



# GSTP for Developing Countries: A Trade Indicators Analysis

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## **Abstract**

*This study analyses the benefits to Pakistan of becoming a Signatory to the final protocol of the Sao Paulo Round of GSTP by conducting trade indicators analysis like BRCAs, Potential Bilateral Trade, Finger Kreinin Index and Trade Intensity Index of Pakistan vis a vis 11 Signatory members. The results of the study show that GSTP would be beneficial for Pakistan since it provides immediate market access into countries like MERCOSUR, Cuba, Egypt and Morocco. GSTP would be especially important for trade with South Korea where Pakistan's international competitors China and India already have preferential access. Although the 20% linear cut on 70% of dutiable tariff lines envisaged under GSTP does not provide the same depth of concessions as bilateral trade arrangements, however the cuts come into effect immediately and may help Pakistan make inroads into unexplored markets.*

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## 1 Introduction

The idea of a Global System of Trade Preferences among developing countries was first floated in a series of G77 meetings between 1976 and 1981. GSTP was formally established in 1982 at a G77 Ministerial in New York. The purpose of GSTP was the promotion of South-South trade (GSTP/SGPC, 2011). GSTP is open to the members of G 77 and China. Currently 43 countries are members of the Agreement (Refer to Annex I). GSTP negotiations are conducted under the auspices of UNCTAD.

Three rounds of negotiations have been held: 1986-88 (Brasilia), 1990-98 (Tehran) and Sao Paulo (2004-2010). The first Round led to the adoption of the text of the Agreement on GSTP with the Agreement entering into force in 1989. Both Rounds failed to make much headway in terms of market access. A major stumbling block in the negotiations was the issue of “free riders” (resulting from the Most Favoured Nation (MFN) clause) which meant that GSTP members making obligations had to share their results with GSTP member countries not participating in the round (UNCTAD, 2011). Schedules of concession were submitted but they were limited in scope to only a few hundred tariff lines. In the third round (Sao Paulo 2004-2010) negotiations made some progress with the Ministerial Decision on Modalities reached in 2009 in Geneva after which negotiations culminated in December 2010.

Out of the 43 members of GSTP 22 participated in the Sao Paulo Round (refer to Annex II) out of these 11 countries were signed the final Protocol of the Sao Paulo Round<sup>1</sup>. The final act embodying the results of Sao Paulo Round was issued in December, 2010. Based on the Ministerial Decision on Modalities (December, 2009) there is agreement on a 20% linear cut on 70% of dutiable tariff lines<sup>2</sup>. These tariff cuts under GSTP would come into force immediately. Any participant to the GSTP may at any time present to the Committee of Participants its intention to accede to the Protocol through the submission of its proposed schedule of tariff concessions.

Developing countries are now accounting for an increased share in trade with Table 1 showing that the current combined exports of GSTP member countries stood at US\$ 2924 billion with Pakistan’s imports to GSTP countries growing, by 73%, from US\$ 2.017 billion to US\$ 3.49 billion (between 2005 and 2010). Imports from GSTP countries have risen faster than exports rising by 81% from US\$ 5.02 billion to US\$ 9.07 billion in 2010. Pakistan’s total exports to Sao Paulo 11 rose from US\$ 0.761 billion to US\$ 1.03

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<sup>1</sup> These countries are: MERCUSOR (Argentina, Brazil, Paraguay, Uruguay), Cuba, India, South Korea, Indonesia, Malaysia, Egypt and Morocco.

<sup>2</sup> Ministerial Decision on Modalities A(1), A(2).Doc SNPR/NC/MM/1 December, 2009.

billion (between 2005 and 2010 a rise of 31%). Pakistan's total imports from these countries rose from US\$ 3.32 billion to US\$ 5.89 billion (between 2005 and 2010 rising by 78%). Out of exports to Signatory countries Pakistan exported the most to South Korea (27% of all exports to Sao Paulo 11), India (26.5%), Malaysia (14%) and MERCOSUR (14%). On the other hand in Pakistan's imports from these countries Malaysia had the largest share (35%) followed by India (26%), South Korea (13%) and Indonesia (11%).

TABLE 1: GSTP & PAKISTAN TRADE

<b>GSTP Members</b>	<b>2005</b>	<b>2010</b>	<b>Change</b>
<b>Exports to World in Billion \$</b>	1761.14	2924.59	66%
<b>Imports from World in Billion \$</b>	1616.78	2723.76	68%
<b>Pakistan</b>	<b>2005</b>	<b>2010</b>	<b>Change</b>
<b>Exports to GSTP (43) in billion \$</b>	2.017	3.493	73%
<b>Imports from GSTP(43) in billion \$</b>	5.022	9.073	81%
<b>Exports to Sao Paulo (11) in billion \$</b>	0.761	1.035	31%
<b>Imports from Sao Paulo (11) in billion \$</b>	3.32	5.897	78%

*Source: Authors' calculations based on ITC Trade Map*

Expected export gains, from a 20% linear cut if all GSTP members participated, are expected to be US\$ 7.7 billion. GSTP members from Asia are expected to gain the most with increase in exports of US\$ 5.8 billion followed by GSTP Latin America with gains in exports of US\$ 1.6 billion and then GSTP Africa with a US\$ 293 million increase in exports (UNCTAD/ITC , 2005).

Pakistan is a founding member of GSTP and in principle supports the enhancement of South -South cooperation for strengthening trade. Pakistan participated in all three rounds of GSTP negotiations however it did not submit its schedule of tariff concessions and hence is not a Signatory member of the final Protocol of the Sao Paulo Round. Initially GSTP negotiations were the domain of the Ministry of Commerce (MoC) but in 2003 the mandate for negotiations was transferred to the Ministry of Foreign

Affairs (MoFA) which has continued consultation with stakeholders on the draft of Pakistan's Schedule of Concessions. The Ministries involved include Ministry of Commerce, Ministry of Industries, Ministry of Food and Agriculture, FBR. An Inter Ministerial meeting was held at MoFA in June, 2010 whereby it was decided that FBR would prepare a working paper on GSTP tariff concessions. The FBR's response is that the 70-80% product coverage and a maximum Margin of Preference of 30% would be acceptable to Pakistan. Further input is required to assess the feasibility of signing the Sao Paulo Protocol for Pakistan. The objective of this study is to assess the benefits accruing to Pakistan of signing the final protocol of the Sao Paulo of GSTP. This is achieved through the analysis of various trade indicators.

## 2 Methodology

We begin our study with an overview of the GSTP Agreement, how the negotiations have evolved and the current state of play post Sao Paulo Round. We then examine the trade profiles for each of the 11 Signatory members of Sao Paulo (herein referred to as signatory countries) in terms of product composition of exports/imports and geographical composition of exports/imports. This is followed by a detailed analysis of each country's trade with Pakistan. Trade economists are of the view that the higher the tariffs or the presence of tariff peaks, the greater the benefit derived from trade liberalization.

The next part examines the tariff structure of Signatory countries, their average applied tariffs, their overall tariff structure and focuses on the benefits accruing to Pakistan from market access being granted by the Signatory countries. Our theoretical assumption is that market access would only be meaningful for Pakistan if it is granted for products in which Pakistan has a comparative advantage and for which there is export potential.

We identify products for which Pakistan has a comparative advantage using Bilateral Revealed Comparative Advantage Index (BRCA). This index when calculated at the HS 6 digit level shows the products for which Pakistan is competitive in in a given country. It is calculated as follows:

$$BRCA_{ij} = (X_{ij}^k / X_{ij}) / (M_{jw}^k / M_{jw})$$

Where:  $X_{ij}^k$  = Export of product k from country i to country j

$X_{ij}$  = Total exports of country i to country j

$M_{jw}^k$  = Imports of product k by country j from world



$M_{jw}$  = Total imports of country j from world

A BRCA greater than 1 indicates that a country is competitive, in the export of a particular commodity, in a particular market.

We identify products for which Pakistan has the export potential in each Signatory country this is done by using the Potential Bilateral Trade Index (PBT). PBT provides us with a dollar value of Pakistan's potential export to each country and is calculated at the HS 6 digit level as follows:

***Min (Pakistan global exports of  $i$ , Brazil global imports of  $i$ ) -Pakistan exports of  $i$  to Brazil***

After the identification of important export sectors for Pakistan we measure the potential benefits of market access taking the example of Brazil. These potential benefits are defined in terms of the following parameters: Expected rise in Pakistani exports to Brazil, quantum of trade creation and trade diversion. Pakistan also competes with the some of the other Signatory countries like India and so any calculation of potential benefits should account for the preference to available to these countries as well. We limit our analysis to the 11 Signatory countries and Pakistan not considering the remaining 10 countries that participated in the Sao Paulo Round<sup>3</sup>.

We calculate the Finger Kreinin Index that provides a measure of export similarity between any pair of countries. This index is a useful measure in the context of regional trade agreements. If two countries have similar trade patterns and production structures then it may be more likely that further trade liberalization will lead to higher welfare gains as it is more likely that trade liberalization will lead to welfare gains and this will lead to "trade creation". Each country can then choose to import from the more efficient supplier and if two countries have different trade patterns and production patterns then this will lead to "trade diversion". In our analysis, FK Index is calculated "to a destination". In this we are considering the export structures of reporting countries into the destination market. FK Index should be calculated using production data, but as it is not readily available, therefore it is calculated using highly disaggregated trade data. The mathematical formula for the FK Index is given below:

$$FK_{ij}^k = \sum \min [(x_{i1j}^k/x_{i1j}), (x_{i2j}^k/x_{i2j})]$$

Where,  $i1$  &  $i2$  = reporting countries

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<sup>3</sup> The countries that participated in the Sao Paulo Round but did not sign the agreement (excl. Pakistan) are: Algeria, Chile, Iran, Mexico, Nigeria, North Korea, Sri Lanka, Thailand, Vietnam and Zimbabwe.

k = specific product

j = Rest of the world (ROW)

In this index we take the share of reporting countries of the specific product in the ROW. The value of this index ranges from 0-1. If the value is 0, it means that the export structures of the reporting countries are completely different from one another and there is no over lapping. And if the value is 1, this means that the share of exports out of total exports going to the destination market is identical across the two countries. Finger and Kreinin (1979), measures the proportion of a country's exports matched by its competitor's exports in the same product category. The first step in the analysis is to calculate the share of product lines at HS 6-digit level in total exports for the year 2010. These shares are then compared with the share of Pakistan to see the export similarity between the countries.

We then calculate the Trade Intensity Index (TII) is the method used to analyze the bilateral trade flows and resistances. The main advantage of using this index is that it does not include the size of the country or the region. This index can be taken as a uniform export share. In other words we can also say that it is the ratio what reporter country is exporting to the region to the share of world exports to the region. The TII is the ratio of export shares, the numerator is the share of destination of interest in the exports of the region under study and denominator is the share of the destination of interest in the exports of the world as a whole. The formula for TII is as follows:

$$TII_{ij}^k = (X_{ij}^k / X_{ij}) / (X_{jw}^k / X_{wj})$$

Where,  $X_{ij}^k$  = Exports of country of specific product to destination market

$X_{ij}$  = Total exports to destination market

$X_{jw}^k$  = Exports of world of specific product to destination market

$X_{wj}$  = Total exports of world to destination market

The value of index ranges between 0 – 1. If the index value is greater than 1, than it means that the trade among the partners is specialized towards its members and this will lead to less scope of trade diversion. If the value is less than 0, it means that the trade among partners is not concentrated within the region and world is exporting more to the region as compared to partners.

In our analysis, we have computed TII of Pakistan with GSTP members for the period 2010. This index is calculated for the aggregate export flows. It is useful to indentify the trade relations between the reporting country and a partner country and in particular whether trade with the member country is more relevant than trade with rest of the world.

A detailed analysis is conducted for all 11 Signatory countries based on the abovementioned trade indicators. Conclusion and the Recommendations are presented in the Chapters 11 and 12 respectively.

## **3 Malaysia**

### **3.1 Malaysia Trade Profile**

Since the 90s Malaysia has been able to integrate itself into the global supply chain for technology products which was a driver of export growth. This East Asian Tiger has been experiencing trade surpluses with 2009 exports reaching US \$ 157 billion and imports, in the same year, valued at US \$ 123 billion. Malaysian exports were able to achieve a record level of US \$ 198 billion in the year 2008 before the full effects of the global economic recession were felt.

Electronic equipment comprising mainly of semiconductors and circuits for technology products accounted for the highest share of 28.75% in 2009 however, since 2003 the share of these technology products in Malaysia's total exports has fallen. Machinery comprising computer processors and computer parts had the second highest share of 16.69% in 2009. Petroleum exports including petroleum gases and crude had a share of 14.79% of total exports in 2009. Malaysia was also a major exporter of palm oil whose share has risen steadily from just 5% in 2003 to 7.62% in 2009.

As a result of Malaysia's integration in the global technology supply chain, its major export destinations comprise of countries that are a part of this supply chain. Fellow ASEAN member Singapore is the largest export partner with a share of 13.9% of total exports in 2009. It was followed by China an increasingly important trading partner with a share of 12.1%, United States which was overtaken by China (10.96%), Japan (9.84%) and Thailand (5.4%).

Malaysia's imports in 2009 were US \$ 123.5 billion and comprised mainly of electronic equipment consisting of integrated circuits (30.25%), which again were related to Malaysia's technology exports. Other major import categories included industrial machinery (15.22%), petroleum (8.2%) and vehicles (3.11%).

Malaysia's major import suppliers included many regional (including fellow ASEAN) countries with China has emerging as the leading source of imports for Malaysia supplying 13.96% of the country's total imports from the world in 2009 increasing its share from just above 8% in 2003. Malaysia imports the following products from China: electronic equipment, machinery, iron and Steel and organic chemicals.

Malaysia's second largest import source was Japan which accounted for a share of 12.4% in 2009 steadily losing market share from over 17% in 2003. Japan imported the following major products to Malaysia: electronic equipment, machinery and vehicles.

The United States was also a major import supplier for Malaysia with a share of 11.2% in 2009 falling from 15.5% in 2003. The US imports the following products to Malaysia: electronic equipment, machinery, aircraft. Singapore a fellow ASEAN member had a share of 11% in Malaysia's total imports which has remained fairly constant over time. Singapore, like Malaysia's other trading partners comprise of technology intensive products.

### **3.2 Pakistan's Trade with Malaysia**

Pakistan and Malaysia signed an FTA (PMFTA) which entered into force in 2008 with the entire liberalization commitments enforced by 2012. Trade between the 2 countries is skewed in the favour of Malaysia with Pakistan suffering a trade deficit of US \$ 1.61 billion in 2009. Pakistan's exports to Malaysia in 2009 were US \$ 149 million piling in comparison to its imports from Malaysia which were US \$ 1.63 billion. Pakistan has been able to increase its exports to Malaysia from a value of just US \$ 44.8 million in 2003 to US \$ 149 million in 2009.

Rice accounted for the bulk of Pakistan's exports to Malaysia and the share of rice in total exports to Malaysia has risen from 24% to 38%. In 2003 Pakistan's export of rice to Malaysia was US \$ 10 million rising to US \$ 25.1 million in 2009. This was despite the exclusion of rice from liberalization under Pak Malaysia FTA with the product facing tariffs as high as 40%.

The other major export item is fish which has seen its share decline from 15% of total exports in 2003 to 9% in 2009. Potato and onion exports to Malaysia grew with exports rising from a value of just US \$ 2 million in 2003 to US \$ 12 million in 2009. Cotton once dominating Pakistan's total exports to Malaysia (with a share of 23% in 2003) saw a decline in overall export value as well as share (its share falling to 6.5% in 2009). It should be noted that although these products were included in the Pak Malaysia FTA, they already faced zero MFN tariffs so Pakistani importers were unable to benefit from any preferential advantage.

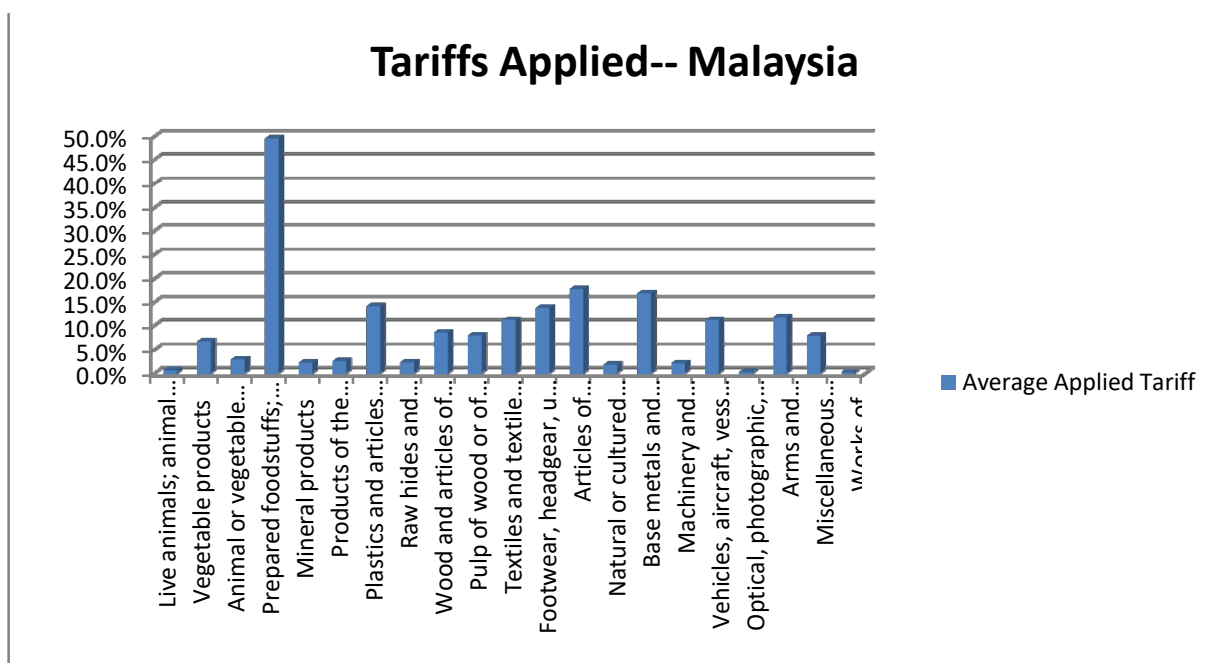
70% of Pakistan's US \$ 1.6 billion imports from Malaysia consisted of palm oil. Currently under PMFTA palm oil enjoys a margin of preference of 15% and by the end of 2011 the MoP would increase to 20%. Therefore this rudimentary analysis shows that Malaysia was able to gain considerable market access for its major import item. Other imports from Malaysia included: petroleum (7%) and machinery (2.98%).

### 3.3 Malaysia Tariff Regime

Malaysia is a member of the ASEAN trading bloc which has further signed FTAs with Australia, China, India, Japan, Korea and New Zealand. Malaysia has signed to bilateral trade agreements with Japan and Pakistan and New Zealand. It is currently negotiating FTAs with Australia, Chile, India and the United States.

