



**Trade Related Technical Assistance (TRTA II) Programme**  
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# **ENHANCING EXPORTS IN TEXTILE MADE-UPS AND LIGHT ENGINEERING SECTORS TO ECONOMIC COOPERATION ORGANIZATION (ECO) COUNTRIES**

RECOMMENDATIONS STEMMING FROM PUBLIC-PRIVATE  
CONSULTATION PROCESS

**MARCH 2012**

**This policy recommendation paper was developed by International Trade Centre (ITC)  
in association with Pakistan Institute of Trade and Development (PITAD) under  
Component 1 of TRTA II Programme which is about trade policy capacity building**





## FOREWARD

This policy recommendations paper was produced as a result of an extensive public private consultation process conducted under Component 1 of the European Union funded Trade Related Technical Assistance (TRTA II) programme. Component 1 of the TRTA II programme aims at trade policy capacity building within Pakistan and is implemented by the International Trade Centre (ITC). The specific objectives of Component 1 are trade related capacity building of the public sector and institutionalization of public private dialogue (PPD) for the design and implementation of coherent and inclusive trade and regulatory policies.

A Public Private Dialogue Steering Committee (PPDSC) was established under Component 1 with the formal approval of Ministry of Commerce. The Committee is mandated to guide a series of PPDs as well as ensure necessary follow up with Government on trade policy issues. The PPDSC would also commission a number of research studies on selected trade policy issues which would feed into the PPDs as well as put forward consolidated policy recommendations to the Government of Pakistan. In April 2011, the Committee selected Trade in Services and Regional Integration for the two PPDs during 2011. The broad topic area of regional integration was later refined by the Executive Committee of the PPDSC<sup>1</sup> to focus on the prospects and difficulties of enhancing regional trade with Economic Cooperation Organization (ECO) countries in textile made-ups and light engineering sectors to ensure more focused policy debate during the later public private dialogue (PPD), on this same topic held on 21 December 2011 in Islamabad.

### *Methodology for arriving at recommendations*

- An extensive stakeholder identification and mapping was carried out in order to ensure the participation of all potential stakeholders in the process. Moreover a database of stakeholders comprising of federal government ministries and departments, provincial departments and authorities, trade associations, chambers of commerce and industry, individual firms, universities and independent research organizations was prepared.
- A brief detailing the overall background and purpose of the PPD initiative as well specific information concerning the PPDs for 2011 was sent to about 750 of the above identified stakeholders. These stakeholders were invited to contribute their policy views on the identified topic areas through proposals, position papers or policy recommendations.
- In addition to invitations to attend the PPD, summaries of the two draft policy recommendations research studies were shared with the stakeholders with the intention to inform and allow the invitees plenty of time to prepare for likely discussion areas in the PPD held in Islamabad. Stakeholders were further invited to complete and submit a short policy reform recommendations form.
- Adequate opportunity was provided to the stakeholders to participate in the debate during the PPD either as panel discussants or during the open house discussion among the participants. Stakeholders were further invited to complete and submit policy recommendations forms.
- A summary of the outcome of the PPD and stakeholder recommendations conveyed through the policy reform proposal forms was completed and shared with stakeholders with a request to provide any additional input.
- Lastly, the findings and recommendations of the commissioned research studies, the received position papers and the outcome of the PPD discussion were produced in this paper which was shared with the key stakeholders for their consideration and final comments.

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<sup>1</sup> The Executive Committee of the PPDSC IS established to make decisions on behalf of the PPDSC when the PPDSC is not in session.

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As such, the document was prepared after a thorough consultation process with all the stakeholders in order to make it coherent and inclusive. Following this final consultation process, the paper is being submitted to the Government for consideration and implementation.

I sincerely hope that the recommendations contained in this policy recommendation paper will be well received and considered by the government for implementation through the currently under construction Strategic Trade Policy Framework 2012-15.

Dated: Islamabad the 26 March 2012

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Asaf Ghafoor

Co-chair PPDSC/Chair Executive Committee

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This policy recommendation paper was produced under Component 1 of the European Union funded Trade Related Technical Assistance (TRTAII) Programme. Component 1 is about trade policy capacity building and is implemented by the International Trade Centre (ITC). The views expressed in this recommendation paper are the result of a public-private consultation process carried out under this programme, and thus do not represent the views of the ITC, their staff or the countries they represent.

PROMOTING PAKISTAN'S EXPORTS IN PROFESSIONAL, COMPUTER RELATED AND TRANSPORT SERVICES

## EXECUTIVE SUMMARY

Policy-makers and trade professionals across the world have recognised the importance of trade within the region as a driver of growth. The growth of regional trading blocs is one of the major international relations developments of recent years. Most industrial and developing countries in the world are members of a Regional Integration agreement, and many belong to more than one: more than one-third of world trade takes place within such agreements.

The structure of regional agreements varies hugely, but all have one thing in common—the reduction of barriers to trade between member countries. At their simplest they merely remove tariffs on intra-bloc trade in goods, but many go beyond that to cover nontariff barriers, labour standards, IPRs and investment. At their deepest they have the objective of economic union, and they involve the construction of shared executive, judicial, and legislative institutions.

Pakistan is a member of a number of free trade agreements (FTAs) and regional trade agreements (RTAs). With the region, Pakistan is a founding member of both the South Asian Association for Regional Cooperation (SAARC) and the Economic Cooperation Organization (ECO). Both of these regional trading agreements are dormant due to a number of reasons and thus have not been able to maximize the vast opportunities available for intra-regional trade.

The PPD on Enhancing Trade with ECO countries in textile made-ups and light engineering sectors investigates the problems and prospects for increasing Pakistan's exports to the ECO countries in the identified sectors. The PPD was chaired by the former ambassador of Pakistan to the World Trade Organization, Dr. Manzoor Ahmad and participated by about 110 participants from public sector, private sector, academia, bilateral and multilateral donors and international organizations. Representatives of the United Nations Conference on Trade and Development (UNCTAD) and World Intellectual Property Organisation (WIPO) participated in the PPD through videoconference from ITC Geneva.

The PPD session started with the presentation of the two research studies commissioned for the purpose to investigate the problems and prospects of enhancing trade with ECO countries in the identified sectors. This was followed by views from the panel discussants from public and private sectors and representatives of the UNCTAD and WIPO. Open house discussions also took place in which the participants gave comments and asked questions about the topic

## Key findings

The research on export prospects revealed the following information:

### *Direction of exports*

- 99 percent of Pakistan's total exports to ECO countries were directed to only three countries (Afghanistan, Iran and Turkey) and less than 1percent went to the Central Asian Republics (CAR) member-states (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan.)
- 83 percent of Pakistan's export of light engineering goods to ECO countries went to Afghanistan, indicating a lack of market diversification to other ECO countries. .

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- Under HS 63, 90 percent of products are sold to ten countries, eight in the EU and two in North America). Pakistan's exports to ECO peaked at US\$ 8.63 million in 2008 mainly to Turkey but have dropped off since then and this peak market share has not yet been recaptured. No items falling under any digit of Chapter 56 are listed against exports to any of the ECO countries.

### *Export potential*

- In 2010 ECO countries imported more than US \$500 million worth of goods in surgical instruments and textile made-ups, as below:
  - US\$ 301.08 million worth of surgical instruments (HS Code 9018) - exports from Pakistan to ECO in this category were only US\$ 4.27 million
  - US\$ 200.48 million worth of merchandise falling under textile made-ups HS Code 63 - exports from Pakistan to ECO in this category were under US\$ 5 million (mainly going to Afghanistan and Turkey). The main suppliers of HS 63 products to ECO are China and India.
- ECO countries (other than Afghanistan) imported US\$ 785 million worth of iron and steel products (HS Code 7308) whereas Pakistan's exports to these countries were nil
- The vibrant domestic steel industry in Turkey, Iran, Kazakhstan and Uzbekistan pose a difficult market for penetration by Pakistani engineered products

### *Potential for promoting exports in identified sectors*

There is potential for increasing exports in the identified sectors owing to the following advantages:

- Sufficient production capacity is already available in the country;
- High employment is created per US\$ one million of exports;
- Production of engineered goods provides high degree of value addition;
- Increased exports of engineered goods will aid in offsetting the high bill for imported iron and steel;
- Additional production of HS 63 products will extend a life-line to the power loom industry.

### **Key recommendations**

The key recommendations stemming from the PPD, research studies and position papers submitted by stakeholders have been divided into the following categories:

#### *Supply side improvements*

Pakistan is facing considerable supply side constraints which impact its ability to increase exports despite improved market access resulting from FTAs and PTAs. There is a need to overcome supply side constraints for export competitiveness in light engineering and textile made-ups for trade with ECO countries.

- **Capacity building and skill development:** There is a need to build the capacity of workers, managers and entrepreneurs to enhance productivity and ensure quality of the product according to international standards. The capacity building should focus on full circle and

must include training regarding production, supply chain, packaging, labelling, marketing etc. Training needs assessment survey followed by development of training curricula, strengthening of association's capacity, revival of skill development institutes previously run by TDAP (former EPB) would be needed.

- **Technological up-gradation:** There is an urgent need to introduce latest technology for production of light engineering goods and textile made ups which is not only affecting the quality of the product but also production efficiency. To that end an engineering assessment of the light engineering and textile made-ups industry is needed which should be followed by provision of technology acquisition, transfer and/or product development loans to SMEs on medium term to long term basis at low interest rate
- **Innovation and technology foresight:** Pakistan does not have any centre of excellence for technology foresight, design or innovation. There is a need to work with relevant stakeholders on projects triggering innovation and creating better designs in light engineering sector. Display centres should be established and research on future market demands should be focused. It is further proposed to establish technology foresight, design and Innovation Centres for the light engineering sector.
- **Investment promotion:** Government should facilitate investment in better technology to generate exportable surplus and enhance the value of exported products through tariff and tax incentives. Particular attention is also needed to channelize investment in energy projects, and technology up-gradation.
- **Standardization, quality assurance and certification:** To become globally competitive, Pakistan would have to adhere to quality standards for which government can provide assistance through associations and chambers. ISO certification should be encouraged not only for exporters, but all their suppliers in the supply and value chains. CE markings regime should be encouraged for which government should provide support in terms of cost and capacity.
- **Raw materials, energy and branding:** The Government should consider providing technical and financial assistance for the establishment of raw material banks at the Association level. Additionally, tariffs on import of raw material should be reduced/zero rated. Government should also invest in energy resources and launch projects for efficient use of energy at the factory floor.

