivia (BOL), Cape Verde (CPV), Kyrgyzstan (KGZ), Sri Lanka (LKA), Mongolia (MNG), Pakistan (PAK) and the Philippines (PHL). While Armenia ceased being a beneficiary in 2022 as it graduated from a lower middle-income country to an upper middle income as classified by the World Bank, Sri Lanka's status was suspended in 2010 and reinstated in 2017.

Pakistan has the largest population in respect to the other GSP Plus beneficiaries. The following analysis reports the extent of the benefits utilized by the GSP Plus beneficiaries.

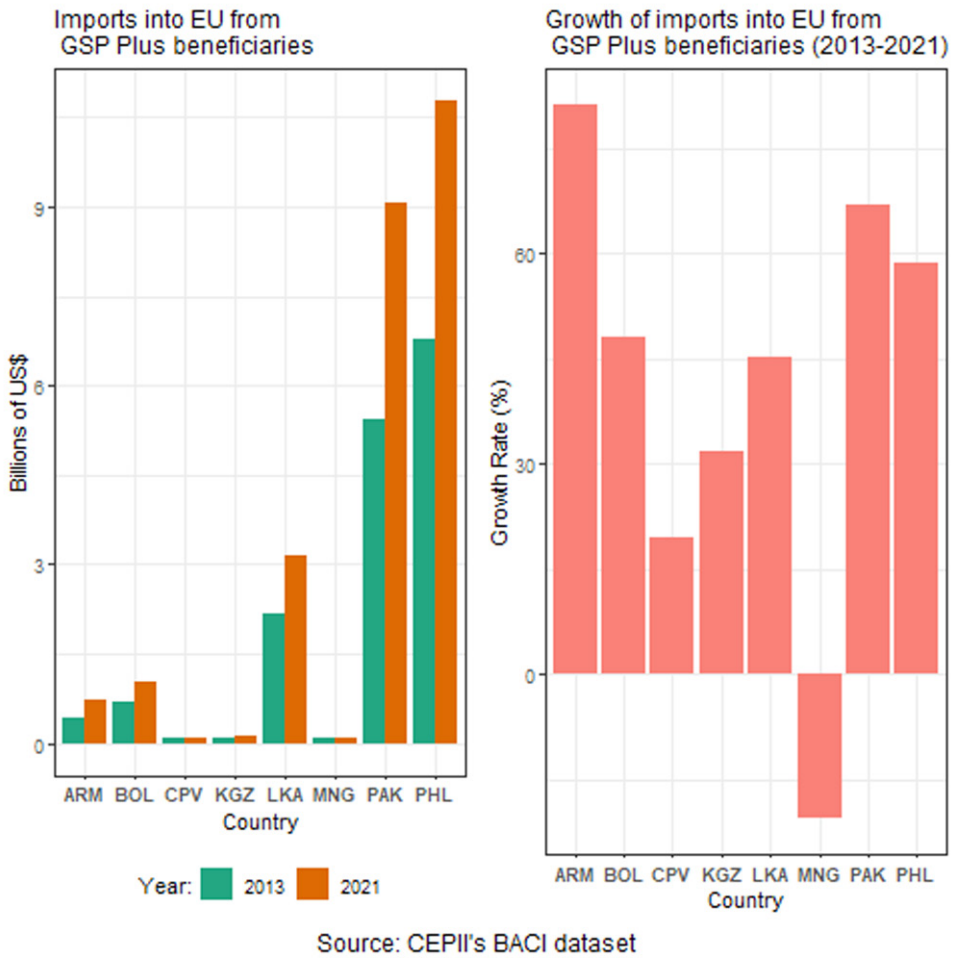


Figure 1: Imports into the European Union from GSP Plus beneficiary countries

The imports into the European Union from GSP Plus beneficiary countries is presented in Figure 1. Pakistan and Philippines reported the highest increase in absolute terms. Imports into the EU from Pakistan increased from $5.4 billion in 2013 to $9.06 billion in 2021, a growth rate of more than 60 percent in eight years. Imports from Philippines increased from $6.8 billion to $10.8 billion, a growth rate of slightly less than 60 percent. Armenia reported the highest growth rate of 81 percent. However, imports into the EU from Armenia were reported at $1.03 billion. Sri Lanka, which had its GSP Plus status reinstated in May 2017 after it was revoked in 2010, reported a growth rate of 45 percent. The imports into the European Union decreased for Mongolia. It was the only country to report a negative growth rate.

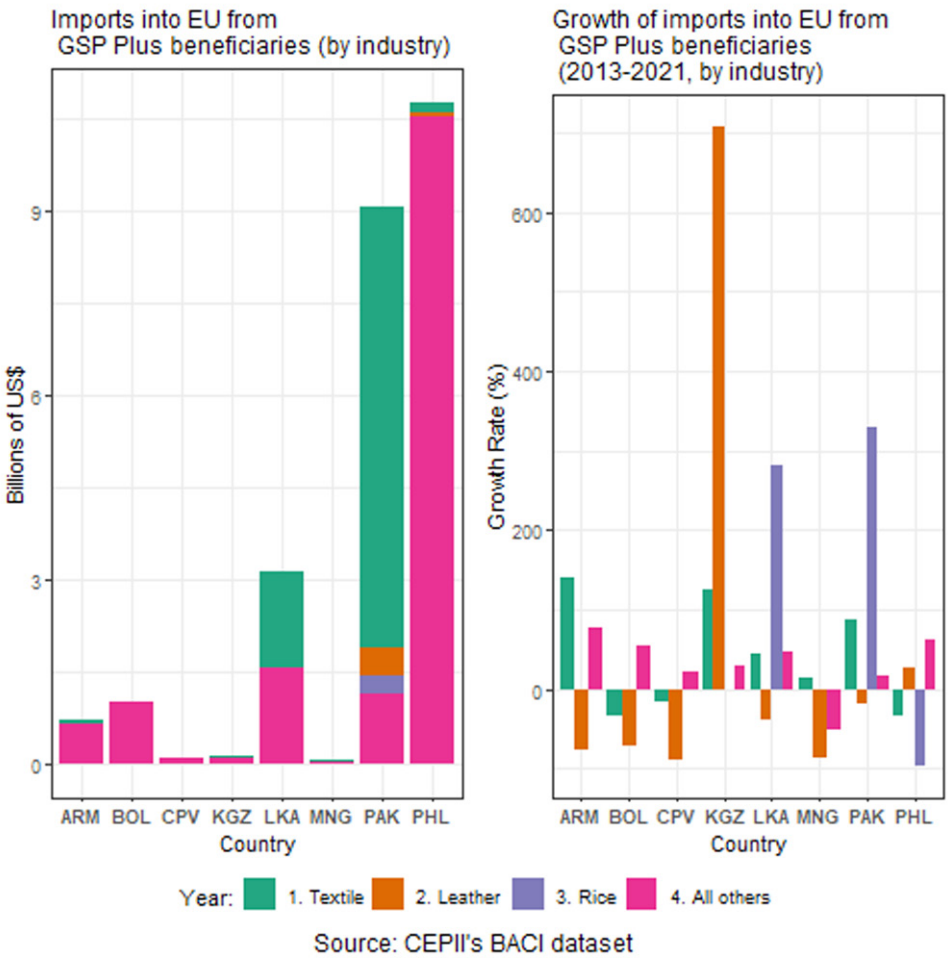


Figure 2: Industry-wise imports into the European Union from GSP Plus beneficiary countries in 2021

The imports into the European Union from GSP Plus beneficiary countries distributed by industry is presented in Figure 2. *More than $7 billion worth of imports into the EU from Pakistan was in textile products, which is approximately 80 percent of all imports from Pakistan.* The EU imported $182 million worth of textile products from the Philippines and $1.6 billion from Sri Lanka in 2021. The leather imports from Pakistan were reported at $452 million, rice imports and $305 million and all others at $1.1 billion. Rice imports from Pakistan increased at 330 percent, making it one of the fastest growing imports at the industry-level across all beneficiary countries. *Textile imports from Pakistan increased at 87 percent, while other industries averaged at 17.2 percent.* Interestingly, leather imports into the EU from Pakistan decreased at 18.7 percent. Leather imports have decreased across all beneficiary countries, except Kyrgyzstan, which reported a whopping increase of 708 percent. However, in absolute terms, the imports of leather is negligible at $71 million. Both Armenia and Kyrgyzstan reported higher growth levels for textile products relative to Pakistan but the total imports into the EU from them are relatively negligible.

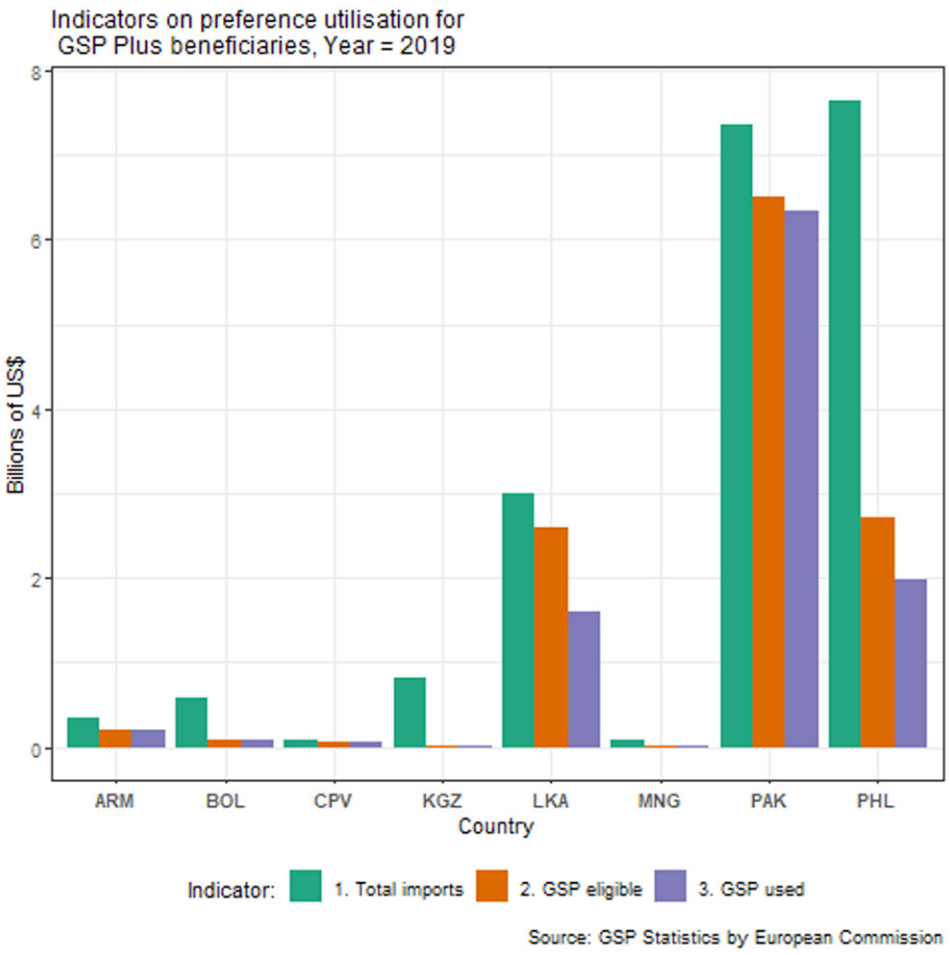


Figure 3: Indicators for GSP Plus beneficiary countries

The indicators reported in Figure 3 show that ***Pakistan is the largest beneficiary of the GSP Plus status awarded by the EU.*** Imports from Pakistan were the highest in terms of their eligibility for GSP Plus concessions. At more than $6 billion, Pakistan was able to avail more than 97 percent of the value of imports that were eligible for GSP Plus concessions. The second largest beneficiary was Philippines at slightly less than $2 billion. Approximately three times more imports from Pakistan benefitted from the concessions awarded under the GSP Plus scheme, than the next largest beneficiary, the Philippines. Sri Lanka ranked third.

3 Trade Patterns for Pakistan and its Major Regional Competitors

The following analysis compares the trade performance of Pakistan with that of its regional counterparts, Bangladesh, India and Vietnam. Bangladesh is one of the largest exporters of textile products in the world, while India and Vietnam have rapidly integrated into the global trading system, becoming important competitors for Pakistani products. The purpose of this analysis is to gauge the size of imports into the EU from the four Asian countries and determine the similarity as well as the difference in the trading pattern of each country.

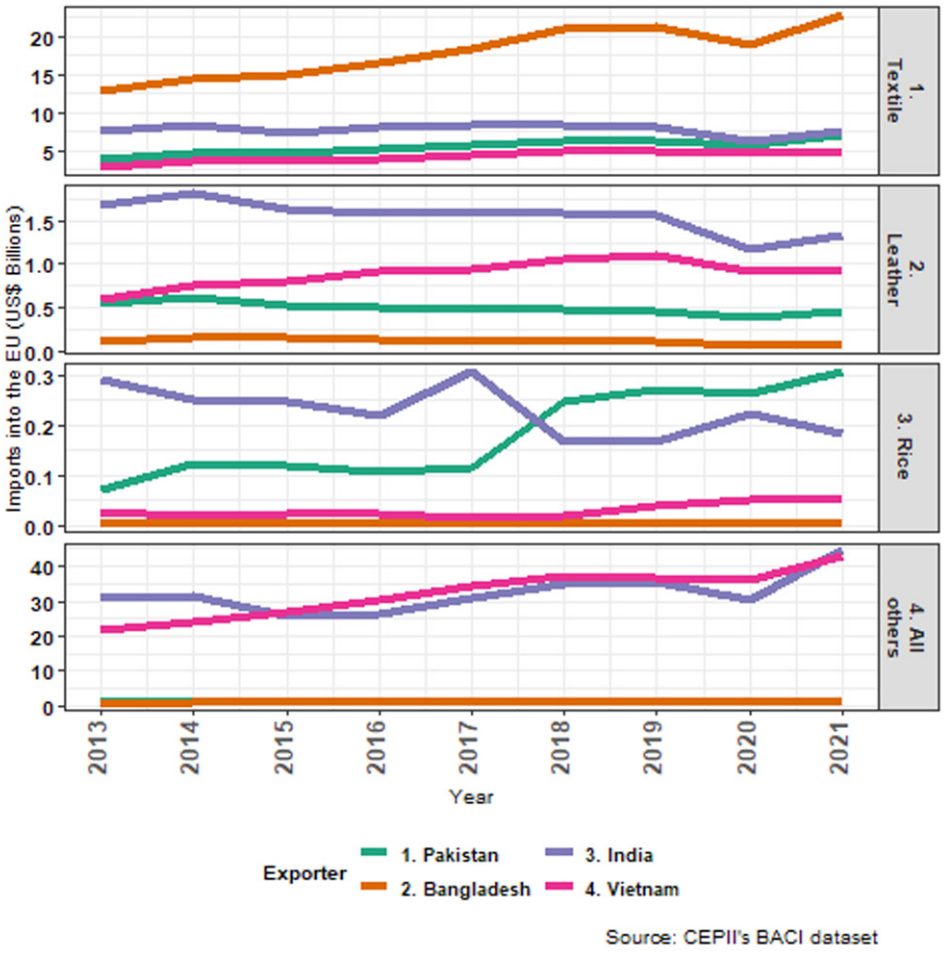


Figure 4: Industry-wise imports into the European Union from trading partners

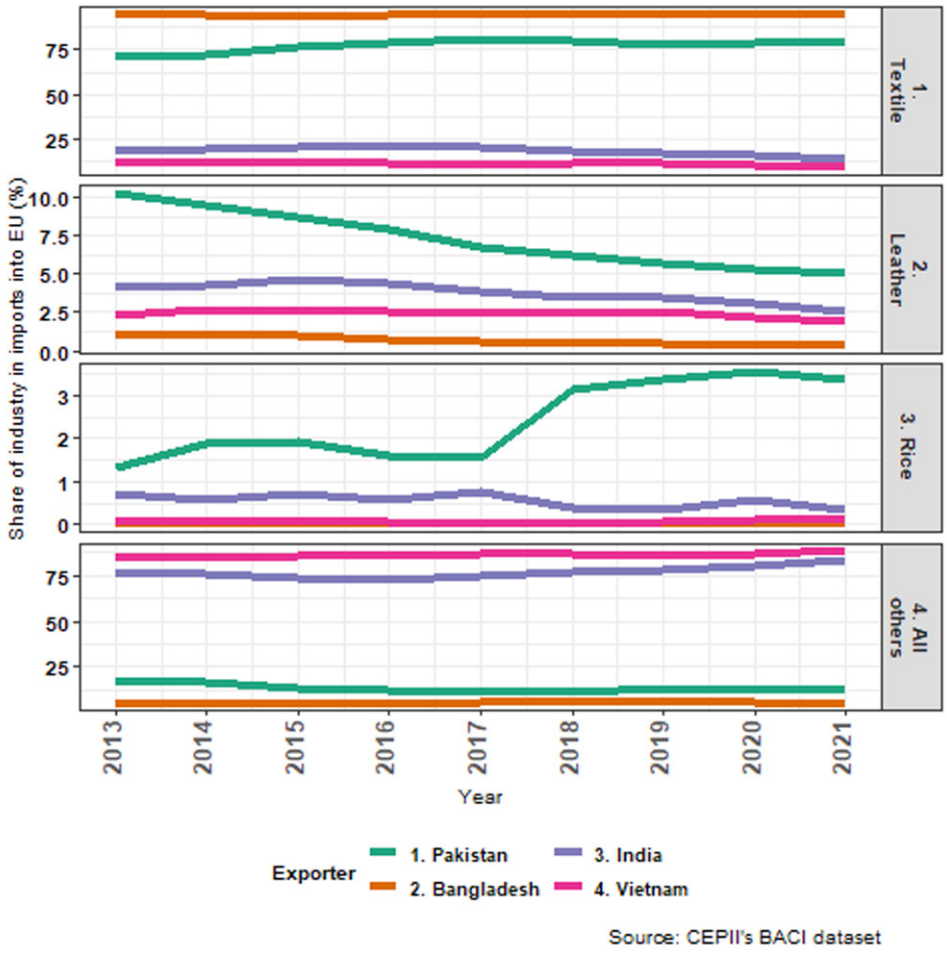


Figure 5: Industry-wise percentage share in imports into the European Union from trading partners

The total imports into the EU from Pakistan, Bangladesh, India and Vietnam between 2013 and 2021 are presented in Figure 4. More than $20 billion was imported into the EU from Bangladesh and more than $7 billion from Pakistan in 2021, mainly in textile products. Textile imports from India were approximately the same. The imports from India and Vietnam were mainly in other industries, in particular electrical machinery and computer equipment as well as petroleum products. While imports of textile products has increased since 2013 from both Bangladesh and Pakistan, imports of leather products has decreased from the South Asian countries, including India. Imports of rice has sharply increased from Pakistan, especially since 2017. *Both Pakistan and Bangladesh have negligible exports in the other industries which raises concerns about the lack of diversification of exports from the two countries.* This is highlighted in Figure 5, in which the imports at the industry-level are reported as a percentage share. Almost 90 percent of the imports into the EU from Bangladesh are of textile products, while about 80 percent of the imports into the EU from Pakistan are of textile products. The percentage share of leather in imports into the EU from Pakistan has decreased from more than 10 percent in 2013 to 5 percent in 2021, while the share of rice has increased to 3.4 percent in 2021 from 1.3 percent in 2013. The composition of imports from the other three countries have remained relatively stable between 2013 and 2021, with more than three-quarters of the imports into the European Union from Vietnam and India in products belonging to other industries.

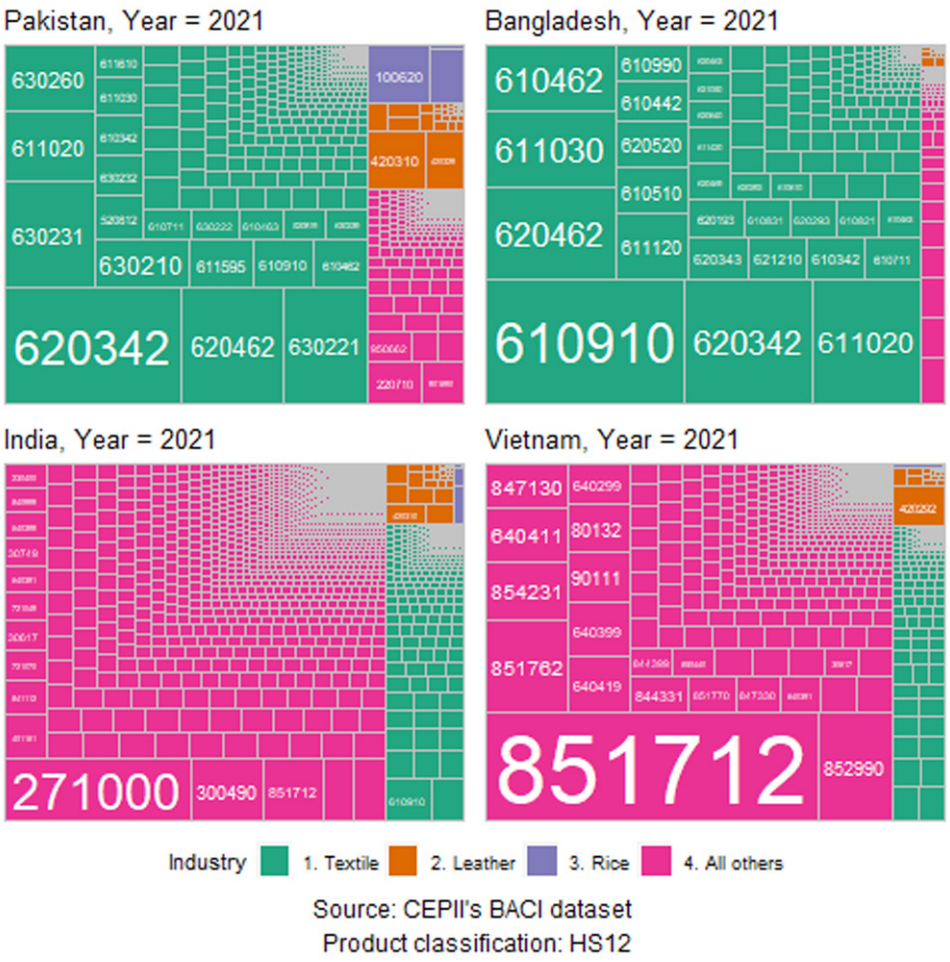


Figure 6: Industry-wise tree map distribution of products imported into the European Union from trading partners in 2021

Figure 7: Industry-wise tree map distribution of products imported into the European Union from trading partners in 2013

The tree map distribution for the imports into the EU from Pakistan, Bangladesh, Vietnam and India at the product-level are presented in Figure 6 and Figure 7 for 2021 and 2013 respectively. *While Pakistan and Bangladesh have a similar set of export basket, heavily concentrated in textile products, India and Vietnam report a vastly different set of export basket.* The top five exports of Pakistan in 2021 are HS 620342 (men trousers, not knitted), HS 620462 (women trousers, not knitted), HS 630221 (bed linen, not knitted), HS 630231 (bed linen, not printed) and HS 611020 (jerseys, knitted) all reported values of more than $300 million. The top four products were also the largest imports from Pakistan in 2013. Although, the textile imports from Bangladesh were much higher than that from Pakistan, the top products from Bangladesh are apparels (HS 61 & 62) while top products imported from Pakistan include bed linen belonging to HS Chapter 63. Imports from India have been more diversified, with the top products include petroleum products (HS 27), medicaments (HS 30), and mobile phones (HS 85). Vietnam too reports a diverse set which includes communication devices and footwear (HS 64). The share of leather products (HS 41 & 42) has decreased for Pakistan since 2013, while the share of rice (HS 10) has increased. While imports from Bangladesh are similar in composition to that of the imports from Pakistan, the imports from India and Vietnam are starkly different.