Malaysia’s tariff regime consists of high tariffs on agricultural products with low tariffs for non agricultural products<sup>4</sup>. The average tariff applied for all products is 6.02% with average applied agricultural tariffs at 23.27% and average applied non agricultural tariffs at 5.02%<sup>5</sup>.

FIGURE 1: TARIFFS APPLIED BY MALAYSIA



Source: Based on ITC Market Access Map data and HS Section grouping

Figure 1 shows the tariff structure of Malaysia for products based on groupings of HS Chapters as can be seen, Malaysia is protecting its agricultural sector but has lower tariffs for industrial products. The reason for the lower tariffs on manufactured products is due to Malaysia’s integration in the regional supply chain it has to have lower tariffs on these products as often times in the global supply chain

<sup>4</sup> Non agricultural products as defined by the WTO

<sup>5</sup> Market Access Map

products have to be imported, processed and then exported. Lower tariffs in this regard are essential for maintaining competitiveness.

“Malaysia has eliminated and reduced applied MFN tariffs on a range of products partly in accordance with its WTO commitments, but mainly unilaterally. These products include some dairy products, prepared/preserved fish, preparations of fruits/vegetables/nuts, mineral and chemical fertilizers, plastics and articles thereof, glass and glassware, electrical ignition and starting equipment, electric apparatus for switching/protecting electrical circuits, electric heating apparatus, and motor vehicles. Malaysia's 2009 Budget included the elimination of import duties on several food items (including vermicelli, biscuits, some fruit juices, and canned sweet corn), and the reduction of import duties on selected consumer durables including blenders, rice cookers, microwave ovens, and electric kettles<sup>6</sup>”.

### 3.4 Bilateral Revealed Comparative Advantage between Pakistan and Malaysia

TABLE 2: BRCA BETWEEN PAKISTAN & MALAYSIA

HS Code	Description	2008	2009	2010
100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	41.05	24.59	88.70
100640	Rice, broken	50.15	647.64	6706.29
520512	Cotton yarn, >/=85%, single, uncombed, 714.29 >dtex>/=232.56, not put up	417.40	333.66	1352.65
070190	Potatoes, fresh or chilled nes	84.25	64.68	92.57
030379	Fish nes, frozen, excluding heading No 03.04, livers and roes	57.60	24.73	66.14
630260	Toilet&kitchen linen, of terry towellg or similar terry fab, of cotton	902.39	1384.63	755.26
520522	Cotton yarn, >/=85%, single, combed, 714.29 >dtex>/=232.56, not put up	184.33	106.24	721.15
070310	Onions and shallots, fresh or chilled	16.51	31.87	22.63
290315	1,2-dichloroethane(ethylene dichloride)	0.00	14.56	30.94
030339	Flatfish nes, frozen, excluding heading No 03.04, livers and roes	1202.78	2782.23	4898.36
851770	Parts of telephone sets, telephones for cellular networks or for other	0	11.44	8.39
520513	Cotton yarn, >/=85%, single, uncombed, 232.56 >dtex>/=192.31, not put up	685.40	470.36	662.40
551341	Plain weave polyester stapl fib fab, <85%, mixd	558.29	298.51	679.43

<sup>6</sup> Malaysia Trade Policy Review (January, 2010). Pg 27-28.

	w/cot,</=170g/m2,printd			
350300	Gelatin and gelatin derivs; isinglass; glues of animal origin, nes	758.84	281.04	412.79
520851	Plain weave cotton fabrics,>/=85%, not more than 100 g/m2, printed	1581.91	1176.81	440.19
520532	Cotton yarn,>/=85%,multi,uncombed,714.29 >dtex>/=232.56,nt put up,nes	15353.97	2058.99	7508.01
240120	Tobacco, unmanufactured, partly or wholly stemmed or stripped	1.07	2.15	8.80
521051	Plain weave cotton fab,<85% mixd w m-m fib,nt more thn 200 g/m2,printd	3039.95	1263.04	2880.07

Source: Authors' calculations based on ITC Trade Map

The bilateral RCA between Pakistan and Malaysia shows that Pakistan is competitive in mainly 4 product categories. These categories included rice, vegetables, fish and textile items namely cotton yarn, woven fabrics of cotton, polyester fabric and made ups. Under Pak Malaysia FTA Pakistan does not have any access for rice, vegetables and fish already face zero MFN duties and Pakistan has preferential access for textiles. Pakistan is the third largest supplier of rice to Malaysia with its main competitors being Vietnam and Thailand. For cotton yarn Pakistan is the fifth largest supplier to Malaysia with the market leaders being India, China, Thailand and Vietnam. Pakistan has a smaller share in fish products which Malaysia imports from China, Indonesia and Thailand.

### 3.5 Potential Bilateral Trade between Pakistan and Malaysia

TABLE 3: PBT OF PAKISTAN WITH MALAYSIA

HS CODE	Description	Pak Exports to Mys (US\$ 000)	PBT (US\$ 000)	Tariff under PMFTA (%)
100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	38424	451294	40
901890	Instruments and appliances used in medical or veterinary sciences, nes	538	218462	0
520100	Cotton, not carded or combed	378	89783	0
151620	Veg fats & oils & fractions hydrogenatd,inter/re-esterifid,etc,ref'd/not	0	83699	2.4
390760	Polyethylene terephthalate	0	71814	15
730690	Tubes, pipe & hollow profiles, iron or steel, welded, nes	0	68328	30
850239	Electric generating sets	0	66266	0
711319	Articles of jewelry&pt therof of/o prec met w/n platd/clad w prec met	110	54549	5



730890	Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406)	0	46212	22.7
070190	Potatoes, fresh or chilled nes	4307	43571	0

Source: Authors' calculations based on ITC Trade Map

Table 3 shows that Pakistan has the potential to export rice to Malaysia worth US\$ 451 million however; Malaysia has high protection for this sector with MFN tariffs at 40%. Malaysia considers rice as a sensitive product and did not grant any preferences, for rice, in PMFTA. Surgical instruments are another potential export item for Pakistan to Malaysia with the potential estimated at US\$ 218 million. What is interesting to note is that Malaysia has zero MFN tariffs for this item which means that Pakistan will not be able to gain any advantage in this segment with GSTP and it needs to focus on other strategies for entering the Malaysian market (e.g. better marketing) to compete with high quality products from US, Singapore and Germany (the leading exporters of HS 901890 to Malaysia).

### 3.6 Finger Kreinin Index between Pakistan & Malaysia

Malaysia is the major exporter of palm oil and electronic equipments like semi conductors and computer parts and processors. While Pakistan's major exports include textiles, leather, surgical goods and rice, as the export structures of both countries are different from one another, therefore the index value is also very small i.e. 0.08 as shown in Table 4

TABLE 4: FK INDEX--PAKISTAN & MALAYSIA

Reporter	Partner	FK Index	Observations
Pakistan	Malaysia	0.088	5315

Source: Authors' own calculations

What the results show is that since both countries have dissimilar export structures, further liberalization of trade will result in increased exports for both as trade will be diverted from other sources.

### 3.7 Trade Intensity Index between Pakistan and Malaysia

The TII calculated shows that the share of Pakistan's exports to Malaysia is less than the share of the rest of the world's exports to Malaysia. This means that further trade liberalization would lead to trade being diverted from other sources. For example, under the current scenario trade between the two countries is not biased towards each other with Malaysia importing more from the ASEAN region than from

Pakistan. Therefore further trade liberalization would lead to Malaysia diverting imports from ASEAN and other countries to Pakistan.

TABLE 5: TII BETWEEN PAKISTAN & MALAYSIA

<b>Reporter</b>	<b>Partner</b>	<b>Trade Intensity Index</b>
Pakistan	Malaysia	0.597

*Source: Authors' own calculations*

## **4 Indonesia**

### **4.1 Indonesia Trade Profile**

Indonesia an East Asian tiger economy has witnessed a large trade surplus since 2003. This rising surplus, at US \$ 19.6 billion in 2009, was attributable to the country's energy exports which rose as a result of soaring international prices. Out of Indonesia's total exports of US \$ 116.5 billion, mineral fuels and oils accounted for 28.2%. Indonesia's energy exports comprised mainly of coal with Indonesia capturing 16% of worldwide exports of the product. Other major energy imports were Petroleum gases, crude petroleum and petroleum coke. The other major import category was vegetable oil which has total of 10% of exports in 2009. This comprised of palm oil (for which Indonesia had captured 45% of world exports), copra oil and margarine. Since 2003 the share of these products has increased in line with rising global prices. Electronic equipment accounts for 7% of Indonesia's export although we see that these products have seen declining values since 2003.

Most of Indonesia's exports are destined for regional and fellow ASEAN members. Japan was its largest export partner accounting for 16% of exports comprising of petroleum and minerals and iron ore products. China is the second largest export market absorbing 10% of Indonesia's overall exports. The main commodities exported to China include: petroleum and minerals, palm oil and rubber products.

The United States' share in Indonesia's exports has steadily declined and in 2009 it had a 9.3% share. Exports to the US comprised mainly of apparel, electronic equipment and rubber. India is also becoming an increasingly import market for Indonesian palm oil and coal.

Indonesia's imports in 2009 were valued at US \$96.8 billion with 19.7% of these comprising of petroleum oils. However there is reduced reliance of Indonesian on imported petroleum oils. Indonesia imports various kinds of machinery and equipment which account for 15% of its total imports. Electronic equipments comprising an 11.4% share in imports are also becoming increasingly dominant.

Other important import items for Indonesia include iron and steel and organic chemicals each of which has a 4% share in the country's imports.

Indonesia's main import supplier is fellow ASEAN member Singapore which supplies 16% of all imports which include: petroleum oil, machinery and electronic equipment. However, recent trends suggest that Singapore is soon to be overtaken by China which currently supplies just over 14% of Indonesia's imports. Chinese imports into Indonesia comprise machinery and electronic equipment. The Japanese,

have a 10% share and supply machinery and vehicles to the country. Japan is followed by the US which, in line with the trend witnessed in the region, has an ever diminishing importance as an import supplier. The US currently accounts for just 7.3% of imports which comprise mainly of aircraft and machinery.

## **4.2 Pakistan's Trade with Indonesia**

Pakistan's total exports to Indonesia stood at US \$ 67 million in 2009 with Pakistan's imports from the country totaling US \$653.5 million in the same year leaving an enormous trade deficit of US \$586 million. Pakistan's exports to Indonesia are concentrated in cotton which accounts for 61.4% of all exports to the country. The other major product category exported to Indonesia is rice which accounts for 5% of total exports. This was followed by manmade staple fibres which had a share of 4.9%.

The composition of Pakistan's imports to Indonesia reveals a changing trend, with palm oil previously comprising the largest share in imports. However 2008 onwards we see that petroleum products have the highest share of imports 28.4% and the share of palm oil dropping to 23%. Falling palm oil imports, from Indonesia, can be attributed to rising imports from Malaysia with which Pakistan has signed an FTA giving a margin of preference of 15% to palm oil. The other major import item from Indonesia is betel nuts with a share of 9.8% of imports in 2009. This is followed by pulp and paper products which accounted for 8.2% of all imports in 2009.

## **4.3 Indonesia Tariff Regime**

Indonesia is a member of the ASEAN trading bloc which has further signed FTAs with Australia, China, India, Japan, Korea and New Zealand. Indonesia has signed an FTA with Japan and is currently negotiating an FTA with EFTA<sup>7</sup> countries. Indonesia's average applied tariff for all products in 2009 was 4.52 %. The average applied tariff was high for agricultural products 18.03% and low for industrial products (3.72%)<sup>8</sup>.

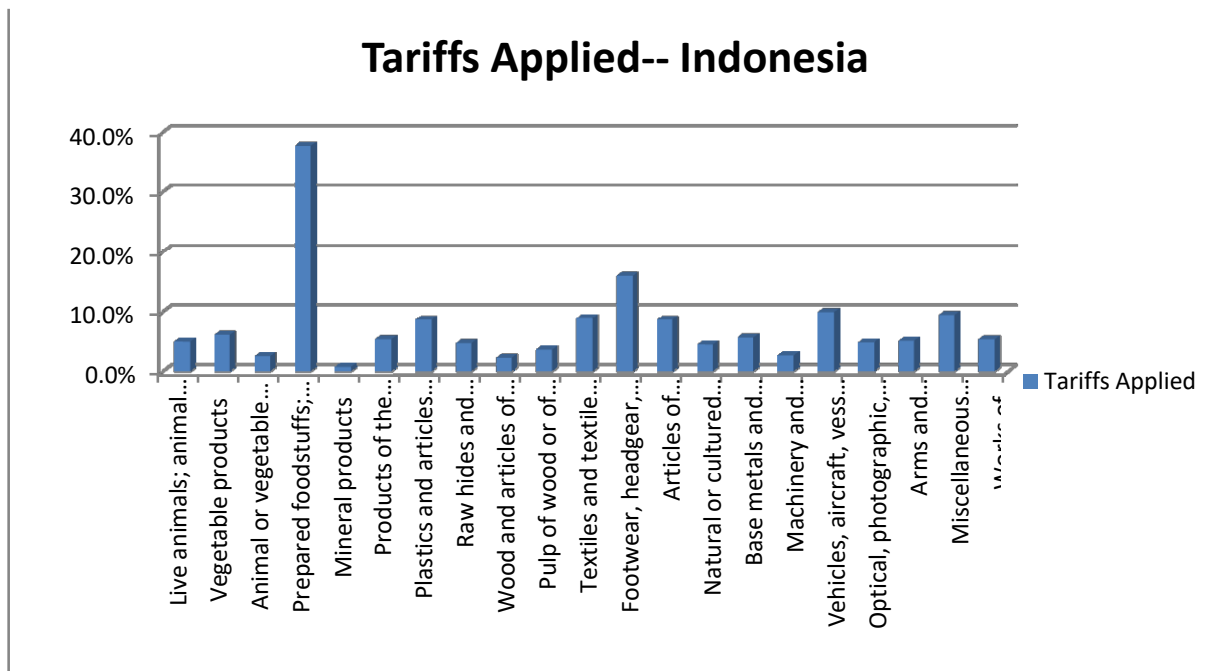
According to the Trade Policy Review of Indonesia more than 75% of tariff rates are between zero and 10%. Indonesia applies the highest tariff rate on motor vehicles and there is also tariff escalation for semi processed food, beverages and tobacco products. Indonesia has also imposed a partial ban on the import of rice citing sanitary reasons.

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<sup>7</sup> European Free Trade Area members include Norway, Iceland, Switzerland and Liechtenstein.

<sup>8</sup> Source: Market Access Map.

FIGURE 2: TARIFFS APPLIED-- INDONESIA



Source: Based on ITC Market Access Map data and HS Section grouping

#### 4.4 Bilateral Revealed Comparative Advantage between Pakistan and Indonesia

BRCA calculations between Pakistan and Indonesia show results similar to the calculations for Pakistan and Malaysia. Pakistan is competitive in rice, cotton, woven fabrics of cotton and polyester, cotton yarn and denim. Other products for which Pakistan is competitive are fish and ethanol.

TABLE 6: BRCA BETWEEN PAKISTAN & INDONESIA

HS Code	Description	2008	2009	2010
520100	Cotton, not carded or combed	33.3	37.4	33.0
551341	Plain weave polyester stapl fib fab,<85%,mixd w/cot,</=170g/m2,printd	712.2	570.9	1038.4
520932	Twill weave cotton fabrics,>/=85%, more than 200 g/m2, dyed	78.6	20.6	191.6
520939	Woven fabrics of cotton,>/=85%, more than 200 g/m2, dyed, nes	24.1	111.9	175.1
030339	Flatfish nes, frozen, excluding heading No 03.04, livers and roes	22713.2	1797.4	4840.7
520512	Cotton yarn,>/=85%,single,uncombed,714.29	853.4	870.5	331.2

	>dtex>/=232.56, not put up			
521051	Plain weave cotton fab,<85% mixd w m-m fib,nt more thn 200 g/m2,printd	5348.5	2145.9	33799.6
100640	Rice, broken	5.7	3.5	62.0
030379	Fish nes, frozen, excluding heading No 03.04, livers and roes	117.8	68.2	139.3
220720	Ethyl alcohol and other spirits, denatured, of any strength	0.0	436.9	10020.8
520942	Denim fabrics of cotton,>/=85%, more than 200 g/m2	22.7	81.4	116.5

Source: Authors' calculations based on ITC Trade Map

#### 4.5 Potential Bilateral Trade between Pakistan and Indonesia

Since Pakistan is in the process of signing an FTA with Indonesia it could make any preferences granted under GSTP less comprehensive.

Table 7 shows Pakistan's export potential items with Indonesia, it also shows the current tariffs faced by these products and the tariffs faced after the implementation of GSTP if these products are liberalized. Pakistan has the potential to export rice to Indonesia but its exports have failed to tap into the US\$ 289 million market; falling behind Vietnam, Thailand, USA and India all whom receive no preferential access for rice. Cotton, the main export item of Pakistan to Indonesia, has the potential to increase to a level of US\$ 196 million but the GSTP agreement or FTA will not have an influence since it is already a zero duty item. Pakistan also has the potential to export Kinnow, and surgical instruments to Indonesia.

TABLE 7: PBT BETWEEN PAKISTAN & INDONESIA

HS Code	Description	Pak Exports to Indon (\$000)	PBT (\$000)	Applied Tariffs (%)	Tariffs after GSTP if product liberalized (%)
100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	260	289358	11.9	9.52
520100	Cotton, not carded or combed	20605	196140	0	0
390760	Polyethylene terephthalate	0	97696	5	4
080520	Mandarins(tang&sats)clementines&wilkg s &sim citrus hybrids,fresh/drid	309	94866	20	16
730690	Tubes, pipe & hollow profiles, iron or steel, welded, nes	0	69176	10	8
850239	Electric generating sets	0	66266	10	8
901890	Instruments and appliances used in medical or veterinary sciences, nes	271	62760	5	4
520819	Woven fabrics of cotton,>/=85%, not	0	62669	10	8

	more than 200 g/m2, unbleached, nes				
521011	Plain weave cotton fab,	175	57321	10	8
100640	Rice, broken	1849	52914	21.5	17.2
520919	Woven fabrics of cotton, >=85%, more than 200 g/m2, unbleached, nes	336	46600	10	8

Source: Authors' calculations based on ITC Trade Map

For woven fabric (HS 520819) the GSTP arrangement could help to increase export volume by reducing the tariff from 10% to 8%. Indonesia imports this product from China, Korea and Vietnam all of which have duty free access for this product line. Under Pak Indonesia PTA, currently being negotiated, Pakistan is going to gain duty free access for kinnows and other fruits, it will also receive preferences for cotton yarn and cotton fabrics. It is important to compare the tariff concessions offered between the PTA and GSTP in order to see which one offers greater depth of concessions.