### *Banking and finance*

Development of linkages and integration among regional financial institutions are pre-requisites for development of regional trade which at the moment are not strong enough particularly with CARs. At domestic front, lack of access to finance, cost of insurance schemes, and absence of government export guarantees are some of the problems facing trade with ECO countries.

- **Development of banking channels:** There is a need to develop linkages with the financial institutions in ECO countries. The branches of Pakistani banks established in ECO countries can be sensitized on how they can play a role in the development of linkages and trade with ECO countries. State Bank should put in place a mechanism for efficient use of ECO Bank funds for intra-ECO SME trade. Subsidized insurance schemes may be introduced to promote trade in the region.
- **Build financial capacity:** Pakistani banks refuse financing or negotiation of documents on LCs opened by Iranian banks for fear of negative repercussion arising from the US sanctions regime. Capacity-building and training of bankers regarding modalities of EU/US sanctions on Iran and the financing options available to Pakistani banks is needed. Pakistani banks need instruction on how to deal with Iran instead of not dealing altogether in Iran trade.
- **Currency swap with Iran:** Government should initiate dialogue with Iran for national currency swap as payment mode for trade between Pakistan and Iran to overcome the US Dollar irritants to bilateral trade.

- **Improve access to finance:** Access of light engineering and textile made-ups SMEs to formal credit should be improved for trade with ECO countries. Mandatory credit targets for SMEs should be given to SME bank and other scheduled banks.
- **Provide export guarantees:** The Government of Pakistan should provide guarantees to exporters in case of default/non-payment by importers in ECO countries.

#### *Travel and transportation*

- **Transportation:** Transportation is one of the major hurdles affecting trade with ECO countries which requires major policy level interventions such as:

The initiative should start from home by improving domestic transport related infrastructure. Tax breaks and tariff reductions should be provided to invite investment in multi-modal transport. Encouragement to public private partnership would be required.

Government should also sign bilateral and plurilateral transport and transit facilitation treaties or remove irritants in their implementation; for instance Bilateral Road Transport agreements, TIR carnet, protocol and conventions for making use of TIR Carnets, Quadilateral Transit treaty (Pakistan-China-Kyrgyzstan-Kazakhstan), Bilateral Road Transport agreement with Iran, and transit trade agreements with CARs.

For train transport, the frequency of the proposed Gul container train may be increased and the cargo operations of Pakistan Railways should be restored.

For transportation through sea arrangements should be made to carry out logistics via sea through Iran or Dubai and then onwards by land into ECO member countries. Pakistan National Shipping Corporation (PNSC) should also consider starting direct sailing to Istanbul.

- **Travel:** Easy, quick and cost effective travel opportunities within the region will greatly help in the development of intra-region trade. At the moment there is no direct flight from Pakistan to CARs. Government should initiate efforts to start direct air flights from Pakistan to important commercial centres in CARs. Similarly, negotiations should be initiated with CARs for facilitation of business visas.

#### *Commercial diplomacy*

There is a need to strategically follow Pakistan's market access initiatives which should not only focus on tariff reductions but also the non tariff barriers to exporting. As a strategic move, Pakistan should join the Russia, Belarus and Kazakhstan Customs Union to gain access to the three major importers in the region.

Similarly individual FTAs/PTAs are needed to be negotiated with ECO member countries particularly with Afghanistan and some CARs. Country specific NTBs should also be negotiated and eliminated through bilateral diplomacy.

#### *Conduct market analysis and research*

Despite their separation from the Russia more than two decades ago, potential trade in CAR countries is still largely unexplored. Very limited information is available about the region and Pakistan's trade with CARs. There is a need to create knowledge and information repository about CARs so that trading opportunities, regulatory regime, export requirements and other related information are easily available to the interested exporters. Research related capacity building of chambers and associations and their involvement in Government sponsored research would be useful for development of exports to ECO countries and elsewhere.

### *Gear up trade promotion initiatives*

Strong trade promotion interventions are required to support domestic productive processes for export success. Accordingly an aggressive strategy is needed to enhance trade with ECO countries in textile made-ups and light engineering sectors. To that end, TDAP and Commercial officers posted abroad can play their roles besides supportive policies of the government.

- **Subsidize surgical instrument registration:** For surgical Instruments, it would be advisable to provide product registration subsidies for Iran and Kazakhstan which are major importers of surgical instruments in ECO.
- **Provide incentives to MNCs for Licence manufacturing:** The government should provide tax incentives to Multinational Companies (MNCs) for licensed manufacture and export to other countries of white goods and auto parts through local enterprises in Pakistan.
- **Pro-activity by Commercial representatives and TDAP:** Commercial offices and TDAP can play an important role in the promotion of trade with ECO countries.
- **Trade fairs, exchange visits and delegations:** Number of trade fairs, trade delegations and single country exhibitions should be enhanced. Exchange visits with chambers and industry in ECO countries should be enhanced.
- **Trade officer's performance indicators:** Benchmarks should be designed for performance monitoring of commercial officers posted abroad. Manual for trade officers should be revised and implemented.
- **Joint ventures and investment promotion:** Joint ventures with investors and businessmen from ECO countries should be facilitated for production, value addition and marketing of products in ECO countries.
- **Local Trade Promotion Officers and assistance for commercial presence:** Local young trade promotion officers in the ECO region should be hired to promote Pakistani products in their respective countries.
- **Building bridges** It is recommended to organize an annual mega event covering trade, culture customs, dresses, music and theatre of the ECO member countries. Similarly a web portal should be created for ECO member countries which should include all relevant information about that country in all the official languages of ECO countries. Buyer's delegations should be invited to Pakistan and imports should be facilitated from ECO countries to develop industrial linkages and dependency.
- **Engineering Technical Services and equipment for transmission lines:** Pakistan should initiate market studies to identify domestic technical and engineering services providing firms and equipment providing enterprises (pipes, transmission towers, cables etc) to place them in the forefront to capture the greater share of supplies for potential ECO projects.

### *Custom facilities and procedures*

Behind the border and beyond the border trade facilitation measures play a very important role in the exports success. There are certain beyond the border measures which are affecting trade with ECO countries and Pakistan can use bilateral and regional fora to address those issues.

- **Establish dry ports and Bonded warehouse:** Bonded warehouses and dry ports should be established at appropriate places.
- **Fast track customs clearance:** Pakistan should introduce Product Safety System (PSS) on the Turkish model. Additionally, **Joint customs control measures** should be developed with ECO countries.

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- **Development of cross border facilities:** Cross border facilities such as bus terminals, truck terminal and trading warehouses should be established. Improvement in transit trade modalities and facilities would encourage growth
- **Establish integrated common facility centre:** Integrated Common Facility Centers at border crossings should be established. Multiple inspections and checking by different agencies should be reduced. Legal and tax related language should be simplified. There are issues of sales tax refund and duty drawback relating to procedures and time involved which need to be simplified and fast tracked.
- **Network of freight forwarders:** A network of freight forwarders should be established in the ECO region to facilitate intra-regional trade.

## ECO TRADE AGREEMENT

The ECO Trade Agreement (ECOTA), signed in 2003, aims to increase trade among member countries and a substantial increase in trade-related investment. It also introduces a negative list and includes provisions for dispute settlement. Since many ECO member countries are landlocked, trade within the sub-region depends significantly on cross-border and transit facilities. An agreement on transit trade was signed in 1995 and one on transport in 1998. However, the ratification process is slow and this has had a direct impact on intra-ECO Trade.

ECOTA is the major document falling within the “Framework Agreement on ECO Trade Cooperation, which was signed in March 2000, and is an umbrella instrument that defines broad areas of trade cooperation among member states. Various measures provided for in the Agreement have been further developed in frameworks and institutional arrangements.

The key objective of the ECOTA was the reduction of tariffs for creating a preferential trading area among the member states. In this regard, the Contracting Parties made firm commitments to provide their final lists by October 31, 2008. However, as of 2011 only three of the Contracting Parties (Afghanistan, Pakistan and Turkey) had provided their lists.

Currently there is an on-going debate on whether the ECOTA itself has actually come into force. Although ECOTA has been ratified by the required minimum number of five members (Tajikistan in 2004, Pakistan in 2007, Afghanistan and Turkey in 2007 and Iran in March 2008), Iran takes the position that since Tajikistan has yet to ratify the four annexes to the Agreement and therefore the Agreement is not yet in force. As a consequence, Pakistan and Turkey have decided to grant tariff concessions bilaterally within the ECOTA framework and Turkey, Iran and Pakistan signed a trilateral agreement on the reduction of customs duties by 10 percent for some products.

The road to achieving ECO-wide tariff goals is hindered by the fact that seven of the ten member states have so far not acceded to the WTO. Kyrgyzstan, Pakistan and Turkey are the only WTO members within the block. Applications for accession from the other member states are pending for review, some since 1995, but there remains a continued lack of urgency in this regard.

This dichotomy in approach to the WTO and its underpinnings of a rules based international trading system, results in creating an uneven playing field within the ECO, allowing its non-WTO members to apply discriminatory tariffs as needed, while promoting their bilateral and multilateral trade interests without being non-compliant at either forum. Two reasons seem to explain this “slow-peddalling” on the issue of acquiring WTO membership.

First is the experience of Kyrgyzstan, which rushed to membership in 1997 without fully considering the long-term implications, reduced its tariffs by massive margins.. As a result, Kyrgyzstan was soon flooded with imported merchandise from all over the world, became a conduit for “informal” imports into the region and suffered serious balance of payments problems, from which it is still recovering. This experience has not been lost on its Central Asian Republic (CARs) partners.