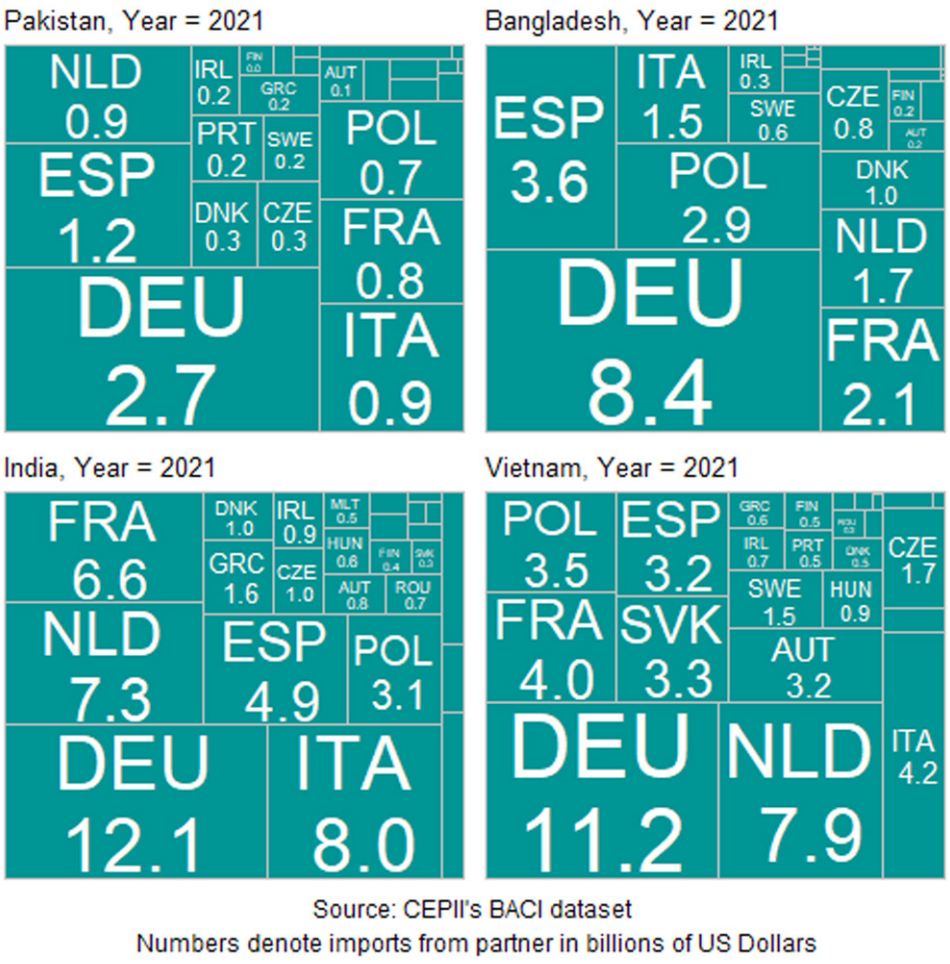


Figure 8: Tree map distribution of destination markets in the European Union of trading partners in 2021

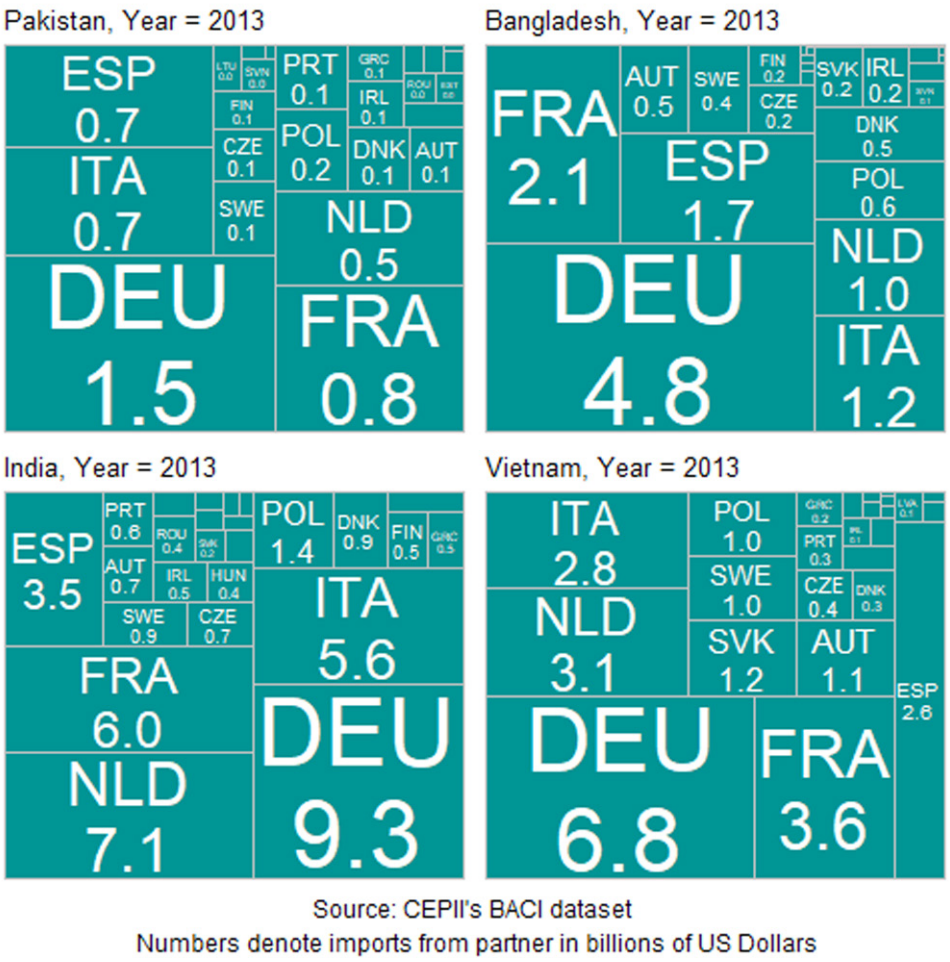


Figure 9: Tree map distribution of destination markets in the European Union of trading partners in 2013

The tree map distribution for the imports into the EU from Pakistan, Bangladesh, Vietnam and India are presented in Figure 8 and Figure 9 for 2021 and 2013 respectively. Pakistan's largest export destination in the EU in 2021 was Germany ($2.7 billion), followed by Spain, Netherlands, Italy and France. Germany ranked as the top destination for Bangladesh, India and Vietnam in 2021. While India has the same set of top five export destinations as Pakistan, Poland ranks amongst the top five export destinations for Bangladesh and Vietnam. The top five export destinations have remained consistent between 2013 and 2021 for all countries. Again, the prominence of Poland as an important export destination has increased, especially for Bangladesh and Vietnam. However, Pakistan not only has a much smaller share in the larger markets compared to its counterparts, but the top five markets generate a major proportion of the total import demand into the EU. *This suggests that Pakistan must focus more on product diversification rather than market diversification as demand for imports is concentrated in a few markets.* These markets attract the most demand in the EU and Pakistani exporters must further penetrate these markets. The smaller markets are likely to report lower levels of imports even from the more established exporters, resulting in lower levels of export potential for Pakistan.

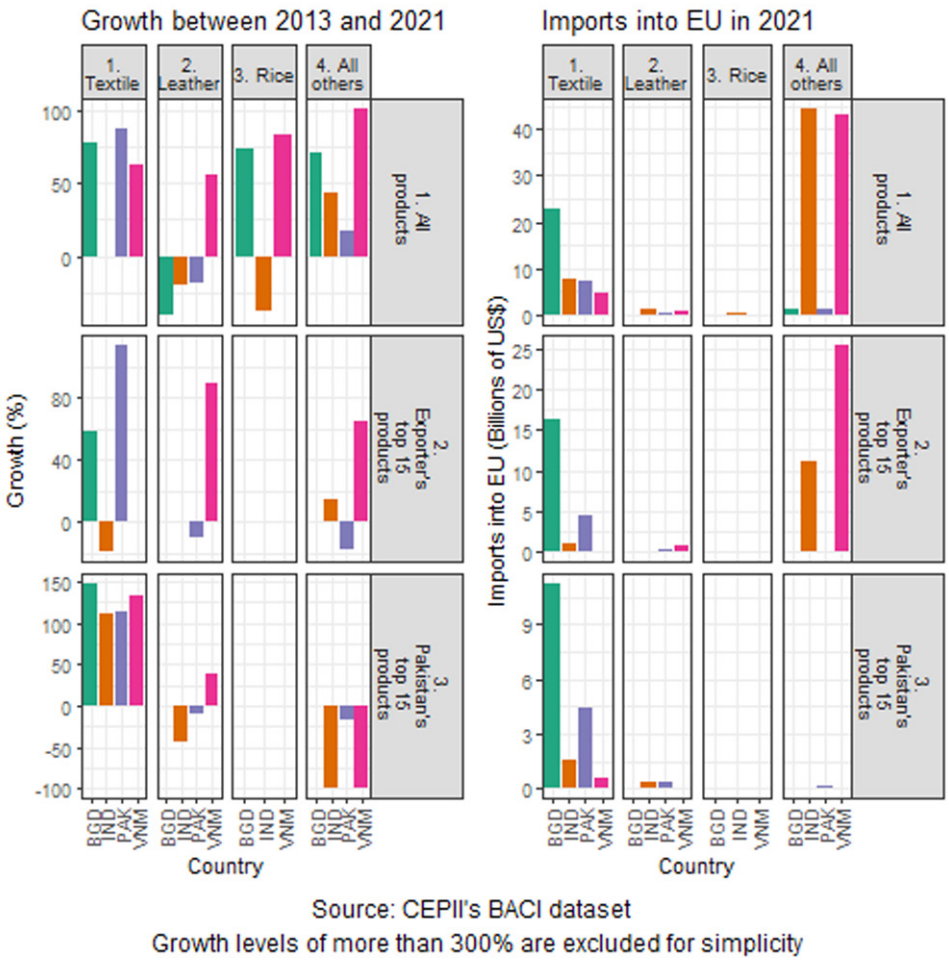


Figure 10: Growth of imports and import levels into the European Union from trading partners based on product performance and distributed by trade performance

The import value in 2021 and the growth rate between 2013 and 2021 for Pakistan, Bangladesh, India and Vietnam for all products, the top 15 products imported from them into the EU and the top 15 products imported from Pakistan into the EU are presented in Figure 10. The corresponding numbers are reported in Appendix C. The top 15 products included all products that are imported into the EU from the respective trading partners. Pakistan exported approximately $5 billion in its top 15 products, while Bangladesh exported more than $16 billion. This exceeded $25 billion for Vietnam. While Pakistan and Bangladesh have experienced higher growth levels in textile products, Vietnam has performed exceptionally well in other industries. It experienced positive growth in leather, while the South Asian countries reported a negative growth rate. Imports from Pakistan into the EU in the textile products that belong to the top 15 ranked products have more than doubled, while Pakistan has reported negative growth rate in leather and in the other industry category. However, imports from Bangladesh, India and Vietnam have all reported equally high growth rates of more than 100 percent in the textile products ranked within the top 15 products imported from Pakistan. Further, while EU imported $4.3 billion worth of textile products from Pakistan that was ranked within the top 15 products, the imports from Bangladesh exceeded $11 billion for the same set of products. *This suggests that the other countries have performed well in the products that are typically imported from Pakistan as they report high growth levels in this product and that Bangladesh has a larger market share in products that are commonly imported from Pakistan.* In simpler words, Pakistan is likely to find increasing competition in its textile exports from other countries as suggested by the growth rates in the products it typically exports to the EU. However, as we report later in this study, the unit value of exports to the EU from India and Vietnam are much higher.

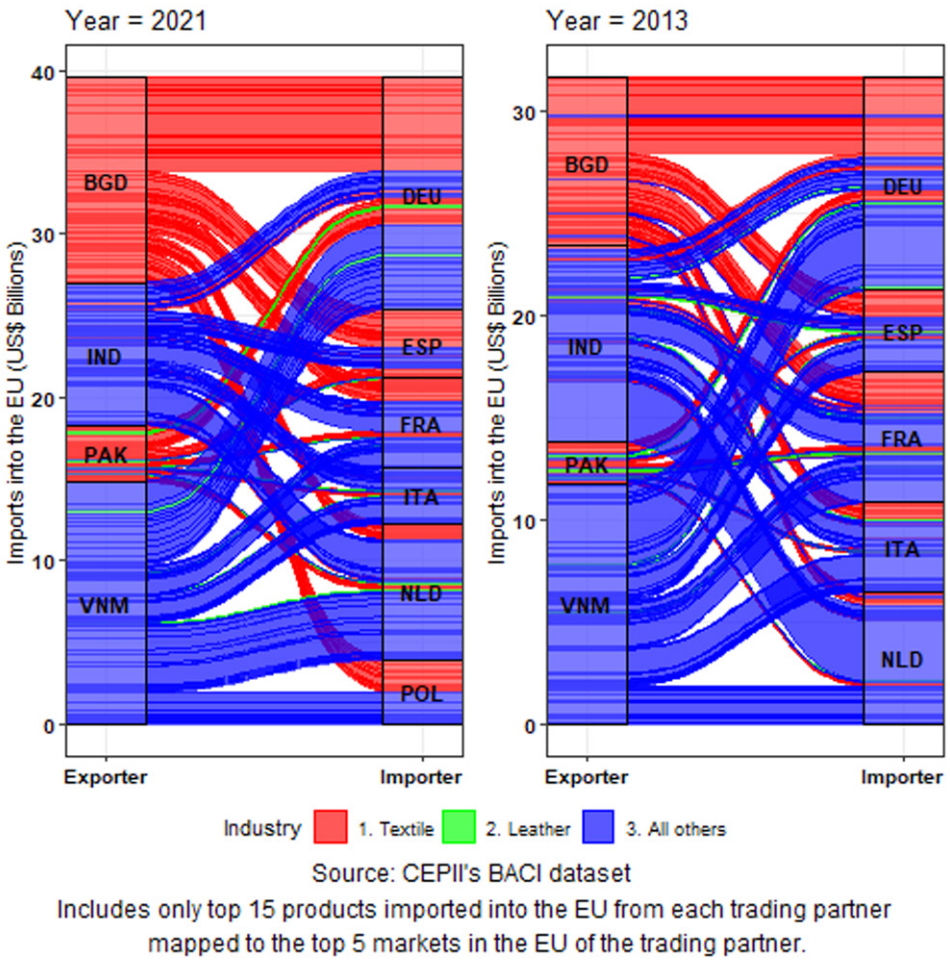


Figure 11: Flow chart of imports distributed by industry into the respective top 5 destination markets into the European Union of each trading partner for top 15 products imported into the EU from respective trading partners

The flow chart distribution presented in Figure 11 shows the value of imports from each exporter for the top 15 products exported to the EU from the exporter to the top 5 export destinations in the EU. Each of the top 15 products are mapped to their respective destinations and are sorted industry-wise. Out of $5 billion imported by EU from Pakistan and $12.5 billion from Bangladesh in the top 15 products in 2021, $1.56 billion was imported by Germany from Pakistan and $5.7 billion by Germany from Bangladesh. Imports into Spain, France, Italy and Netherlands, were all below $660 million. India's top market for its more commonly exported products was Netherlands, which received $2.56 billion, while Vietnam's top market was Germany which received $5.2 billion. Netherlands imported $1.6 billion worth of petroleum oils (HS 271000) from India while Germany imported $1.38 billion worth of mobile phones (HS 851712) from Vietnam. The top products imported from India into Germany include medicaments, mobile phones and organic chemicals. *While not only do the EU countries import a similar set of products from Pakistan and Bangladesh, but the flows from Bangladesh also dominate the flows from Pakistan as can be clearly observed in the flow chart. However, the products imported from India and Vietnam are vastly different.*

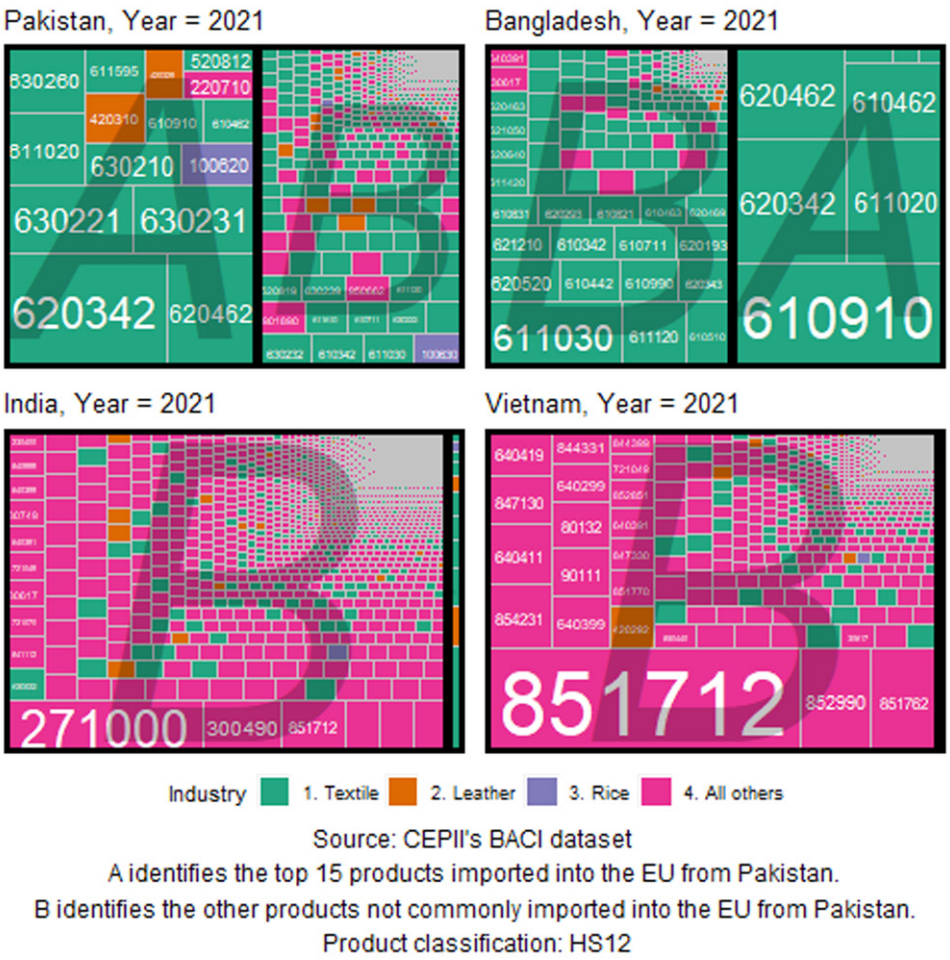


Figure 12: Tree map distribution of the products imported into the European Union from trading partners in 2021 where products are distributed by industry and based on the import-levels from Pakistan

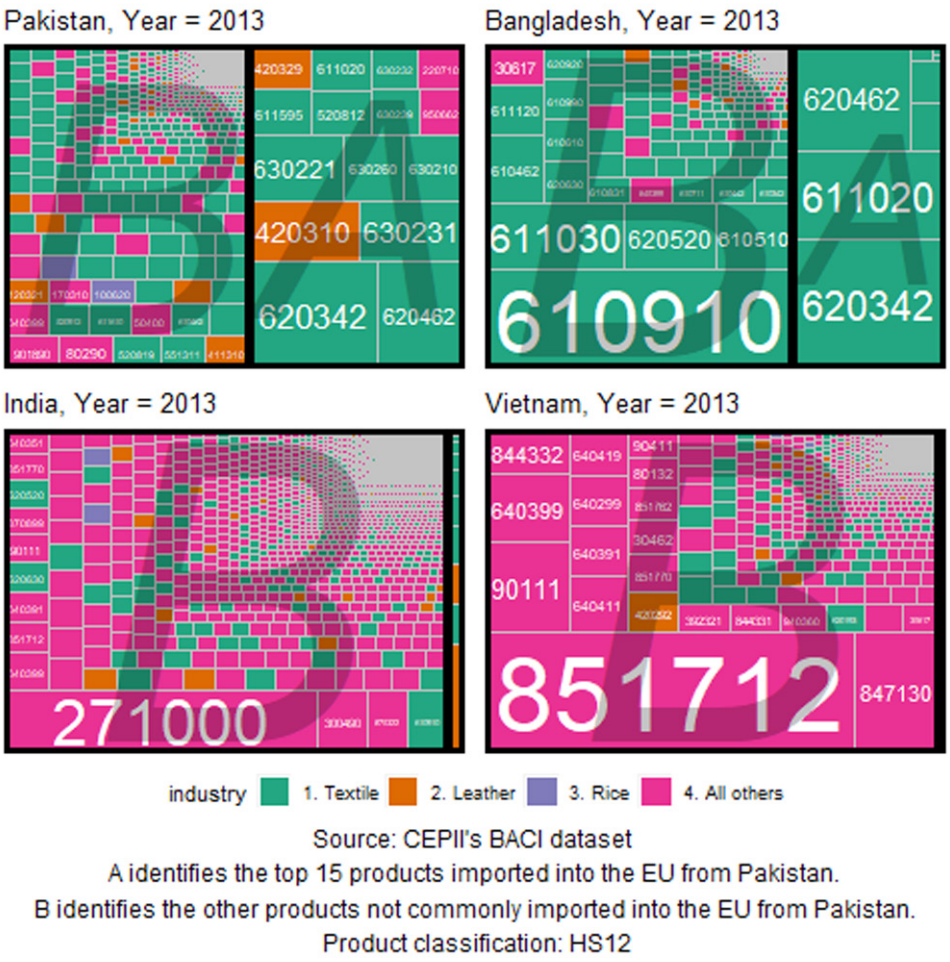


Figure 13: Tree map distribution of the products imported into the European Union from trading partners in 2013 where products are distributed by industry and based on the import-levels from Pakistan

The tree map distributions in Figure 12 and Figure 13 compare the relative value of products imported into the EU based on whether they are ranked as the top 15 products imported into the EU from Pakistan in the respective year. The top 15 products imported from Pakistan account for 55 percent of all imports into the EU from Pakistan. The same 15 products account for 46 percent of the imports into the EU from Bangladesh, while imports from both India and Vietnam in the top 15 products imported from Pakistan are relatively minimal, 4 percent and 1 percent respectively. EU imported only $600 million worth of goods from Vietnam of products that are ranked as top 15 imports from Pakistan. This clearly reiterates the earlier findings that most of the imports into the EU from Pakistan are more likely to compete with the imports into the EU from Bangladesh but not with the imports into the EU from India and Vietnam.