#### 4.6 Finger Kreinin Index between Pakistan & Indonesia

If we see the export structures of Indonesia and Pakistan, they are again dissimilar as Indonesia is the major exporter of Mineral fuels, oils, coal, vegetable oil and copra oil. So again in this case the index value is small; 0.07 indicating that there is no overlapping in the production structures of the two countries. Indicating that trade liberalization would lead to an increase in bilateral exports for both.

TABLE 8: FK INDEX BETWEEN PAKISTAN & INDONESIA

Reporter	Partner	FK Index	Observations
Pakistan	Indonesia	0.075	4794

Source: Authors' own calculations

#### 4.7 Trade Intensity Index between Pakistan and Indonesia

The trade intensity between Pakistan and Indonesia is low this suggests that trade liberalization could see trade being diverted from other sources to Pakistan. If we examine the sources of Indonesia's imports we can see that they are concentrated towards ASEAN and hence Pakistan is not a major trading partner.

TABLE 9: TII BETWEEN PAKISTAN & INDONESIA

Reporter	Partner	Trade Intensity Index
Pakistan	Indonesia	0.367

## **5 MERCOSUR**

### **5.1 MERCOSUR Trade Profile**

MERCOSUR's combined exports to the world were US\$ 276 billion with Brazil accounting for 73% of all exports (US\$ 201 billion) and Argentina with a share of 22%. A majority of the trading bloc's exports comprise of primary commodities and food products with rising global prices boosting the region's economic growth.

#### **5.1.1 Brazil**

Brazil's has been able to emerge as a global economic powerhouse due to rising food and commodity prices. Besides commodities like iron ore Brazil has also been able to tap into huge off sea oil reserves which have led it to become the world's 7<sup>th</sup> largest crude producer and a net exporter of the commodity as well. Other Brazilian exports include sugar, vehicles, meat, coffee and maize. Brazil's natural endowments have led it to become a global leader in the production and export of biofuels from oilseeds and sugarcane (ethanol). Brazil is the 5<sup>th</sup> largest global producer of cotton and its share in global cotton exports was 5.7% in 2010 however, it exports only cotton lint.

Brazil's largest export market is China –a country to which its exports in 2010 were valued at US\$ 30.7 billion. These exports are driven by China's need for commodities and fuel. The single largest Brazilian export to China was iron ore (US\$ 13 billion), soybeans which are increasingly being used as biofuel, soya-bean oil, crude oil, wood pulp, iron and sugar. The United States is Brazil's second largest export market with exports of US\$ 19.4 billion in 2010. Exports to the US comprised mainly of crude oil, parts used for motor engines, iron and coffee. Its neighbor and MERCOSUR partner Argentina is the 3<sup>rd</sup> largest export market for Brazil. Regional exports however, are concentrated mainly in manufactured products like cars, car parts and electronic equipment.

Brazil's total imports in 2010 totaled US\$ 181.6 billion with major import categories including petroleum oil, machinery, and electronic equipment and vehicles. Another important import product is surgical instruments with Brazil imports standing at US\$ 345.5 million. Brazil's import partners are: USA from which it imports mainly machinery and chemicals, China which exports machinery, cars, plastics and apparel. Argentina is Brazil's 3<sup>rd</sup> largest import partner with the former exporting cars and car parts, plastics, rice, and other cereals.



### **5.1.2 Argentina**

Argentina's economy is dependent on agricultural products which also account for a major share in the country's annual US\$ 62.9 billion exports (2010). Major export products include: soya-bean cake, soya-bean oil, maize, wheat and vehicles. Argentina's major export partners are Brazil to which it exports cars and car parts and China to which it exports soybean cake, fuels and other vegetable oils.

Argentina's imports, in 2010, were US\$ 52.1 billion comprising of vehicles, machinery and fuel. Its main import markets included Brazil (cars and car parts), USA (machinery, electrical equipment and chemicals) and China (machinery, chemicals, clothing).

### **5.1.3 Paraguay**

Paraguay is one of the smaller economies of the MERCOSUR region with annual exports, in 2010, totaling US\$ 4.5 billion. These exports comprised mainly of soybean, meat, wheat, corn and rice. Its exports were concentrated to regional countries like Uruguay, Brazil, Chile and Argentina. Paraguay's imports, in 2010, were US\$ 10 billion consisting of machinery, electronic equipment, fuels and cars. Its import partners were China (machinery, electronics and sports equipment), Brazil (machinery, fuels) and Argentina (machinery, cars).

### **5.1.4 Uruguay**

Uruguay's US\$ 6.9 billion exports (2010) are concentrated in agricultural products like meat, cereals, oil seeds and dairy products which are exported to regional countries like Brazil and Argentina and also to China. Uruguay's imports, in 2010, were valued at US\$8.3 billion and consisted primarily of fuels, machinery, electronic equipment and cars. The main import partners were Brazil, Argentina and China.

## **5.2 Pakistan's trade with MERCOSUR**

Since 2003 Pakistan's exports to MERCOSUR have been growing at an average annual rate of 38% with 2010 exports valued at US\$ 143 million. The largest buyers of Pakistani products in MERCOSUR are Brazil (which accounts for 49% of all Pakistani exports to MERCOSUR) followed by Argentina (36%). The product composition of exports to MERCOSUR shows that Pakistan's major exports to the trading bloc are cotton fabric and yarn (the principal buyer being Brazil), polyester (the major buyer is Argentina), bed linen (major buyer being Brazil) and footballs (the major buyer being Brazil). Exports to Paraguay were only US\$ 9.5 million in 2010 comprising of cotton fabric and tobacco products. Exports to Uruguay, in 2010, stood at US\$ 12.3 million consisting of fabric, polyester staple fiber, made ups, footballs and surgicals.

Pakistan's total imports from MERCOSUR in 2010 stood at US\$ 437 million with sugar accounting for over half of these imports. Imports reached their peak (US\$ 694.7 million) in 2008 comprising mainly of cotton in a year when Pakistan's cotton production fell by 9.3%.

Pakistan's total imports from MERCOSUR comprise almost exclusively of 3 commodities—sugar, cotton and soybean oil. Since Pakistan, also produces sugar and cotton, imports of these items fluctuate according to the local supply and demand gap. Within MERCOSUR countries Pakistan trades primarily with Argentina and Brazil. Sugar, cotton and liquid pumps are imported exclusively from Brazil with soybean oil being imported from Argentina. Pakistan's imports from Paraguay and Uruguay were negligible with a total value of just US\$ 4 million in 2010.

### 5.3 MERCOSUR Tariff Structure

Although MERCOSUR has a common external tariff there are some tariff lines for which the data from ITC Market Access Map shows different tariffs (due mainly to a number of sector- and country-specific exceptions<sup>9</sup>). Overall average agriculture tariff in Argentina and Brazil are 10.6% and 10.3% respectively. Industrial products tariffs in Argentina and Brazil are 10.4% and 11.2% respectively. **Error! Reference source not found.** shows that the textile and footwear sector is the most protected with average tariffs in the textile sector at 26%.

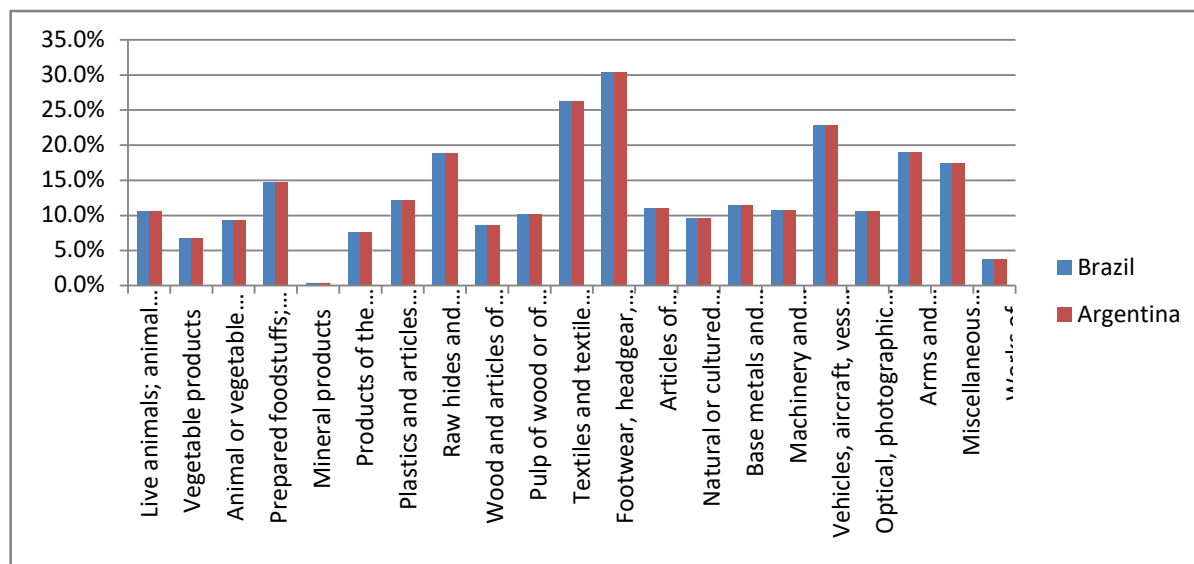
Like other MERCOSUR members, Brazil grants preferences to participating countries on some 98 HS96 tariff headings. The preferences range from to 10% to 50% and include agricultural products, fuels, chemical products, hides and skins, ferrous and steel products, among others. No concessions are granted for products that are of export interest to Pakistan. Argentina granted, tariff concessions on a number of products, both agricultural and industrial in the first round of GSTP negotiations.

MERCOSUR also has signed FTAs with regional countries/groups Chile, Bolivia, Mexico, Peru, Cuba and the Andean Community. It has a PTA with India and Framework Agreements with: South Africa, Egypt, Pakistan, Morocco, Israel, Lesotho, Namibia, Swaziland and Botswana.

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<sup>9</sup> WTO Trade Policy Review: Brazil (2009). Page 21 para 40.

FIGURE 3: TARIFFS APPLIED BY BRAZIL & ARGENTINA



Source: Based on ITC Market Access Map data and HS Section grouping

## 5.4 Bilateral Revealed Comparative Advantage between Pakistan and MERCOSUR

### 5.4.1 BRCA Brazil

The BRCA results show that, like in the world market, Pakistan's competitiveness is concentrated in the cotton yarn, woven fabrics of cotton, made ups and apparel. Apart from products in the textile group Pakistan is also specialized in the export of surgical instruments, cutlery products and sports goods (mainly footballs). Pakistan's competitors for cotton fabrics, in the Brazilian market are China and India whereas for made ups it competes with China, Paraguay and the US. For footballs Pakistan is the second largest supplier, to Brazil, after China and it also competes with Vietnam. For surgical instruments Pakistan competes with the US, Germany, China and Japan and has seen its competitiveness fall since 2008.

TABLE 10:BRCA BETWEEN PAKISTAN &amp; BRAZIL

HS Codes	Description	2008	2009	2010
630231	Bed linen, of cotton, nes	743.21	338.32	951.27
901890	Instruments and appliances used in medical or veterinary sciences, nes	58.38	72.84	55.94
821420	Manicure or pedicure sets and instruments (including nail files)	1658.59	2266.37	3057.40
950662	Inflatable balls	576.39	639.41	661.72
520852	Plain weave cotton fabric,>/=85%, >100 g/m2 to 200 g/m2, printed	43.21	7.97	499.52
520851	Plain weave cotton fabrics,>/=85%, not more than 100 g/m2, printed	785.48	595.91	1198.68
521021	Plain weave cotton fab,<85% mixd w m-m fib,not more than 200 g/m2,bl	1714.74	2398.46	3488.24
520831	Plain weave cotton fabric,>/=85%, not more than 100 g/m2, dyed	217.66	462.13	614.46
630210	Bed linen, of textile knitted or crocheted materials	46639.67	19995.36	21866.05
521031	Plain weave cotton fab,<85% mixd w m-m fib,not more than 200 g/m2,dyd	477.85	1585.76	645.27
611692	Gloves, mittens and mitts, nes, of cotton, knitted	222.24	315.71	602.60
520523	Cotton yarn,>/=85%, single, combed, 232.56 >dtex>/=192.31, not put up	1.73	8.52	23.53
420321	Gloves,mittens & mitts,for sports,of leather or of composition leather	4212.36	3980.51	5370.96
570110	Carpets of wool or fine animal hair, knotted	521.03	604.31	1382.73
620339	Mens/boys jackets and blazers, of other textile materials, not knitted	11050.23	6583.77	5352.17

Source: Authors' calculations based on ITC Trade Map

#### 5.4.2 BRCA Argentina

Whereas Pakistan specializes in the export of cotton fabrics to Brazil, in the Argentine market it specializes in the export of polyester fabrics (mixed with cotton). For this product category its main competitors are China and India. Other products, in which Pakistan has a competitive advantage, include: made ups and footballs.

TABLE 11: BRCA BETWEEN PAKISTAN &amp; ARGENTINA

HS Codes	Description	2008	2009	2010
551341	Plain weave polyester stapl fib fab,<85%,mixd w/cot,</=170g/m2,printd	336.5452	534.2848	901.197
521051	Plain weave cotton fab,<85% mixd w m-m fib,nt more thn 200 g/m2,printd	5926.616	5614.568	988.7655
521059	Woven fabrics of cotton,<85% mixed with m-m fib,</=200g/m2,printed,nes	31954	4990.397	909.3938
950662	Inflatable balls	497.86	425.6813	300.5832
551321	Plain weave polyester staple fib fab,<85%,mixd w/cotton,</=170g/m2,dyd	132.4481	218.365	328.3201
521031	Plain weave cotton fab,<85% mixd w m-m fib,not more than 200 g/m2,dyd	6094.819	3573.214	542.2179
551311	Plain weave polyest stapl fib fab,<85%,mixd w/cottn,</=170g/m2,unbl/bl	56.01749	59.02865	106.2256
901890	Instruments and appliances used in medical or veterinary sciences, nes	66.51507	29.07993	14.89315
521021	Plain weave cotton fab,<85% mixd w m-m fib,not more than 200 g/m2,bl	6347.538	2078.783	899.1303
520831	Plain weave cotton fabric,>/=85%, not more than 100 g/m2, dyed	539.1309	376.7623	206.6242
950699	Articles&equip for sports&outdoor games nes&swimmg&paddlg pools	93.2526	76.95532	94.58663
540774	Woven fabrics,>/=85% of synthetic filaments, printed, nes	0	805.6254	470.0825
540772	Woven fabrics,>/=85% of synthetic filaments, dyed, nes	0	126.4087	266.0184
390110	Polyethylene having a specific gravity of less than 0.94	0	0	2.493635
630239	Bed linen, of other textile materials, nes	83826.25	196674.8	982.8029

Source: Authors' calculations based on ITC Trade Map

### 5.4.3 BRCA Paraguay

Pakistan specializes in the export of woven fabrics of cotton, polyester fabric and surgical instruments to Paraguay. As of late Pakistan has also started exporting tobacco to the country.

TABLE 12: BRCA BETWEEN PAKISTAN &amp; PARAGUAY

HS Code	Description	2008	2009	2010
520812	Plain weave cotton fabric,>/=85%, >100 g/m2 to 200 g/m2, unbleached	2360.765	2807.371	16528.16

240110	Tobacco, unmanufactured, not stemmed or stripped	0	110.1206	1086.714
521051	Plain weave cotton fab,<85% mixd w m-m fib,nt more thn 200 g/m2,printd	40806.93	8070.954	5268.248
240120	Tobacco, unmanufactured, partly or wholly stemmed or stripped	0	2.558972	4.233099
551341	Plain weave polyester stapl fib fab,<85%,mixd w/cot,</=170g/m2,printd	367.9079	507.1085	435.0775
521031	Plain weave cotton fab,<85% mixd w m-m fib,not more than 200 g/m2,dyd	2828.25	2739.411	1396.826
520819	Woven fabrics of cotton,>/=85%, not more than 200 g/m2,unbleached, nes	252270.8	#DIV/0!	130303.4
901890	Instruments and appliances used in medical or veterinary sciences, nes	22.72443	32.79559	25.88797
540774	Woven fabrics,>/=85% of synthetic filaments, printed, nes	0	6029.824	554.0895
551321	Plain weave polyester staple fib fab,<85%,mixd w/cotton,</=170g/m2,dyd	0	36.44046	131.403
551311	Plain weave polyest stapl fib fab,<85%,mixd w/cottn,</=170g/m2,unbl/bl	5.234785	24.46827	69.44742
540772	Woven fabrics,>/=85% of synthetic filaments, dyed, nes	0	0	233.5663
521021	Plain weave cotton fab,<85% mixd w m-m fib,not more than 200 g/m2,bl	10032.31	2749.23	564.839

Source: Authors' calculations based on ITC Trade Map

#### 5.4.4 Uruguay

Pakistan has a competitive advantage in the export of polyester fabric, woven fabrics of cotton, made ups, footballs and surgical instruments.