Second, the five other CAR countries have strong trade ties with Russia, through the Commonwealth of Independent States (CIS) and a multiplicity of FTAs and customs unions. Until December 2011 Russia remained outside the WTO, meaning non-membership at this forum had not detracted significantly from the international trade of the CARs.

## **REVIEW OF PAKISTAN'S ECO TRADE- WITH A FOCUS ON LIGHT ENGINEERING AND TEXTILE MADE-UPS**

While Pakistan's trade with ECO has shown impressive growth, it still accounts for only 12 percent of exports and just 2.2 percent of imports. The trade is concentrated only with three countries Afghanistan, Turkey and Iran, which together account for 99 percent of Pakistan's exports to ECO; within this group, Afghanistan and Turkey take up 90 percent (in 2009-10), with Afghanistan alone accounting for almost 70 percent of Pakistan's ECO trade.

Within exports to these three countries, the export basket is further concentrated on only a handful of items. Pakistan's Afghan trade displays more solid product diversification, in that six sectors comprise 65 percent of exports as compared with Turkey, where textiles-related items account for 64 percent of all exports; and Iran, in which one commodity, rice, makes up almost three-fourths of Pakistan's entire exports to that country.

### *Afghanistan*

Viewed from the aspects of value as well as product diversification, the growth of Pakistan's exports to Afghanistan is a success story during an otherwise period of stagnation in Pakistan's export landscape, especially in light of the several known constraints that hinder the growth of this trade.

### *Iran*

Pakistan and Iran signed a preferential trade agreement in 2006, but this does not appear to have provided any impetus for rapid increase of trade by either party. With Iran, Pakistan has always had an adverse balance of trade, in recent years it is a single product customer, exports of rice accounting for 89 percent of exports in 2008-09 and 77 percent in 2009-10.

### *Turkey*

Pakistan's exports of cotton products, synthetic fiber and apparel, valuing US\$ 322 million represented 42 percent of Turkey's global imports of these products, distinguishing Pakistan as a major supplier to a country that is itself a textiles and apparel exporter of medium to high value products.

Presently, exporters in Pakistan are concerned about the repercussions to their business due to the imposition of punitive duties by Turkey on imports of fabrics and apparel. Since Turkey has also applied similar measures to other South Asian suppliers such as India and Bangladesh, for Pakistan the issue has become a test of the utility of ECO membership and the preferential treatment that Turkey is morally and contractually bound to extend, notwithstanding the legality or otherwise of its position on the safeguard measures.

### *Central Asian Republics*

This vast territory, with combined imports in excess of US\$ 60 billion, remains an enigma for Pakistan's export planners. Pakistan's total exports to this region have slipped 10 percent, from US\$ 15.03 million in 2008-09 to US\$ 13.54 million in 2009-10, which is inexplicable considering that competitor countries have increased their exports to this region in the same period.

It is possible that the actual export figures for Pakistan's exports may be somewhat higher. One of the reasons is the position of Pakistan customs authorities, who state they have no instructions in respect

of cargoes destined for CARs transiting through Afghanistan and therefore such merchandise is recorded at the Pakistan's land border posts under the head "Exports to Afghanistan."

There is evidence also that importers in Afghanistan re-export some Pakistan origin goods to the CARs market. These factors notwithstanding, one should not be detracted from the fact that Pakistan's recorded exports are in a decline in a market where imports are expanding rapidly.

Whether viewed in the short term against India's exports to the region or the longer term failure to establish a niche in the market for textile made-ups and surgical instruments identified in this study, Pakistan's export performance to the CAR area is highly unsatisfactory, considering that in both products Pakistan has a revealed comparative advantage.

### **Light Engineering Goods**

Export of auto parts to ECO is also modest (US\$ 1.009 million to Turkey, US\$ 0.4 million to Afghanistan and US\$ 17 thousand to Iran, 2009-10). Export of engineering goods (excluding surgical instruments) to ECO rose from US\$ 56.11 million in 2008-09 to US\$ 68.83 million in 2009-10, making up almost 30 percent of Pakistan's total global exports in this sector. Considering that Pakistan's global engineering exports declined by 13 percent in the same period, the inference is that the growth is not organic but a successful matching of products to market demand.

In line with the "single product" trend evident in Pakistan's exports, one product sector "Other Instruments, Appliances Medical/Surgical/Vet" contributes 88 percent of the total exports of surgical instruments. Products in this HS heading are mainly surgical and hospital disposable appliances made from imported stainless steel and diagnostic instruments. Owing to these products being labour intensive to manufacture, and Pakistan's comparative advantage in labor-intensive exports, they are of interest.

Export figures for surgical instruments are seen to follow the general trend of Pakistan's exports - a few countries constitute the major part of sales, in this case five countries account for 60 percent of exports. The presence of Brazil among the top five importers reveals another curious anomaly of Pakistan's export marketing, i.e. the ability to sell in markets half-way across the globe but not in destinations closer to home.

Five countries account for 60 percent of exports in surgical instruments; they are United States, Germany, UK, France and Brazil. The inclusion of Brazil among the top five importers reveals another curious anomaly of Pakistan's export marketing, i.e. the ability to sell in markets half-way across the globe but not in destinations closer to home.

The inclusion of surgical instruments almost halves the share of engineered goods (from 30 percent to 16.1 percent in 2009-10) exported to ECO as a proportion of Pakistan's global exports of these items. However, even at 16.1 percent this is a healthy share, especially when compared with textile made-ups, which have an almost equal share in Pakistan global exports but have negligible export performance to ECO countries.

#### *Analysis of export potential in surgical goods*

Pakistan's Engineering Development Board (EDB) identifies the below HS Code items as being the two engineering products sold to the most destinations:

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- 90189090 161 Destinations Pak Exports US\$165.63 mln\* World Export Trade US\$34,780 million (2010)
- 90184900 110 Destinations Pak Exports US\$ 11.55 mln\* World Export Trade US\$ 3,712 million (2010)

(\*9 months exports: July-March 2011, source EDB Bulletin)

Because both items are in the surgical instruments sector and noting that Pakistan's aggregate sale of surgical instruments to ECO countries is only US\$ 4.279 million, it becomes necessary to examine the size of the import market within ECO of these categories to determine the prospects of increasing Pakistan's exports.

Whilst there is market potential, Pakistan faces is not without competition to reap the benefits of trade within the region. Within the ECO, Turkey is emerging as a major competitor in the export of surgical instruments and medical devices. Turkey's world exports of items covered by HS901890 rose from US\$ 69.55 million in 2008 to US\$ 77.19 million in 2010. The aggression with which Turkey is promoting its overall exports to the Central Asian region and the fact that China too is fast expanding its global outreach in this category suggests that their attention will turn to this region sooner rather than later.

Imports by the six CARs of items falling under HS Code 901890 are seen to be US\$ 178.26 million, US\$ 209.539 million and US\$ 147.77 million during 2008, 2009 and 2010. Combined with Iran (average imports US\$ 119 million in the past three years) the ECO not including Turkey offers an import market in excess of US\$ 250 million, which is more than Pakistan's average annual total exports of surgical instruments over the past five years.

### *Analysis of export potential in steel products*

Products falling within HS Codes 7306 and 7308 (hollow tubes, steel girders respectively) as Pakistan's top export earners in engineered goods (excluding surgical instruments) and additionally HS Codes 7615 (aluminium household goods) and 8507 (batteries for motor vehicles) as top performers in the Afghan market.

The EDB states exports of engineering goods to Afghanistan between July 2010 and March 2011 as US\$ 124.61 million<sup>2</sup> and further mentions in its needs assessment study that the informal exports of engineering goods to Afghanistan in all probability exceed the formal exports.

In the face of these conflicting figures, it is difficult to precisely determine the actual volume of Pakistan's export of engineering goods to Afghanistan.

Import (and export) of products by ECO countries under HS 7306 and 7308, in which Pakistan exports are only to Afghanistan, are given below:

There is huge demand for steel products in the CARs. Turkey and Iran are continuing to increase exports but import demand is rising at a faster pace.

Manufacturing sources in Pakistan believe, on the basis of their exports to Afghanistan and the knowledge their products are being re-exported from there to Tajikistan and other countries that Pakistan can be a competitive player. However, for this particular trade, the transport factor is critical

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<sup>2</sup> Export –Imports Stats of Engineering Industry of Pakistan Jul-March 2010-11 and 2009-10

and there will be little positive movement until either the transit route through Afghanistan is secure or the China-Kyrgyzstan route is made passable and safe.

## Textile Made Ups

TDAP categorizes textile made-ups as products falling under HS Code Chapters 56 and 63 (excluding bed wear and towels.).

*Items falling under Chapter 56 are:*

56.01	Wadding of textile materials, sanitary towels and napkins
56.02	Felt (whether or not coated)
56.03	Non-wovens (whether or not coated)
56.04	Rubber threads and textile yarns coated or covered in plastic
56.05	Metalized Yarn
56.06	Gimped Yarn
56.07	Ropes, Twine and Cordage

*Items under Chapter 63 listed by TDAP falling under the category of "textile made-ups" are:*

6302.4000	Table Linen knitted or crocheted
6302.5110	Table linen of other material
6302.9110	Toilet or Kitchen Linen
6303	Curtains
6304	Bedspreads
6307	Dish Cloths, Wash Cloths, Shopping Bags, Prayer Mats,
6308	Mats, table linen, etc in retail packing

### *Chapter 56*

No items falling under any digit of Chapter 56 are listed against exports to any of the ECO countries. This is not to say that there are no exports from Pakistan. Traders based in Quetta and Peshawar place large orders, mainly in items falling under HS Codes 56011010, 56011020, 56011030, 56011040 and 56011090 (these are products of personal hygiene for women and infants).