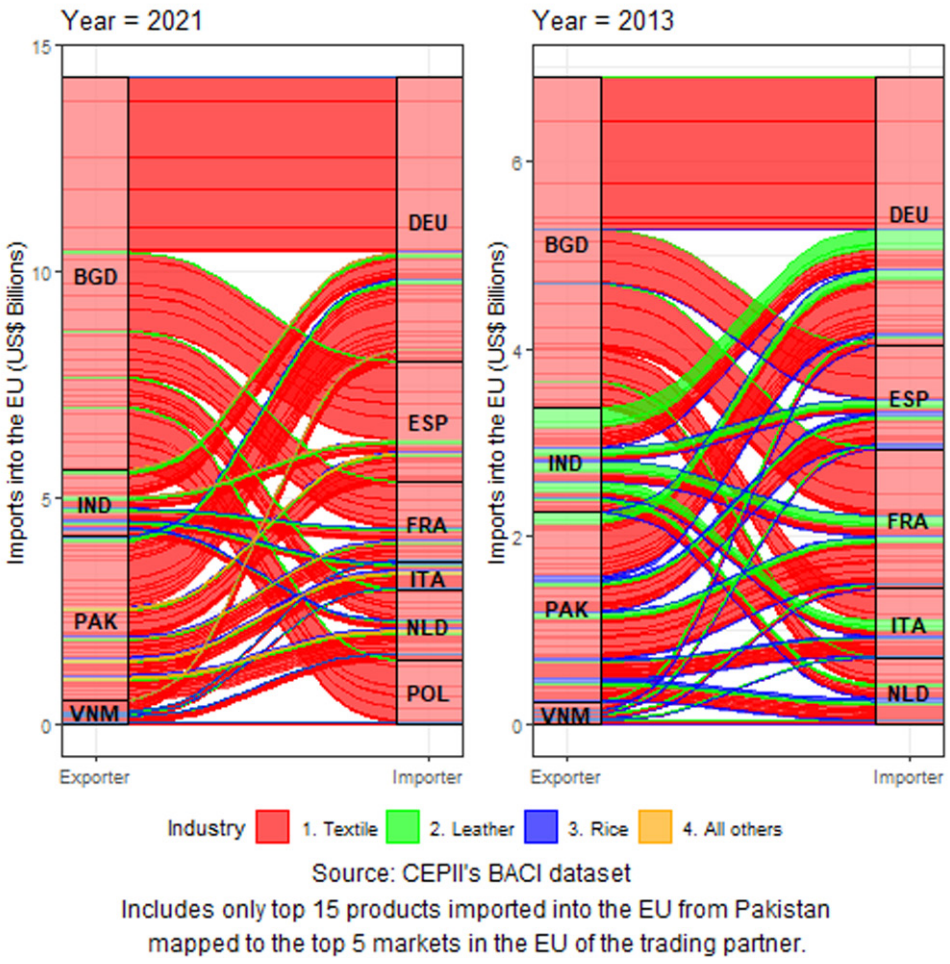


Figure 14: Flow chart of imports distributed by industry into the respective top 5 destination markets into the European Union of each trading partner for top 15 products imported into the EU from Pakistan

The flow chart distribution presented in Figure 14 shows the value of imports from each exporter for the top 15 products imported into the EU from Pakistan to the top 5 export destinations in the EU. Given the above set of products, the top 5 EU markets imported $3.1 billion in textiles, $266 million in leather, $165 million in rice and $127 million in other industries from Pakistan. The top 5 destinations imported $8.6 billion in 2021 from Bangladesh, with $3.9 billion destined to Germany and almost all of the imports into the EU were in textile products. The EU imported $1.5 billion from India, out of which $1.16 billion was in textile. EU imported $535 million from Vietnam, out of which $505 million was in textile products. One important point to mention is that Poland imported $1.3 billion worth of products from Bangladesh in products that Pakistan is otherwise relatively competitive. Poland imported approximately $720 million from Pakistan in 2021 of which $484 million are imports belonging to the top 15 products imported into the EU. Further, in 2013, leather products were prominently imported into the EU from Pakistan. India was a major competitor for Pakistan as EU imported $538 million worth of leather products from India and only $266 million from Pakistan in products that were otherwise ranked within the top 15 imports into the EU. The fall in prominence of leather between 2013 and 2021 is apparent.

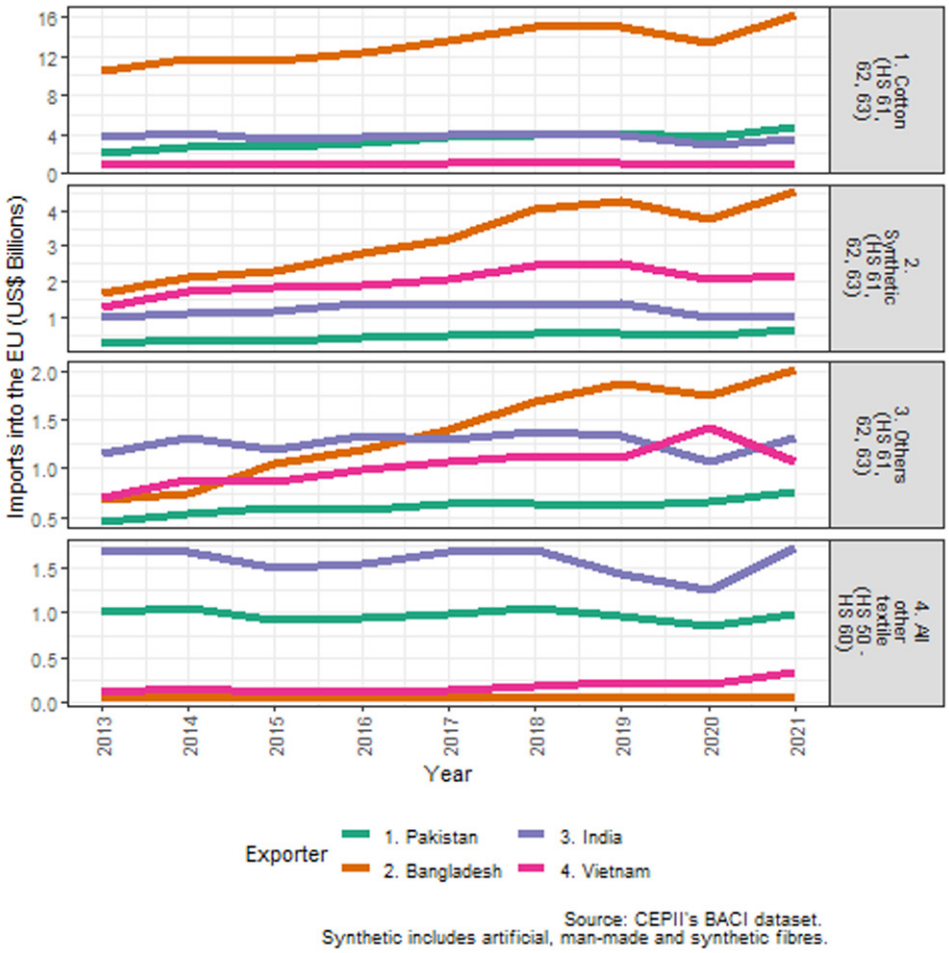


Figure 15: Imports into the European Union from trading partners distributed by textile material

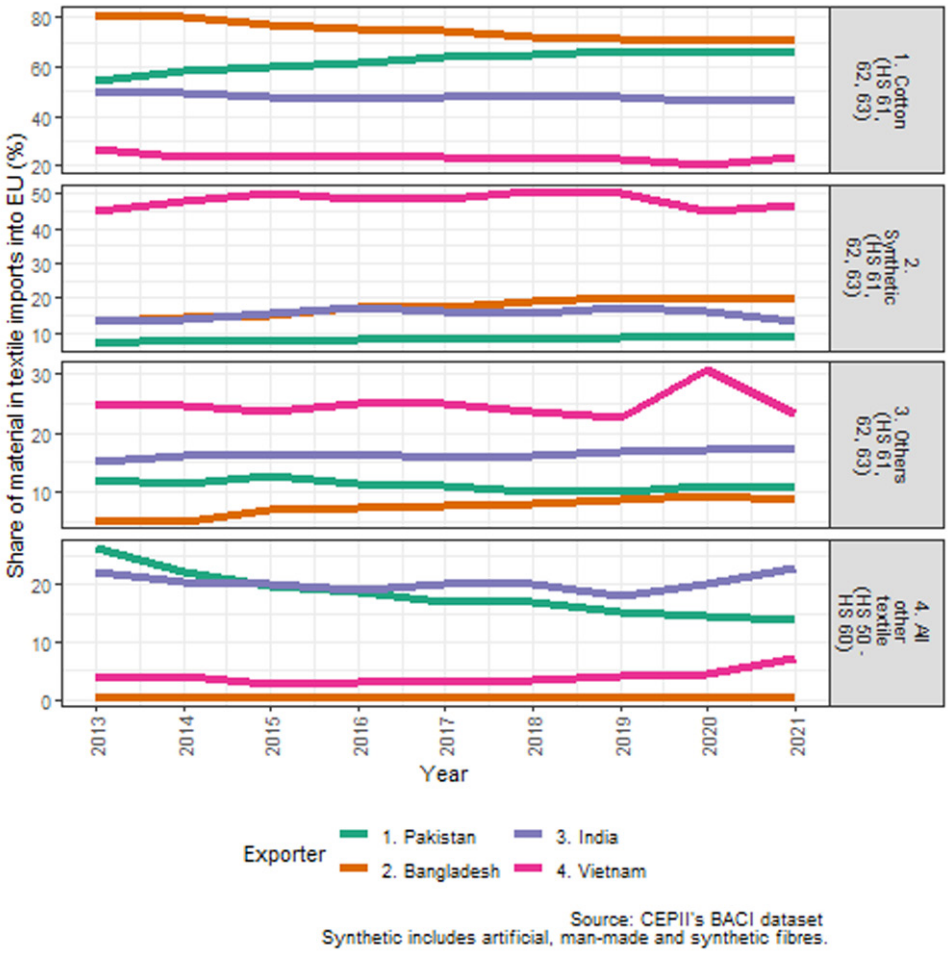


Figure 16: Percentage share in imports into the European Union from trading partners distributed by textile material

The total imports into the EU from Pakistan, Bangladesh, India and Vietnam based on the textile materials in the production of the textile goods (apparels and made-up textile products) and its share in the textile imports is presented in Figure 15 and Figure 16 respectively. The total imports of cotton products into the EU from Pakistan $2 billion in 2013 to $4.7 billion in 2021, total imports of synthetic products increased from $270 million to $690 million and total imports of other materials increased from $460 million to $760 million. However, the imports of products belonging to HS 50 to HS 60 from $1 billion to $990 million. The share of cotton products increased from Pakistan from 54 percent in 2013 to 66 percent in 2021 and the share of synthetic products increased from 7.1 percent to 9.6 percent. The share of other materials decreased from 12 percent to 10.6 percent and the share of other goods (not apparels and made-up textiles) decreased from 26.6 percent to 13.8 percent. The imports of cotton products into the EU from Bangladesh increased from $10 billion to $16.3 billion but its share decreased from 81 percent to 71 percent. The imports of synthetic products from Bangladesh increased from $1.7 billion to $4.5 billion and its share increased from 13 percent to almost 20 percent. *While Pakistan is increasing its share of cotton textile products to the EU, Bangladesh is diverging towards synthetic materials, that include man-made and artificial fibers. Less than half of the imports into the EU from India and Vietnam are of cotton products.* EU imported $3.5 billion worth of cotton products from India in 2021, $1 billion worth of textile products made of synthetic materials, and $1.3 billion in other materials, and $1.7 billion worth of other textile products belonging to HS 50 – HS 60. Imports of Vietnam were mainly in synthetic products, with more than $2.1 billion or approximately 47 percent of total imports of textile products.

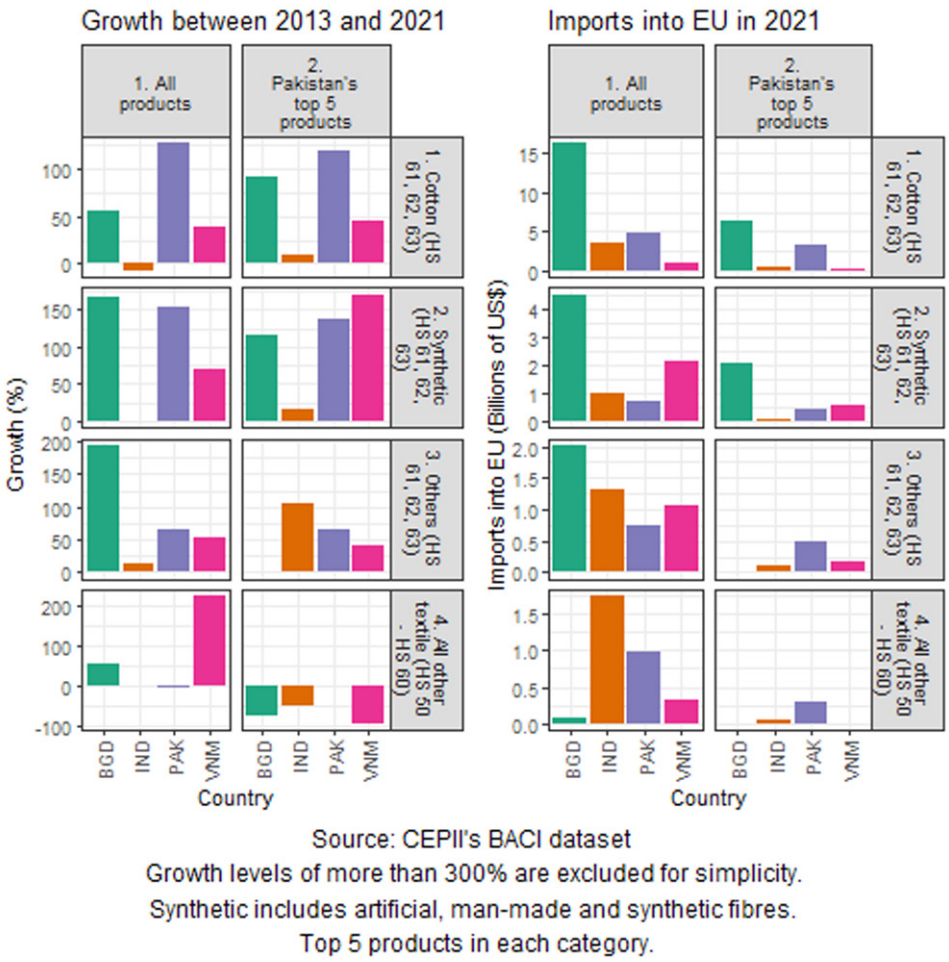


Figure 17: Growth of imports and import levels into the European Union from trading partners based on product performance and distributed by textile material

The import value in 2021 and the growth rate between 2013 and 2021 for Pakistan, Bangladesh, India and Vietnam for all products and the top 5 products imported from Pakistan into the EU from each category are presented in Figure 17. The fastest growing imports into the EU in textile material were other textile products from Vietnam, which more than tripled at 226 percent, and synthetic and apparels made of other textile materials from Bangladesh, which more than doubled at more than 167 percent. The imports from Pakistan also doubled for apparels and made-up textiles of synthetic and cotton materials, as growth of more than 153 percent and 128 percent was reported respectively. *Although, Pakistan reported the highest growth for apparels and made-up textile products of cotton, Bangladesh was clearly the front runner as the most important source of imports into the EU for apparels and made-up textile products of different varieties of textile material.* Bangladesh also dominated in the imports into the EU of the top 5 products imported from Pakistan made of cotton and synthetic materials.

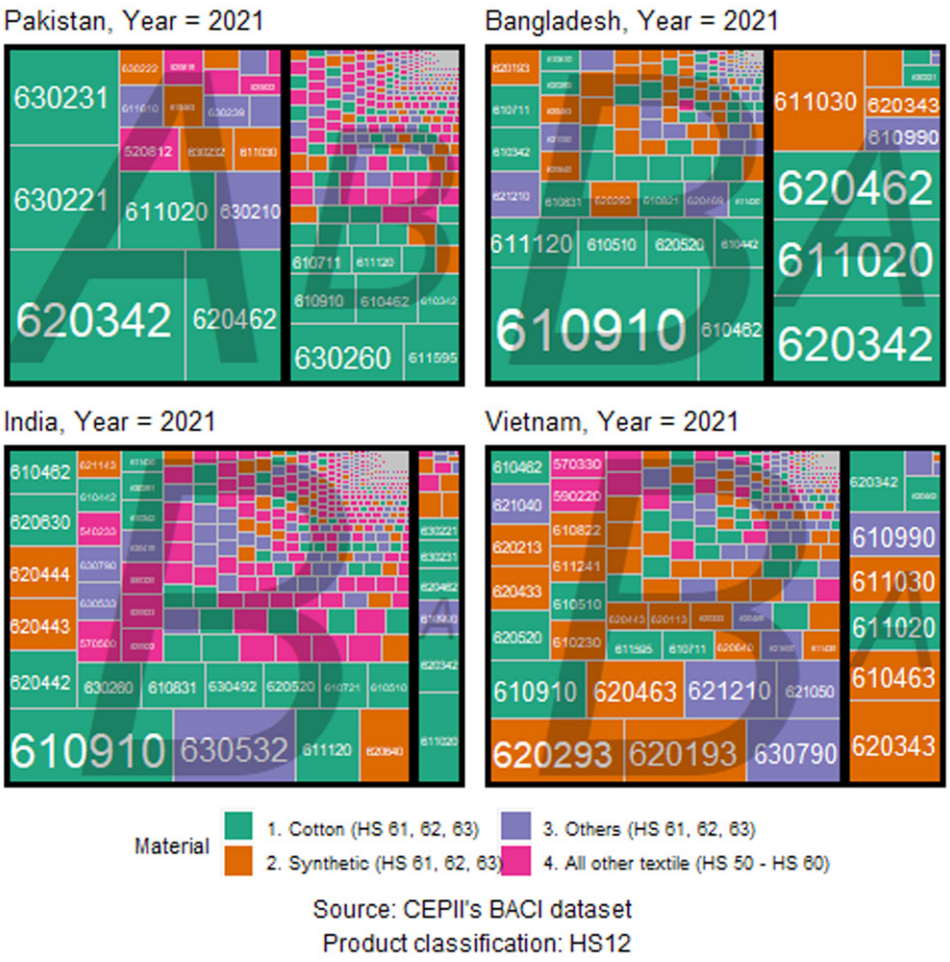


Figure 18: Tree map distribution of the products imported into the European Union from trading partners in 2021 where products are distributed by industry and based on the import-levels from Pakistan