TABLE 13: BRCA BETWEEN PAKISTAN & URUGUAY

HS Code	Description	2008	2009	2010
551341	Plain weave polyester stapl fib fab,<85%,mixd w/cot,</=170g/m2,printd	308.0318	266.1538	446.5328
520851	Plain weave cotton fabrics,>/=85%, not more than 100 g/m2, printed	0	2269.615	9652.062
630210	Bed linen, of textile knitted or crocheted materials	3091.819	1274.826	791.7096
521051	Plain weave cotton fab,<85% mixd w m-m fib,nt more thn 200 g/m2,printd	12773.63	7507.31	7773.186
520831	Plain weave cotton fabric,>/=85%, not more than 100 g/m2, dyed	177.056	923.0299	9072.432
521031	Plain weave cotton fab,<85% mixd w m-m fib,not more than 200 g/m2,dyd	3429.785	14259.22	6119.768
950662	Inflatable balls	399.3894	149.4429	128.8717
551311	Plain weave polyest stapl fib fab,<85%,mixd w/cottn,</=170g/m2,unbl/bl	0	34.13159	717.0754
521059	Woven fabrics of cotton,<85% mixed with m-m fib,</=200g/m2,printed,nes	4849.638	588.7091	4986.933

520932	Twill weave cotton fabrics, >=85%, more than 200 g/m2, dyed	0	0	87.03608
521021	Plain weave cotton fab, <85% mixd w m-m fib, not more than 200 g/m2, bl	9261.389	10173.84	2533.371
540774	Woven fabrics, >=85% of synthetic filaments, printed, nes	0	2292.528	610.4252
630239	Bed linen, of other textile materials, nes	9670.315	20420.61	2767.842
901890	Instruments and appliances used in medical or veterinary sciences, nes	10.52405	13.58289	10.11368

Source: Authors' calculations based on ITC Trade Map

## 5.5 Potential Bilateral Trade between Pakistan and MERCOSUR

### 5.5.1 Pakistan's export potential to Brazil

As Table 14 indicates, there are three major products which Pakistan has the potential to export to Brazil these include: rice, surgical instruments, and Terephthalic acid (PTA) which is used in the manufacture of PET. Other products which Pakistan can export to Brazil include apparel, cotton, cotton yarn and cement. Benefits from signing the Sao Paulo Round can accrue to Pakistan only if meaningful market access is provided to Pakistan for: Products it is currently exporting to Brazil, products for which Pakistan has an export potential. Products for which Pakistan has export potential to Brazil are not receiving preferential access under GSTP concessions granted and hence face MFN tariffs. Supposing that Pakistan signs the Sao Paulo protocol and if Brazil provides duty free access to products with export potential column 6 of Table 14 shows the tariff concessions likely to be received. If we look at rice, Pakistan's major export interest item, we see that the current tariff is 11% which is also above Brazil's average tariff on agricultural products i.e. 10.3%. If concessions are granted for rice and the MFN tariff drops to 8.8% Pakistan may not be able to make inroads into the Brazilian market as similar concessions would also be granted to India (nullifying any advantage gained). Further analysis shows that out of annual rice imports of US\$ 376 million, Brazil imports mainly from its MERCOSUR partners which could have the following implications: (a) These countries not only enjoy zero tariffs but also lower transportation costs (b) Brazilians consumers do not prefer rice varieties exported by Pakistan

TABLE 14: PBT BETWEEN PAKISTAN & BRAZIL

HS CODE	Description	Pak Export to Brazil 2010 (US\$ 000)	PBT (US\$ 000)	Applied Tariffs (%)	Tariffs after GSTP if product liberalized (%)
100630	Rice, semi-milled or wholly milled,	0	293894	11	8.8

HS CODE	Description	Pak Export to Brazil 2010 (US\$ 000)	PBT (US\$ 000)	Applied Tariffs (%)	Tariffs after GSTP if product liberalized (%)
	whether or not polished or glazed				
901890	Instruments and appliances used in medical or veterinary sciences, nes	7456	211544	9.1	7.28
390760	Polyethylene terephthalate	0	146078	14	11.2
620342	Mens/boys trousers and shorts, of cotton, not knitted	73	72150	35	28
520100	Cotton, not carded or combed	0	68305	8.7	6.96
520523	Cotton yarn, >/=85%, single, combed, 232.56 >dtex>/=192.31, not put up	1439	66466	18	14.4
850239	Electric generating sets	0	66266	14	11.2
610510	Mens/boys shirts, of cotton, knitted	751	65584	35	28
252329	Portland cement nes	0	53109	2	1.6
610910	T-shirts, singlets and other vests, of cotton, knitted	295	48005	35	28
730890	Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406)	0	46212	14	11.2
640399	Footwear, outer soles of rubber/plastics uppers of leather, nes	72	41477	35	28
151620	Veg fats &oils&fractions hydrogenatd,inter/re-esterifid,etc,ref'd/not	0	41401	10	8
110100	Wheat or meslin flour	0	39061	12	9.6
300490	Medicaments nes, in dosage	0	38833	10.5	8.4
950699	Articles&equip for sports&outdoor games nes&swimmg&paddlg pools	54	35253	20	16
521142	Denim fabrics of cotton,	0	30576	26	20.8
620462	Womens/girls trousers and shorts, of cotton, not knitted	50	30052	35	28
940490	Articles of bedding/furnishing, nes, stuffed or internally fitted	570	28264	18	14.4
870190	Wheeled tractors nes	0	27977	7	5.6
841451	Fans: table,roof etc w a self-cont elec mtr of an output nt excdng 125W	0	27911	20	16

Source: Authors' calculations based on ITC Trade Map

Pakistan also has the potential to further export surgical instruments to Brazil under GSTP which will see tariffs fall from 9.1% to 7.8%. Currently Pakistan has been able to capture only 1.5% of the US\$ 345 million surgical exports of Brazil, the leading exporters being USA, Germany and China. Whereas



Pakistani products do not directly compete with US and German manufactured products we would be able to erode the market share of China (which has a share of 1.7% in surgical exports) over which we would have a tariff advantage. The India MERCOSUR PTA offers duty free access for a range of surgical instruments however, Indian exporters have failed to make inroads into the Brazilian market. Pakistan has the potential to export US\$ 146 million of Polyethylene terephthalate to Brazil. The current leading exporters, to Brazil, are Taiwan, Mexico and South Korea. Out of these Mexico enjoys preferential access to the MERCOSUR market and South Korea would be eligible under GSTP.

Pakistan has the potential to export wearing and apparel to Brazil but the sector is highly protected and faces an average tariff of 26%. In its PTA with India MERCOSUR did not offer any concessions from Chapter 52 to 63<sup>10</sup>. This means that Pakistani T&C items will continue to face higher tariffs on these products even if it signs the Sao Paulo protocol. Given that Pakistan is able to export yarn and made ups to Brazil despite the high tariffs even a small tariff concession on these products could help to boost exports. Pakistani fans, at present, are not exported to Brazil but there is export potential US\$ 27.9 million. China and Taiwan are the leading exporters fans to Brazil however, if this tariff line is offered for concession, under GSTP, Pakistan could face tariffs of 16% as compared to 20% for China and Taiwan.

### **5.5.2 Pakistan's export potential to Argentina**

Table 15 shows that the potential export items from Pakistan to Argentina are similar to the items discussed for Brazil. These products include: Polyethylene terephthalate and surgical instruments. It must also be noted that both countries import these products from the same countries. Pakistan has the potential to export fish worth US\$ 79 million to Argentina which could be beneficial as our fishery exports would be able to penetrate markets (other than the EU) where the SPS standards are not as prohibitive. Although Pakistan is a leading exporter of made ups to Brazil (Pakistan is the 4<sup>th</sup> largest exporter after China, Paraguay and USA) it has been unable to penetrate the Argentine market (with an export value of US\$ 131 million). If Pakistan is granted preferences, under GSTP, for made ups it could successfully compete with its major competitor in the region i.e. China. For footwear we see that although Pakistan has the potential to export a further US\$ 26 million to Argentina however the tariffs, it faces, in this segment are so high that even with reductions it would be unable to gain a foothold in the market.

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<sup>10</sup> With the exception of 56071011

TABLE 15: PBT OF PAKISTAN &amp; ARGENTINA

HS CODE	Description	Pak exports to Argentina 2010 (\$000)	PBT (\$000)	Applied Tariffs (%)	Tariffs after GSTP if product liberalized (%)
390760	Polyethylene terephthalate	0	127708	14	11.2
901890	Instruments and appliances used in medical or veterinary sciences, nes	1271	84639	4.6	3.68
030339	Flatfish nes, frozen, excluding heading No 03.04, livers and roes	0	79279	10	8
300490	Medicaments nes, in dosage	1	38832	10.4	8.32
170310	Cane molasses	0	38559	16	12.8
630260	Toilet&kitchen linen,of terry towellg or similar terry fab,of cotton	628	38494	35	28
850239	Electric generating sets	0	36957	0	0
730890	Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406)	0	35997	14	11.2
870190	Wheeled tractors nes	0	27977	7	5.6
940490	Articles of bedding/furnishing, nes, stuffed or internally fitted	560	26739	18	14.4
640399	Footwear, outer soles of rubber/plastics uppers of leather, nes	0	26077	35	28

Source: Authors' calculations based on ITC Trade Map

### 5.5.3 Pakistan's export potential to Paraguay & Uruguay

Pakistan has the potential to export medicaments, and cement to the 2 countries and under GSTP these products would be able to enjoy tariff cuts. However tractors and Polyethylene terephthalate, potential export products would not since the tariffs they face are already zero. There is an opportunity for Pakistan to diversify its markets by exporting to countries like Paraguay and Uruguay where they face lower tariffs.

TABLE 16: PBT OF PAKISTAN WITH PARAGUAY &amp; URUGUAY

HS CODE	Description	Pak exports to to Paraguay &Uruguay 2010 (\$000)	PBT (\$000)	Applied Tariffs (%)	Tariffs after GSTP if product liberalized (%)
300490	Medicaments nes, in dosage	0	108687	10.4	8.32
252329	Portland cement nes	0	28034	4	3.2
870190	Wheeled tractors nes	100	90015	0	0
390760	Polyethylene terephthalate	0	143233	0	0
390120	Polyethylene having a specific gravity of 0.94 or more	0	17497	1	0.8

Source: Authors' calculations based on ITC Trade Map

## 5.6 Finger Kreinin Index between Pakistan & MERCOSUR

FK index of Brazil with Pakistan is 0.02, indicating that these countries have dissimilar export patterns. If we see the product composition of Brazil with the world, it shows that Brazil is the major exporter of crude oil due to sea oil reserves, sugar, vehicles, meat, coffee and maize, completely different from that of Pakistan. Pakistan and Argentina both are agricultural based economy but again the export structures of both countries are completely different. Major exports of Argentina include wheat, soya-bean cake, soya bean oil, maize and vehicles. The index value which is 0.06 also indicates dissimilar export patterns.

Paraguay again is an agriculture based economy with the exports majorly concentrated in soya-bean, meat, wheat, corn and rice. The index value is very small which is 0.04, indicating that there is no overlapping in the product patterns. Uruguay is the major exporter of meat, cereals, oil seeds, dairy products. In the above mentioned table, the index value is 0.09.

TABLE 17: FK INDEX BETWEEN PAKISTAN &amp; MERCOSUR

Reporter	Partner	FK Index	Observations
Pakistan	Brazil	0.026	2584
Pakistan	Argentina	0.066	5224
Pakistan	Paraguay	0.047	4746

Pakistan	Uruguay	0.093	4922
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Source: Authors' own calculations

## 5.7 Trade Intensity Index between Pakistan and MERCOSUR

Pakistan and MERCOSUR trade has been limited and trade between the two regions is not biased towards each other. Apart from Uruguay the values of the TII are less than 1 which indicates that once trade is liberalized it would lead to exports being diverted from other regions to Pakistan. The small value for Uruguay is primarily due to the small size of its economy and exports. Previous analysis on the geographical composition of MERCOSUR trade shows that imports are concentrated within the region, USA and China and a GSTP agreement would divert some exports from these sources.

TABLE 18: TII BETWEEN PAKISTAN & MERCOSUR

Reporter	Partner	Trade Intensity Index
Pakistan	Brazil	0.26
Pakistan	Argentina	0.67
Pakistan	Paraguay	0.64
Pakistan	Uruguay	0.99

Source: Authors' own calculations

## **6 INDIA**

### **6.1 India Trade Profile**

India is developing into an open-market economy, yet traces of its past autarkic policies remain. Economic liberalization, including industrial deregulation, privatization of state-owned enterprises, and reduced controls on foreign trade and investment, began in the early 1990s and has served to accelerate the country's growth, which has averaged more than 7% per year since 1997. Slightly more than half of the work force is in agriculture, but services are the major source of economic growth, accounting for more than half of India's output, with only one-third of its labor force. India has capitalized on its large educated English-speaking population to become a major exporter of information technology services and software workers. In 2010, the Indian economy rebounded robustly from the global financial crisis - in large part because of strong domestic demand - and growth exceeded 8% year-on-year in real terms.

From 2004 to 2008, India's exports increased on average by 24.4 percent each year to US\$177 billion. The major export items are: Pearls and precious stones majorly which includes diamonds, whether or not worked, but not mounted or set (HS code 7102) and articles of jewellery and parts thereof, of precious metal (HS code 7113) with the share of 18% in 2009. The share of this product category has increased since 2003 in India's total exports. Mineral fuels, oils, distillation products had the second highest share of 14% in 2009. Electronic equipments including electric motors, television receivers etc. had a share of 5% of total exports in 2009.

The major export destinations of India include UAE, USA, China and Singapore accounting for 35% of total exports. India is exporting 14% of its total exports to UAE, 11% to USA and 6% to China. India's major exports to USA include Information Technology Services, textiles, machinery, gems and diamonds, chemicals, iron and steel products, coffee, tea, and other edible food products.

India's imports in 2009 were US\$ 266 billion and comprised mainly of Mineral fuels, oils consisting of crude petroleum and petroleum gases (31%). Other major import categories included Industrial Pearls (16%), electrical equipment (9%) and Machinery, nuclear reactors and boilers (9%). India's imports and exports were well diversified across partners: in 2009, 24 major partners accounted for 80% of imports and even the top 25 partners could not account for 80 percent of exports.

India's major import suppliers include China which has emerged as the leading source of imports for India supplying 11% of the country's total imports from the world in 2009 increasing its share from just above 5% in 2003. India imports the following products from China: HS 84 Electronic Equipment, HS 85 Machinery, HS 73 Iron and Steel and HS 29 Organic chemicals. India's second largest import source was UAE which accounted for a share of 7% in 2009 which has increased from 3% in 2003. India imported the following major products from UAE: Pearls, Mineral fuels and Electronic equipment.

The United States was also a major import supplier for India with a share of 6% in 2009 which was same in 2003 as well. The India imports the following products from USA: HS 71 Pearls, HS 85 Electronic equipment, HS 84 Machinery, HS 88 Aircraft.

## **6.2 Pakistan Trade with India**

Trade between India and Pakistan is tiny compared to the potential, which by estimates could be as high as US\$10 billion or 2% of the combined merchandise trade with the world. Starting from mid 1980's to late 1980's, economies of Pakistan and India introduced economic liberalization programs. This include, opening international Trade and Investment, deregulation of initiation of privatization, tax reforms and inflation controlling measures. As far as India is concerned, fruits of liberalization reached to the peak in 2007 as India recorded highest GDP growth rate of 9% and as a result became the second fastest growing economy of the World. According to the World Bank India still faces challenges in public sector reforms, infrastructure, agricultural and rural development, reforms in lagging states, and in dealing with the impact of HIV/AIDS. There is also considerable room for more wide-ranging and deeper reforms in the trade and investment regimes as well. While in case of Pakistan, due to economic liberalization, the average tariffs fell from 70% in 1980 to 30% in 2001 and 14.68% in 2008. Measures that have restricted trade were also eliminated by the Government which includes regulatory duties and para tariffs. The GDP growth rate had jumped from 6.4% in 2003-04 to 8.6% in 2004-05 and 6.6% in 2008-09.

Bilateral trade between Pakistan and India had been limited to a few goods with almost no trade in services. The composition of Indian imports from Pakistan before during 2000-2004 was limited to about six commodity groups, which on average accounted for more than 80 percent of total exports. These included edible vegetables and roots; sugar and confectionary; edible fruits; gum/resins and vegetable extracts (e.g. molasses); and products of milling industry. Since 2004, after Pakistan and India have begun wide ranging dialogue on political and economic issues, the composition of Pakistani exports to India has become more diversified. In addition to the traditional exports to India mentioned above,

mineral fuels and oils; vegetable plaiting materials; organic and inorganic chemicals; raw hides and skins; lead and articles made of lead; and salt/sulphur/cement have also been exported to India.

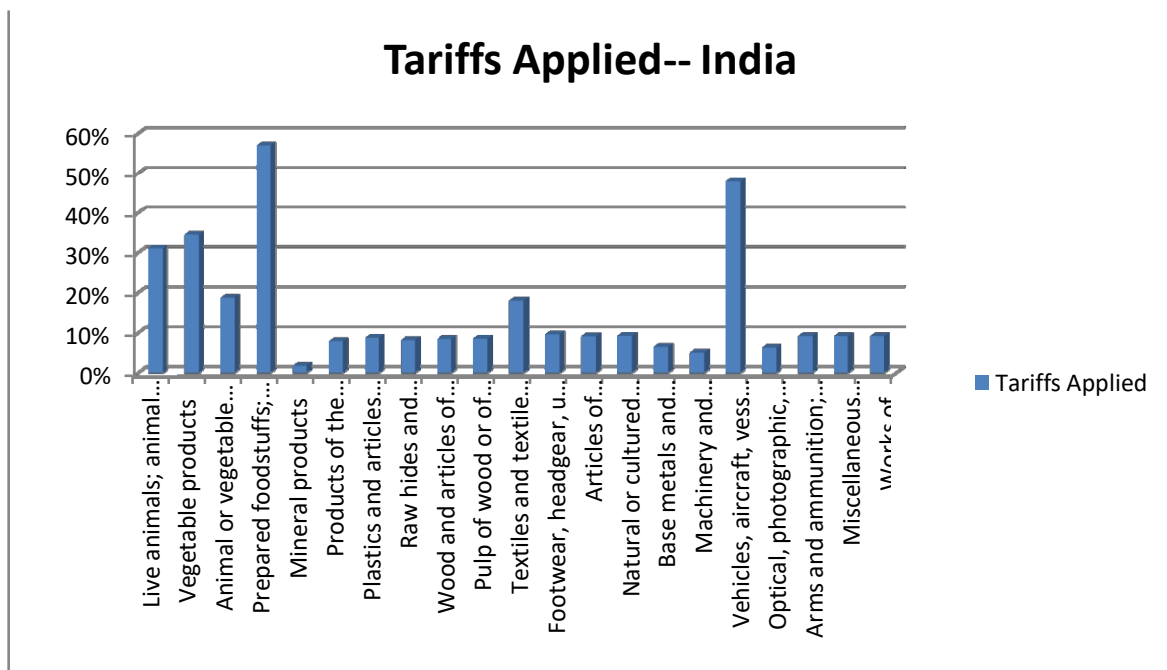
The composition of official exports from India to Pakistan is broader, reflecting India’s more diversified industrial base. Organic chemicals form the biggest share of Pakistani imports from India. Another major import to Pakistan from India has been of ores/slag (mainly iron ore). During the last five years (2004 to 2009) imports of pharmaceutical products; mineral fuels/oils; man-made filaments; plastic products; rubber products; leather; and copper and copper products have become important. Periodically, agricultural products (e.g. raw cotton, wheat, silk, and sugar) have accounted for one-time imports or exports to meet domestic shortages in either country.

### 6.3 India’s Tariff Regime

India’s tariff regime consists of high tariffs on agricultural products with low tariffs for non agricultural products. The average tariff applied for all products is 12.73% with average applied agricultural tariffs at 41.56% and average applied non agricultural tariffs at 10.69%<sup>11</sup>. Not only are the tariffs high (as shown in

Figure 4) but India also has a number of para tariffs and non tariff barriers that further prohibit exports.