The manufacturers advise that these goods are not sold in the Pakistan market because they already have their own distribution channels and market intelligence to track retail sales of their products. They further advised that, as they maintained consolidated sales figures in PKR, for sales tax purposes, they would not be able to indicate what quantity of goods purchased from them were subsequently exported.<sup>3</sup>

Where goods are exported to Afghanistan against PKR payment, no refund of duties and sales tax is allowed, consequently there is no revenue loss to government on such purchases and export. It was revealed that the problems associated with transport of the goods, absence of banking channels and lack of market knowledge/business customs discouraged traders from exploring the export possibilities in that region.

An analysis of trade in HS 56 indicates there is a match between Pakistan's production capabilities and demand in ECO countries and strongly suggests deeper investigation of the export possibilities.

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<sup>3</sup> Note: State Bank of Pakistan authorizes refund of sales tax and other duties on export of goods to Afghanistan only when payment for such goods is received in convertible currency 100percent in advance either through scheduled bank Letter of Credit or cash transfer into a bank account.

As evident from the statistics, Pakistan has no exports of HS 56 to ECO. However, the statistics do reveal that Pakistani products in HS 5601 have export capability. Turkey has an average of 60 percent share of ECO's average annual imports of US\$76.76 million in this product category, indicating that there is space for Pakistani exporters to explore the market in Turkey and other ECO countries.

### *Chapter 63*

Pakistan's world-wide exports of products of various categories at the four digit level in HS 63 (Textile Made Ups) were US\$480.138 million in 2008-09 and US\$537.227 million in 2009-10. These products lack customer and geographical diversification (90 percent of products are sold to ten countries, eight in the EU and two in North America) in a category in which Pakistan's exports have crossed half a billion dollars

An investigation at six digit level of ECO imports of these products reveals a strong cause for intervention. ECO demand is seen in those HS codes where Pakistan's export growth is modest, while ECO demand is less strong in HS Code 630419, in which Pakistan's export growth has been spectacular. In any case, there is very high growth in ECO imports of HS60710 and 630419, in which Pakistan has a strong share of the global market.

**HS 6302:** Two countries Turkey and Kazakhstan make up more than 80 percent of ECO's imports, which have increased from US\$ 32.98 million in 2007 to US\$ 49.31 million in 2010, i.e. by 52.5 percent . Pakistan has no exports to Kazakhstan, but does have a slice of Turkey's imports and this gives it a share ranging from 7.7 percent - 12.6 percent of the ECO import market in this category, while the increase in export value at 50 percent has kept pace with the ECO import growth in this item.

#### *Major sources of import:*

- Turkey - China 42.3 percent, India 9.3, Pakistan 8.7 percent, Turkmenistan 8.4 percent, and free trade zones 5.1 percent
- Kazakhstan - China 29.1 percent, Turkey 23.7 percent, Russia 19.6 percent, Italy 12.4 percent, Pakistan 3.5 percent
- Pakistan's exports to ECO peaked at US\$ 8.63 million in 2008 (market share 19.7 percent) but have dropped off since then and this peak market share has not yet been recaptured.

**HS 6303:** Turkey takes up on average more than 75 percent of the total ECO imports of this item. Pakistan's exports to these markets during 2007-2009 amounted to a mere US\$100, 620/00 and there were no recorded exports in 2010. The major sources of Import for Turkey in 2009 were Hungary (22.1 percent), Egypt (16.3 percent), China (18.4 percent), and Chinese Taipei (16 percent).

**HS6304:** Turkey takes up approx 93 percent of the total ECO imports, which averages approx. US\$33 million and rose to US\$59 million in 2010. Pakistan's global exports in this category have risen from US\$39.16 million in 2007 to USD7373 million in 2010, but Pakistan has no exports of category to ECO, barring exports to Afghanistan which peaked at \$50000 in 2010. Major sources of import for Turkey in 2009 were: China 63.6percent, India 17.8 percent, France 5.9 percent , Moldova 2.6 percent

**HS6307:** ECO imports have increased from USD58 million in 2007 to USD96 million in 2010, with Turkey and Kazakhstan accounting for 95percent of all ECO imports in this category. Pakistan's

exports to ECO are negligible, peaking at 0.946 million in 2008. Major sources of import (2009) were for:

- Turkey - China 17.5 percent, United States 12.3 percent, Russia 11.5 percent, Poland 9.1 percent, Germany 7.7 percent
- Kazakhstan-Turkey 45 percent, China 16.7 percent, Italy 13 percent

**HS 6308:** This category covers goods exported in retail packing and the sales reflect the disconnect between Pakistan and ECO countries in the areas of retail-packed consumer textile goods.

## Summary

In 2010 the four highlighted categories accounted for US \$519 million of exports from Pakistan and US\$ 200 million of imports in the ECO, yet there is practically no trade between Pakistan and ECO countries.

The situation is further inexplicable because Pakistan is a world leader in two of these items, owning a 22.5 percent share of world exports in category 630710 and 14.8 percent in 630419 and a healthy 8.3 percent in 630311 (to 19). At the other end, ECO has high market shares in the world import market in two categories.

The products in these HS categories are value-added items, albeit not high on the value addition scale. They can be characterized as (i) disposable textile consumables and (ii) decorative textiles utilizing non-automated finishing process, qualities that make them suitable for manufacture in low-wage countries and cost-effective for import by countries with higher per capita incomes.

For these reasons, in the ECO, more than 80 percent of the imports of HS63 products are taken up by Turkey and Kazakhstan, both with the highest per capita incomes and the major tourism and hospitality facilities in the bloc.

Pakistan's advantages in the HS 63 product categories are:

- An established domestic production chain;
- Fully domestic raw materials and processing value chain. In addition, unlike apparels or fabrics purchased for processing overseas, HS 63 items are not time-sensitive; therefore the requirement of speedy logistics is not an issue. This is particularly true of products classified as HS6307, which are purchased in units of multiple container-loads for storage and B2B sale from warehouses.

On the plus side, export targets can be achieved without need for fresh capital investment for creation of a manufacturing chain. Sufficient existing capacity is available in weaving, knitting and processing industries.

The main suppliers to ECO are China and India; Pakistan can certainly match both countries for price and quality. It is not likely that businessmen in the trade do not have information on the ECO import potential; it is more likely that the factors ascertained through stakeholder interviews, i.e. lack of interest in the market as many companies are easily exporting to Europe there is no need to take a risk to export to new markets, language barrier are the principal factors behind the absence of exports.

## PROMOTING PAKISTAN'S EXPORTS IN PROFESSIONAL, COMPUTER RELATED AND TRANSPORT SERVICES

Transportation and banking should not be considered as an obstacle since the main market is Turkey, where neither of these factors is an issue. This applies also, with some reservations, to the second main market, Kazakhstan, but if Indian and Chinese competition is successfully selling to customers in those countries, it needs to be analyzed why Pakistani companies are not present in this US\$ 200 million import market.

Increases in production and export of these items will have a positive impact on employment in the power loom sector, which is faced with an existential threat. A by-product will be increased demand and activity in the manufacturing of textile machinery spare parts and consumables.

On the negative side, most of the products in HS 6307 are sold in an intensively competitive and price-sensitive market environment, with low margins for buyer and seller, who depend on volumes to generate profits. The element of freight is critical and the high cost of transportation to Kazakhstan may be a deterrent.

The prospects for increasing exports of textile made-ups to ECO countries need to be assessed in the perspectives of Pakistan's overall export landscape, where, for the foreseeable future, the main driver of export growth will remain the textile sector, in which the country enjoys revealed comparative advantage. Pakistan's market access to developed country imports of textiles products faces market access resistance.

There is a case for Pakistan to aggressively establish new markets for its textiles outside its traditional West European and North American partners. The CIS include six of Pakistan's ECO partners and Russia, which by 2008 had become the world's fourth largest importer of textiles and clothing, taking up 6 percent of global imports.

There is a strong case for an aggressive push to promote textile products (including made-ups) in the ECO, with the objective of taking advantage of entry into the Russian market through the opening provided by its Customs Union with Kazakhstan.

## CHALLENGES AND BARRIERS TO EXPORTING

### *Import dependency*

The biggest hurdle in the production and export of engineering goods is the non-availability of local raw material. More than 80 percent of the steel used in domestic production is imported. This creates cash flow problems, adds to the financial cost of operations and heightens risk due to price fluctuations in the market.

### *Iron and steel pipes and tubes (freight charges)*

Low labour costs combined with efficient managerial skills in this subsector have enabled Pakistan's organized and corporate sector companies to grab market share overseas. The downside is that freight charges for large diameter pipes and tubes become proportionately higher since the larger exporting units are located in Karachi the extra distance has an adverse affect on cost.

### *Surgical instruments*

- **Supply side issues:** Pakistan's surgical industry has not been able to come up with fresh marketing ideas, innovative products or technological improvements. There are many supply-side constraints, chiefly the reliance on imported raw material, no access to capital for applying new technology, a fragmented industry with small-scale enterprises that are unable to bear the expenses of export marketing or technical management.
- **Product registration requirement:** With specific regard to exporting to ECO countries, the surgical instruments industry is faced with the process of registering each product separately with the health authorities in the major importing markets of Iran and Kazakhstan which is a cumbersome and expensive procedure.
- **Transportation:** The hurdles posed by an absence of reliable and efficient direct land transportation between Pakistan and Central Asia is a hurdle which can be overcome by airfreight for those surgical instruments that have high unit value and low unit weight.

### *Electric fan sector*

- **Product diversification:** Unlike surgical instrument industry, the electric fans industry are categorized in only three ranges, ceiling fans (63 percent), pedestal fans (30 percent) and bracket fans (7 percent). Similarly, the industry has little products on offer for industrial fans which have the greater demand in the global market.
- **Domestic demand:** In view of the strong domestic demand that leaves little export surplus, it is unlikely to expect huge exports growth in the near future unless investment in the sector is mobilized.
- **Product price:** Pakistani products are 10 percent more expensive than similar product from India and three times as expensive (but of better quality) as are products from China, which brings to bear its huge advantage in applying economies of scale.