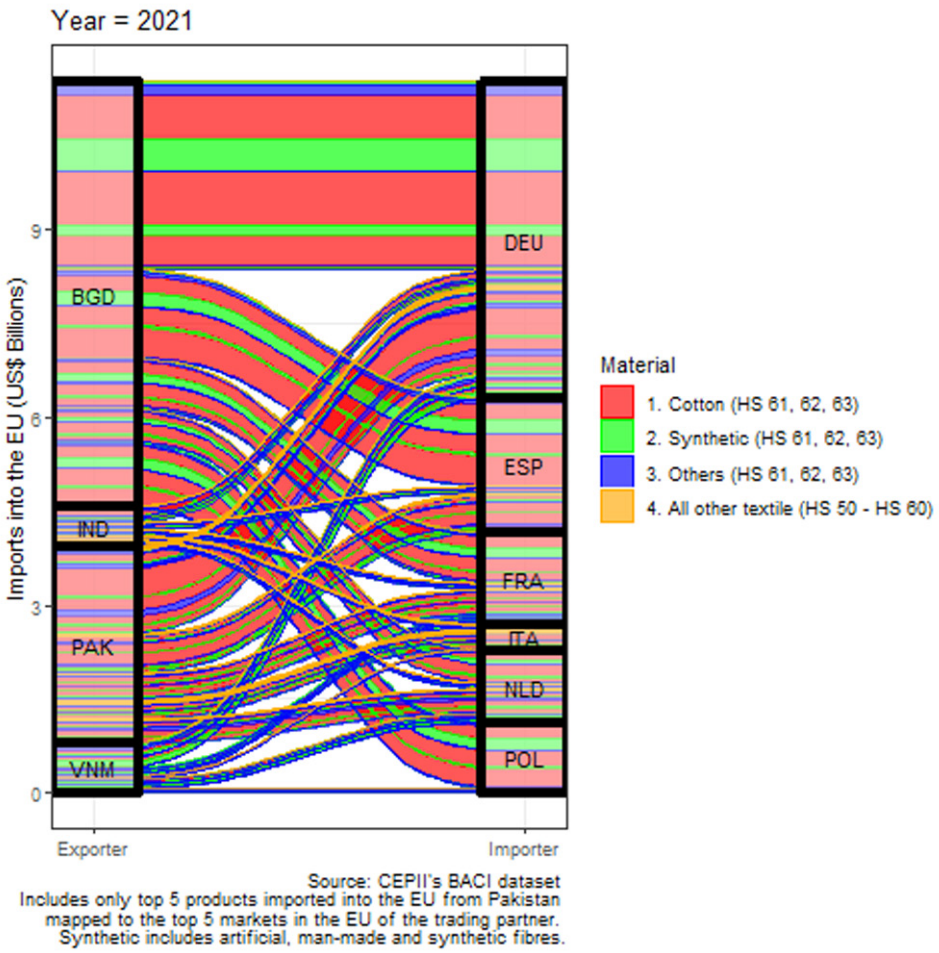


Figure 19: Flow chart of imports distributed by industry into the respective top 5 destination markets in the European Union of each trading partner for top 5 products in each category imported into the EU from respective trading partners

The tree map distribution in Figure 18 compares the relative value of products imported into the EU based on whether they are ranked as the top 15 products imported into the EU from Pakistan in 2021. The flow chart distribution presented in Figure 19 shows the value of imports from each exporter for the top 5 products imported into the EU from Pakistan in each category to their top 5 export destinations in the EU. While EU imported $3.2 billion worth of top 5 ranked cotton products from Pakistan in 2021, it also imported $6.3 billion worth from Bangladesh in the same products. Similarly, while the top imports into the EU of apparels and made-up textiles using synthetic products from Pakistan was worth $410 million, EU imported $2.1 billion of the same products from Bangladesh. However, both India and Vietnam export a different basket of goods as compared to Pakistan and the imports into the EU are unlikely to overlap. As observed in the flow chart, Bangladesh is again a more important competitor for Pakistan than India and Vietnam. Germany imported more than $2 billion worth of cotton products, ranked in the top 5, and more than $755 million worth of synthetic products, ranked in the top 5, from Bangladesh but $1 billion worth of the former and $117 million of the latter from Pakistan. *Pakistan faces more competition from Bangladeshi textile producers in its top ranked apparels of cotton and synthetic products than it does from Indian and Vietnamese textile producers.*

3.1 Unit Value and Revealed Comparative Advantage

It is often predicted that shipments to richer and more distant countries are likely to be of higher unit value than shipments to poorer and more proximate countries, likely driven by quality differences in the products[1]. Given that the EU is a conglomerate of more advanced economies located at a considerable distance from Pakistan and more so from India, Bangladesh and Vietnam, export shipments to the EU are likely to be of higher unit value than those to poorer destinations. Further, countries may specialize in the production of a particular good in which they have adequate resources, reporting higher levels of comparative advantage.

The unit value of imports into the EU, calculated as the ratio of the total value of imports into the EU to the total quantity of imports into the EU, is correlated with the revealed comparative advantage of the exporter in that product in this study. The unit values can be used to calculate the level of price discrimination, that is the amount of deviation from the industry average, reported by the exporters in an industry. An exporter with a more favorable ranking in terms of its unit value reports a lower unit value for its imports relative to the industry average, adjusted for the share in total volume of imports into the EU at the industry-level. The RCA is calculated as the ratio of the share of the product in total exports of the exporter to the share of that product in global trade. For instance, if the share of exports of bed linen from Pakistan is higher in total exports from Pakistan than the overall share of bed linen in global trade, the RCA will be greater than 1 and Pakistan will have a revealed comparative advantage in the exports of bed linen.

The following analysis ranks the exporter based on the weighted average of RCA, using the quantity exported as weights, within each industry and the weighted average of the level of price discrimination applied by an exporter within an industry is used to rank RCAs and unit values. A country that ranks high on RCA (closer to 0) reports a higher RCA and country that ranks high in terms of unit value (closer to 0) is setting a lower price than its competitors on products it exports to the EU. As unit value is likely to be defined by the characteristics of a product as well as the exporters themselves, products from richer countries and more distant markets are likely to report higher unit values, ceteris paribus, while products from larger economies that are more likely to experience economies of scale are likely to report lower unit values. Further, the percentage of imports from the selected trading partners of the EU based on the respective quartile in term of the unit value and the percentage of imports from the counterpart countries into the EU for products falling into the lower two quartiles when imported from Pakistan is presented. This exercise shows how much competition Pakistani exporters face from its major regional counterparts in products that they export at relatively lower unit value in respect to their global competitors. Greater the share in such products reported by the counterparts, it is more likely Pakistani exporters will face competitive pressure in products they otherwise export at relatively lower unit values.

1 This is consistent with the findings by Hallak (2006), Bastos and Silva (2010) and Baldwin and Harrigan (2011).

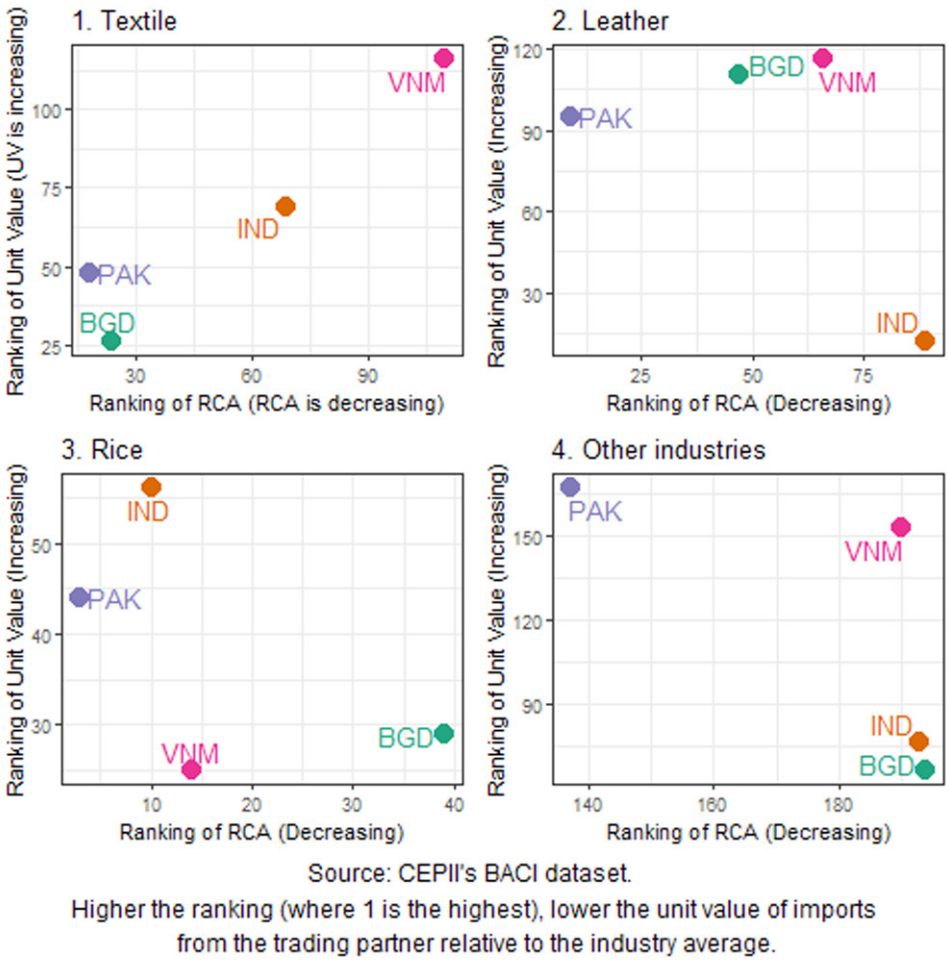


Figure 20: Industry-wise unit value and RCA rankings of imports from selected countries in 2021

The rankings of Pakistan, Bangladesh, India and Vietnam according to their respective RCA and unit value is presented in Figure 20. More than 218 countries are ranked for all industries except rice, for which 122 countries are ranked. Pakistan ranks within the top 20 countries in the world terms of its RCA for rice, leather and textile and ranks within the top 50 countries in terms of the unit value of imports into the EU for rice and textile[2]. Interestingly, Bangladesh ranks lower than Pakistan in terms of its RCA across all industries but has a higher average unit value in the exports of all industries except leather to the EU. Both India and Vietnam rank lower in terms of their RCA relative to Pakistan across all industries. India ranks lower than Pakistan in terms of the average unit value in rice and textile, while Vietnam ranks lower in leather and textile. It is important to note that exporters with a more diversified export base and a larger export basket are likely to report lower levels of RCA[3]. Hence, India and Vietnam report lower RCA than Pakistan and Bangladesh, which are likely to have a more limited number of products in their export basket.

2 The ranking is adjusted for the share of the exporting country in the total volume of imports in each product. An exporting country reporting a larger share in total volume imported into the EU at a lower unit value than the industry average will place higher on the ranking than a country with a smaller share at a higher unit value.

3 There are some factors that can influence the RCA of a product. The RCA of a product can be high if it has a large share in total exports from the exporter but a small share in global exports, while the average RCA within an industry can be high if a country is concentrated in the production of a few products. Exporting a larger set of export baskets consisting of products that have a larger share in global trade (such as electronic products) will decrease the RCA.

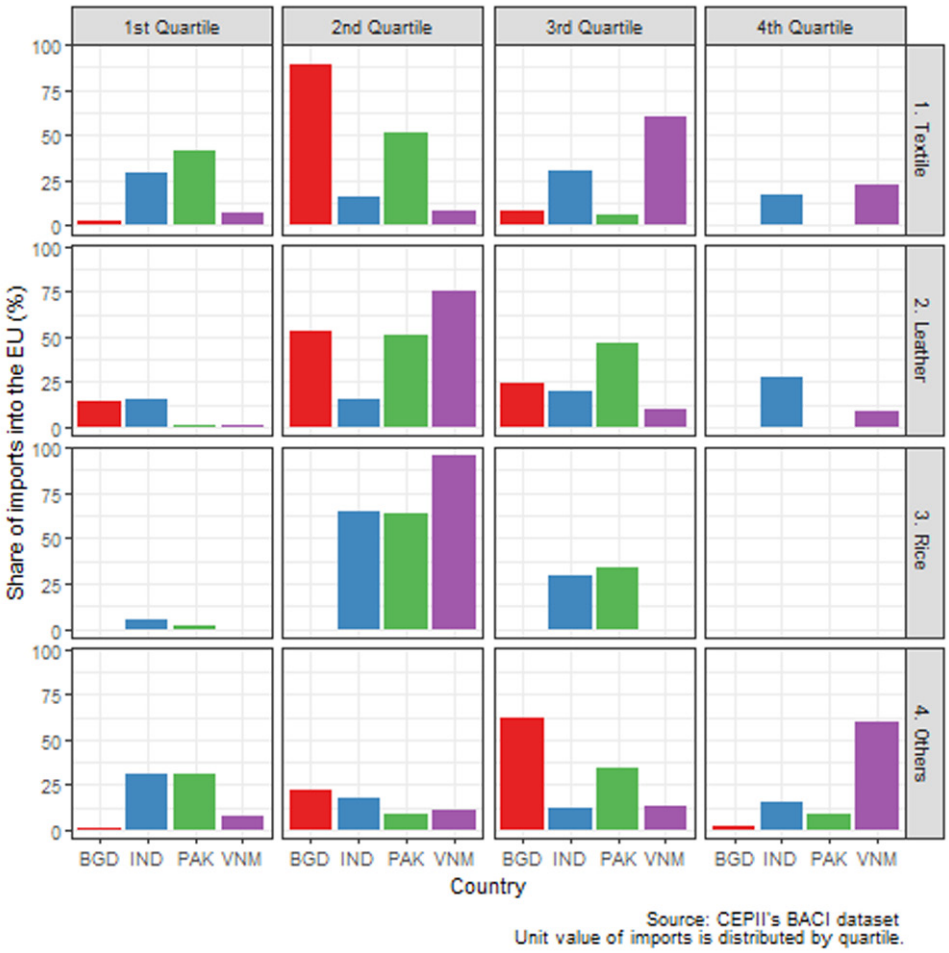


Figure 21: Industry-wise share of imports based on the position of their relative unit value

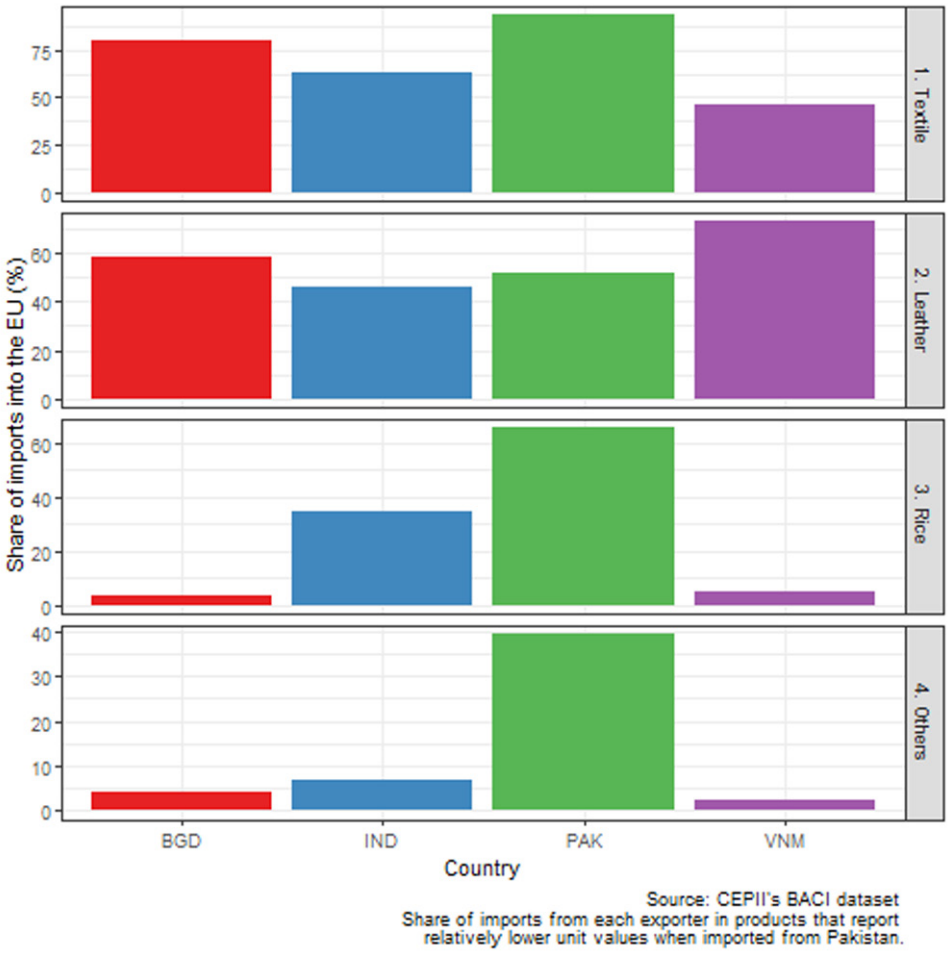


Figure 22: Industry-wise share of imports into the EU from selected trading partners for products reporting relatively lower unit values from Pakistan

The share of industry-wise imports into the EU from Pakistan, Bangladesh, India and Vietnam based on their relative unit value is presented in Figure 21[4]. The industry-wise share of imports into the EU from selected trading partners for products reporting relatively lower unit values from Pakistan is presented in Figure 22. Given that only those products are considered in which the exporter reports an RCA of greater or equal to 1 these figures not only indicate the relative unit values of imports into the EU but also indicate the share of imports from counterparts in products in which Pakistani exporters to the EU enjoy lower unit value as well. Approximately 92 percent of the imports into the EU from Pakistan rank in the lower quartiles (in comparison to all countries), while this falls to approximately 52 percent for leather, approximately 66 percent for rice and less than 40 percent for other industries. In comparison, approximately 90 percent of textile imports into the EU from Bangladesh fall into the lower quartiles in terms of unit value, while approximately two-third of the imports into the EU in leather fall within this category. Interestingly, none of the rice imports from Bangladesh into the EU report a RCA of more than or equal to 1. Except for rice, majority of the imports into the EU from India report relatively higher unit values as less than 50 percent of the imports are ranked in the lower quartiles, while Vietnam reports relatively lower unit values for leather and rice. Further, in Figure 22, it is observed that slightly more than three-quarters of the imports from Bangladesh in textile are in products in which Pakistan reports relatively lower values of unit value, and 60 percent in leather. While 60 percent of textile imports into the EU from India are in products in which Pakistan reports low unit values, this falls to less than 50 percent for Vietnam. However, more than 70 percent of the imports in leather from Vietnam are in products for which Pakistan reports lower unit values. *While Bangladesh is likely to exert the highest competitive pressure on Pakistani textile exporters, the same can be said for Vietnamese leather exporters.*

4 This considers a simple interpretation of the unit value. Those observa tions belonging in the bottom quartiles report lower unit values than the industry median.

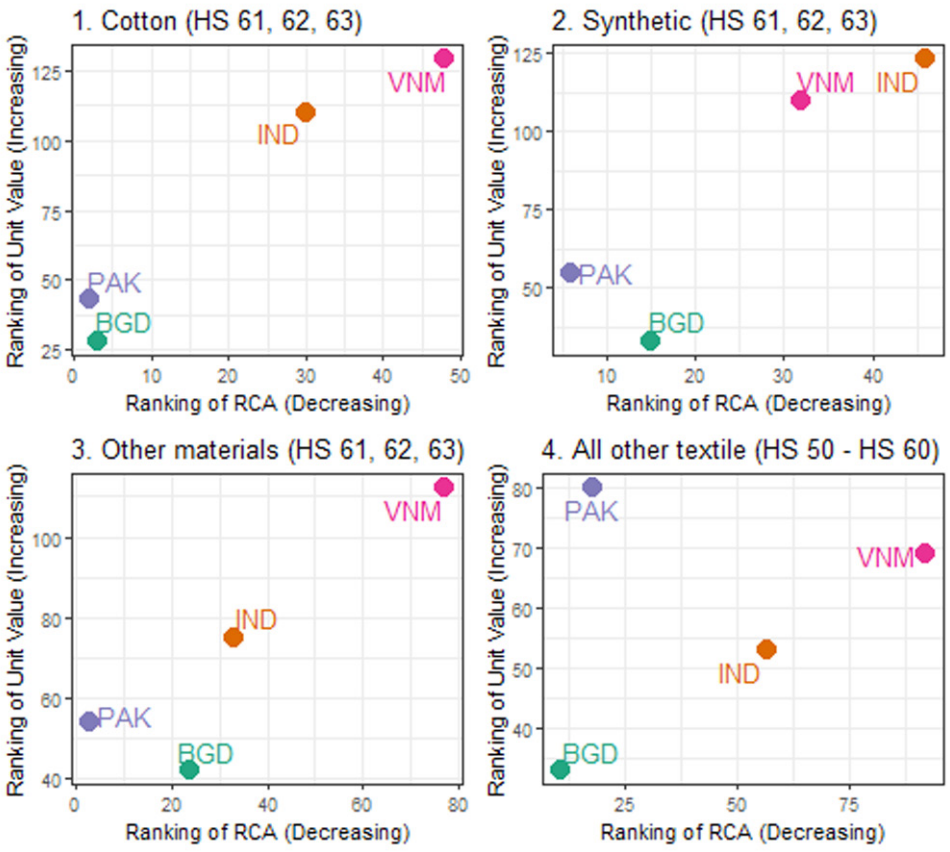


Figure 23: Material-wise unit value and RCA rankings of imports from selected countries in textile industry in 2021

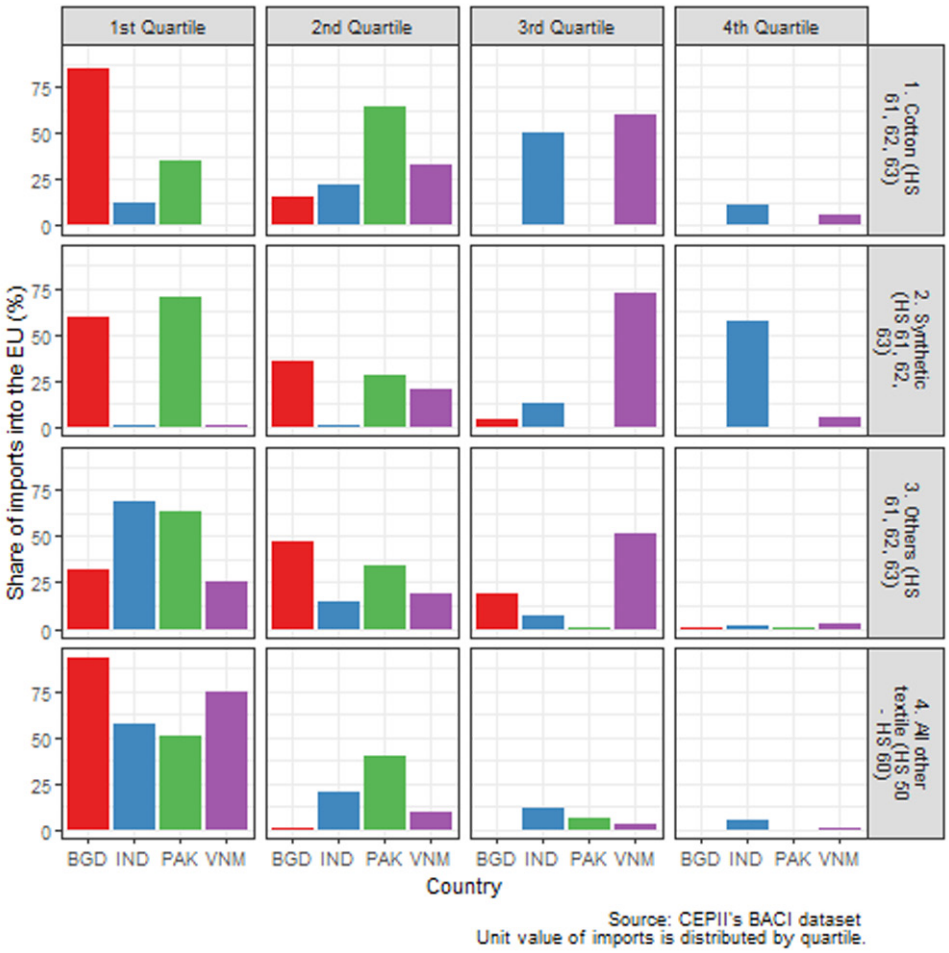


Figure 24: Material-wise share of imports based on the position of their relative unit value