FIGURE 4: TARIFFS APPLIED--INDIA



<sup>11</sup> Market Access Map

Source: Based on ITC Market Access Map data and HS Section grouping

“The tariff is India's main trade instrument as well as an important source of tax revenues, at around 16% of Central Government tax revenue (net of states' share). Applied MFN tariffs, especially for non-agricultural products, have continued to fall steadily, with the overall average currently at 15.8%. At 12.1% (14.1% including ad valorem equivalents), the average for non-agricultural products is considerably lower than the average for agricultural products, which is 40.8%. The growing gap between agricultural and non-agricultural tariffs has also raised dispersion in the tariff and the escalation pattern shows increasing de-escalation between unprocessed and semi-processed and in some cases between semi-processed and final products. With the exception of a few applied tariffs, which are at their corresponding bound rates, the difference between the bound and applied tariff rates is considerable. This difference gives the Government considerable scope to raise applied tariffs, scope that was used to raise tariffs for some agricultural products in recent years. India also offers tariff preferences under its regional trade agreements. However, apart from the agreement with Sri Lanka and preferences to LDC members of SAFTA, the preferences do not appear to be significant. The use of import restrictions has declined, with around 3.5% of tariff lines subject to such measures”<sup>12</sup>.

#### 6.4 Bilateral Revealed Comparative Advantage between Pakistan and India

Pakistan has comparative advantage in the products with India which are also major exports from Pakistan to India. Bilateral RCA between the two countries in the above mentioned table shows that Pakistan has comparative advantage in Dates, cement, chemicals, cotton yarn, leather etc. It means that India is importing these products majorly from Pakistan as compared to all over the world as BRCA is the ratio between the two shares.

TABLE 19: BRCA BETWEEN PAKISTAN & INDIA

HS Codes	Description	2008	2009	2010
080410	Dates, fresh or dried	402.5581	528.1917	792.6882
252329	Portland cement nes	582.3481	506.8971	790.0012
271019	Light petroleum distillates nes	10.53492	7.738974	6.875426
290315	1,2-dichloroethane(ethylene dichloride)	0	58.49512	114.0776

<sup>12</sup> India Trade Policy Review



291736	Terephthalic acid and its salts	0	87.61182	13.99346
283620	Disodium carbonate	0	44.1937	152.9731
780110	Lead refined unwrought	2.898917	17.98556	27.14274
520932	Twill weave cotton fabrics, >=85%, more than 200 g/m2, dyed	682.911	602.5173	518.7092
390120	Polyethylene having a specific gravity of 0.94 or more	0	2.224026	18.86157
390110	Polyethylene having a specific gravity of less than 0.94	0	0.641662	12.40707
630539	Sacks & bags, for packing of goods, of other man-made textile materials	221.6553	3804.08	700.1007
740400	Waste and scrap, copper or copper alloy	2.213528	10.00215	7.503211
520942	Denim fabrics of cotton, >=85%, more than 200 g/m2	47.76844	131.3849	116.3452
510320	Waste (other than noils) of wool/of fine animal hair, except garnetted stock	911.8031	782.1963	724.9662
410719	Leather "incl. parchment-dressed leather" of the whole hides and skins	66.57044	146.9951	164.5918
410799	Leather "incl. parchment-dressed leather" of the portions, strips or s	17.30935	123.3701	103.1839
520812	Plain weave cotton fabric, >=85%, >100 g/m2 to 200 g/m2, unbleached	36.26622	634.7665	364.3743
901890	Instruments and appliances used in medical or veterinary sciences, nes	5.922686	7.474782	6.031164
520811	Plain weave cotton fabric, >=85%, not more than 100 g/m2, unbleached	208.7846	210.4353	324.6809
121190	Plants & parts of plants (incl seed & fruit) used in pharm, perf, insect etc nes	87.0724	137.0414	117.657
520522	Cotton yarn, >=85%, single, combed, 714.29 >dtex >=232.56, not put up	2452.406	7821.931	700.2679

Source: Authors' calculations based on ITC Trade Map

## 6.5 Potential Bilateral Trade between Pakistan and India

Pakistan currently exports \$1.5 worth of surgical goods to India but has the potential to export \$231 million to India. The current level of custom duty for surgical instruments is 7.5% and they receive a margin of preference of 0.5% under SAFTA. Although the changes have not been notified as yet but the 2011-12 budget seeks to rationalize these tariff lines and apply a uniform tariff rate of 5% on these products along with a reduction in Special CVD to 0%. Pakistan is the second largest supplier of surgical instruments like knives, scissors and blades in the Indian market. Pakistan's competitors in the Indian

market, in this category, are the United States (the market leader) and China. Pakistan receives a preferential advantage for these product lines under SAFTA.

TABLE 20: PBT BETWEEN PAKISTAN & INDIA

HS CODE	Description	Pak Exports to India (US\$ 000)	PBT (US\$ 000)	Tariffs under SAFTA (%)
711319	Articles of jewellery&pt therof of/o prec met w/n platd/clad w prec met	0	423491	10
901890	Instruments and appliances used in medical or veterinary sciences, nes	3584	215416	6
520100	Cotton, not carded or combed	0	197073	0
030339	Flatfish nes, frozen, excluding heading No 03.04, livers and roes	0	79279	20
850239	Electric generating sets	0	66266	7.5
520513	Cotton yarn,>/=85%,single,uncombed,232.56>dtex>/=192.31, not put up	0	61145	7
020110	Bovine carcasses and half carcasses, fresh or chilled	0	60917	20
390760	Polyethylene terephthalate	1	54130	5
220710	Undenaturd ethyl alcohol of an alcohol strgth by vol of 80% vol/higher	61	46813	150
730890	Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406)	12	46200	10
220720	Ethyl alcohol and other spirits, denatured, of any strength	244	43446	7.5
300490	Medicaments nes, in dosage	33	38800	10
740400	Waste and scrap, copper or copper alloy	4259	38251	5
730690	Tubes, pipe & hollow profiles, iron or steel, welded, nes	0	35458	10
551219	Woven fabrics,containg>/=85% of polyester staple fibres,o/t unbl or bl	5	34672	12.5
841451	Fans: table,roof etc w a self-cont elec mtr of an output nt excdg 125W	0	33666	9

Source: Authors' calculations based on ITC Trade Map

Pakistan exported US\$ 2.2 million of ethanol (HS 2207200) to India in 2009 and was the second largest supplier of the commodity after Brazil. Brazil was the primary exporter of this commodity accounting for 97% of all imports. Pakistan could boost ethanol exports in the Indian market to US\$ 91.6 million. Pakistan receives a preferential advantage under the SAFTA agreement for this product line. The MFN

tariff for ethanol is 30% and the preferential rate for SAFTA non-LDCs is 6.2%. Pakistan also has the potential to export undenatured ethanol (HS 22071000) to India, however due to the fact that this product could be also be used for human consumption it is considered as sensitive with an MFN rate of 150%. Therefore, it would be difficult to obtain any concessions for this product.

According to our calculations Pakistan has the potential to export US\$ 42.9 million worth of tubes and pipes of iron or steel (HS 730690) to India. At present, Pakistan is not exporting this product to India despite receiving preferences under SAFTA. Pakistan exports of Terephthalic acid (PTA) to India were valued at US\$ 19 million in 2009 and it has the potential to augment exports by a further US\$ 17.5 million. PTA is the primary ingredient in the production of polyester or PET. Pakistan also has the potential for exporting US\$ 27.5 million worth of PET to India. Both these products are used as raw materials in the production of Polyester Staple Fibre (PSF) and PET bottles. Also the primary raw material for the production of PTA is P-xylene which Pakistan imports from India. This means that there is intra industry trade i.e. Pakistan imports P-xylene from India, converts it into PTA and then exports it to India. Therefore if India grants tariff concessions to Pakistan on PTA and PET it would lead to a reduction in the production cost for the aligned industries. Similarly if Pakistan grants concessions to India for P-xylene it would be able to reduce its cost of production. The suppliers of PTA in India include: South Korea, Thailand, UAE, Iran, Pakistan and Saudi Arabia.

## 6.6 Finger Kreinin Index between Pakistan and India

TABLE 21: FK INDEX BETWEEN PAKISTAN & INDIA

Reporter	Partner	FK Index	Observations
Pakistan	India	0.220	5323

*Source: Authors' own calculations*

In Table 21, Pakistan has higher index value with India as compared to the other GSTP partners. Export pattern between Pakistan and India is common in textiles products, rice, potatoes etc. But major exports of India at the other end include precious stones, articles of jewellery, mineral fuels, oils and distillation products. Production patterns are somewhat dissimilar or we can say that there is less overlapping in export structures. Therefore we can assume that trade liberalization between the two countries would lead to trade diversion but it would also entail the closure of inefficient domestic industries which could, in the short term have adverse repercussions.

## 6.7 Trade Intensity Index between Pakistan and India

The Trade Intensity Index between Pakistan and India is 0.84 which is less than 1 which means that trade between the two countries is not biased towards each other and further liberalization could lead to an enhancement of Pakistan's exports to India. A low value also indicates that currently Pakistan's exports are not specialized towards India and there is a thus a potential for trade diversion if trade is liberalized.

TABLE 22: TII BETWEEN PAKISTAN & INDIA

<b>Reporter</b>	<b>Partner</b>	<b>FK Index</b>
Pakistan	India	0.84

*Source: Authors' own calculations*

## **7 South Korea**

### **7.1 South Korea's Trade Profile**

With the global economic downturn in late 2008, South Korean GDP growth slowed to 0.2% in 2009. In the third quarter of 2009, the economy began to recover, in large part due to export growth, low interest rates, and an expansionary fiscal policy, and growth exceeded 6% in 2010. The South Korean economy's long term challenges include a rapidly aging population, inflexible labor market, and overdependence on manufacturing exports to drive economic growth.

Over the last three decades, the export sector has moved from labor-intensive goods, such as clothing and footwear, to more capital-intensive goods, especially electronics. South Korea trade comprises of exports that are mostly pertaining to the manufacturing of semiconductors, motor vehicles, computers, wireless telecom equipments, steel, ships and petrochemicals and ships. South Korea had its initial trade dependence on the export of phosphate but over the years, this dependence reduced in the last few years. The country has now emerged as an exporter of manufactured and agricultural products and its popularity as a tourism destination is growing.

Textile exports constitute one of the country's largest export items. Footwear exports increased in the country. Exports of iron as well as steel products decreased starting 1990. The growth rate pertaining to automobile exports also dipped sharply. South Korea's exports comprising electronic items soared. Korea mainly exports VCRs, Fax machines and computers in electronic equipments. While the other major exports includes Food stuff, Iron and Steel, Textiles, apparel and footwear, Office machinery, Passenger cars, Ships, Toys and Manufactured goods.

The top ten export destinations of Korea constitute about 61 % of total exports to the world. Out of these, China is the major export market for South Korea with 24% of its share following with USA 10% and Japan with 6% of share in total exports to world. The major exports to China include Electronic circuits, Telephone sets, Liquid crystal devices, Optical fibers, cables, parts of computers etc. Though the China, US and Japan are known to be South Korea's main trading partners, the country's trade ties with India has doubled, following the free trade deal that came into effect on Jan 1, 2010.

South Korea's top ten imports from the world have a share of 76% in total imports from the world in 2009. It is majorly importing Mineral Fuels, oils etc HS 27 which basically includes crude oil with a share of 28% in total imports from the world followed by Electrical equipment HS 85 (17%) and Machinery,

nuclear reactors HS 84 (11%). The share of electrical equipment HS 85 has declined over the last 6 years from 22% to 17% in 2009. Korea has a high dependence on the import of capital goods, raw materials and industrial supplies. From advanced countries such as Japan, USA and China, the country imports mostly capital and consumer goods, whereas from developing countries, the imports are chiefly of raw materials such as crude oil.

South Korea's major import suppliers included countries as the figure above shows that China has emerged as the leading source of imports for Malaysia supplying 17% of the country's total imports from the world in 2009 increasing its share from just above 12% in 2003. While the other major import suppliers include Japan (15%) and USA (9%). Korea imports Electrical equipment (HS 85), Machinery, nuclear reactors etc. (HS 84), Iron and steel (HS 72 & 73) etc. The share of top ten major import suppliers to Korea constitutes about 67% of its total imports from the world.

## **7.2 Pakistan's Trade with South Korea**

Pakistan's exports to South Korea mainly includes Cotton (HS 52) basically cotton sewing thread and cotton woven fabrics with a share of 43%, Crude oil (HS 27) with a share of 25% and Raw hides and skins (HS 41) mainly leather of bovine/equine animal and leather after tanning with a share of 10%. These top three exports from Pakistan to Korea account for 78% of share in total exports to Korea from Pakistan. Shares of Cotton and Raw hides and skins have declined over the last 6 years. Share of cotton has declined from 68% in 2003 to 43% in 2009, similarly the share of Raw hides and skins declined from 19% in 2003 to 10% in 2009. The exports of Mineral fuel oils (HS 27) grew over the last 6 years to 25% when compared with the share of 0% in 2003.

Pakistan's total imports from Korea in 2009 were valued at 627 million USD and out of these imports, top ten imports constitutes 75% of the total imports from Korea. The top imports from Korea was Machinery, nuclear reactors, boilers etc (HS 84) which includes Refrigerators, Air vacuum pumps, knitting machines, Machines and mechanical appliances, bulldozers etc with the share of 14.93% in 2009. For the last 6 years, this share almost remains the same as it increased from 13% to 14.93% in 2009. The other top imports include Plastics tubes pipes and sheets etc (13.14%), Iron and Steel flat rolled products, bars rods and ferrous scraps etc (9.87%), Synthetic staple fibers (6.89%), Electrical motors and generators, insulated cables and wires, electrical transformers and appliances (6.16%) and Pharmaceutical products (5.94%). The shares of all these commodities remain stable with little increase

over the past 6 years but fluctuations in electrical equipment is seen in 2009 as its share declined from 14% in 2008 to 6.16% in 2009.

### **7.3 South Korea Tariff Regime**

Korea is an original Member of the WTO. It grants at least MFN treatment to all its trading partners and, as a developing country, it receives the special and differential treatment provided for in the WTO Agreements. Korea has pursued intensively free-trade agreements (FTAs) with its major trading partners (e.g. Singapore and the United States), including regional groups (i.e. ASEAN, EFTA), and is continuing or planning negotiations to establish FTAs with some of its other main trading partners (the EC) as well as with newly emerging economies. Korea extended its unilateral preferential duty-free access to more items from least developed countries as of January 2008 and is an active participant in the GSTP.

South Korea's tariff regime consists of very high tariffs on agricultural products and low tariffs on non-agricultural products. The average applied tariff for all products is 6.55% with average applied agricultural tariffs at 40% and non-agricultural tariffs at 4.44%.

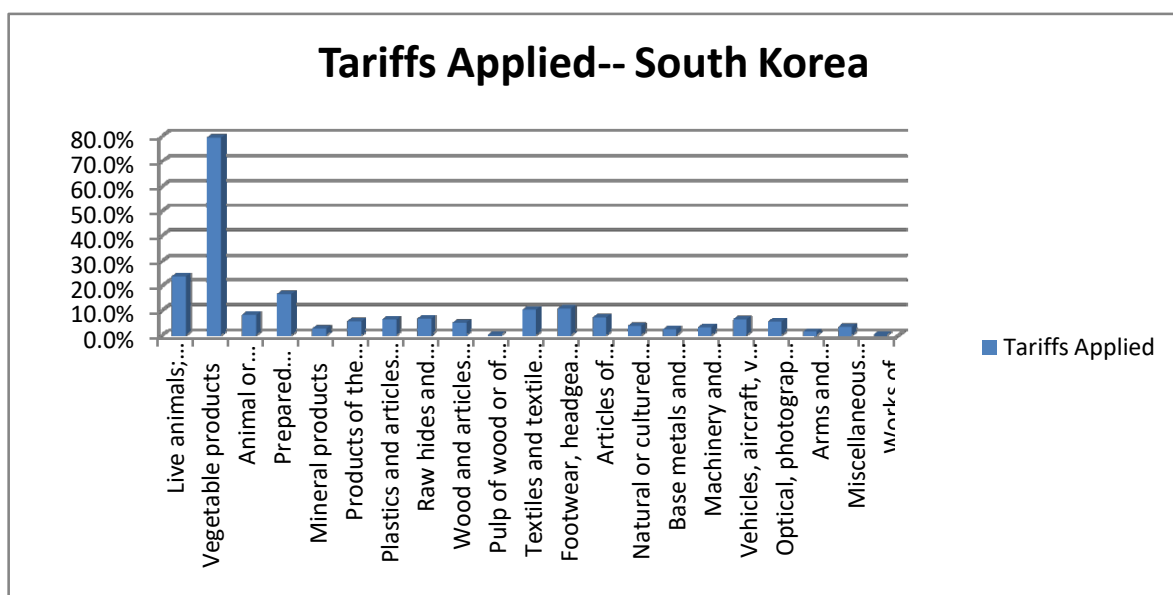
"The applied MFN rate averaged 12.6% in 2008. The average applied customs duty on agricultural products at 53.5%, remains more than eight times higher than the average for non-agricultural goods (6.5%). Korea has bound 90.8% of its tariff lines: 98.7% of agricultural lines (excluding mainly rice) and 89.5% of its non-agricultural lines. The average gap of 4.3 percentage points between the averages bound and applied MFN tariff rates still imparts a degree of unpredictability to the tariff regime and provides scope for the authorities to raise applied rates within the bindings<sup>13</sup>" (Also refer to

Figure 5)

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<sup>13</sup> Trade Policy Review

FIGURE 5: TARIFFS APPLIED-- SOUTH KOREA



Source: Based on ITC Market Access Map data and HS Section grouping

#### 7.4 Bilateral Revealed Comparative Advantage between Pakistan and South Korea

Pakistan is competitive in a range of different products in the South Korean market. Some of these products are ethanol, cotton yarn, woven fabrics of cotton, leather and fish products. The leather products Pakistan is competitive in are mostly raw hides or leather further prepared after tanning rather than finished leather products. If we analyze the results over the three years we can see that Pakistan has been able to maintain its competitiveness in these products.