### *Auto Parts*

- **Competition within ECO:** Turkey and Iran are major manufacturers and exporters of automobiles. Uzbekistan has emerged as the central automobile and commercial vehicles

manufacturing hub for the CARs and is self sufficient in auto parts. Consequently, breaking into these markets will face more hurdles compared with exports to other countries.

- **Lack of government support:** This sector requires encouragement and government support due to its ability to absorb skilled labour and technical professionals. In addition, auto spares contribute to import substitution (US\$2.4 billion estimated for 2009) and direct foreign exchange savings of US 1.25 billion.
- **Licence manufacturing:** most of the major auto-parts vendors in Pakistan are either not licensed or under technical arrangement not to export their products without prior agreement to third countries.

#### *Textile Made-ups*

An export drive for ECO countries will encounter the following obstacles:

- Tariffs on textiles are considerably higher in ECO countries, thereby impacting export costing and product profitability.
- Textiles products have a very low share in the import of all ECO countries, barring Turkey (5.1percent of imports) and Afghanistan (4.8 percent of imports), therefore growth will be limited to a few markets rather than throughout the ECO.
- The data shows that there is an existing import market of over US\$ 160 million in Turkey and Kazakhstan, therefore the strategic thrust will be towards market entry rather than market creation
- **The power loom manufacturing segment**, which faces an existential crisis with serious unemployment ramifications, is a source of coarse yarns and unsophisticated processed fabrics that are required for Kitchen and toilet linen products.
- **Innovation in design and printing** is required for curtains because depending on the destination a variety of cotton and non-cotton material and advanced printing and designing is needed to be competitive.

There is a strong case for **export diversification** and for customer capture in ECO, which has imports in excess of US\$ 200 million of these products.

#### *Tariffs*

Barring Iran, tariffs in the ECO are not a barrier to promotion of Pakistan's exports in light engineering goods and textile made-ups. Iran, Turkey and Pakistan have mutually reduced tariffs by 10percent for selected items under the ECOTA.

#### *Non tariff barriers*

Those selling successfully in the ECO have managed to overcome the hurdles of informal payments, hidden para taxes and clearance delays and Pakistani exporters would need to work within these hurdles.

To date the CAR countries of Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan have not ratified the ECO Trade Agreement and are thus under no obligation to remove NTBs under ECOTA. Bilateral negotiation efforts by Pakistan have also largely failed.

### *Transport*

- **Direct sailings to Turkey:** Currently, cargo from Karachi reaches Istanbul via trans-shipment and exporters believe that direct sailings would cut down the transit time and help their business.
- **Transit to the land-locked Central Asian states:** Transit through Afghanistan remains impeded due to the country's internal security situation. At present, the Iran route is fully operational, but is very costly and excessive time-delays are typical. Therefore facilitation efforts by government ought to focus on making the Karakoram Highway (KK) route workable, at least during its open season, by removal of the border-crossing hindrances.

### *Exports to the Central Asian Republic countries*

Imports in CAR value more than US\$ 60 million per annum and 50 percent of their trade is with the peripheral states (wider Central Asian region). Turkey and Iran export more than US\$ 10 billion to that region and many of the items exported by Iran and Turkey to CARs are also manufactured in Pakistan. There is a need for Pakistan to develop direct trade links with ECO countries.

### *Banking*

Interviews with stakeholders identified banking as a serious hurdle in promoting trade with Iran, due to:

- United States sanctions that make Pakistan banks shy of involvement in dollar transactions routed via New York and;
- reluctance of banks to negotiate Iran-origin LCs with Asian Dollar settlements via the Tehran-based Asian Clearing Union, in which payments are delayed by several months.

### *SME financing*

ECO Bank has extended lines of credit to several Pakistan banks for financing SME exports, but there is no condition that these exports must be directed to ECO countries. While this infusion of funds may generate some SME activity in the country, the terms do not make it conducive for intra-ECO trade development nor will it encourage new ECO-focused entrepreneurship. In Pakistan, banks find safety in lending to existing clients and are known to be shy of SME lending.

## **POLICY RECOMMENDATIONS**

### **Supply side improvements**

Pakistan is facing considerable supply side constraints which impact on the country's ability to increase exports despite improved market access resulting from FTAs and PTAs. Pakistan has been unable to expand its global market share over the long term owing to a multitude of factors. Domestic demand in Pakistan has outpaced manufacturing growth. This is reflected in the near-capacity sales of the major domestic manufacturers. Political uncertainty and the high cost of capital have led to reduced investment in projects where returns are spread over a longer term and the increased demand is being met by imports and in many cases there is no exportable surplus.

Similarly, Pakistan's private sector appears to have lost its appetite for gaining the competitive edge. The textile sector is affected by cotton quality that falls short of benchmark international standards and a ginning industry that works on obsolete machinery. Each year textile producers are relying more and more on imported cotton, resulting in increased costs which, together with unfeasible power rates, squeezes profitability and affects quality. As such below are some recommendations to address supply side constraints

#### ***Capacity building and skill development***

There is a need to build the capacity of workers, managers and entrepreneurs to enhance productivity and ensure quality of the product according to international standards. Such capacity building should focus on full circle and must include training regarding production, supply chain, packaging, labelling, marketing etc. A policy of capacity building and skill development that caters for the needs from mine to market would be required.

Government should provide assistance to chambers of commerce and associations to build their capacity and through them the capacity of enterprises, workers, managers and entrepreneurs should be strengthened. A training needs assessment survey of the various sub sectors jointly with the concerned associations and skill development organizations should be followed by design of training and skill development curricula. Moreover, revival and strengthening of skill development institutes previously managed by TDAP under EDF should be considered.

There is also a need to establish language learning schools and provide subsidized language instruction in Russian, Turkish, and Persian to technical and managerial persons from the textile and engineering industries. Export related documents to ECO countries should be translated from Turkish, Russian language into English and Urdu languages and should be available online, at trade associations and TDAP offices for easy access to the exporters.

#### ***Technological up-gradation***

It is major concern that primitive technology is being used for the production of light engineering goods and textile made ups which not only affect the quality of the product but also production efficiency. It is a fact that for engineering goods India is producing the same quality at a much cheaper rate and the same is the case for China. There is an urgent need to upgrade technology for which some interventions are given below:

EDB should work with TDAP, SMEDA, TUSDEC and NPO to conduct an engineering assessment of the light engineering and textile made-ups industry. The assessment should identify the model, make, source, cost, skill requirements of various types of machinery that is required to meet the technology

up-gradation needs of the sectors. Based on that survey, it is recommended to provide technology acquisition, transfer and/or product development loans to SMEs on medium term to long term basis at a low interest rate.

### ***Innovation and technology foresight***

Another problem is the lack of innovation, design and forecasting of future needs. Pakistan does not have any centre of excellence for technology foresight, design or innovation. Improved technology innovation, and better designs can make an enterprise competitive if the other things remain given. This will not only help enhance exports to ECO countries but also to other regions of the world. Accordingly it is proposed that SMEDA, TDAP and EDB work with relevant stakeholders from private sector on projects triggering innovation and creating better designs in light engineering sector. Display centres should be established and research on future market demands should be focused. It is further proposed to establish technology foresight, design and innovation centres for the light engineering sector. Product diversification particularly in fan sector should be considered and industrial fans should be focused.

### ***Investment promotion***

It has been observed that due to a range of reasons the industrial sector has not been able to generate exportable surplus. The notable reasons include growth in domestic consumption, energy crisis, political instability and war against terror. However, the main cause is a lack of investment in new projects as well as technology up-gradation of the existing enterprises. It is extremely important that the Government should facilitate investment in better technology to enhance the value of exported products through tariff and tax incentives. Particular attention is also needed to channelize investment in energy projects, and technology up-gradation.

### ***Standardization, quality assurance and certification***

Pakistan is considered to be a low quality and bulk producer of many products on its export list. To change this image and to become globally competitive, especially in engineered goods or chemicals or plastics products Pakistan would have to adhere to quality standards.

For the fan sector, EDB should standardise all basic fan models followed by the imposition of a standardization requirement on the industry. These standards should be developed in line with global requirements. The Fan Development Institute (FDI) should be upgraded and given clear targets, e.g., to produce energy efficient fans, or achieve global standards with cost efficiency. Similar exercise should be conducted for other sectors as well.

In the same way, to enhance quality standards government can provide assistance through associations and chambers. ISO certification should be encouraged not only for exporters, but all their suppliers in the supply and value chains. Moreover it is imperative to embrace the CE markings regime for which Government should provide support in terms of cost and capacity.

International business requires proper documentation and transparency. Gradual development of documentation through wide spread education and business ethics is necessary to make trading practices transparent

### **Raw materials, energy and branding**

Unavailability of local raw material is hampering growth in the development of exports. For instance about 80 percent of the steel required for light engineering is imported. This puts financial pressure on the enterprise which has to keep inventory for two months and has to block money for three months delivery of inputs.

As such, the Government should consider providing technical and financial assistance for the establishment of raw material banks at the association level. Availability of raw material will greatly boost manufacturing and exports particularly in cutlery and surgical sectors. Additionally, tariffs on the import of raw material should be reduced/zero rated.

The most important drawback is the unavailability of energy resources, prices and uneconomical use of those energy resources. Combined with low technology and moderate skills, the energy crisis is taking huge stock on the competitiveness of Pakistani firms. It is therefore recommended that Government should invest in energy resources and launch projects for improving the efficient use of energy at the factory floor.

Government should also provide assistance for registration of trademarks and the creation of brand image for white goods in the export market. "Utility Models" may be examined as a less costly alternative to full patent protection

### **Banking and finance**

Efficient banking system and interaction among regional financial institutions is pre-requisite for the development of regional trade. Unfortunately, the financial institutions within the region are not integrated and the mechanism for trade support does not exist. Absence of banking channels for exports to Central Asia is a major concern which needs immediate attention. Similarly, trade with Iran is suffering from trade in United States dollars. On domestic fronts, access to finance, lack of affordable insurance schemes and export guarantees are some of the notable hurdles. Below are some recommendations.