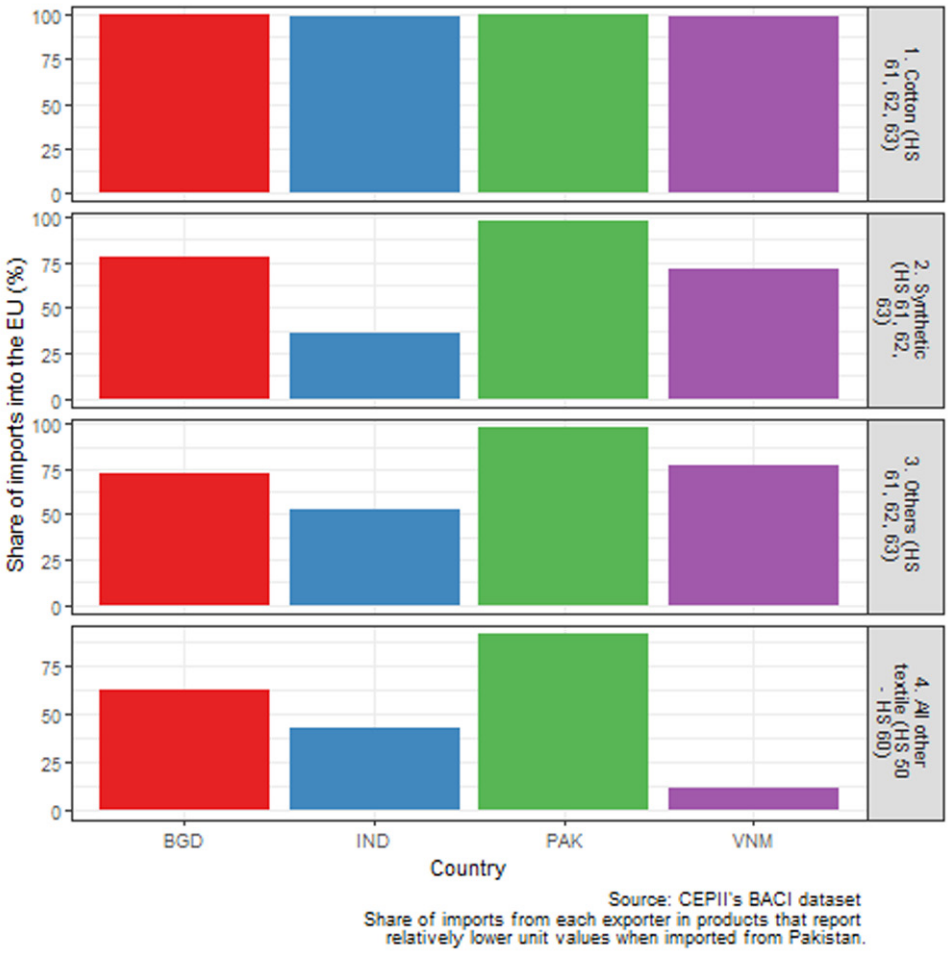


Figure 25: Material-wise share of imports into the EU from selected trading partners for products reporting relatively lower unit values from Pakistan

The analysis on the unit value of imports into the EU from Pakistan, Bangladesh, India and Vietnam according to the material used in the production of textile goods, particularly apparels and made-up textile products is presented in Figure 23-Figure 25. Imports from Pakistan and Bangladesh report not only higher levels of RCAs than imports from India and Vietnam but also lower unit value for the imports of apparels and made-up textile, regardless of the material used. It is only for products belonging to HS 50- HS 60 that imports from Pakistan report higher unit value than its regional counterparts. In essence, imports from Pakistan of apparels and made-up textile products are likely to be relatively cheap in terms of their unit value but the imports of inputs from Pakistan are likely to be more expensive. Imports from Bangladesh in textile products are likely to be of relatively lower unit value, while a large proportion of imports from India and Vietnam of apparels and made-up textile products are likely to be of higher unit value. Further, imports from India and Vietnam of non-cotton based products are less likely to be in products in which imports from Pakistan report relatively lower unit values. *This suggests that Bangladesh may more likely compete head-on in products which are typically imported at a lower unit value from Pakistan than India and Vietnam, especially in non-cotton based apparels and made-up textile products.*

3.2 Trade Loss if GSP Plus Status is Revoked by the EU

An exporting country that risks loss of trade preferences, such as GSP Plus, must ascertain the level of trade loss, which is the change in the value of goods imported as the price of the good changes due to a tariff, from the changes in the preferences. It is reported that Pakistan will lose, by the estimates in this study, more than $3 billion in terms of trade loss in 2021, if GSP Plus preferences are withdrawn by the EU. The GSP Plus status will be reverted to GSP status. For this study, the tariffs currently imposed on Pakistan are replaced by those imposed on India, which is a GSP beneficiary country, to determine the loss if the preferences offered by the EU are reverted from GSP Plus status to GSP status. As Bangladesh will lose its EBA (Everything but Arms) status awarded by the EU to the least developed countries in 2029 as it graduates to a middle-income country, Pakistan may benefit from this loss of preference to Bangladesh. The total imports into the EU from Bangladesh and the expected trade loss are presented at the end of this section for top products imported into the EU from Pakistan. The industry-wise distribution of the weighted average tariff rates across the three countries is presented in Appendix D.

The methodology is borrowed from Laird and Yeats (1986) and further developed in the United Nations ESCAP *User Guide and Explanatory Note for Trade Intelligence and Negotiation Advisor*[5]. This study incorporates estimates for elasticity of import demand, which is provided in Utoktham et al. (2020)[6].

5 The author is grateful to the researchers at the Trade Policy and Facilitation Section, Trade, Investment and Innovation Division, United Nations ESCAP for providing the key formulas to calculate the values for trade loss.

6 The methodology is further discussed in "Trade to the rescue: duty-free access for Pakistan's exports" by Aadil Nakhoda and Qazi Masood Ahmed, appearing in *The State of Pakistan's Economy 2023-24 | Trials and Turmoil: Navigating the Interconnected Challenges of Politics, Economy, and Climate Change*' published by the Institute of Business Administration, Karachi.

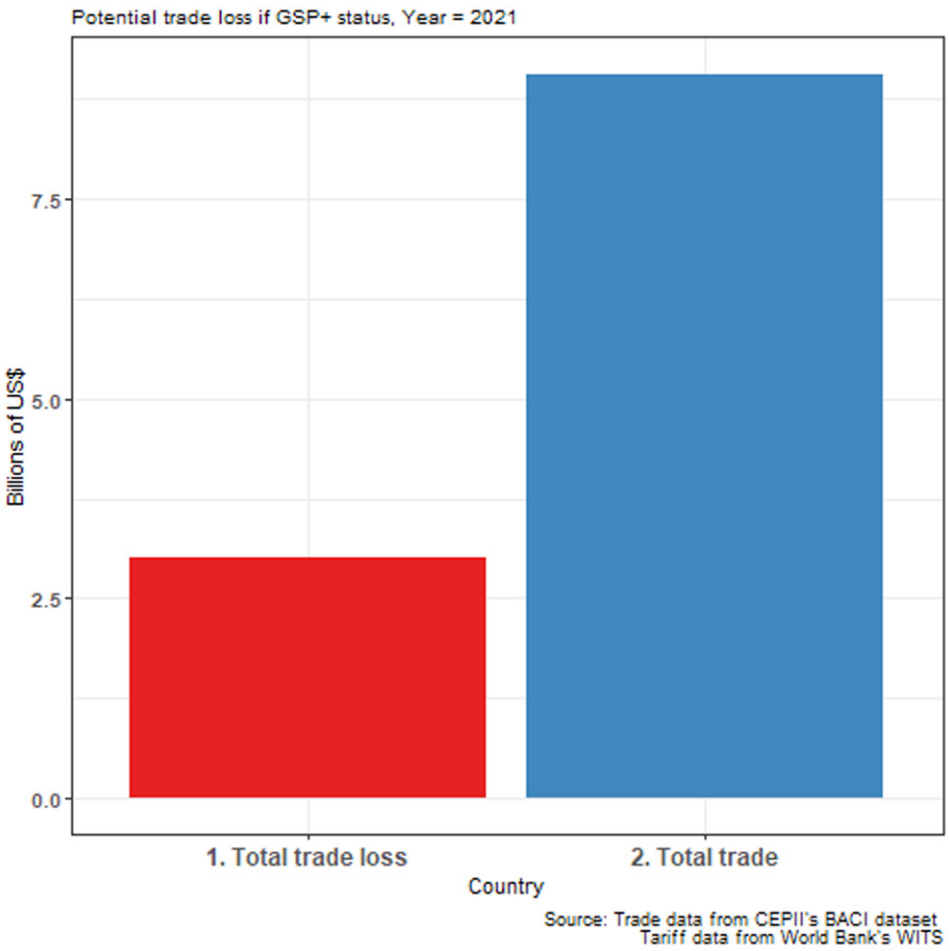


Figure 26: Total Imports into the EU from Pakistan and the total trade loss if GSP Plus status is revoked

The total imports into the EU and the total trade loss if GSP Plus status is revoked is presented in Figure 26. It is expected that total trade loss if the GSP Plus status is revoked *is approximately $3 billion, which is 1/3rd of the total imports into the EU from Pakistan*.

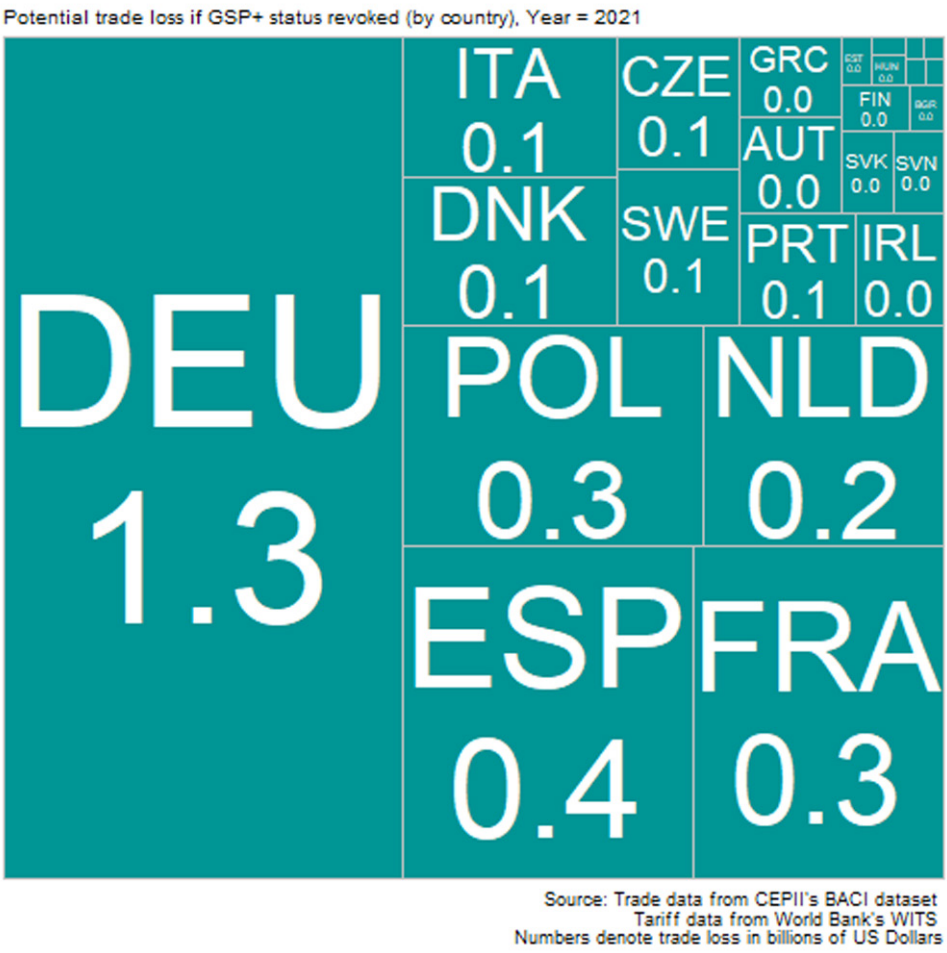


Figure 27: Total trade loss if GSP Plus status for Pakistan is revoked by destination market

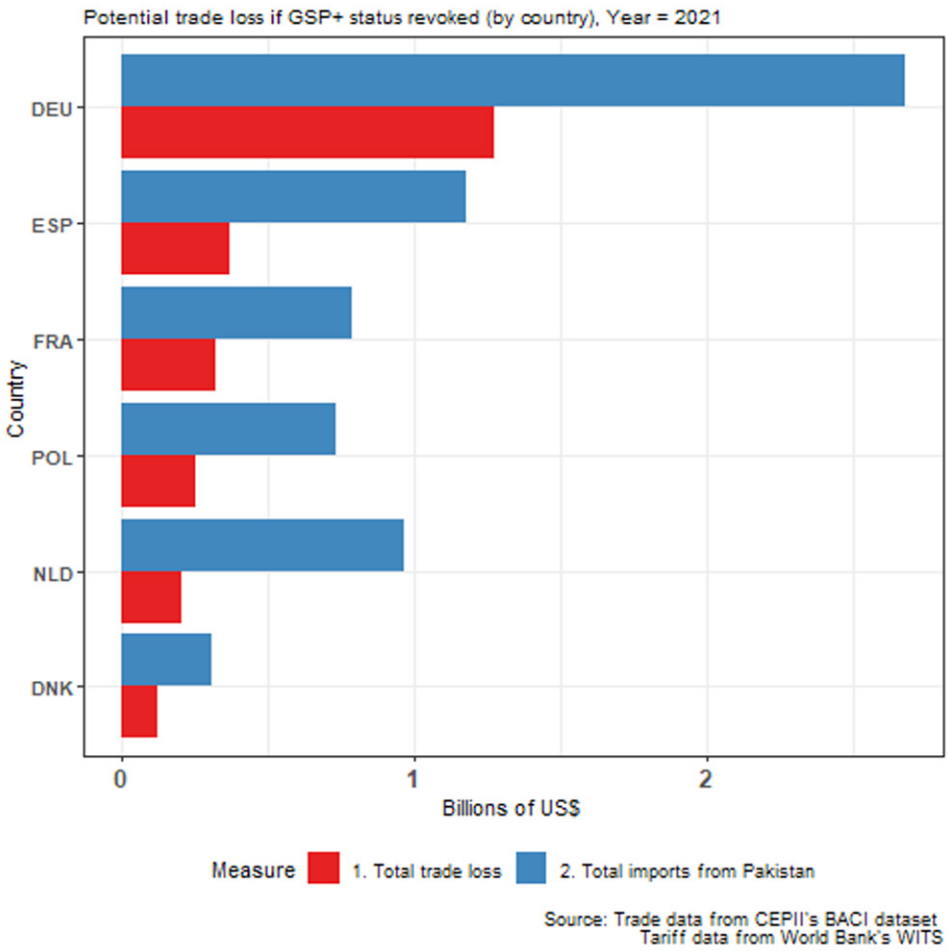


Figure 28: Total trade loss and total imports if GSP Plus status for Pakistan is revoked by destination market (top six reporting the largest loss)

The total trade loss by destination is reported in Figure 27 and Figure 28. Pakistan will lose about $1.3 billion out of $2.7 billion in Germany, $370 million out of $1.2 billion in Spain and $320 million out of $788 million in France. While Netherlands imports more from Pakistan than Poland, $963 million and $733 million respectively, the trade loss is lower at $202 million compared to $254 million. This could be since Bangladeshi exporters are more prominent in the latter than the former. The trade loss to Italy, one of the top five export destinations is not listed, as Pakistan will only lose $100 million out of $900 million exported to Italy. As Italy imports a larger proportion of rice and denatured ethyl alcohol from Pakistan, which do not receive differential trade preferences relative to imports from India[7].

7 Only those products are considered which have been imported into the specific European country from India and tariffs are reported for both countries.

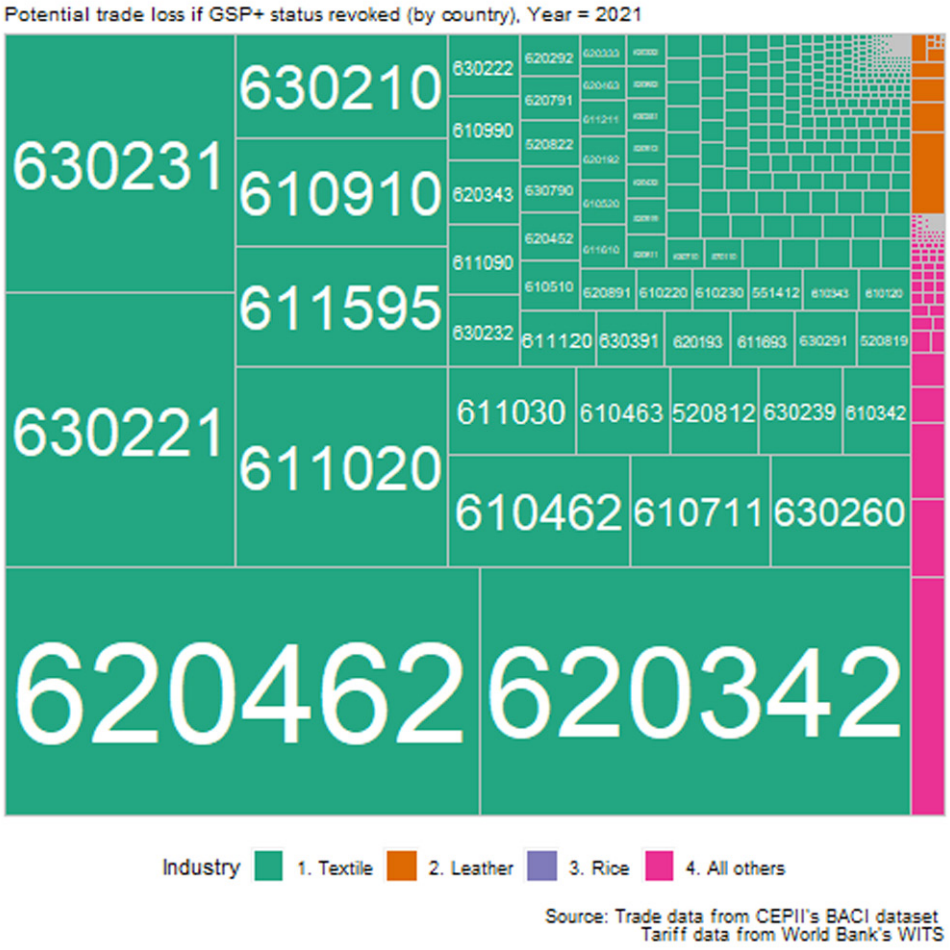


Figure 29: Total trade loss if GSP Plus status for Pakistan is revoked by product

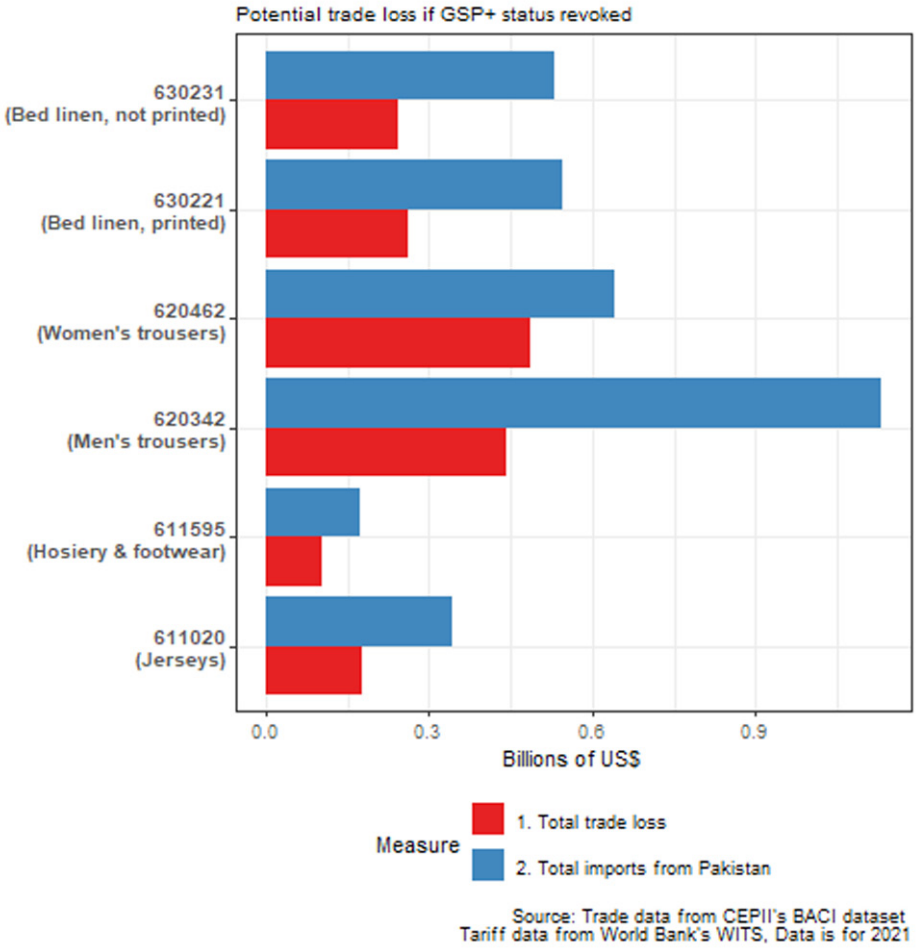


Figure 30: Total trade loss and total imports if GSP Plus status for Pakistan is revoked by product (top six reporting the largest loss)

The total trade loss by destination is reported in Figure 29 and Figure 30. The imports of women's trousers (HS 620462) would decrease by $485 million, imports of men's trousers (HS 620342) would decrease by $440 million and imports of bed linen (both printed and non-printed) would decrease by approximately $510 million.