TABLE 23: BRCA BETWEEN PAKISTAN & SOUTH KOREA



HS Code	Description	2008	2009	2010
220710	Udenaturd ethyl alcohol of an alcohol strgth by vol of 80% vol/higher	195.0	63.2	659.2
520512	Cotton yarn,>/=85%,single,uncombed,714.29 >dtex>/=232.56, not put up	815.7	684.1	651.4
220720	Ethyl alcohol and other spirits, denatured, of any strength	2136.8	334.3	271.2
411310	Leather further prepared after tanning or crusting "incl. parchment-dr	822.6	585.5	635.8
520522	Cotton yarn,>/=85%,single,combed, 714.29 >dtex>/=232.56, not put up	319.7	257.2	259.3
520523	Cotton yarn,>/=85%, single, combed, 232.56 >dtex>/=192.31, not put up	42.9	66.7	60.6
520812	Plain weave cotton fabric,>/=85%, >100 g/m2 to 200 g/m2, unbleached	96.4	64.4	125.9
030339	Flatfish nes, frozen, excluding heading No 03.04, livers and roes	400.8	275.1	453.3
520911	Plain weave cotton fabric,>/=85%, more than 200 g/m2, unbleached	4108.3	3550.2	4471.2
520532	Cotton yarn,>/=85%,multi,uncombed,714.29 >dtex>/=232.56,nt put up,nes	1140.1	846.5	490.7
520811	Plain weave cotton fabric,>/=85%, not more than 100 g/m2, unbleached	74.4	234.8	193.7
411200	Leather further prepared after tanning or crusting "incl. parchment-dr	50.6	65.8	124.0
410719	Leather "incl. parchment-dressed leather" of the whole hides and skins	155.6	163.5	284.2
030614	Crabs frozen, in shell or not, including boiled in shell	74.7	44.6	91.5
410449	Hides and skins of bovine "incl. buffalo" or equine animals, in the dr	124.1	447.3	1171.7

Source: Authors' calculations based on ITC Trade Map

## 7.5 Potential Bilateral Trade between Pakistan and South Korea

A majority of items with export potential to South Korea belong to the Textile and Clothing group. For Women's shirts and trousers (HS 620462) Pakistan has the potential to export US\$ 296 million to Korea which could materialize if Pakistan obtains GSTP concessions. Under the GSTP (given that this product line will be liberalized) Pakistan could see tariffs faced fall from 13% to 10.4%. the main suppliers for this product, to Korea, are China, USA and Vietnam which all face preferential tariffs therefore, GSTP could help Pakistan compete in more favourable terms. There is also a potential to export US\$ 275.9 million worth of T shirts to Korea at a concessional rate which will enable Pakistan to compete with the leading supplier China (which faces MFN tariffs of 13%) and Vietnam which has preferential access. This is a competitive product line for Pakistan however, it has been unable to penetrate the Korean market with a share of just 0.1% in Korea's total imports.

TABLE 24: PBT BETWEEN PAKISTAN &amp; SOUTH KOREA

HS CODE	Description	Pakistan exports to Korea 2010 (US\$000)	PBT (US\$000)	Applied Tariffs (%)	Tariffs after GSTP if product liberalized (%)
620462	Womens/girls trousers and shorts, of cotton, not knitted	165	296843	13	10.4
610910	T-shirts, singlets and other vests, of cotton, knitted	50	275994	13	10.4
901890	Instruments and appliances used in medical or veterinary sciences, nes	2251	216749	8	6.4
520100	Cotton, not carded or combed	0	216745	0	0
620342	Mens/boys trousers and shorts, of cotton, not knitted	814	192973	13	10.4
711319	Articles of jewellery&pt therof of/o prec met w/n platd/clad w prec met	0	120795	8	6.4
520812	Plain weave cotton fabric,>/=85%, >100 g/m2 to 200 g/m2, unbleached	8754	97021	10	8
940490	Articles of bedding/furnishing, nes, stuffed or internally fitted	8	85377	8	6.4
520942	Denim fabrics of cotton,>/=85%, more than 200 g/m2	1307	72208	10	8
850239	Electric generating sets	0	66266	8	6.4
100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	2985	65854	5	4
520813	Twill weave cotton fabric,>/=85%, not more than 200 g/m2, unbleached	1508	61747	10	8

520522	Cotton yarn, >/=85%, single, combed, 714.29 >dtex >/=232.56, not put up	12497	60832	8	6.4
220720	Ethyl alcohol and other spirits, denatured, of any strength	12867	59334	8	6.4
520523	Cotton yarn, >/=85%, single, combed, 232.56 >dtex >/=192.31, not put up	9001	58904	8	6.4
520513	Cotton yarn, >/=85%, single, uncombed, 232.56 >dtex >/=192.31, not put up	2793	58352	8	6.4
220710	Undenatured ethyl alcohol of an alcohol strength by vol of 80% vol/higher	37982	48025	23.3	18.64
551311	Plain weave polyester staple fibre fabric,	20	47495	10	8
520512	Cotton yarn, >/=85%, single, uncombed, 714.29 >dtex >/=232.56, not put up	34856	46561	6.7	5.36

Source: Authors' calculations based on ITC Trade Map

There is also a potential in the Korean market for surgical instruments but as is the case in other markets Pakistan is competing on a low cost basis whereas countries like USA, Germany and China are competing on the basis of quality. It is for this reason that Pakistan has not been able to realize its export potential in most markets even when tariff preferences are granted.

## 7.6 Finger Kreinin Index between Pakistan and South Korea

The FK index value of 0.1 shows that export structures of both countries are different however, some similarities do exist mainly due to the fact that Korea exports certain textile products and footwear which are also exported by Pakistan.

TABLE 25: FK INDEX BETWEEN PAKISTAN & SOUTH KOREA

Reporter	Partner	FK Index	Observations
Pakistan	South Korea	0.104	5312

Source: Authors' own calculations

## 7.7 Trade Intensity between Pakistan and South Korea

The value of Trade Intensity Index between Pakistan and South Korea is only 0.44. This is due to the fact that South Korea's imports are biased in favour of East Asian countries like Malaysia, Japan and China. Even with further liberalization, under GSTP, the value of this Index is unlikely to rise significantly since

South Korea is integrated into the global supply chain for technology products for which its exports would continue to be concentrated in this particular region.

TABLE 26: TII BETWEEN PAKISTAN & SOUTH KOREA

Reporter	Partner	Trade Intensity Index
Pakistan	South Korea	0.44

Source: Authors' own calculations

## 8 CUBA

### 8.1 Cuba's Trade Profile

Cuba economy is mainly tourism based and it accounts about 60% of GDP. The second major sector of the economy is Nickel and cobalt production which accounts about 18.49% of Cuba's exports in 2009 and China is the main investor in the production of these products. The Agriculture sector is also a mainstay of economy and the principle activity of production mainly focused on sugar and tobacco. The Cuba involved in a deal with venezuela where cuban sugar is exchanged for oil from venezuela.

Being a developing country, Cuba's exports in terms of absolute values increased from US \$ 1.67 billion in 2003 to US \$ 3.57 billion in 2007 which was highest since 2003 had suddenly declined to about US \$ 2.25 billion in 2009.

The product composition of Cuba's exports to the world since 2003 to 2009 are mostly raw or intermediates products in form. Cuban major exports composed of (HS-99) commodities not elsewhere classified with highest share of about 19.14% in 2009, however the export of these products were initiated in 2006 and contributed about 62% in Cuba's total exports, which has fallen overtime. Similarly, the export of Nickel and its articles comprised of nickle oxide sinters & intermediate products of nickel metallurgy had the second highest share of about 18.49% in 2009, followed by Sugar products including mainly molasses, raw and refined sugar had a share of about 12.87%. In Cuba's overall export basket pharmaceutical (mainly medicaments) is the only product where its exports share increased from 3.70% in 2003 to 11.88% in 2009. Cuba's other major exportable products includes tobacco, fisheries, mineral fuels, beverages, iron & steel, salts etc. Since 2003 to 2009, the top ten exportable products of Cuba's contributes almost 80% of Cuba's total export to world.

Cuba's exports are concentrated among a few partners and 2 major export destinations are China (37.36%), Canada (30.94%), which collectively accounts about 62% of Cuban exports to world in 2009. While the other exports markets are Spain with (8.23%), Netherlands (3.59%), Brazil (3.59%), Russia (2.65%), Italy (1.68%), Switzerland (1.54%), Germany (1.17%) and Portugal had (1.06%) share in Cuba's global exports in 2009. The Cuba's imports in terms of absolute value increased tremendously from US \$ 4.66 billion in 2003 to the highest peak of about US \$ 10.17 billion in 2006, which suddenly declined to about US \$ 6.35 billion in 2007 with a negative import growth of about -37.5%. In 2009, Cuba's imports further fell down to about US \$ 4.71 billion with negative import growth of about -43% when compared to previous year (2008).

In 2009, Cuba's imports mainly comprises of machinery, nuclear reactors, boilers with a import share of about 14.67% of Cuba's total imports from world. Since 2003 to 2005, Cuba's top imported products included petroleum oils crude and other than crude. The other major imports in 2009 includes Electrical and electronic equipments with import share of about 7.18%, followed by vehicles comprised of cars, trucks and their spare parts(6.40%), Cereals in clued wheat, maize and rice (6.24%) and Edible meat (4.38%) etc.

China is emerging as new trading partner of Cuba both in terms of exports and imports since 2003 to 2009. In 2003, China had 7.13% share in Cuban global imports which are now increased to about 20.62% in 2009. Spain is the second major trading partner of Cuba both in terms of exports and imports and had 13.89% the second highest share in Cuba's total imports in 2009, followed by USA with (11.31%), Russia (6.02%), Canada (5.92%), Brazil (5.88%), Italy (5.49%) and Mexico with 5.32% share in Cuba's total imports from world in 2009.

## **8.2 Pakistan's Trade with Cuba**

If look at the Pakistan trade profile with Cuba since 2003 to 2009; the trade is in favor of Pakistan from 2007 to 2009 but before this time period Pakistan had a trade deficit of about US \$ 0.2 million in 2003, which rose further to about US \$ 1.98 million in 2006.

In 2003, Pakistan exports to Cuba in terms of value stood at US \$ 0.5 million, which increased to about US \$ 2 million in 2008 and Cuba faced a trade deficit of about US \$ 0.8 million. While in 2009, the exports again declined to a value of just US \$ 0.9 million with a negative annual growth of about -53.7%.

Pakistan major export to Cuba comprised of manufactured goods comprised of Textile, Leather, and Medical equipments. In 2009, Textiles Sector including cotton (HS-52), textile articles (HS-63), manmade

staple fibers (HS-55), manmade filaments (HS-54) and articles of apparel knitted and non knitted accounted 89.26% of Pakistan's total exports to Cuba. The cotton consists of woven cotton fabrics (85% or more cotton, weight less than 200 g/m<sup>2</sup>); Woven cotton fabrics, (less than 85% cotton, mixed with manmade fibers) and cotton wastes had the highest share of about 25.70% in 2009, which grew from 14.47% in 2003. The second major exportable product is manmade staple fibers including woven fabric of synthetic staple fiber had a share of about 24.30%, followed by textile articles comprised of Bed, table, toilet and kitchen linen with 17.35%, articles of apparel including men's and women's suits with a share of 16.38% and articles of apparel consists only of babies garments with 4.12% share.

Other major exports to Cuba are medical equipment mainly comprised of Instruments and appliances used veterinary sciences as well as appliances used in dental sciences share has seen a declined from 57.72% in 2004 to 10.52% in 2009 out of Pakistan total export to Cuba. Similarly the exports of Leather including gloves, belts and leather accessories also declined from 6.39% in 2003 to 1.43% in 2009.

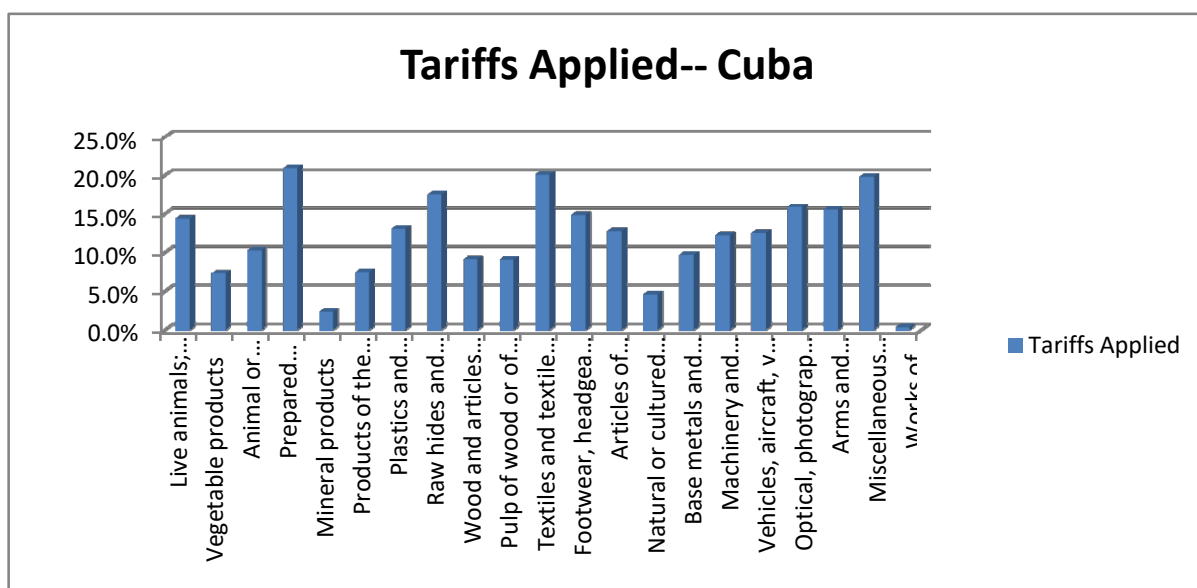
About 94 % of Pakistan's imports from Cuba is Pharmaceutical which comprised mainly of Human & animal blood; anti-sera, vaccines, toxins, micro-organism culture the import worth of which increased from US \$ 0.63 million in 2003 to US \$ 0.65 million in 2009. Since 2003 to 2009, Cuba also exports negligible amount of Tobacco, minerals etc.

### **8.3 Tariff regime of Cuba**

The overall tariff applied by Cuba to all products is 10.76% with average applied agriculture tariffs at 13.51% and industrial tariffs at 10.56% .

Figure 6 shows that the 2 most protected sectors are prepared foodstuff with an average applied tariff of 21% and textiles with a protection rate of 20.8%.

FIGURE 6: TARIFF STRUCTURE OF CUBA



Source: Based on ITC Market Access Map data and HS Section grouping

## 8.4 Bilateral Revealed Comparative Advantage between Pakistan and Cuba

Pakistan has an advantage in the export of mainly clothing, made ups and surgical instruments to Cuba. Since Cuba has been able to develop a state-of-the-art health system it is a growing market for Pakistani surgical instruments and dressings.

TABLE 27: BRCA BETWEEN PAKISTAN & CUBA

HS Code	Description	2008	2009	2010
300510	Dressings and other articles having an adhesive layer	0.0	0.0	911.2
630260	Toilet&kitchen linen,of terry towellg or similar terry fab,of cotton	251.8	182.6	274.4
600622	Dyed cotton fabrics, knitted or crocheted, of a width of > 30 cm (excl	0.0	0.0	1637.3
580219	Terry towellg&similar woven terry fab of cotton,o/t unbl&o/t nar fab	1132.6	0.0	1481.7
600690	Fabrics, knitted or crocheted, of a width of > 30 cm (excl. of artific	0.0	0.0	1835.4
600621	Unbleached or bleached cotton fabrics, knitted or crocheted, of a widt	0.0	0.0	172.9
901890	Instruments and appliances used in medical or veterinary sciences, nes	1.6	16.8	19.0
901849	Instruments and appliances, used in dental sciences, nes	0.0	44.9	90.0
620342	Mens/boys trousers and shorts, of cotton, not knitted	0.0	48.7	39.1
520210	Cotton yarn waste (including thread waste)	4341.7	NA	4792.3

Source: Authors' calculations based on ITC Trade Map

## 8.5 Potential Bilateral Trade between Pakistan and Cuba

Cuba is a small island economy whose growth has been stymied by US trade and economic sanctions. Export potential to Cuba is limited by the country's small economic size (In 2010 Cuban imports were only US\$ 5 billion). The current level of Pakistan's trade with Cuba is also very low with Pakistan's total exports to the island nation in 2010 at only US\$1 million.

TABLE 28: PBT BETWEEN PAKISTAN & CUBA

HS CODE	Description	Pak Exports to Cuba 2010 (\$000)	PBT (\$000)	Applied Tariffs (%)	Tariffs after GSTP if product liberalized (%)
740400	Waste and scrap, copper or copper alloy	0	42510	5	4
170310	Cane molasses	0	38559	25	20
300490	Medicaments nes, in dosage	0	28513	1	0.8
080450	Guavas, mangoes and mangosteens, fresh or dried	0	28402	10	8
640399	Footwear, outer soles of rubber/plastics uppers of leather, nes	0	23891	10	8
251512	Marble & travertine, merely cut, by sawing or otherwise into blocks etc	0	23732	25	20
390120	Polyethylene having a specific gravity of 0.94 or more	0	17432	10	8
901890	Instruments and appliances used in medical or veterinary sciences, nes	67	16833	10	8

Source: Authors' calculations based on ITC Trade Map

Table 28 shows the products which Pakistan can export to Cuba. Apart from these potential products, Pakistan's leading exports to Cuba i.e. textiles could enjoy tariff reductions and make inroads into the market.

## 8.6 Finger Kreinin Index between Pakistan and Cuba

Export base of Cuba comprised of nickel, sugar, molasses, pharmaceutical products, tobacco, fisheries, mineral fuels, beverages, iron, steel and salts. So we see that although Cuba is the major exporter of raw materials but export pattern is different as compared to Pakistan. The index value is also very low i.e 0.01 indicating dissimilarity in exporting products.

TABLE 29: FK INDEX BETWEEN PAKISTAN & CUBA



Reporter	Partner	FK Index	Observations
Pakistan	Cuba	0.055	4960

Source: Authors' own calculations

## 8.7 Trade Intensity Index between Pakistan and Cuba

Trade Intensity between Pakistan and Cuba is low. This can be attributed to the Cuba being an importer of petroleum and machinery products in which Pakistan does not specialize in. Pakistan's exports to Cuba are also low and hence the TII shows a low value. If Pakistan becomes a Signatory country it could increase its exports to Cuba.

TABLE 30: TII BETWEEN PAKISTAN & CUBA

Reporter	Partner	Trade Intensity Index
Pakistan	Cuba	0.14

Source: Authors' own calculations

## 9 Egypt

### 9.1 Egypt's trade profile

In terms absolute value Egypt's global export were about US \$ 26.2 billion in 2008 which declined to about US \$ 22.35 billion in 2009 with a negative annual growth of about -14.7%.

In 2009, Egypt's major exports composed of Minerals fuels comprised of lubricants and related material amounting in term of value to about US \$ 9.0 billion, which constitutes share of about 40.90 % of Egypt's global exports. However, the exports of these mineral fuels decreased in 2009, when compared to previous year (2008) where the export value of the same products was about US\$ 11.60 billion and constitutes about 44.25% of Egypt's global exports. Fertilizer is the second major exportable product, whose share has risen steadily from 2.59% in 2008 to about 5.31% in 2009.

Egypt is also a major exporter of textile Products including (HS-62) articles of apparel accessories (not knit or crochet) whose share has increased tremendously from 0.97% in 2008 to 3.75% in 2009 and (HS-

61) articles of apparel accessories (knit or crochet) had a share of about 3.24%. The major export commodities of Egypt's agriculture sector include edible fruits & Vegetables, the edible fruit consists mainly of citrus, grapes, dates, melons bananas, apricots collectively had a share of about 3.58%, followed by edible vegetables consists mainly of potatoes, onions, dried vegetables collectively had a share of about 2.99%. Only two major exportable commodity groups classified as manufactured goods (HS-72) iron & steel represents a decline in share from 4.66% in 2008 to 2.17% in 2009, similarly (HS-85) technology products including electrical and electronic equipment shares also declined from 3.02% in 2008 to 2.01% in 2009.