#### ***Development of banking channels***

National Bank of Pakistan has two branches in the region, one in Bishkek (Kyrgyzstan) and the other in Baku (Azerbaijan.) Unfortunately, the presence of these two banks has not been a bonus for Pakistan's exports, which are practically nothing to Kyrgyzstan and similarly low to Azerbaijan.

- TDAP may like to liaison with National Bank to identify ways in which the bank's CAR presence can be used for the promotion of Pakistan's exports. ECO Trade Finance Training, in particular for managers of National Bank of Pakistan, which already has a presence in Azerbaijan and Kyrgyzstan, would be required.
- ECO bank has provided funds to augment SME trade but there is no restriction on SMEs for development of intra-ECO trade. State Bank of Pakistan may develop a mechanism to monitor efficient deployment of ECO Trade and Development Banks' funds with focus on developing intra-ECO SME trade.
- Financial links may be established with the financial institutions in the ECO region and subsidized insurance schemes may be introduced to promote trade in the region.

### ***Financial capacity building***

Pakistani banks refuse financing or negotiation of documents on LCs opened by Iranian banks for fear of negative repercussion arising from the US sanctions regime. Noting that Iran's biggest import sources are European Union and ASEAN, it is inferred that, relative to Pak-Iran trade, the problem is not sanctions but lack of knowledge of them. This is a serious misunderstanding of the sanctions regime and it is affecting the development of Pakistan's trade with Iran.

- Capacity-building and training of bankers regarding modalities of European Union / United States sanctions on Iran and the financing options available to Pakistani banks. Despite these sanctions, the European Union remains Iran's largest import partner; therefore Pakistani banks need instruction on how to deal with Iran instead of not dealing altogether in Iran trade.

### ***Currency swap with Iran***

One of the hurdles to trade with Iran is the trade in United States dollars. On the pattern of China, the Government should initiate dialogue with Iran for national currency swap as payment mode for trade between Pakistan and Iran to overcome the United States dollar irritants to bilateral trade.

### ***Lack of access to finance***

Access to formal credit through specialized products such as preferential loans, foreign exchange rights, credit-guarantee facilities etc. should be streamlined for trade with ECO countries. Light engineering and textile made-ups being SMEs have limited capacity to avail loans from the SME bank due to high mark up. Mandatory credit targets for SMEs should be given to SME bank and other scheduled banks.

### ***Export guarantees***

In order to overcome banking malpractices and clearance of goods without proper documentation in ECO member states, it is recommended that the Government provide guarantees to exporters in case of default/non-payment by importers.

## **Travel and transportation**

### **Transportation**

For export strategists in Pakistan, it would be realistic to evolve plans which assume that, for the foreseeable future, secure transit through Afghanistan will not be available. This has not happened in the past thirty years and there is no guarantee that the situation in Afghanistan, which has seen civil war, occupation and insurgency since 1979, will change anytime soon. Accordingly, the government should seek for some alternatives to improve transportation:

***Domestic infrastructure:*** High priority should be accorded to upgrading the domestic transportation infrastructure. Provide tax breaks and tariff reductions for inviting investment in multi-modal transport companies and import of necessary transport equipment. Public-Private partnership with partners from China, Kyrgyzstan and Kazakhstan for such multi-modal transport operations may be explored. Facilitation measures should be developed for corporatization of road transport companies

***Bilateral and plurilateral transport and transit treaties:***

1. There is a need for signing Bilateral Road Transport agreements and signing of TIR carnet. Most of ECO countries are using TIR Carnet regimes which would prove to be instrumental in promotion of intra-regional trade.
2. Pakistan also needs to sign other procedural protocol and conventions for making use of TIR Carnets such as commercial transport services regulations, traffic and vehicle regulations.
3. Steps are required to remove irritants and obstacles for establishing regular traffic, using the Quadrilateral Transit treaty (Pakistan-China-Kyrgyzstan-Kazakhstan) to promote Pakistan-Kazakhstan trade.
4. The government of Iran may be requested to expedite the ratification of Bilateral Road Transport agreement for enabling Pakistan exporters to get access to Turkey and European markets through roads.
5. Although signing of APTTA has given Pakistan access to few ECO countries, it is important that Pakistan government may take steps to expedite the operationalization of transit trade agreements with CARs by finalizing procedural protocols with the respective governments.

*Train service*

1. The frequency of the proposed Gul container train may be increased to take advantage of this cheap and time saving mode of transport.
2. There is a need to urgently examine the restoration of Pakistan Railway's cargo operations. Reduced freight costs will give an impetus to exports of steel products to Afghanistan in particular.

*Sea Transport*

1. In order to improve trade and interaction amongst ECO states it is imperative that land and rail links be improved. However, due to the security situation in KP and Balochistan, Pakistan will not be able to make any major headway in the short-term; therefore it is recommended that arrangements be made to carry out logistics via sea through Iran or Dubai and then onwards by land into ECO member countries.
2. There is a need to examine the feasibility of direct Karachi-Istanbul sailings via Pakistan National Shipping Corporation (PNSC)

*Air transport*

Government of Pakistan should make efforts to facilitate cargo flights to CARs. The cargo which has a high cost to weight ratio could be transported through air.

**Travel**

In the 1990s, Kazak Air, Uzbekistan Airlines and Tajik Air each used to operate two flights a week to Pakistan cities, now there are no direct flights between Pakistan and any point in central Asia. By contrast, there are 29 flights a week between India and the CARs.

Pakistan may consider leveraging its geography to advantage. There are very few direct flights among the Central Asian Republics, which use Dubai as a hub for their interchange, even for flying from Bishkek to Kabul. Direct flights to CARs would greatly facilitate business contacts.

### ***Initiation of direct air flights to cities in CARs***

There is a need to initiate dialog for resumption of direct air links between Pakistan and CARs capitals. At present, most of the CARs capitals are not directly connected by air, travellers use Dubai as a link and government may explore the possibility of making Islamabad or Lahore as the regional hub.

### ***Business visa facilitation***

Turkey and Iran have non-visa status for each other's citizens, Turkey grants visa free status to Azerbaijan (which has not reciprocated), and Kazakhstan grants visa free entry to Turkish and Iranian citizens. Against this, the visa relaxations for businessmen as mentioned in the ECO agreements have yet to be implemented. Pakistan needs to negotiate business visa facilitation measures with ECO countries.

## **Commercial diplomacy**

Regional cooperation needs to be treated as a priority agenda at the government level if the trade volume is to be increased within the region. There is a need to follow a strategic approach not only to gain market access but to eliminate NTBs and develop linkages among regional institutions.

### ***Exports to Russia/Belarus/Kazakhstan Customs Union***

Kazakhstan is the region's largest economy, its "mover and shaker" (GDP is greater than the other five CARs put together) and accounts for more than half of the regions imports. It is also the country with the most institutionalized trade procedures and the best working banking system. Kazakhstan, after Turkey, is the major importer in the ECO of the surgical goods and textile made-ups exported by Pakistan.

A major advantage of focusing on Kazakhstan is the access through Customs Union to Russia. As Russia now imports 6 percent of the world's textile and clothing (and Pakistan has exports of over US\$100 million to Russia to protect) joining this Customs Union will provide greater market access for Pakistan than a bilateral PTA or FTA with Kazakhstan.

### ***Separate PTAs/FTAs with individual ECO members***

Pakistan is already in talks with Kazakhstan and Tajikistan for bilateral PTAs. This is the trend among ECO members. Pakistan's textile industry can benefit from ECO member states especially the Central Asian countries by gaining access to their raw material, i.e., cotton. Pakistan's textile industry can also provide its expertise to the cotton growing Central Asian states by helping their industry forward integrate into spinning and weaving sectors.

There is a need to sign a PTA with Afghanistan to check the smuggling of goods from Afghanistan. It will help reduce the tariff imposed by Afghanistan (5-20 percent) on various goods in addition to the sectors under review.

The ECOTA may need to re-negotiated by 2013 or 2014, in particular the trade-related transport and transit facilities

### ***Elimination of NTBs***

There is a need to negotiate NTBs with the ECO member countries which are hampering Pakistan's exports/trade with ECO countries. Country specific details could be seen in the attached research study but a few examples are:

1. Visa facilitation particularly business visa should be negotiated with ECO countries
2. In Afghanistan, the officials demand that the exporters should register their mutual contract reached with the business partners in CARs. This registration costs US dollars 2000 and the process is too cumbersome requiring registration with three Afghan Ministries. Registration process takes almost 15 days
3. The exporters who send goods to CARs are required to pay 110 percent of Afghan duties levied on the goods transported to CARs. This amount is refunded not earlier than three months and 20 percent goes to Afghan Officials as gratification.

### **Market analysis and research**

Currently there is a lack of information about the ECO countries including their preferences, market structure, tastes, demands etc. Which affect development of appropriate marketing strategies. There is a also lack of trustable data regarding Pakistan's trade with ECO countries as a lot of trade is taking place through unregistered means. Accordingly it is recommended that:

#### ***Availability of data and statistics***

Pakistan current and previous year's export data according to HS codes with ECO countries should be made available online in order to carry out better research and provide basis for future planning.

#### ***Involvement of relevant industry in research undertakings***

Research on any industry by various government institutions is usually carried out without consultation with the relevant industry and hence does not fully reflect the ground realities. This research is done without any clear indication of its readership and is often very tedious and technical hence making it very difficult to read and of little use to the concerned industry. Relevant industry should be properly consulted and the outcome of any research be made available in simple language for easy understanding.

#### ***Research capacity building of associations***

To conduct proper research at Association level, government should provide incentives in the shape of capacity building through universities and research institutes and finances to hire researchers to the associations.

#### ***Creation of knowledge repository about ECO countries***

Discussion with private sector stakeholders and research has revealed there is very little in-depth stock of knowledge available on sector- and product specific market studies of the ECO countries. In order to match products to markets and create profitable business relationships between importer and

exporter, it is imperative that focused research studies on marketing, regulatory requirements, and market niche in ECO countries should be conducted. Buyers Sellers meetings and knowledge and information database regarding ECO countries market should be established.