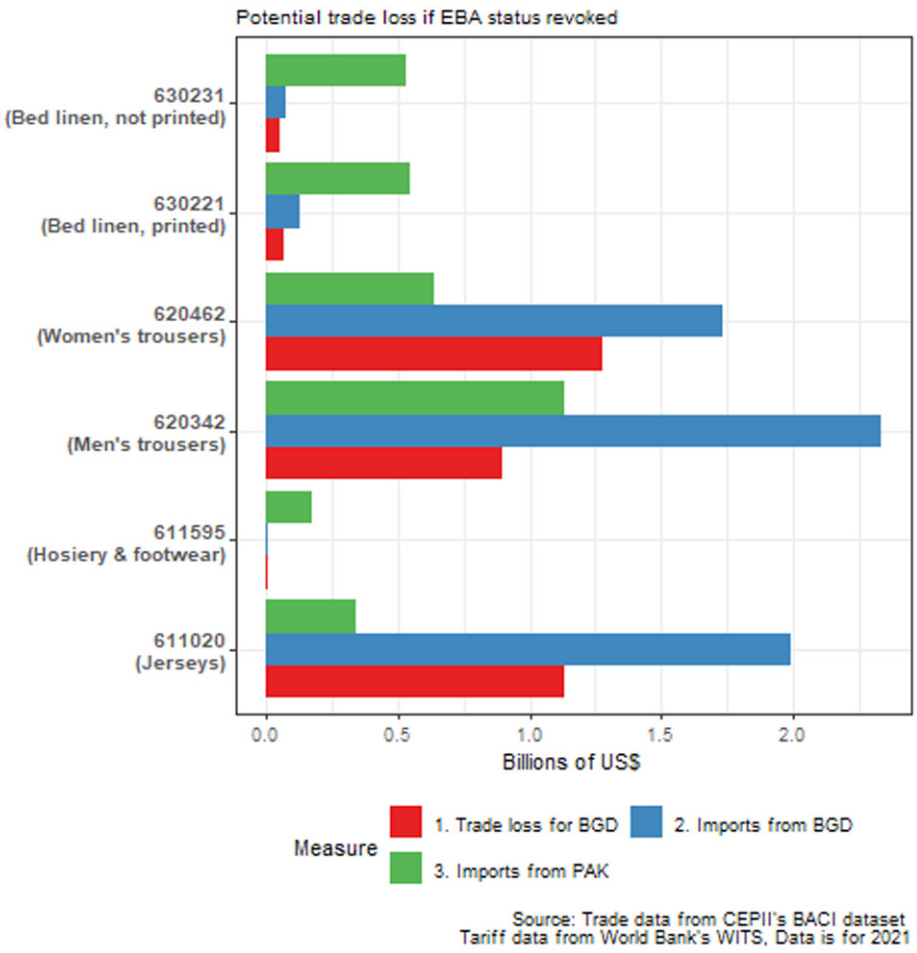


Figure 31: Total trade loss and total imports if EBA status for Bangladesh is revoked by product (top six reporting the largest loss for Pakistan)

The total trade loss and total imports if EBA status for Bangladesh is revoked by product is presented in Figure 31. While the listed products report the largest loss in terms of imports into the EU from Pakistan if GSP Plus status is revoked, the red bar indicates the loss in imports from Bangladesh if its EBA status is to be revoked[8]. Three products stand-out in which the trade loss for Bangladesh is significant and Pakistan has substantial imports into the EU. *These products include women's trousers, men's trousers and jerseys*. Bangladesh is likely to lose more than half its trade with EU in women's trousers and jerseys. Bangladesh is not a major exporter of bed linen, hence reporting low levels of trade loss. As Bangladesh will graduate to a developing country status and lose its EBA status in 2029 after the transition period, Pakistan exporters must ensure that they are able to divert trade losses of Bangladesh in their favor.

8 Bangladesh will graduate from its Least Developed Country (LDC) status in 2026. With a three-year transition period, Bangladeshi exporters may face higher import tariff rates on their exports to the EU after 2029.

3.3 Non-Tariff Measures and its convergence with those of the EU

Non-tariff measures (NTMs) are described as policy measures other than tariff measures that can have an economic impact on international trade. Countries often adopt such measures to protect not only the health of their consumers or the environment but also ensure that products of certain predefined quality and standards are being imported into the country. The frequency index accounts for the presence of NTMs as a proportion of products facing NTMs, while the coverage ratio captures the percentage of imports covered by NTMs. According to the survey on invisible barriers to trade faced by Pakistani firms conducted by the International Trade Centre, majority of the exporting firms stated that they faced restrictive regulations and challenges when exporting, particularly due to the high-quality requirements imposed by the importing countries due to their NTMs. One way to ensure that NTMs become less of an obstacle to trade and instead increase trade is to harmonize the NTMs on imports, as recommended in a chapter published by United Nations ESCAP on streamlining NTMs appearing in the Asia Pacific Trade and Investment Report 2019, such that they become less of a burden when local regulations require producers to meet more stringent measures as applied by important export destination markets[9]. For example, Wilson, Otsuki and Majumdar (2003) find that regulatory convergence towards the standards set by Codex Alimentarius on beef production can increase beef trade by $3.2 billion, while Mangelsdorf, Portugal-Perez and Wilson (2012) find that harmonization with international food standards in China have helped Chinese exporters overcome reputational problems in foreign markets. The following analysis considers the presence of NTMs in the selected countries and the rate at which the measures are likely to converge with those applied by the EU.

9 As the purpose of NTMs is to exclude unsafe goods from the domestic market, domestic producers are also likely to be affected by the imposition of NTMs.

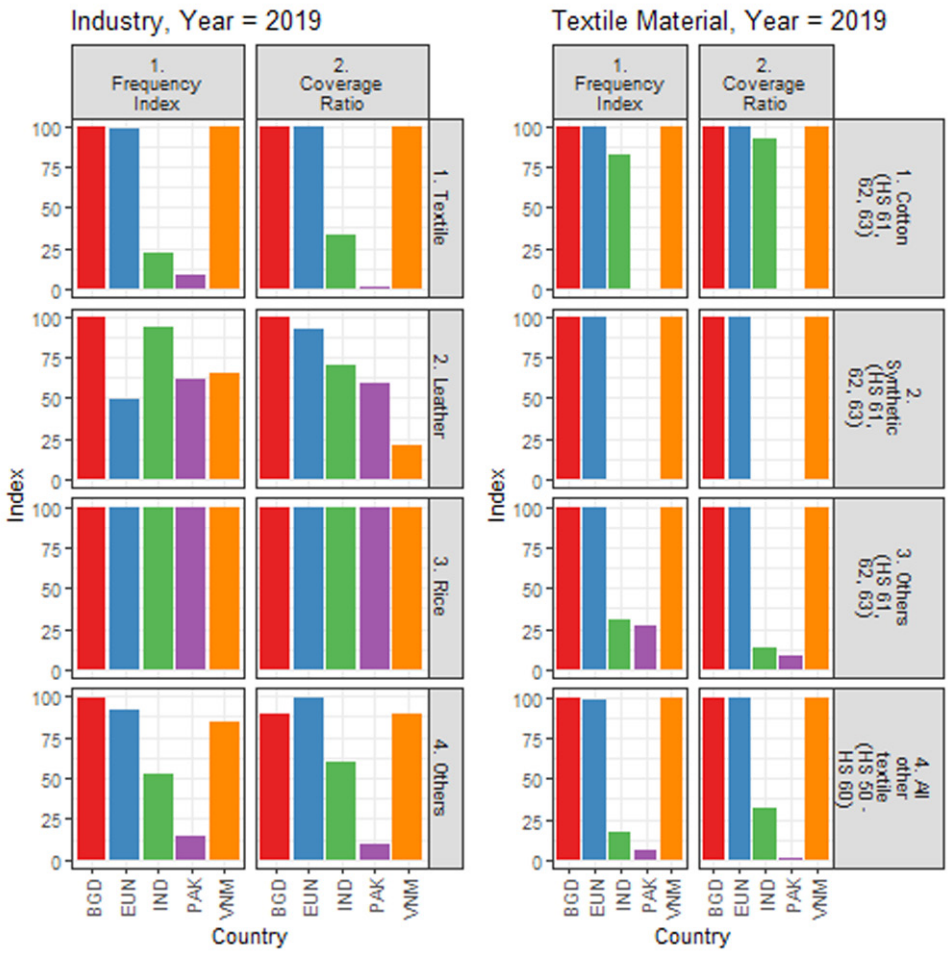


Figure 32: Industry-wise and material-wise frequency index and coverage ratio for technical non-tariff measures imposed on imports into the respective countries.

The industry-wise and material wise frequency index and coverage ratio for technical non-tariff measures imposed on imports into the respective countries is presented in Figure 32. Pakistan reports the lowest frequency index and coverage ratio in textile and other industries, while reports a 100 percent frequency and coverage of NTMs in the rice industry. All exporters report a 100 percent frequency index and coverage ratio in the rice industry, suggesting that all imports of rice products face NTMs. The EU, Bangladesh and Vietnam report almost a 100 percent frequency index and coverage ratio for textile exports, suggesting that all the imports into them face at least one NTM. The frequency index drops to 23 percent and the coverage ratio drops to 33 percent for India, while the frequency drops to 9 percent and the coverage ratio drops to 1 percent for Pakistan. Imports of textile products into Pakistan report negligible technical non-tariff measures. Interestingly, the imports of leather industry into the EU and Vietnam are the least likely to face NTMs. However, they are more likely to face NTMs when imported into Pakistan and India relative to the textile products. Further, while all other countries are likely to impose NTMs on the imports of apparels and made-up textiles of cotton, Pakistan fails to impose any technical non-tariff measures on such imports. The frequency index and the coverage ratio for both Pakistan and India in the other categories of textile materials remains lower than the values observed for the other countries. *It can be said that Pakistan has low adoption rates of technical non-tariff measures, which is more commonly observed in the EU, Bangladesh and Vietnam. Although, the adoption rate in India remains low as well, they have a higher rate of adoption than Pakistan.*

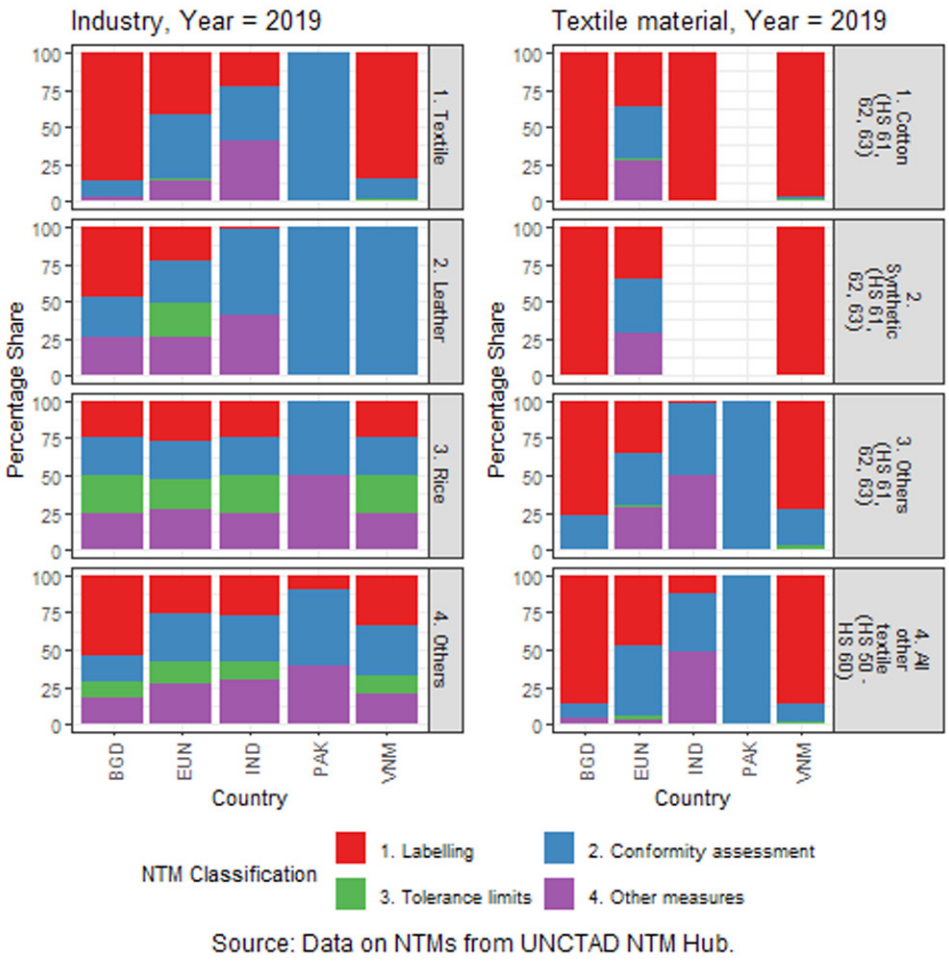


Figure 33: Industry-wise and material wise distribution of NTMs based on NTM classifications

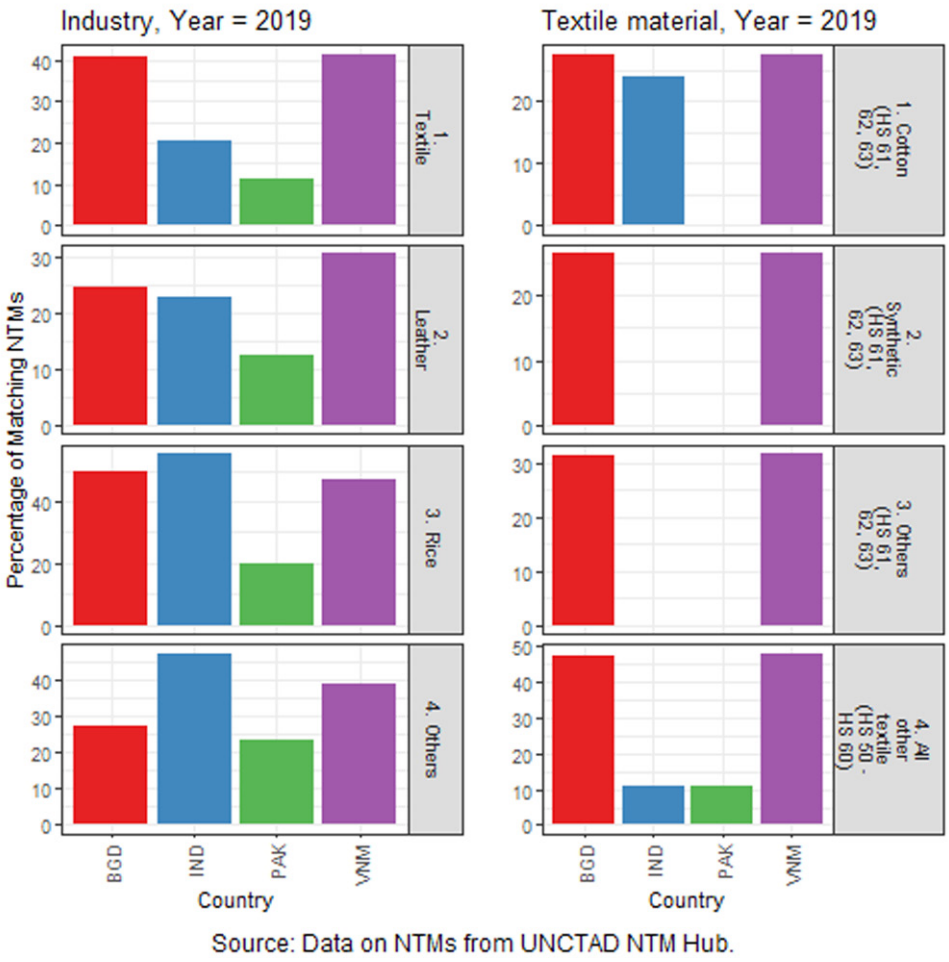


Figure 34: Industry-wise and material wise distribution of the percentage of NTMs matching with those imposed by the EU

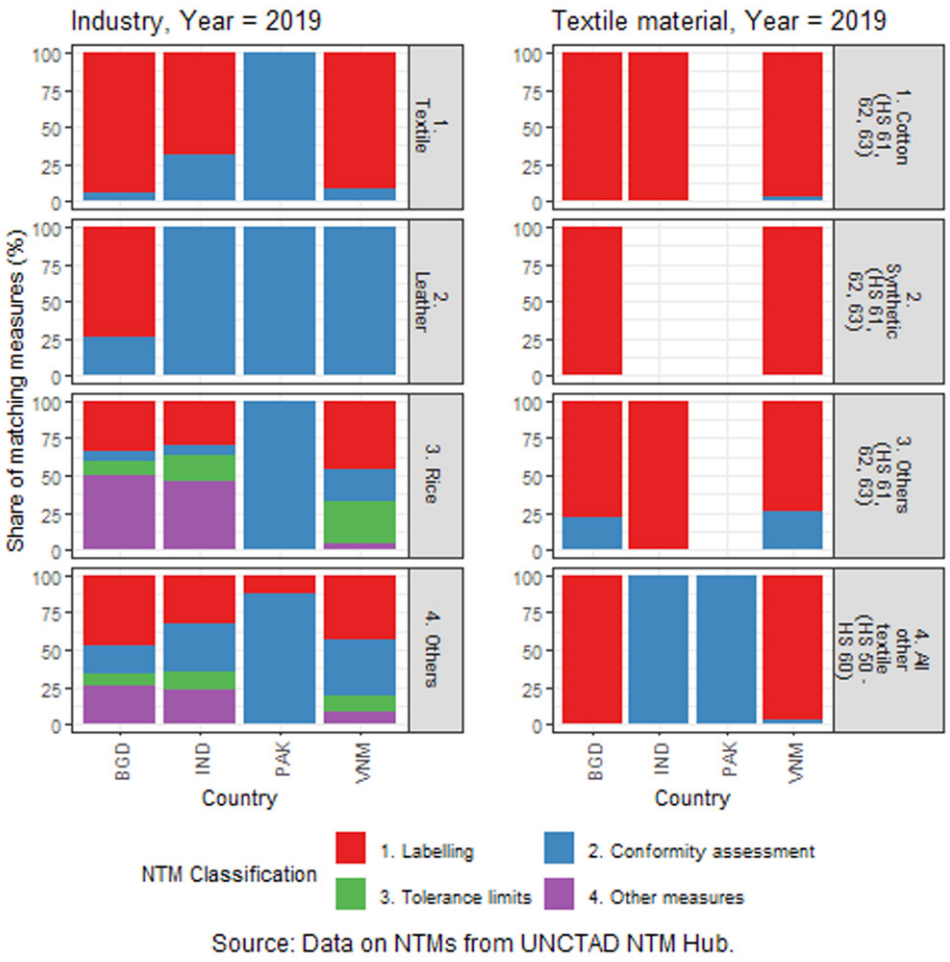


Figure 35: Industry-wise and material-wise share of matching non-tariff measures with those imposed by the EU distributed by NTM classification

Industry-wise and material wise distribution of the percentage of NTMs matching with those imposed by the EU is presented in Figure 34. The share of the more common NTM classifications is presented in Figure 35. This accounts for the level of harmonization of NTMs for each exporting country with those imposed by the EU at the extensive level. Pakistan reports the lowest level across all industries as well as across the different textile material used in the production of apparels and made-up textiles. The lack of technical NTMs on the imports of goods into Pakistan suggests the low levels of regulation on the quality of goods into Pakistan as goods imported into Pakistan may not go through the same conformity assessments, certifications and testing as goods imported into the other trading partners of EU. Further, the lack of harmonization suggests that while other countries may converge in terms of the technical NTMs imposed by them to that imposed by the EU, the technical NTMs imposed by Pakistan are likely to be different. Given that technical NTMs imposed on imports are by nature supposed to be non-discriminatory between domestically produced goods and imports, Pakistani producers may not face the same domestic regulations as other countries which have undertaken programs to harmonize their NTMs with that of the EU and the other trading partners, raising concern about the quality of products produced domestically. In addition, *while Pakistan focuses on conformity assessments, other countries not only have a more diversified range of NTM classification applied on their imports but are also likely to involve regulations on labelling of the products. This measure is not as frequently adopted in Pakistan as in other countries.*

3.4 Firm-level Challenges

The World Bank Enterprise Surveys provides detailed information on firm characteristics and the severity of the obstacles faced in various business activities.

The following analysis considers the industry-wise transport-related obstacles and customs-related obstacles faced by manufacturing firms in the selected countries as well as the average proportion of female production workers employed by firms[10].