Egypt's top exports partners in 2009 is USA , where the Egypt exports increased in terms of value from US \$1.21 billion in 2003 to US \$ 2.16 billion in 2009, whereas in terms of exports share it decreased from 15.04% in 2003 to 9.70% in 2009 in Egypt's total exports. Italy is the second largest importer of Egyptian goods. In 2009, Egypt exports to Italy worth's about US \$ 2.0 billion and had 8.99% shares in Egypt's global exports and the main products exported to Italy are crude petroleum oil, iron and steel, Aluminum products, textile products and plastics products etc. Spain is the third largest export destination of Egypt in 2009 and had 8.94% share in its total exports. India is also integrating itself in the African countries, in 2009, Egypt's fourth major exports destination is India, who imported about US \$ 1.7 billion worth of goods, which is about 7.68% of Egypt's global exports share. The major items imported by India are petroleum oils, cotton (not carded or combed), natural gas, marble etc. Egypt's other major exports destinations are Saudi Arabia had a share of about 6.40% in Egypt's exports to world, followed by France with (5.65%), Germany (5.18%), UK (3.92%), Jordan (3.84%), and China had 3.37% share in 2009.

If we look at Egypt's global import profile we see that Egypt's major imports is machinery the import of which has increased from US \$ 6.17 billion in 2008 to worth's of US \$ 8 billion in 2009 had a share of about 17.00% of Egypt's global imports. Similarly, Electrical and electronic equipments had a second largest share 7.33% in Egypt's imports from the world, followed by vehicles with 6.83% share, iron and steel with 6.38% share, Mineral fuels with 5.41% and cereals with 5.13% imports share. From figure 3 it can be viewed that in 2009 the share of major import items like iron & steel, mineral fuels, and cereals are decreased when compared to 2008 where the Egypt's import share were high for the in these products.

In 2009, Egypt's imports from USA increased in terms of absolute values and imported US \$ 2.65 billion worth of goods in 2003 which increased almost to double and amounting US \$ 5.25 billion in 2009.

Whereas, in terms import shares USA had 14.85% share in Egypt's global imports in 2003, which decreased to about 11.14% in 2009. China is also looking to integrate itself into African markets and emerging as a big competitor of America in Egyptian markets. China is the second largest import partner of Egypt and showed a positive growth in terms of absolute value and shares as well, China supply of goods to Egypt increased from US \$ 0.93 billion in 2003 to US \$ 5.10 billion in 2009 which is almost closed to American exports to Egypt. Other major imports suppliers to Egypt are Germany who had 7.88% share, Italy had 7.65% share and Turkey had 5.55% share in Egypt's global imports in 2009.

## **9.2 Pakistan's trade with Egypt**

If we analyzed the trade structure between the both countries from 2003 to 2009, only in 2003, Pakistan had a trade surplus of US \$ 5.54 million with its trading partner Egypt. Since then the trade balance is in favour of Egypt and Pakistan is suffering with a customary trade deficit with Egypt from US \$ 6.53 million in 2004, which is now increased to about US \$ 44.78 million in 2009.

Although Pakistan's exports increased in terms of value from US \$ 41 million in 2003 to US \$ 100 million in 2009, but this increase in export value is comparatively low when compared to its imports from its trading partner Egypt. About 60% of Pakistan's export to Egypt comprised of Textile products.

In 2009, the export of major textile sector include Cotton comprised of Woven cotton fabrics, Cotton yarn and cotton waste are the major export items to Egypt and had a highest share of 55.93% of Pakistan's total exports to Egypt. The other major exportable textile products include manmade staple fiber had an export share of 4.85% and textile articles (clothing) had 2.62% share.

Similarly, Fish consisting of crustaceans, whole frozen fish and fishes fillets and pieces had the second highest shares of 9.51% in Pakistan's total export to Egypt. Other major exports are Meat (4.48%), Explosives (4.40%), Plastic articles (2.56%), Salts mainly comprised of Cement & Marble (2.02%), Electro medical equipments (1.86%) and Cereals mainly consisting Rice worth of about US \$ 1.8 million had a share of 1.84% in Pakistan's total export to Egypt in 2009. Compared to 2003, the export share of three items, Explosives, plastic articles and Electro-medical equipments had declined in 2009.

Since 2003, Pakistan's imports from Egypt increased from US \$ 35.53 million to highest level of US \$ 223.59 million in 2008, but it suddenly declined to US \$ 145 million in 2009. In 2009, Pakistan's major import item from Egypt is fertilizer (nitrogenous) of amount US \$ 47.74 million and accounted about 32.94% of Pakistan's total imports from Egypt. Paper and paper board consist of Toilet papers, handkerchiefs, napkins; table clothes had the second highest import share, which increased from 0.06%

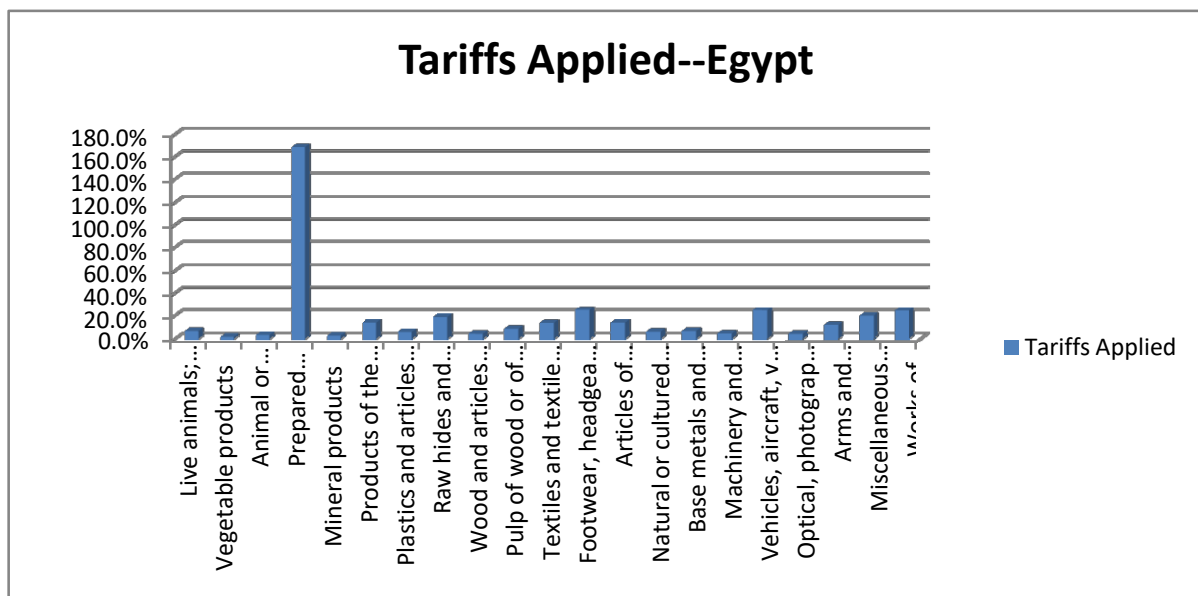
in 2004 to 11.49% in 2009. Other major imports includes Clover seeds, which had 10.35% import share, followed by stones consisting of Calcium and aluminum phosphates had 8.08%, Soaps had 6.46%, medicaments with 5.86% and iron & steel had 2.88% share of Pakistan’s total imports from Egypt.

Pakistan also imports some textile products from Egypt, which comprised mainly of cotton and manmade filaments. Since 2003, Cotton was one of the dominating exports of Egypt to Pakistan, which showed a decline in terms of value as well as share and Pakistan showed improvement in this product. In 2003, Pakistan imported US \$ 16.0 million worth of cotton from Egypt (with an import share 46.69% in 2003), had decreased to US \$ 5.91 million in 2009 with an import share of about 4.07% of Pakistan’s total imports from Egypt. While, Pakistan’s imports of manmade filaments increased from US \$ 2.6 million in 2006 to US \$ 5.46 in 2009 with an import share 3.77% of Pakistan’s total imports from Egypt.

### 9.3 Tariff regime of Egypt

Egypt had integrated itself into the world by signing multiple industrial and trade agreements which include COMESA, Egypt-EU Partnership Agreement, AGADIR, TIFA, PAFTA and free and preferential trade agreement with Arab Countries. Egypt is progressing forward to liberalize its trade regime through unilateral & preferential tariff reductions, streamlining of custom procedures, adaptation of WTO-based customs valuation rules, and the elimination of all customs service fees and charges on imports.

FIGURE 7: TARIFF STRUCTURE OF EGYPT



Source: Based on ITC Market Access Map data and HS Section grouping

The overall average applied tariffs for all products in Egypt is 13.78% , the tariffs on agricultural items is 47.67% and on industrial items is 9.58%. As

Figure 7 shows, prepared foodstuff has the highest level of protection i.e. 168%.

#### 9.4 Bilateral Revealed Comparative Advantage between Pakistan and Egypt

Pakistan has an advantage in the export of denim, woven cotton fabric, fish, rice and polyethylene terephthalate. Pakistan is the third largest supplier of denim to Egypt with the two leading suppliers being China and Turkey. Pakistan is one of the top exporters of crustaceans to Egypt with a 17.2% share in the Egyptian market just behind the leading exporter i.e. Vietnam which has an 18.2% share. Other countries with which Pakistan competes, for this product category, include India and China. For woven fabrics of cotton Pakistan is the third largest supplier to Egypt with the leading suppliers being China and Turkey. Pakistan is the second largest exporter of rice to Egypt with a share of 26.7% of total exports however, the leading exporter is India which has a 40.5% share of the market.

TABLE 31: BRCA BETWEEN PAKISTAN & EGYPT

HS Code	Description	2008	2009	2010
520942	Denim fabrics of cotton, >=85%, more than 200 g/m2	118.2	75.6	60.8
030613	Shrimps and prawns, frozen, in shell or not, including boiled in shell	76.0	54.7	68.4
360500	Matches	456.8	320.2	465.1
160520	Shrimps and prawns, prepared or preserved	6448.4	12310.3	99336.5
520932	Twill weave cotton fabrics, >=85%, more than 200 g/m2, dyed	264.6	2221.8	1740.5
520839	Woven fabrics of cotton, >=85%, not more than 200 g/m2, dyed, nes	1762.1	3162.8	7464.7
390760	Polyethylene terephthalate	2.7	10.2	20.3
521111	Plain weave cotton fab, <85% mixd w m-m fib, more thn 200 g/m2, unbleachd	50.4	221.8	754.6
520939	Woven fabrics of cotton, >=85%, more than 200 g/m2, dyed, nes	8053.4	847.4	131.8
520911	Plain weave cotton fabric, >=85%, more than 200 g/m2, unbleached	241.5	179.0	280.7
551341	Plain weave polyester stapl fib fab, <85%, mixd w/cot, <=170g/m2, printd	0	14973.9	0
521051	Plain weave cotton fab, <85% mixd w m-m fib, nt more thn	512047.1	4254.1	0

	200 g/m <sup>2</sup> , printd			
100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	168.9	108.7	139.5

Source: Authors' calculations based on ITC Trade Map

## 9.5 Potential Bilateral Trade between Pakistan and Egypt

Pakistan is at present exporting US\$ 16.3 million worth of denim to Egypt with the potential of exporting US\$ 123 million to the country. Egypt exports denim primarily from China, Turkey and Pakistan and if denim is provided concessions, under GSTP, Pakistan would be able to take market share away from the 2 leading exporters. Cement is another product with export potential of US\$ 121.6 million. Egypt buys cement mainly from Turkey (which has a share of 47.8%) and the rest from other countries including India, EU and USA. The current MFN tariff on cement is low and it is likely that concessions would be offered under GSTP for it which would drive the tariff further down to 1.6%. Pakistan would be at a disadvantage vis a vis India which would be able to avail these preferences (being a signatory to Sao Paulo). Pakistan's main export items to Egypt are textile fabrics with the average applied tariffs on these products at 13.8%. If Pakistan is able to gain access to the Egyptian market under GSTP it would be able to increase its exports exponentially.

TABLE 32: PBT BETWEEN PAKISTAN & EGYPT

HS CODE	Description	Pak Exports to Egypt 2010 (US\$000)	PBT (US\$ 000)	Applied Tariffs (%)	Tariffs after GSTP if product liberalized (%)
520100	Cotton, not carded or combed	0	156622	0	0
520942	Denim fabrics of cotton, >=85%, more than 200 g/m <sup>2</sup>	16372	123060	10	8
252329	Portland cement nes	417	121653	2	1.6
901890	Instruments and appliances used in medical or veterinary sciences, nes	1092	109117	3.5	2.8
390760	Polyethylene terephthalate	4151	101462	0	0
520522	Cotton yarn, >=85%, single, combed, 714.29 >dtex >=232.56, not put up	494	84961	5	4

520511	Cotton yarn, >=85%, single, uncombd, >=714.29 dtex, nt put up	390	67852	5	4
730690	Tubes, pipe & hollow profiles, iron or steel, welded, nes	0	48894	10	8
252390	Hydraulic cements nes	0	47591	2	1.6
620342	Mens/boys trousers and shorts, of cotton, not knitted	45	47208	30	24

Source: Authors' calculations based on ITC Trade Map

## 9.6 Finger Kreinin Index between Pakistan and Egypt

Major export items of Morocco include mineral fuels, fertilizers, edible fruits and vegetables, articles of apparel etc. Common major export item of Pakistan and Morocco is articles of apparel; therefore the index value is somewhat high as compared to other member countries.

TABLE 33: FK INDEX BETWEEN PAKISTAN & EGYPT

Reporter	Partner	FK Index	Observations
Pakistan	Egypt	0.173	4823

Source: Authors' own calculations

## 9.7 Trade Intensity Index between Pakistan and Egypt

The Trade Intensity Index between Pakistan and Egypt is 1.3 which indicates that trade between the 2 is biased towards each other and hence if there is tariff liberalization there is less scope that trade would be diverted from other sources.

TABLE 34: TII BETWEEN PAKISTAN & EGYPT

Reporter	Partner	Trade Intensity Index
Pakistan	Egypt	1.3

Source: Authors' own calculations

## **10 Morocco**

### **10.1 Morocco's Trade Profile**

If we look at the trade profile of Morocco's with world from 2003 to 2009, its trade deficit with the world widened from US \$ 5.45 billion in 2003 to an echelon of US \$ 22 billion in 2008. In 2008, Morocco's exports were US \$ 20 billion, while its imports amounted US \$ 42 billion, which almost doubled than its exports to world. However in 2009, Morocco's trade deficit reduced to about US \$ 19 billion where exports were dropped by -31.36% and imports by -21.95% compared to last year.

In terms of absolute value Morocco's exports grew from US \$ 8.7 billion in 2003 to a record level of about US \$ 20.30 billion in 2008, which suddenly dropped in 2009 to about US \$ 13.93 billion.

The product composition of Morocco's exports to world comprised of textile products mainly of (HS62 and HS61) Articles of apparels (non/knit or crochet) which collectively accounted for the highest share of 21.82% in 2009; however since 2003 the share of textile products in Morocco's global exports has fallen from 32%. Under (HS-62) articles of apparels (not knit or crochet) the major exportable items consist of Women's suits, jackets, dresses skirts, Men's suits, jackets, trousers & Shorts etc, Women's blouses & shirts, Track suits, and Men's shirts etc, which singly accounted 16.05% share of Egypt's global export in



2009. Similarly under (HS-61) Articles of apparel, (knit or crochet) the major exportable items are T-shirts, Jerseys and Men' & Women's undergarments etc which singly accounted 5.77% share in its global export in 2009.

Electrical and electronic equipments consisting mostly of insulated wires, semiconductors, switching appliances, circuits, transformers and radio navigator had the second highest export share of 14.85% in 2009. Inorganic Chemicals including majorly of phosphoric acid, Zinc oxide and caustic soda had a share of 7.35% in Egypt's global exports. In 2009, other major exportable items include Fishes had 5.69% share, followed by lime & cements had 5.21% share, fertilizer had 5.03% share, Meat had 4.56% share, edible vegetable consisting of tomatoes, potatoes and leguminous vegetable had 3.45% share and petroleum oils had 3.28% of Morocco's total exports.

Morocco's exports are diversified across Europe, India and USA from 2003 to 2009. In 2009, about 70% of Morocco's global exports directed towards Europe and its major exports markets in Europe are its former colonial power France who had highest export share of 24.59%, followed by Spain (21.18%), Italy (4.64%), UK (3.28%), Germany (3.10%), netherlands (2.69%) and Belgium (1.79%). In addition to Europe, other major markets include India, who is the third major partner and had 5.23% share, USA had 3.28% and Brazil had 2.14% of Morocco's global export in 2009. Morocco's majority of items exported to India in 2009 were Diphosphorus pentoxide; phosphoric acid and polyphosphoric acids, Calcium and aluminum calcium phosphates, phosphorous or potassium fertilizers and aluminium. While Europe majorly imported textile products from Morocco's in 2009.

Morocco's global imports grew tremendously from US \$ 14 billion in 2003 to almost threefold i.e. US \$ 42 billion in 2008, but in 2009 its imports drop down to US \$ 33 billion. From 2003 to 2009, Morocco's major imports comprised of mainly Mineral fuels consisting of petroleum oils, gasses, electrical energy coal etc accounted the highest share of 20.43% in Morocco's total imports from the world. Whereas, Machines including screening machines, freezers/refrigerators, washing machines, pumps, dish washing machines and motor engine parts are the second major import items, the share of which grew from 15.57% in 2003 to 12.61% in 2009 of its total imports. Electrical and electronic equipments consisting mainly of television, cameras, semiconductor, TV receivers etc collectively accounts 8.46% of imports in 2009, but its share has fallen overtime. Morocco is also a major importer of vehicles including cars, tractors, trucks, trailers, motorcycles and spareparts of motor vehicle which accounts 8.19% of its total imports. Other major category of Morocco's imports include iron & steel had 3.66% share, followed by plastic articles had 3.36%, Cereals consisting of wheat, Maize, Barely and Rice collectively had 3.36%

share of its global imports. Being a major exporter of textile items, Morocco is also a major importer of textile products which mainly include cotton consisting of woven cotton fabrics, cotton yarn and cotton waste, which accounts 1.71% of its total imports in 2009.

Europe supplies about 40% of Morocco's global imports. France is one of the major trading partners of Morocco, both in terms of its exports and imports. In terms of absolute value Morocco's imports from its major trading partner has increased from US \$ 2.92 billion to US \$ 5.18 billion in 2009 but in terms of its total import share it decreased from 20.57% in 2003 to 15.68% in 2009, but still has the largest share since 2003. In 2009, the other major European suppliers of goods are Spain (12.06%), Italy (6.52%), Germany (5.43%) and Netherlands had 2.39% share in its total imports from the world. While China had 7.81% share is the third largest supplier of goods to Morocco followed by, USA who had 7.12% share of Morocco's total imports. Other major suppliers are Saudi Arabia, Russian Federation and Brazil.