## **Trade promotion**

Demand side interventions should go hand in hand with supply side developments for a successful export promotion and diversification drive. Currently, Pakistan is maintaining commercial representation at many countries in the ECO region but the results produced by those trade offices is marginal at best. Commercial diplomats and TDAP will have to play a proactive role in exploring and developing the vast trading opportunities with ECO countries.

### ***Product registration subsidies for Surgical Instruments and Appliances***

Product registration subsidies should be provided to exporters of surgical instruments to Iran and Kazakhstan, which are the major ECO import markets aside from Turkey, which does not require product registration of surgical instruments.

### ***Licence manufacturing for auto parts and white goods***

#### *Auto Parts*

The worldwide exports of auto parts is \$400 billion annually whereas the US market in 2010 imported US\$ 95 billion worth, including from Thailand (US\$1.684 billion) and Indonesia (US\$0.78 billion). Within this volume, the world trade in unbranded parts is estimated to be as much, if not more, than branded parts (Dubai in the United Arab Emirates handles more than US\$2.4 billion worth auto parts trade annually, principally for the Iran and CARs markets) because of cost advantages.

This market segment provides Pakistan's auto parts manufacturers the opportunity to achieve economies of scale by adding export sales to the vertical growth in the expanding domestic market.

In its period of export growth, the auto parts industry is likely to face restrictions due to licensing constraints in their master agreements and auto parts manufacturers may be encouraged to take up this issue at industry level. The Government should also provide incentives for obtaining license manufacturing.

#### *White Goods*

There is good volume of trade between Pakistan and Afghanistan in white goods, consisting of exports from Pakistan of manufactured goods.

A major problem faced by exports of white goods from Pakistan is brand identity, lack of which places them at the lower price end of the market and also limits their sales volumes. Manufacture under license of major foreign brands with export rights will help Pakistani companies in overcoming the price and volume constraints.

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Access to export of recognized brands can boost sales to Iran, which has provided preferential tariff (reduction of 50 percent in CB Tax) to several items of household electrical appliances.

In this connection, tax incentives to MNCs for licensed manufacture and export of white goods and auto parts in Pakistan is needed.

### **Pro-activity by Commercial representatives and TDAP**

Commercial offices abroad are eyes, ears and face of the country's commercial activities. Handsome amounts are being spent on the maintenance of these offices but unfortunately the results and performance are not par excellence. There is no system of evaluation or benchmarks for the performance of commercial offices though a manual on the responsibilities of a commercial officer is available which is rarely referred to or used.

### ***Trade fairs, exchange visits and delegations***

Arranging Pakistan-product trade fairs and exchange visits by ECO country trade/industry association delegations to visit Pakistan should be facilitated. TDAP should hold Single Country Exhibitions in ECO countries and the number of delegations to ECO countries should be increased.

### ***Trade officer's performance indicators***

There is a need to improve the performance of Trade officers abroad; performance indicators and parameters should be developed. The existing manual for trade officers should be revised and followed. The trade officers posted in the CARs should provide detailed market reports on key products, advice to trade associations in Pakistan

### **Joint ventures and investment promotion**

Joint ventures should be facilitated for production, value addition and marketing of products with businessmen from ECO countries. Investors and importers from ECO countries should be encouraged and facilitated through commercial offices in ECO countries to visit Pakistan. Industrial visits and chamber to chamber linkages should be developed.

### ***Local Trade Promotion Officers and assistance for commercial presence***

In order to introduce Pakistan's products in CARs it is recommended that local business graduates be hired in ECO states. These graduates should be assigned specific tasks and their productivity be monitored through clearly assigned targets. Similarly, assistance for establishment of exporter's offices in some ECO countries may be considered.

### ***Building bridges***

It was felt that development of trade relations with ECO countries should go hand in hand with development of cultural and social linkages. There is a need to understand the customs, culture, traditions and tastes of the people in the region before aggressive trade strategies are developed. It is needed that trade exhibitions and cultural exchanges should be conducted together as presently there is very little people-to-people contact.

- TDAP may like to consider inviting buyer delegations from ECO countries to visit Pakistan and observe the on-ground situation here for themselves. Often businessmen who travel to sell a product see opportunity in the host country and become buyers as well. Moreover, Short-term (summer or winter vacations) student exchange programs should be encouraged among ECO member states.
- Since the internet is first option for any search into another country, it is recommended that a portal be made for ECO member countries. This proposed portal should be in all member countries native languages and should include member countries products, culture, trade, tourism, etc.
- In order to encourage civil society's interaction in the ECO states it is proposed that a mega annual event be held in all member states on rotational basis. This event should not only cover display of products but also include culture, music, theatre, food and other activities thus fostering greater interaction among diverse cultures of ECO member states.
- It is noted that the strategy used by Turkey and Iran to increase their exports with ECO partners is via opening their markets to imports from those countries. Trade implies reciprocity; it is not a one-way street.

### ***Engineering Technical Services and equipment for transmission lines***

Considering that one of Pakistan's major engagements with the CARs in the coming years would be in the purchase of electricity and gas. Such mega projects will require the construction of pipelines and transmission channels which will generate huge demand for transmission towers, cables, etc to erect transmission lines and construct pipelines.

In this connection export of technical engineering services is yet another opportunity where the Pakistani companies may get market share because those who design and consult for mega projects have a major say in the sourcing and identification of equipment and services suppliers.

The proposed TAPI (Turkmenistan, Afghanistan, Pakistan, and India) and Iran-Pakistan-India energy transmission lines will generate major business opportunities for manufacturers of oil and gas pipelines and equipment. Some Pakistani companies already enjoy strong international reputations in this area and TDAP may remain in the loop with focal point institutions such as Interstate Gas Systems (ISGS) to ensure a place for Pakistani goods for these projects.

Focused market studies and supplier identification should commence now so that Pakistani companies are placed in the forefront to capture the greater share of equipment supplies whenever these plans come to fruition.

### **Customs facilities and procedures**

Customs clearance and trade facilitation is something that affects trade more than anything else. The analysis highlighted the presence of 'beyond the border constraints' in the ECO region and Pakistan can use regional framework under ECO for removing 'beyond the border obstacles'.

### ***Establish dry ports and bonded warehouse***

Bonded warehouses equipped with modern facilities should be established at Torkham and Chaman borders. Similarly, dry Ports should be developed in Baluchistan and KPK that would facilitate bonding and movement of goods to Afghanistan and beyond

***Customs clearance***

In order to increase the efficiency in clearance of consignments, Pakistan could introduce Product Safety System (PSS) on the Turkish model which is an import and export control system that differentiates high risk consignments from low risks and saves money and human resource efforts. Additionally, **Joint customs control measures** should be developed with ECO countries. Customs clearance should be fast tracked

***Development of cross border facilities***

Cross border facilities should be established and developed at all border crossings with ECO countries such as bus terminals, truck terminal and trading warehouses to facilitate trade. Loading and unloading of railway cargo at Iranian border (Taftan) add to the cost of exporters. Improvement in transit trade modalities and facilities would encourage growth

***Integrated common facility centre***

Integrated Common Facility Centers at border crossings should be established. Multiple inspections and checking by different agencies should be reduced. Legal and tax related language should be simplified. There are issues of sales tax refund and duty drawback relating to procedures and time involved which need to be simplified and fast tracked.

***Network of freight forwarders***

Efforts may be made to establish a network of freight forwarders in the ECO region especially in the CARs to facilitate intra-regional trade.



## INTERVENTION MATRIX FOR POLICY RECOMMENATIONS

Recommendations	Policy solutions	Specific interventions
Improve/ameliorate supply side constraints	Capacity building and skill development	<p>A policy for private sector capacity building and skill development that caters for the needs from mine to market should be developed.</p> <p>Government should provide assistance to chambers of commerce and associations to build their capacity and through them the capacity of enterprises, workers, managers and entrepreneurs should be strengthened.</p> <p>A training needs assessment survey of the various sub sectors jointly with the concerned associations and skill development organizations should be conducted followed by design of training and skill development curricula.</p> <p>Revival and strengthening of skill development institutes previously managed by TDAP under EDF should be considered under joint management of TDAP and concerned associations.</p> <p>Establish language learning schools and provide subsidized language instruction in Russian, Turkish, and Persian to technical and managerial persons from the textile and engineering industries.</p> <p>Export related documents for ECO countries should be translated from Turkish, Russian and Persian language into English and Urdu languages and should be available online, at trade associations and TDAP offices for easy access to the exporters.</p>
	Pursue Technological up-gradation	<p>Conduct an engineering assessment of the light engineering and textile made-ups industry to identify the model, make, source, cost, skill requirements of various types of machinery that is required to meet the technology up-gradation needs of the sectors.</p> <p>Based on that survey, provide technology acquisition, transfer and/or product development loans to SMEs on medium term to long term basis at low interest rate</p>
	Follow innovation, design and technology forecasting	<p>Work with relevant stakeholders from private sector on projects triggering innovation and creating better designs in light engineering sector.</p> <p>Display centres should be established and research on future market demands should be focused.</p> <p>It is further proposed to establish technology forecasting, design and Innovation Centres for the light engineering sector.</p> <p>Product diversification particularly in fan sector should be considered and export of industrial fans should be focused.</p>
	Promote	It is extremely important that the Government should facilitate investment in better technology to enhance the value