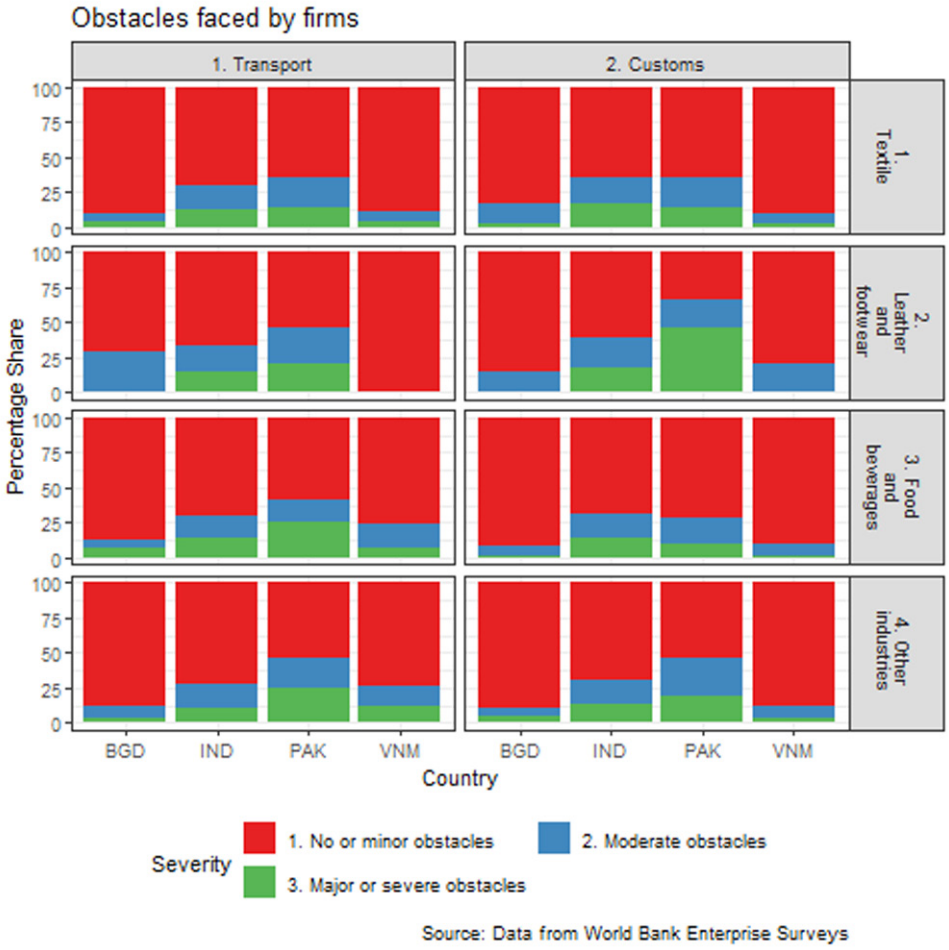


Figure 36: Industry-wise transport and customs obstacles as faced by firms surveyed in the World Bank Enterprise Surveys across selected exporters

The industry-wise transport and customs obstacles reported by firms surveyed in the World Bank Enterprise Surveys across Pakistan, Bangladesh, India and Vietnam is presented in Figure 36. Pakistani firms report the highest number of obstacles as the least percentage of firms in Pakistan face no or minor obstacles in transport and due to customs regulations. 46.67 percent of the leather and footwear producers in Pakistan report major or severe obstacles due to custom regulations, while none of the leather and footwear producers in Bangladesh and Vietnam report such severity in customs regulations. The decrease in leather exports from Pakistan can be attributed to the major and severe obstacles faced by the producers. Further, about 53 percent of the firms report no or minor obstacles in other industries. This increases to more than 87 percent for Bangladesh. *This clearly suggests that Pakistani firms face major or severe obstacles due to transport facilities and customs regulations than firms located in the regional counterparts and are less likely to receive facilitation in international trading activities.*

10 Although, it is likely that customs-related regulations are more relevant to the importing activities of the firms, the higher the severity of the obstacles, the more likely the firms are inhibited from participating in inter national trading activities, both exporting and importing.

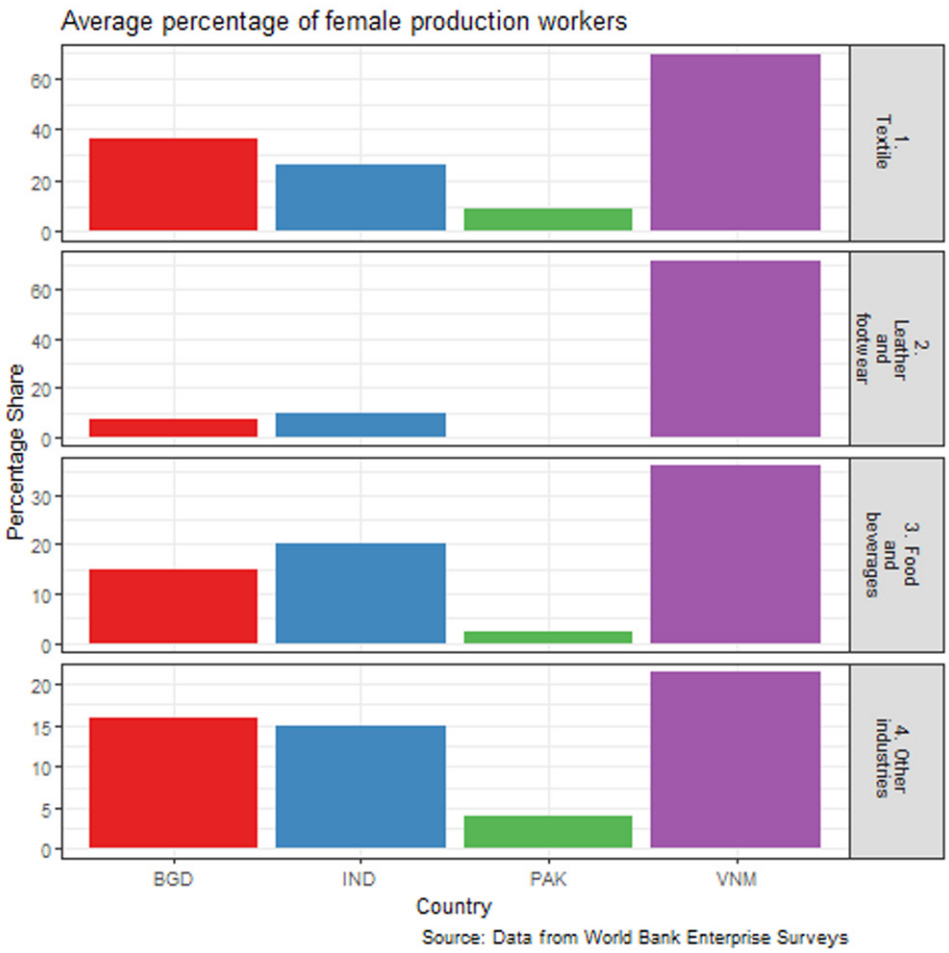


Figure 37: Industry-wise average share of female production workers across exporters

The industry-wise distribution of average percentage of female production workers across the four countries is presented in Figure 37. Vietnam reports the highest share across all industries, ranging from 72 percent in leather and footwear production to 21.5 percent in other industries. On the other hand, Pakistan reports the lowest share, ranging from 9 percent in textile to almost zero percent in leather and footwear industries. Both India and Bangladesh report similar levels, with the highest share in textile industry. *Given the contribution of the textile industry in Bangladesh, female workforce plays a relatively important role in generating export revenue for Bangladesh.*

3.5 The top performers in other industries

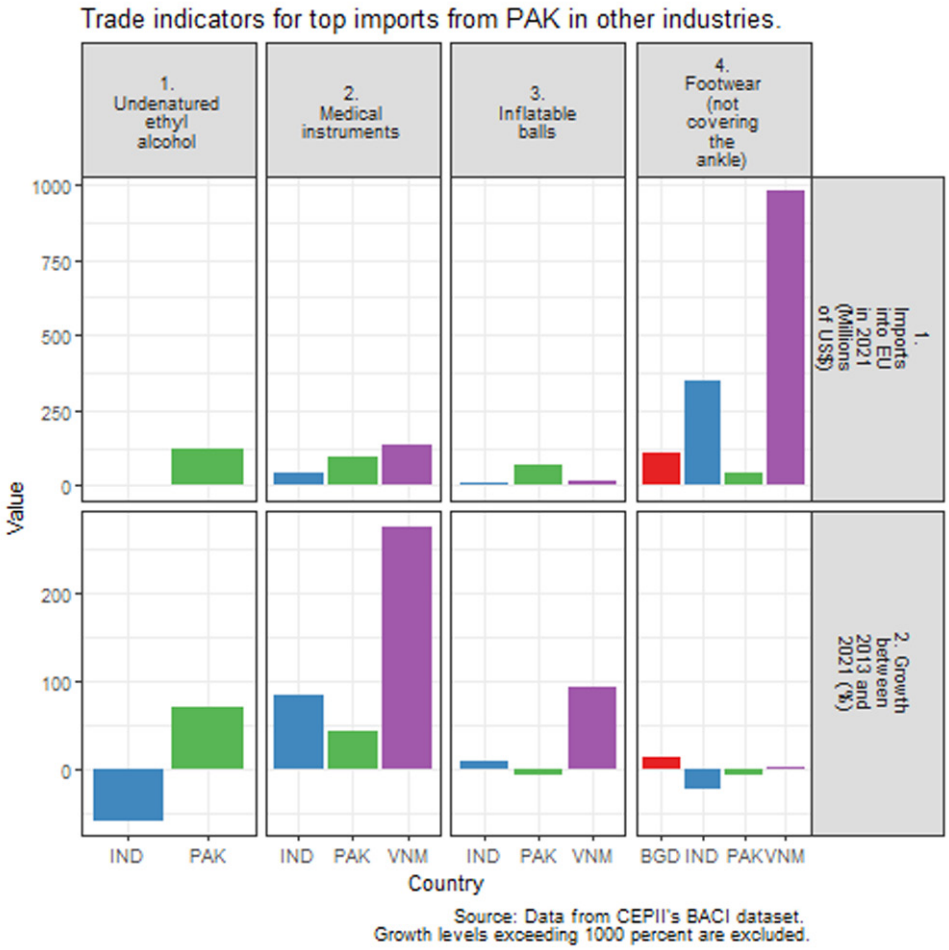


Figure 38: Trade indicators for top four products imported into the EU from Pakistan as listed in other industries

The trade indicators for the top four products imported into the EU from Pakistan belonging to the other industries, which are not traditionally export-oriented in Pakistan, is presented in Figure 38. The EU imported $121 million worth of undenatured ethyl alcohol (HS 220710) from Pakistan in 2021, $96 million worth of medical instruments (HS 901890), $70 million worth of inflatable balls (HS 950662) and $46 million worth of footwear (HS 640399). While the growth of the latter two products was -7 percent in 2021 relative to value in 2013, the growth rate for undenatured ethyl alcohol was 70 percent and for medical instruments was 43 percent. Although, Vietnam is a major producer of footwear and EU imported almost $1 billion worth of HS 640399 from it, the EU imported more of medical instruments from Vietnam than from Pakistan. The growth rate of imports into the EU of medical instruments from Vietnam was 277 percent. Further, Vietnam is also increasing its exports of inflatable balls. Although, the value of its imports was only $14.4 million, it has increased at 93 percent between 2013 and 2021.

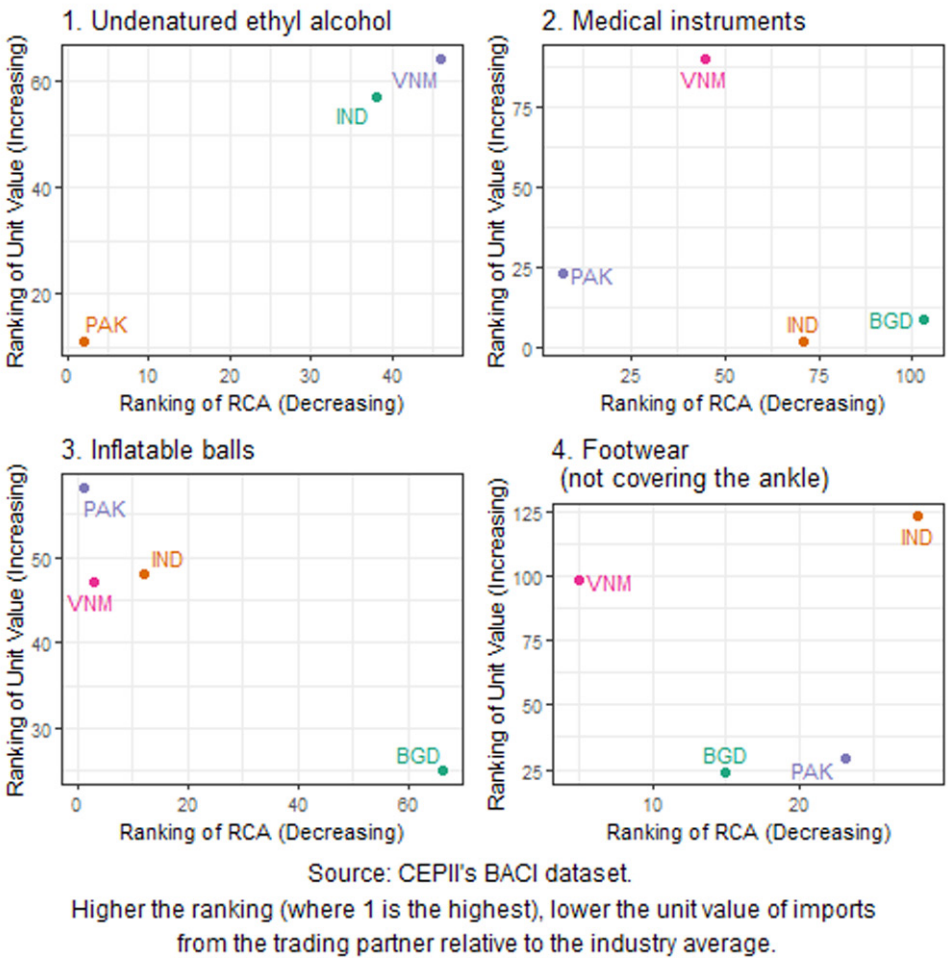


Figure 39: RCA and unit value ranking of top four products imported from Pakistan as listed in other industries.

The ranking of the unit value of imports into the EU from respective trading partners and the ranking of RCA is presented in Figure 39. Pakistan reports the highest RCA for the first three items, suggesting that the share of each of the product in total exports from Pakistan exceeds the share in total exports from other countries. Vietnam and Bangladesh report a higher RCA for footwear. Pakistan ranks 1st in terms of the RCA for inflatable balls, ranks 2nd for undenatured ethyl alcohol and ranks 7th for medical instruments. Further, countries with a high ranking of RCA do not necessarily export at the lowest unit value. Pakistan reports higher unit value for medical instruments than India and Bangladesh and higher unit value than all the other three countries for inflatable balls. Vietnam, the largest exporter for footwear, reports higher unit value than Bangladesh and Pakistan. *This suggests that price advantage is not necessarily driving trade between the four countries and the EU. However, the exception is in the imports of undenatured ethyl alcohol into the EU, where price advantage for Pakistan is apparent.*

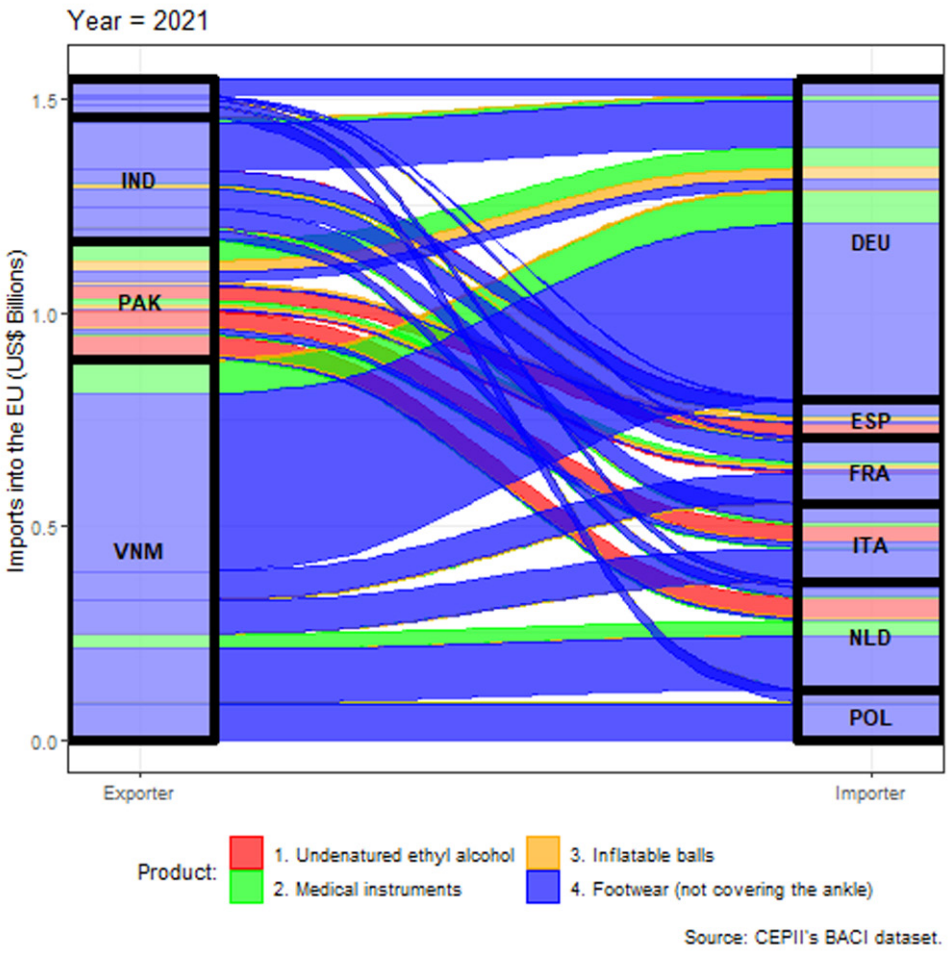


Figure 40: Flow chart for top four products imported from Pakistan in other industries from each exporter to their respective top five EU market

The flow chart for the top four products imported from Pakistan in other industries from each exporter to their respective EU market is presented in Figure 40. Germany imported $48 million of medical instruments from Pakistan, while Netherlands, Italy and Spain imported an average of $40 million of undenatured ethyl alcohol from Pakistan. Germany was the biggest destination for inflatable balls and footwear, importing $22 million and $26 million respectively. The biggest flows were from Vietnam. Germany imported $415 million worth of footwear (HS 640399) from Vietnam, while Netherlands imported $125 million. $77 million worth of medical instruments were destined to Germany from Vietnam, while $35 million were destined to Netherland. Germany imported $109 million worth of footwear from India and France imported $46 million. Germany imported $39 million worth of footwear from Bangladesh, while Poland imported $28 million. In essence, imports from Vietnam dominate the flow in footwear and medical instruments. Pakistan clearly has dominance in the trade of undenatured ethyl alcohol as none of the other regional counterparts report any flow of a significant value. Similarly, Pakistan has dominated in the trade of inflatable balls. France imported $1.4 million worth of inflatable balls from India, the highest flow into the EU of inflatable balls from the other counterparts.

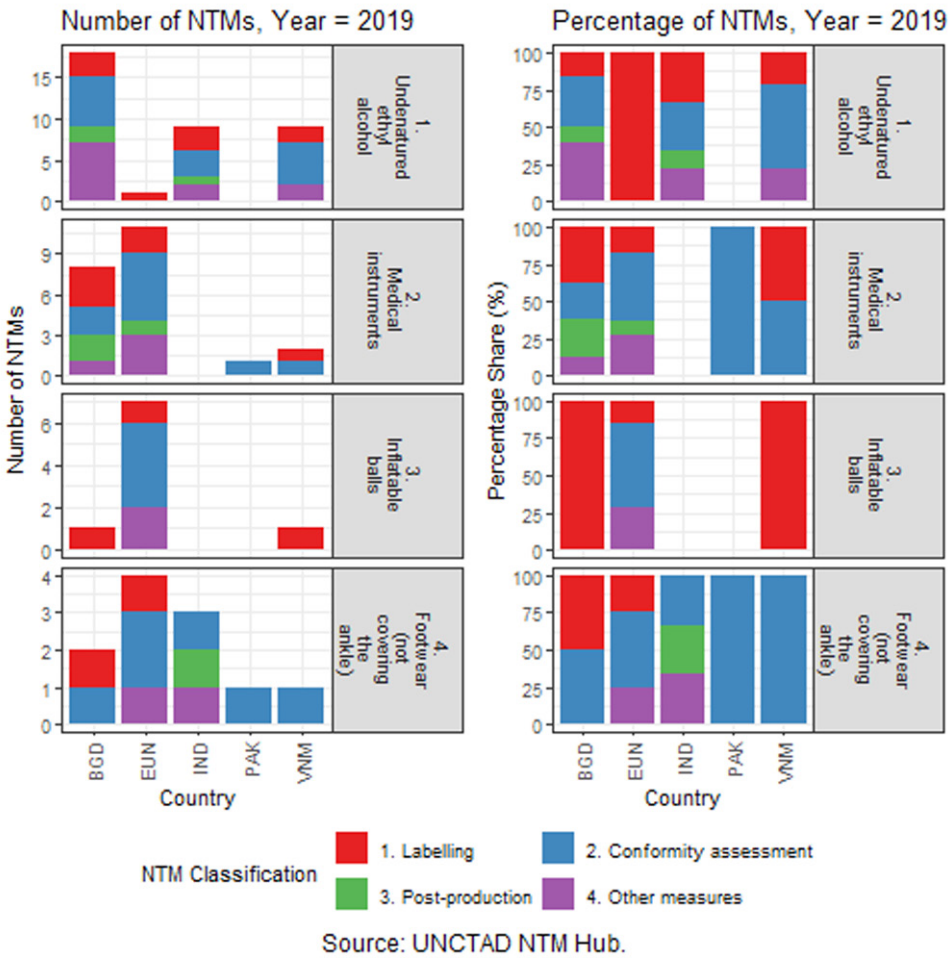


Figure 41: Number and percentage distribution of NTMs based on major classifications applied by the country onto their imports

The number of NTMs and the percentage coverage of each classification of NTMs is presented in Figure 41. Pakistan only imposes one NTM, each related to conformity assessment, on the imports of medical instruments and footwear. It applies B83 and A83 (both certification of conformity requirements) on the import. The EU applies only one NTM on the imports of undenatured ethyl alcohol, 11 measures on the import of medical instruments (ranging from labelling to conformity assessments and post-production requirements, 7 measures on inflatable balls and 4 measures on footwear. Except for undenatured ethyl alcohol, the EU has the most number of NTMs imposes on the imports of their goods in comparison to the other listed countries. Bangladesh imposes 18 measures on the imports of undenatured ethyl alcohol, which include authorization requirements, product usage restrictions, labelling and packaging as well as conformity assessments. India and Vietnam apply fewer NTMs on their imports, specially of medical goods and undenatured ethyl alcohol.