## **10.2 Pakistan's trade with Morocco**

Bilateral trade between the two countries is prejudiced in favor of Morocco's since 2003 to 2009 and Pakistan is suffering a trade deficit since 2003, which widened from US \$ 2 million to a record level of US \$ 379 million in 2008 but in 2009 the trade deficit reduced with negligible amount and stood at US \$ 219 million.

However in 2003 Pakistan exports to Morocco amounted US \$ 15 million, which condensed gradually to about US \$ 11 million in 2009. Both in terms of absolute value and growth rates Pakistan's exports to its trading partner show a declining trend since 2003 to 2009, only with the exception of year 2008, where Pakistan's exports able to achieved a recorded level of about US \$127 million.

The product composition of Pakistan's major exports to Morocco from 2003 to 2009. About 65 % of Pakistan major exports to Morocco comprised mainly of Textile products including cotton, manmade staple fibers, other made-up of textiles and manmade filaments. However, Cotton including woven cotton and cotton yarn accounted for the highest share of 52.53% in Pakistan's total exports to Morocco in 2009. While exports of other major textile products are manmade staple fibers mainly consists of woven fabric accounts 5.25% share, followed by bed, table, toilet and kitchen linen which collectively accounts 5.01% and manmade filament comprised of only synthetic fiber accounts 2.82% of Pakistan's

total exports to Morocco in 2009. Manmade filament is the only major exportable product, the exports of which decreased from US \$ 2.6 million in 2003 (had 17.24% share) to US \$ 0.31 million in 2009 (had a share 2.82%).

Pharmaceuticals including mainly medicaments accounted 5.97% had the second share in Pakistan's total exports to Morocco in 2009. Machinery including pumps, agricultural machinery, elevators, roller bearings and book binding machines exports collectively accounted share of about 91.94% in 2008, which declined to about 4.71% in 2009 of Pakistan's total exports to Morocco. Other major exportable products include cosmetics which accounts 5.22%, surgical instruments which accounts 4.30% and tools including cutlery, scissors and razors collectively accounts 2.34% of Pakistan's exports to its trading partner in 2009.

Pakistan's imports from Morocco increased tremendously in terms of absolute value of US \$ 18 million in 2003 to a record level of US \$ 506 million in 2008, which constitutes an increase of about 27-fold since 2003. However in 2009 the imports value drop to about US \$ 230 million.

Pakistan imports from Morocco comprise of only four major importable products that includes inorganic chemicals, Salts, fertilizer and iron/steel accounts more than 95% of Pakistan's total imports from Morocco.

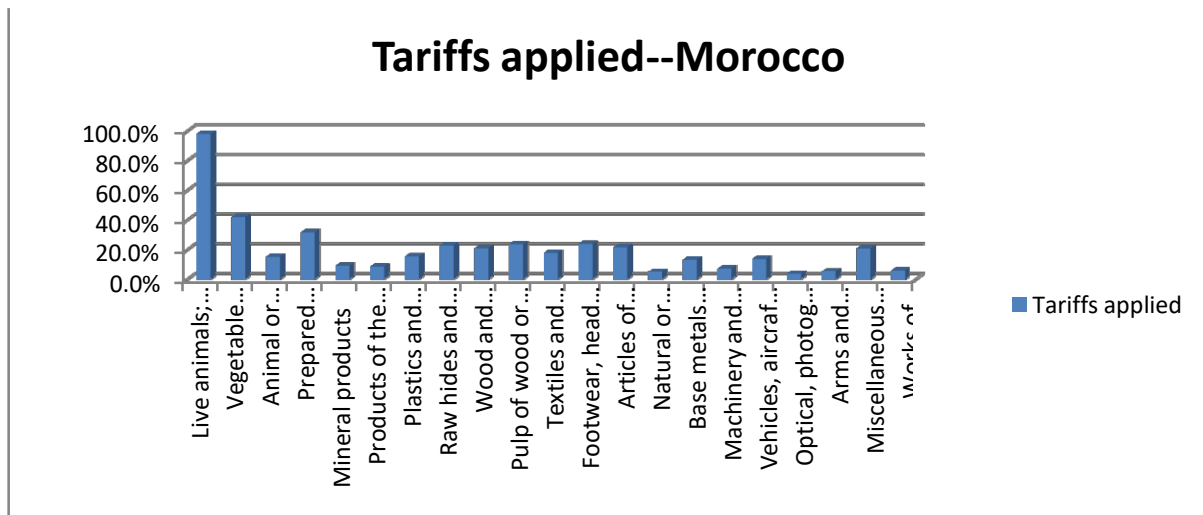
Inorganic chemical comprised mainly of Diphosphorus pentaoxide has shown a tremendous increase both in terms of value and share from US \$ 6.7 million (has share of 36.98) to US \$ 193 million in 2009 accounted 84.06% share of Pakistan's total imports from Morocco. Salts which consists mainly of Calcium and aluminum phosphates showed a decrease only in terms of import shares from 58.25% in 2003 to about 7.71% in 2009, still had the second highest share in Pakistan's total imports from Morocco. In 2009 Pakistan's imports from Morocco diversified and the newly importable products comprised of Fertilizer which accounted 6.44%, followed by iron and steel had 1.32% share in Pakistan's total imports from Morocco.

### **10.3 Tariff Regime of Morocco**

In 2009 Morocco has also lowered its customs duties. Since 2002, the simple arithmetic average of MFN customs duties has fallen by 13.2 percentage points and is currently 20.2 per cent. Tariffs are higher (an average of 44.5 per cent) on agricultural products than on non-agricultural products (16.3 per cent, excluding petroleum). For a total of 1,373 tariff lines (compared with 5,887 in 2002), the applied customs duty remains higher than the bound duty.

Figure 8 shows that Morocco has a highly protective regime for its agricultural products with live animals facing tariffs as high as 98.1%, textile articles also face a high average tariff of 17.9%.

FIGURE 8: TARIFF STRUCTURE--MOROCCO



Source: Based on ITC Market Access Map data and HS Section grouping

### 10.4 Bilateral Revealed Comparative Advantage between Pakistan and Morocco

Since Morocco is a large exporter of apparel products, mostly to the EU where it enjoys preferential market access, it is also a large importer of cotton and other fabrics. It is for this reason that Pakistan has an advantage in exporting textile items like denim fabrics, cotton yarn and woven fabrics of cotton. Pakistan is also competitive in the export of made ups particularly towels. Other products that Pakistan has an advantage in exporting included surgical instruments and footballs.

TABLE 35: BRCA BETWEEN PAKISTAN & MOROCCO

HS Code	Description	2008	2009	2010
520942	Denim fabrics of cotton, >=85%, more than 200 g/m2	1.2	68.0	83.2
521142	Denim fabrics of cotton, <85% mixed with m-m fib, more than 200 g/m2	0.0	68.6	190.2
520512	Cotton yarn, >=85%, single, uncombed, 714.29 >dtex >=232.56, not put up	0.0	262.2	202.1
521021	Plain weave cotton fab, <85% mixd w m-m fib, not more than 200 g/m2, bl	331.3	2967.8	2159.9
551311	Plain weave polyest stapl fib fab, <85%, mixd	0.0	71.7	297.7

	w/cottn,<=170g/m2,unbl/bl			
300439	Hormones nes, not containing antibiotics, in dosage,o/t contraceptive	14.5	74.0	98.3
901890	Instruments and appliances used in medical or veterinary sciences, nes	3.4	51.5	49.5
551341	Plain weave polyester stapl fib fab,<85%,mixd w/cot,<=170g/m2,printd	61.4	392.6	5743.7
520939	Woven fabrics of cotton,>=85%, more than 200 g/m2, dyed, nes	0.4	5.3	33.6
630260	Toilet&kitchen linen,of terry towelg or similar terry fab,of cotton	31.7	364.5	455.6
521223	Woven fabrics of cotton, weighing more than 200 g/m2, dyed, nes	0.0	1.3	59.0
950662	Inflatable balls	16.8	145.2	254.3
520100	Cotton, not carded or combed	0.0	0.0	7.8

Source: Authors' calculations based on ITC Trade Map

## 10.5 Potential Bilateral Trade between Pakistan and Morocco

As mentioned in the discussion regarding Morocco's trade profile, one of the country's major export categories is Wearing and Apparel. Since Morocco does not have a natural advantage in the production of cotton and manufacture of fabrics it imports these items from different countries including Pakistan. It is also due to this reason that the country has very low tariffs on raw cotton (2.5%).

For Denim fabrics (HS 520942) Morocco imports from Turkey, Spain, Italy and Tunisia all of which enjoy large preferences in its market (Tunisia faces zero tariffs, Turkey 12%, Spain and Italy 7.5%). Pakistan on the other hand faces an MFN tariff of 20% which, if the product line is liberalized under GSTP, would fall to 16% still leaving our competitors with an advantage. A hopeful sign for Pakistan is that if our denim can export under such market conditions then any preferences would be advantageous.

TABLE 36: PBT BETWEEN PAKISTAN & MOROCCO

HS CODE	Description	Pak exports to Morocco (US\$ 000)	PBT (US\$ 000)	Applied Tariffs (%)	Tariffs after GSTP if product liberalized (%)
520100	Cotton, not carded or combed	288	87983	2.5	2
520942	Denim fabrics of cotton,>=85%, more than 200 g/m2	2394	66221	20	16
390760	Polyethylene terephthalate	0	65336	7.5	6

080410	Dates, fresh or dried	0	52411	49	39.2
520932	Twill weave cotton fabrics, >=85%, more than 200 g/m2, dyed	49	47680	20	16
730890	Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406)	0	46212	35	28
300490	Medicaments nes, in dosage	195	38638	4.8	3.84
551219	Woven fabrics,containg>=85% of polyester staple fibres,o/t unbl or bl	0	36086	21.3	17.04
520839	Woven fabrics of cotton,>=85%, not more than 200 g/m2, dyed, nes	17	30100	20	16
030613	Shrimps and prawns, frozen, in shell or not, including boiled in shell	0	28186	25	20

Source: Authors' calculations based on ITC Trade Map

## 10.6 Finger Kreinin Index between Pakistan and Morocco

Morocco is the major exporter of apparel and clothing which includes Women's blouses, T-shirts, jerseys, men's and women's undergarments etc. Pakistan's is also the major exporter of textiles and clothing as this industry contributes 60% of exports earnings of Pakistan. While the other exports of Morocco includes insulated wires, semi conductors, circuits etc, chemicals, fishes, meat and vegetables. Though the value of index in this case is again very low but among the other GSTP partners, its value is high i.e. 0.1.

TABLE 37: FK INDEX BETWEEN PAKISTAN & MOROCCO

Reporter	Partner	FK Index	Observations
Pakistan	Morocco	0.114	4969

Source: Authors' own calculations

## 10.7 Trade Intensity Index between Pakistan and Morocco

The share of Morocco in Pakistan's exports is less than the share of Morocco in the exports of the rest of the world and hence the index takes a value less than 1 i.e. 0.28. This is not only because Morocco is not a large export destination for Pakistani exports and because Morocco imports are primarily concentrated in Europe, China and USA.

TABLE 38: TII BETWEEN PAKISTAN & MOROCCO

<b>Reporter</b>	<b>Partner</b>	<b>FK Index</b>
Pakistan	Morocco	0.28

*Source: Authors' own calculations*

## **11 Conclusion**

It has been argued that Special and Differential treatment for developing countries, in the Doha Round, would result in high levels of protection and thus “hamper” South-South trade (Laborde & Fontagne, 2006). In this context a GSTP Agreement offering an immediate linear cut on tariffs for 70% of dutiable tariff lines seems to provide an opportunity to enhance South-South trade. The immediate tariff reductions and a sufficient cushion for product exemption to protect sensitive sectors are features that make GSTP appealing for all members. However a decision to join cannot be based on these two features alone. So does GSTP offer such an opportunity to Pakistan a country which seeks to diversify exports both in terms of products and markets?

The main objective of this study was to determine the advantages that would accrue to Pakistan from signing the final protocol of the Sao Paulo Round. This was done primarily through a trade indicator analysis involving: Bilateral RCA indices, Potential Bilateral trade, Finger Kreinin Index and Trade Intensity Index. The presence of a number of RTAs and PTAs complicates the analysis as the spaghetti bowl has to be unraveled to determine whether Pakistan really is obtaining meaningful tariff concessions as compared to its competitors. Our country wise analysis shows the following results:

**Malaysia:** Pakistan has a comparative advantage in the export of Rice (HS 100630), broken rice (HS 100640), cotton yarn (HS 520512 and HS 520513), potatoes (HS 070190), fish (HS 030379), towel (HS 630260), polyester fabrics (HS 551341). Pakistan has further potential to export rice (HS 100630), surgical instruments (HS 901890), cotton (HS 520100), PTA (HS 390760), tubes and pipes (HS 730690). Barring rice which is a sensitive product category in Pakistan Malaysia FTA Pakistan is being offered concessions for products in which are of its export interest. The FK shows that there is dissimilarity between the export structures of the 2 countries and hence if trade is further liberalized it is likely to result in increased exports. TI index shows that Malaysia's trade is biased towards ASEAN region and hence trade liberalization could lead to a diversion of trade to Pakistan (for products in which Pakistan is competitive).

**Indonesia:** Pakistan specializes mainly in the export of the following products to Indonesia: cotton (HS 520100), polyester fibre (HS 551341), cotton fabrics (HS 520932, 520939, 521051), cotton yarn (HS 520512), denim fabrics (HS 520942) and broken rice (HS 100640). Pakistan has the potential to export rice (HS 100630), cotton (HS 520100), PTA (HS 390760), kinnow (HS 080520), tubes and pipes (HS 730690), cotton fabrics (HS 520819, 520919). The results of the FK index show that trade liberalization would lead to a rise in exports whereas the TI index shows that trade could be diverted, from other sources, towards Pakistan.

**MERCOSUR:** Pakistan has a comparative advantage in the export of bed linen (HS 630231), surgical instruments (HS 901890), cotton fabrics (HS 520853, 521021), polyester fabrics (HS 551341) and footballs (HS 950662). Pakistan has a potential to export rice (HS 100630), surgical instruments, apparel products like men's trousers (HS 620342), shirts and T shirts (HS 610510, 610910) and cement (HS 252329). Given the difference in the export structure of Pakistan and MERCOSUR, there is scope to further increase exports if trade is liberalized. The values of the TI index also indicated a potential to enhance exports.

**South Korea:** Pakistan has an advantage in the export of ethanol (HS 220710, 220720), cotton yarn (HS 520512, 520522, 520523), cotton fabric (HS 520911, 520811), leather prepared after tanning (HS 411310, 411200, 410719). Pakistan has the potential to export T shirts (HS 610910), women's trousers (HS 620462), men's trousers (HS 620342), denim fabric (HS 520942) and cotton fabrics (HS 520812). Results from the FK index show that there is a potential for bilateral export enhancement since the export structures of the two countries are dissimilar. The TI index



also shows that there is a chance for Korean imports to be diverted to Pakistan from other sources.

**Cuba:** Pakistan is competitive in the export of towels (HS 630260), knitted fabrics (HS 600622, 600690, 600621) and surgical instruments. It has the potential to further export mangoes (HS 080450), medicaments (HS 300490) and footwear (HS 640399). The FK index between Pakistan and Cuba is very low which means there is a potential for further exports. The TI index also indicates that Cuba could divert exports from other sources towards Pakistan.

**Egypt:** Pakistan has an advantage in the export of denim fabrics (HS 520942), seafood (HS 030613, 160520), matches (HS 360500) and cotton fabrics (HS 520932, 520839, 520939, 520911) and polyester fabric (HS 551341). It has the potential to further export denim, cement (HS 252329), surgical instruments (HS 901890) and yarn (HS 520511). The FK index shows that there is scope to increase the products traded between the two countries. The TI index however, indicates that Pakistan's share in Egyptian exports is higher than the share of imports from other countries.

**Morocco:** Pakistan specializes in the export of denim fabrics (HS 520942, 521142), cotton fabrics (HS 521021), cotton yarn (HS 520512), polyester fiber (HS 551311) and surgical instruments (HS 901890). Pakistan has the potential to further export denim, cotton (HS 520100) and PTA (HS390760). The FK index suggests that exports of the two countries are similar in certain categories (i.e. both are exporters of apparel) however, there are export opportunities for Pakistan since Morocco does not have an advantage in the production of cotton.

## **12 Recommendations**

There exists a trade potential for various items in Signatory countries where Pakistan does not have any preferential arrangements. In the absence of such arrangements GSTP provides a platform for penetrating the market and a reference point for initiating bilateral agreements.

Signing the Sao Paulo protocol would be beneficial as it provides immediate tariff reductions and a sufficient cushion for product exemption to protect sensitive sectors

Pakistan's accession to the Sao Paulo Round has been stalled with the negotiators unable to finalize a list of concessions. The negotiations for GSTP are being led by the Ministry of Foreign Affairs whereas other preferential agreements are the domain of the Ministry of Commerce. It is

proposed that GSTP negotiations should be spearheaded by MoC which has experience in negotiating international trade agreements. Also since India is involved there could be a case of preference erosion for SAFTA countries and the MoC is better placed to handle these issues.

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## **ANNEX I – 43 GSTP Members**

Algeria  
Argentina  
Bangladesh  
Benin  
the Plurinational State of Bolivia  
Brazil  
Cameroon  
Chile  
Colombia  
Cuba  
the Democratic People’s Republic of Korea  
Ecuador  
Egypt  
Ghana  
Guinea  
Guyana  
India  
Indonesia  
the Islamic  
Republic of Iran  
Iraq  
Libyan Arab Jamahiriya

Malaysia  
Mexico  
Morocco  
Mozambique  
Myanmar  
Nicaragua  
Nigeria  
Pakistan  
Peru Philippines  
Republic of Korea  
Romania (withdrawn in 2006 after joining the EU)  
Singapore  
Sri Lanka  
Sudan  
Thailand  
Trinidad and Tobago  
Tunisia  
the United Republic of Tanzania  
the Bolivarian Republic of  
Venezuela  
Viet Nam and Zimbabwe

## **ANNEX II—GSTP Members participating in the Sao Paulo Round**

Algeria  
Argentina  
Brazil  
Chile  
Cuba  
Democratic People's  
Republic of Korea  
Egypt  
India  
Indonesia  
Iran  
Malaysia  
Mexico  
Morocco  
Nigeria  
Pakistan  
Paraguay  
Republic of Korea

Sri Lanka  
Thailand  
Uruguay  
Vietnam  
and Zimbabwe