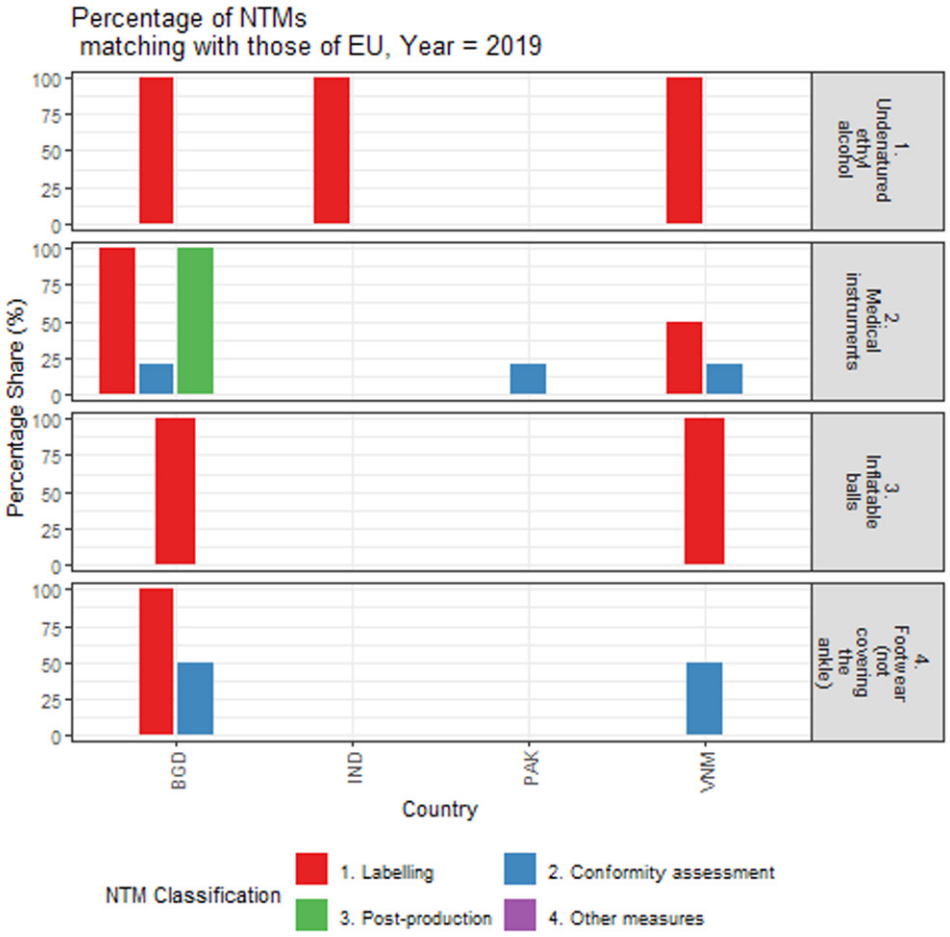


Figure 42: Product-wise percentage of NTMs applied by respective countries matching with those applied by the EU

The product-wise percentage of NTMs applied by respective countries matching that those applied by the EU is presented in Figure 42. The only measure that Pakistan applies on the import of medical instruments is also applied by the EU on its imports. Pakistan does not apply the other 4 measures applied by the EU relating to conformity assessment on the imports of medical instruments. Bangladesh is likely to apply similar measures as the EU, particularly in terms of labelling requirements as all labelling NTMs imposed by Bangladesh match those imposed by the EU across all products. Vietnam matches its labelling requirements with that of the EU for undenatured ethyl alcohol and inflatable balls, while applying half the measures related to labelling applied by the EU. Vietnam also applies inspection requirements on the imports of medical instruments, which is one of the NTMs related to conformity assessment imposed by the EU. *In essence, Bangladesh has converged the labelling requirements on its imports to match that of EU, ensuring that not only imports into Bangladesh follow certain labelling regulations but also ensure that it ensures certain level of standardization of NTMs with one of its largest export markets. Pakistan and India have the least convergence in terms of the NTMs imposed on imports.*

3.6 The role of government institutions

Although, several government institutions and departments can play a crucial role in promoting international trade and exporting activities, the Ministry of Commerce and the Ministry of Finance, via the Federal Bureau of Revenue and Pakistan Customs, have a leading role. The Trade Development Authority of Pakistan, under the Ministry of Commerce, provides registry services to exporters to the EU from Pakistan and can facilitate improvement in knowledge of traders through various programs such as the National Exporters Training Program. Such programs must ensure that exporters must not only know of the regulatory requirements associated with exports but also be aware of the financial conditions as well as the challenges that exporters may face, particularly as market conditions evolve. The Pakistan Single Window, a digital integrated platform that involves a single entry point for all trade related documentation led by Pakistan Customs, can play an important role in providing such knowledge upfront to the exporters as well as any SMEs interested in exporting. The National Compliance Center recently launched by the Ministry of Commerce is a positive step in ensuring that Pakistani industries comply with different regulations, often a requirement of the EU.

5 Main Findings and Recommendations

5.1 Main findings:

GSP Plus Beneficiaries:

- Pakistan is the largest beneficiary of the GSP Plus status awarded by the EU. Imports from Pakistan were the highest in terms of the eligibility for GSP Plus. Pakistan was able to avail more than 97 percent of the value of imports that were eligible for GSP Plus in 2019. The second largest beneficiary was Philippines at slightly less than $2 billion.

Trade Composition:

- More than $7 billion worth of imports into the EU from Pakistan was in textile products, which is approximately 80 percent of all imports from Pakistan. Textile imports from Pakistan increased at 87 percent, while the other industries averaged at 17 percent between 2013 and 2021.
- The imports from Bangladesh and Pakistan are heavily concentrated in the textile industry Almost 90 percent of the imports into the EU from Bangladesh are of textile products. The lack of imports in the other industries raises concerns about the level of diversification in exports originating from the two countries.
- While Pakistan and Bangladesh have a similar set of export basket, heavily concentrated in textile products, India and Vietnam report a vastly different set of export basket. In other words, EU countries import a similar set of products from Pakistan and Bangladesh. Further, the flows from Bangladesh dominate the flows from Pakistan. However, the products imported from India and Vietnam are vastly different as the flows in the top 15 products imported from Pakistan is much lower. The top 15 products imported from Pakistan account for 55 percent of all imports into the EU from Pakistan. The same 15 products account for 46 percent of the imports into the EU from Bangladesh, while imports from both India and Vietnam in the top 15 products imported from Pakistan are relatively minimal, 4 percent and 1 percent respectively.
- Pakistan not only has a much smaller share in the larger markets compared to its regional counterparts, but the top five markets generate a major proportion of the total import demand into the EU. This suggests that Pakistan must focus more on product diversification rather than market diversification as demand for imports is concentrated within a few markets.
- Bangladesh, India, and Vietnam have performed well in the products that are typically imported from Pakistan as they report high growth levels in this product. Further, Bangladesh has a larger market share in products that are commonly imported from Pakistan. In simpler words, Pakistan is likely to find increasing competition in its textile exports from other countries, particularly Bangladesh, as suggested by the growth rates in the products it typically exports to the EU.
- Considering the distribution of imports by the type of textile material used in production of textile products, Pakistan reported the highest growth for apparels and made-up textile products of cotton but Bangladesh was clearly the front runner as the most important source of imports into the EU for apparels and made-up textile products of different varieties of textile material. Bangladesh also dominated in the imports into the EU of the top 5 products imported from Pakistan made of cotton and synthetic materials. Pakistan faces more competition from Bangladeshi textile producers in its top ranked apparels of cotton and synthetic products than it does from Indian and Vietnamese textile producers.
- In essence, while Pakistan is increasing its share of cotton textile products to the EU, Bangladesh is diverging towards synthetic materials, that include man-made and artificial fibers. Less than half of the imports into the EU from India and Vietnam are of cotton-based textile products.

Unit value of imports:

- While Bangladesh is likely to exert the highest competitive pressure on Pakistani textile exporters, the same can be said for Vietnamese leather exporters. Among the three countries, they report the highest share in products in which Pakistan reports relatively low levels of unit value.
- India and Vietnam typically report higher unit values for their exported products than Bangladesh and Pakistan. Products imported from India and Vietnam may have different characteristics than those imported from Pakistan and Bangladesh, hence the marked differences in the unit values.
- Considering the distribution of imports by the type of textile material used in production of textile products, Bangladesh may more likely compete

head-on in products which are typically imported at a lower unit value from Pakistan than India and Vietnam, especially in non-cotton based apparels and made-up textile products. All of Pakistan's cotton-based textile imports into the EU report relatively lower levels of unit value.

- Even when considering the top imports from Pakistan in other industries, price advantage is not necessarily driving trade between the four countries and the EU. Countries report higher unit values in products with higher import values. However, the exception is in the imports of undenatured ethyl alcohol into the EU, where price advantage for Pakistan is rather apparent. This could be due to the nature of the product as ethyl alcohol is likely to be an intermediate industrial input, while footwear, medical instruments and inflatable balls are likely finished products. Both Vietnam and India report higher unit values for footwear but are also able to generate greater import values into the EU.

Trade loss if preferential status revoked:

- It is expected that total trade loss for Pakistan from the revocation of the GSP Plus status, that is if the same tariffs are applied on the imports of Pakistani goods as they are on the imports of Indian goods into the EU, is approximately $3 billion. This is one-third of the total imports into the EU from Pakistan. The top three products most likely to be impacted include women's trousers, men's trousers and bed linen.
- Three products stand-out in which the trade loss for Bangladesh is significant if its EBA status is revoked. Pakistan has substantial imports into the EU include women's trousers, men's trousers and jerseys.

The adoption of technical non-tariff measures:

- Pakistan has low adoption rates of technical non-tariff measures, which is more commonly observed in the EU, Bangladesh and Vietnam. Although, the adoption rate in India remains low as well, they have a higher rate of adoption than Pakistan.
- Pakistan focuses on conformity assessments, other countries not only have a more diversified range of NTM classification applied on their imports but are also likely to involve regulations on labelling of the products. This seems to be missing from the regulatory environment in Pakistan.
- When considering the imports of undenatured ethyl alcohol, medical instruments, inflatable balls and footwear, Bangladesh has converged the labelling requirements on its imports to match that of EU, ensuring that not only imports into Bangladesh follow certain labelling regulations but also ensure that it ensures certain level of standardization of NTMs with one of its largest export markets. Pakistan and India have the least convergence in terms of the NTMs imposed on imports.

Firm-level obstacles and female labor force participation:

- Pakistani firms face major or severe obstacles due to transport facilities and customs regulations than firms located in the regional counterparts and are less likely to receive facilitation in international trading activities.
- Given the contribution of the textile industry in Bangladesh, female workforce plays a relatively important role in generating export revenue for Bangladesh. Pakistan reports the lowest levels across all industries, highlighting the lack of female participation in the labor force.

5.2 Recommendations:

1. ***Avoid the revocation of GSP Plus Status:*** Pakistan is the largest beneficiary of the GSP Plus status awarded by the EU. A loss of status will result in a trade loss of at least $3 billion if the tariff rates applied on Indian imports are applied on imports from Pakistan after the loss of status. This will create further challenges as Pakistan struggles with its balance of payment crisis. All ministries concerned must ensure compliance with the requirements of the EU.
2. ***Focus on product diversification rather than market diversification.*** The top destination markets for Pakistan, India, Bangladesh and Vietnam are similar, suggesting that these are the markets likely to attract majority of the demand of the products from Pakistan and its counterparts. However, Pakistan lacks product diversification and there is greater scope in product diversification. Although, the process of increasing product diversification is highly complex, the starting steps must include greater trade openness and integration into regional and global trade networks. For instance, Pakistani producers must diversify towards textile products made of man-made and artificial fibers. The ministry of commerce must encourage product diversification through trade fairs, exhibitions and product promotions. Trade Development Authority of Pakistan (TDAP) has a critical role to play.

3. ***Satisfying the European consumers in terms of their product requirements.*** As highlighted in this study, the Pakistani textile exports to the EU are mostly of low unit value, comparable to those of Bangladesh. India and Vietnam, on the other hand, report much higher unit value for their textile products. However, they are more diversified and are less concentrated in textile, leather, and rice products, with higher imports into the EU in other industries than Pakistan's traditional export-based industries as identified. This suggests that European consumers are willing to pay higher prices for products that satisfy their needs in terms of quality and utility. Pakistani producers must focus on upgrading the quality of the products so that they capture higher export unit value as do producers from India and Vietnam. This will also improve product diversification. The focus must shift towards customer satisfaction by ensuring better quality products.
4. ***Improving the regulatory environment in Pakistan through technical non-tariff measures.*** One of the major issues highlighted in this study is that Pakistan imposes the lowest level of non-tariff measures on its imports, which suggests the lack of regulations and quality checks on imports of goods into Pakistan. This can have a compounding effect on the quality of goods produced in Pakistan as overall regulatory oversight in terms of technical non-tariff measures are absent. The Ministry of Science and Technology, through Pakistan Standards and Quality Control Authority (PSQCA) and Ministry of National Food Security and Research, through Department of Plant Protection (DPP), must ensure that quality of goods not only imported into the country but also produced locally meet international standards. This will encourage participation in global and regional value chains.
5. ***Improving trade facilitation to make international trading activities inclusive for all firms.*** Pakistani firms report the most severe and major transport and customs-related obstacles compared to other countries, particularly in other industries. This limits the ability to diversify the range of products exported from Pakistan. Therefore, it is imperative that the government ensures better trade and customs facilities to encourage participation in international trading activities. The recent launch of the Pakistan Single Window by Pakistan Customs and the National Compliance Centre by the Ministry of Commerce is a step in the right direction. However, their outreach must be continuously expanded to ensure the maximum benefits to the exporters from Pakistan.
6. ***Encouraging female labor force participation.*** A major characteristic of the Bangladeshi textile industry is that it encourages female participation. More than 40 percent of the production workers in Bangladesh in the textile industry are female as surveyed by the World Bank Enterprise Surveys. This creates opportunities for gender inclusivity and raises overall income levels and living standards of worker's families. Pakistan lacks female participation across all industries. It is recommended to create specific employment opportunities for women that can include piece-rate contracts as well as part-time opportunities.
7. ***Increase exports of better performing products in other industries that are not traditionally export oriented.*** This report identifies a few products from other industries that are not export-oriented in which Pakistani producers have performed relatively well. The imports into the EU are one of the highest from Pakistan amongst the listed regional counterparts for undenatured alcohol, medical instruments, and inflatable balls. Unfortunately, Pakistan has ceded space to its counterparts in recent years as its growth rate has been relatively low. Policymakers must ensure that Pakistani producers maintain their quality and meet the needs of the consumers in the EU market so that they remain competitive. For instance, the regulatory environment, which is becoming more complex, must be improved. The Ministry of Industries and Production must ensure policies that encourage export participation in such industries. This could be done by promoting the role of small and medium enterprises (SMEs) through SMEDA, encouraging new entrants into international trading activities.

Appendix A: Original 27 Conventions

Issue Area	Convention	Accession/ Ratification
Human Rights	Convention on the Prevention and Punishment of the Crime of Genocide (1948)	1957
Human Rights	International Convention on the Elimination of All Forms of Racial Discrimination (1969)	1966
Human Rights	International Covenant on Civil and Political Rights (1976)	2010
Human Rights	International Covenant on Economic, Social and Cultural Rights (1976)	2008
Human Rights	Convention on the Elimination of All Forms of Discrimination against Women (1981)	1996
Human Rights	Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (1987)	2010
Human Rights	Convention on the Rights of the Child (1990)	1990
Labour Rights	Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)	1951
Labour Rights	Right to Organise and Collective Bargaining Convention, 1949 (No. 98)	1952
Labour Rights	Forced Labour Convention, 1930 (No. 29) (and its 2014 Protocol)	1957
Labour Rights	Abolition of Forced Labour Convention, 1957 (No. 105)	1960
Labour Rights	Minimum Age Convention, 1973 (No. 138)	2006
Labour Rights	Worst Forms of Child Labour Convention, 1999 (No. 182)	2001
Labour Rights	Equal Remuneration Convention, 1951 (No. 100)	2001
Labour Rights	Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	1961
Environmental Protection	Convention on International Trade in Endangered Species of Wild Fauna and Flora (1973)	1976
Environmental Protection	Montreal Protocol on Substances that Deplete the Ozone Layer (1987)	1992
Environmental Protection	Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (1989)	1994
Environmental Protection	Convention on Biological Diversity (1992)	1994
Environmental Protection	United Nations Framework Convention on Climate Change (1992)	1994
Environmental Protection	Cartagena Protocol on Biosafety (2000)	2009
Environmental Protection	Stockholm Convention on persistent Organic Pollutants (2001)	2008
Environmental Protection	Kyoto Protocol to the United Nations Framework Convention on Climate Change (1998)	2005
Good Governance	United Nations Single Convention on Narcotic Drugs (1961)	1999
Good Governance	United Nations Convention on Psychotropic Substances (1971)	1977
Good Governance	United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988)	1991
Good Governance	United Nations Convention against Corruption	2007

Source: GSP Hun: Monitoring database Pakistan, URL: https://gsphub.eu/monitoring-database?country=Pakistan

Appendix B: Additional Conventions to be Added to GSP Plus

Area	Convention	Year Ratified	Source
Human Rights	Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict (2000)	2016	United Nations Treaty Collection
Human Rights	Convention on the Rights of Persons with Disabilities (2007)	2011	United Nations Treaty Collection
Labor Rights	Convention on Labour Inspection No 81 (1947)	1953	Information System on International Labour Standards
Labor Rights	Convention on Tripartite Consultations No 144 (1976)	1994	Information System on International Labour Standards
Climate Change	The Paris Agreement on climate change (2015)	2016	United Nations Treaty Collection
Good Governance	United Nations Convention against Transnational Organised Crime (2000)	2010	United Nations Treaty Collection

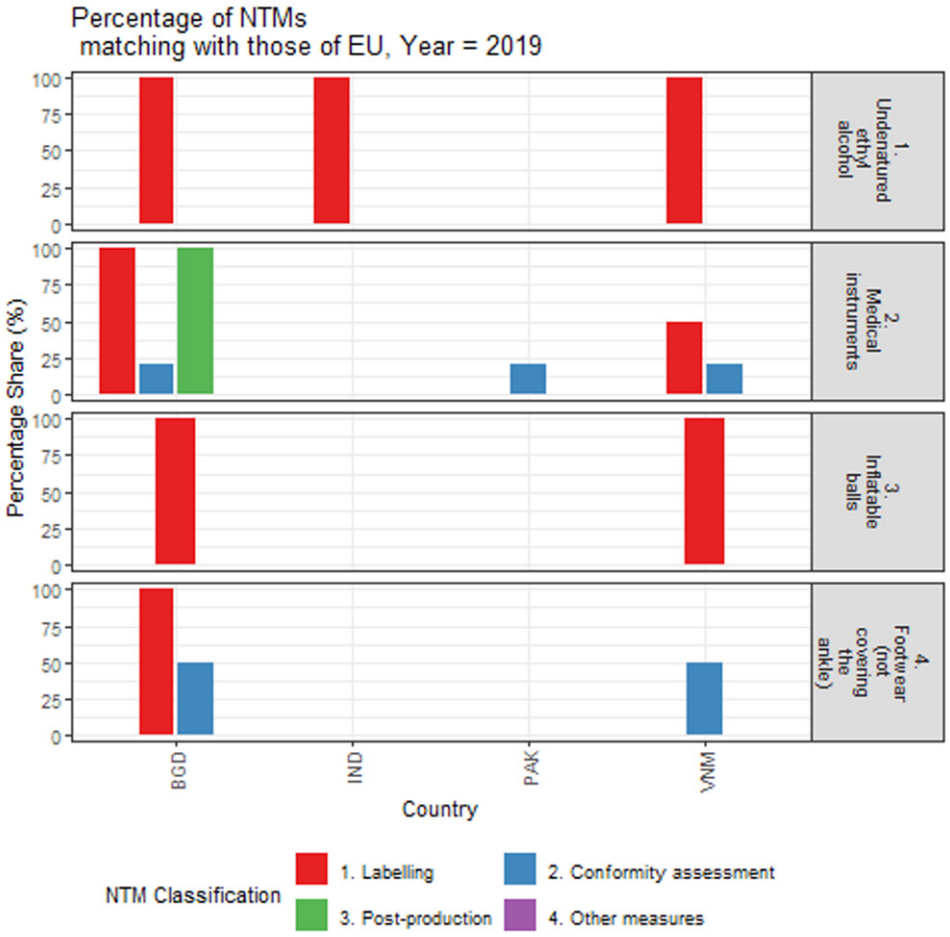
Source: United Nations Treaty Collection. https://treaties.un.org/
Information System on International Labour Standards. https://www.ilo.org/dyn/normlex/en

Appendix C: Trade Flow Values

	Pakistan	Bangladesh	India	Vietnam
Total Imports into the EU in 2021	9.06	24.2	53.5	48.7
Industry-wise total imports into EU in 2021				
1. Textile	7.17	22.9	7.58	4.65
2. Leather	0.45	0.08	1.33	0.91
3. Rice	0.31	0.002	0.18	0.05
4. Other industries	1.13	1.23	44.4	43.1
Imports into the EU of top 15 products in 2021	4.99	16.4	12.2	25.99
Imports into the EU of top 15 products exported by PAK in 2021	4.99	11.24	1.95	0.64
Industry-wise growth of imports into the EU (2013-2021)				
1. Textile	87.1	77.9	-0.46	62.8
2. Leather	-18.7	-40.0	-20.2	55.8
3. Rice	330.1	73	-37.6	82.3
4. Other industries	17.15	70.2	43.85	100.5

Note: All flows in Billions of US Dollars. Growth is reported in terms of percentage change.

Appendix D: Import tariffs imposed by the EU on imports from Pakistan, Bangladesh and India



Appendix D: Industry-wise distribution of weighted average imports tariffs on the imports into the EU from Pakistan, Bangladesh and India

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