	Investment	<p>of exported products through tariff and tax incentives.</p> <p>Special incentives should be offered for investment in energy projects and technology up-gradation.</p>
	Ensure standardization, quality assurance and certification	<p>Standardise all basic fan models followed by imposition of a standardization requirement on the industry. These standards should be developed in line with global requirements.</p> <p>The Fan Development Institute (FDI) should be upgraded and given clear targets, e.g., to produce energy efficient fans, or achieve global standards with cost efficiency. Similar exercise should be conducted for other sectors as well.</p> <p>To enhance quality standards government should provide assistance through associations and chambers.</p> <p>ISO certification and CE markings regime should be encouraged for which government should provide support in terms of cost and capacity.</p> <p>Gradual development of documentation through wide spread education and business ethics is necessary to make trading practices transparent</p>
	Ensure provision of raw materials, energy and branding	<p>Provide technical and financial assistance for the establishment of raw material banks at the Association level.</p> <p>Reduce tariffs on import of raw material.</p> <p>Government should invest in energy resources and launch projects for efficient use of energy at the factory floor.</p> <p>Government should provide assistance for registration of trademarks and creation of brand image for white goods in the export market. "Utility Models" may be examined as a less costly alternative to full patent protection</p>
Banking and finance	Develop banking channels	<p>TDAP may like to liaison with National Bank to identify ways in which the bank's CAR presence can be used for the promotion of Pakistan's exports. ECO Trade Finance Training, in particular for managers of National Bank of Pakistan, which already has a presence in Azerbaijan and Kyrgyzstan, would be required.</p> <p>State Bank of Pakistan should develop a mechanism to monitor efficient deployment of ECO Trade and Development Banks' funds with focus on developing intra-ECO SME trade.</p> <p>Establish financial links with the financial institutions in the ECO region and introduce subsidized insurance schemes to promote trade in the region.</p>
	Build financial capacity	<p>Conduct capacity-building and training of bankers regarding modalities of EU/US sanctions on Iran and the financing options available to Pakistani banks. Despite these sanctions, the EU remains Iran's largest import partner; therefore Pakistani banks need instruction on how to deal with Iran instead of not dealing altogether in Iran trade.</p>
	Swap currency with Iran	<p>Initiate dialogue with Iran for national currency swap as payment mode for trade between Pakistan and Iran to overcome the US Dollar irritants to bilateral trade.</p>

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	<p>Improve access to finance</p>	<p>Access to formal credit through specialized products such as preferential loans, foreign exchange rights, credit-guarantee facilities etc. should be streamlined for trade with ECO countries.</p> <p>Light engineering and textile made-ups being SMEs have limited capacity to avail loans from the SME bank due to high mark up. Mandatory credit targets for SMEs should be given to SME bank and other scheduled banks.</p>
	<p>Provide export guarantees</p>	<p>Export credit and export guarantees should be provided to exporters for trade with ECO countries.</p>
<p>Travel and transportation</p>	<p>Improve transportation</p>	<p>High priority should be accorded to upgrading the domestic transportation infra-structure. Provide tax breaks and tariff reductions for inviting investment in multi-modal transport companies and import of necessary transport equipment.</p> <p>Public-Private partnership with partners from China, Kyrgyzstan and Kazakhstan for such multi-modal transport operations may be explored.</p> <p>Facilitation measures should be developed for corporatization of road transport companies</p> <p>There is a need for signing Bilateral Road Transport agreements and signing of TIR carnet. Most of ECO countries are using TIR Carnet regimes which would prove to be instrumental in promotion of intra-regional trade.</p> <p>Sign other procedural protocol and conventions for making use of TIR Carnets such as commercial transport services regulations, traffic and vehicle regulations.</p> <p>Remove irritants and obstacles for establishing regular traffic, using the Quadrilateral Transit treaty (Pakistan-China-Kyrgyzstan-Kazakhstan) to promote Pakistan-Kazakhstan trade.</p> <p>The government of Iran may be requested to expedite the ratification of Bilateral Road Transport agreement for enabling Pakistan exporters to get access to Turkey and European markets through roads.</p> <p>Although signing of APTTA has given Pakistan access to few ECO countries, it is important that Pakistan government may take steps to expedite the operationalization of transit trade agreements with CARs by finalizing procedural protocols with the respective governments.</p> <p>The frequency of the proposed Gul container train may be increased to take advantage of this cheap and time saving mode of transport.</p> <p>Examine the restoration of Pakistan Railway's cargo operations. Reduced freight costs will give an impetus to exports of steel products to Afghanistan in particular.</p> <p>Arrangements should be made to carry out logistics via sea through Iran or Dubai and then onwards by land into ECO member countries.</p> <p>Examine the feasibility of direct Karachi-Istanbul sailings via Pakistan National Shipping Corporation (PNSC)</p>

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		Government of Pakistan should make efforts to facilitate cargo flights to CARs.
	Facilitate travel	Initiate dialogue for resumption of direct air links between Pakistan and CAR capitals. Negotiate business visa facilitation measures with ECO countries.
Commercial diplomacy	Join Russia/Belarus/Kazakhstan Customs Union	Regional cooperation needs to be treated as a priority agenda at the government level if the trade volume is to be increased within the region. Join Russia, Belarus and Kazakhstan Customs Union to gain greater market access for Pakistan compared to a bilateral PTA or FTA with Kazakhstan
	Negotiate separate PTAs/FTAs with individual ECO members	Pakistan is already in talks with Kazakhstan and Tajikistan for bilateral PTAs which should be continued. There is a need to sign a PTA with Afghanistan to check the smuggling of goods from Afghanistan. It will help reduce the tariff imposed by Afghanistan (5-20 percent) on various goods in addition to the sectors under review. The ECO Trade Agreement (ECOTA) may need to be re-negotiated by 2013 or 2104, in particular the trade-related transport and transit facilities
	Negotiate elimination of NTBs	There is a need to negotiate NTBs with the ECO member countries which are hampering Pakistan's exports/trade with ECO countries. Country specific details could be seen in the attached research study.
Market analysis and research	Improve conduct and dissemination of trade related research about ECO countries	Pakistan current and previous year's export data according to HS codes with ECO countries should be made available online in order to carry out better research and provide basis for future planning. Relevant industry should be properly consulted in a government sponsored research and the outcome of any research should be made available in simple language for easy understanding of private sector. To conduct proper research at Association level, government should provide incentives in the shape of capacity building through universities and research institutes and provide finances to hire researchers for the associations. Focused research studies on marketing, regulatory requirements, and market niche in ECO countries should be conducted. Buyers Sellers meetings and knowledge and information database regarding ECO countries market should be established.
Trade promotion	Subsidize product registration for Surgical Instruments	Provide product registration subsidies to exporters of surgical instruments to Iran and Kazakhstan.
	Licence	Provide tax incentives and other facilities to Multi National Companies (MNCs) for licensed manufacture and export

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	manufacturing for auto parts and white goods	contracts with Pakistani enterprises for white goods and auto parts.
	Effective use of TDAP and commercial offices for trade promotion with ECO countries	<p>Arrange Pakistan-product trade fairs in ECO countries</p> <p>Facilitate exchange visits by ECO country trade/industry association delegations to visit Pakistan</p> <p>TDAP should hold Single Country Exhibitions in ECO countries and the number of delegations to ECO countries should be increased</p> <p>There is a need to improve the performance of Trade officers abroad; performance indicators and parameters should be developed. The existing manual for trade officers should be revised and followed.</p> <p>The trade officers posted in the CARs should provide detailed market reports on key products, advice to trade associations in Pakistan through TDAP</p> <p>Joint ventures should be facilitated for production, value addition and marketing of products with businessmen and investors from ECO countries.</p> <p>Investors and importers from ECO countries should be encouraged and facilitated through commercial offices in ECO countries to visit Pakistan. Industrial visits and chamber to chamber linkages should be developed.</p> <p>In order to introduce Pakistan's products in CARs it is recommended that local business graduates be hired in ECO states and assigned specific tasks.</p> <p>Assistance for establishment of exporter's offices in some ECO countries may be considered.</p>
	Build bridges and develop relations beyond trade with ECO countries	<p>TDAP may consider inviting buyer delegations from ECO countries to visit Pakistan and observe the on-ground situation here for themselves.</p> <p>Short-term (summer or winter vacations) student exchange programs should be encouraged among ECO member states.</p> <p>Develop internet portal for ECO member countries in all member countries native languages and should include member countries products, culture, trade, tourism, etc.</p> <p>In order to encourage civil society's interaction in the ECO states it is proposed that a mega annual event be held in all member states on rotational basis. This event should not only cover display of products but also include culture, music, theatre, food and other activities thus fostering greater interaction among diverse cultures of ECO member states.</p> <p>Open up market to imports from ECO countries to develop industrial linkages and dependency.</p>
	Engineering	Considering that one of Pakistan's major engagements with the CARs in the coming years would be in the purchase of electricity and gas. Such mega projects will require the construction of pipelines and transmission channels which

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	<p>Technical Services and equipment for transmission lines</p>	<p>will generate huge demand for transmission towers, cables, etc and engineering services to erect transmission lines and construct pipelines.</p> <p>Initiate focused market studies and supplier identification so that Pakistani companies are placed in the forefront to capture the greater share of equipment supplies whenever mega projects for import of gas and electricity from ECO countries materialize. Interaction with Ministry of Petroleum and natural Resources should be initiated.</p>
<p>Customs facilities and procedures</p>	<p>Improve trade facilitation, custom procedures and facilities</p>	<p>Use regional framework under ECO for removing 'beyond the border obstacles.</p> <p>Establish Bonded warehouses equipped with modern facilities at Torkham and Chaman borders.</p> <p>Develop dry Ports in Baluchistan and KPK to facilitate bonding and movement of goods to Afghanistan and beyond</p> <p>Introduce Product Safety System (PSS) on the Turkish model which is an import and export control system that differentiates high risk consignments from low risks and saves money and human resource efforts.</p> <p>Develop Joint customs control measures with ECO countries. Customs clearance should be fast tracked</p> <p>Cross border facilities should be established and developed at all border crossings with ECO countries such as bus terminals, truck terminal and trading warehouses to facilitate trade.</p> <p>Improve transit trade modalities and facilities with Iran.</p> <p>Establish Integrated Common Facility Centers at border crossings.</p> <p>Multiple inspections and checking by different agencies should be reduced.</p> <p>Legal and tax related language should be simplified.</p> <p>There are issues of sales tax refund and duty drawback relating to procedures and time involved which should be simplified and fast tracked.</p> <p>Efforts may be made to establish a network of freight forwarders in the ECO region especially in the CARs to facilitate intra-regional trade.</p>

Component 1, Trade Policy Capacity Building, implemented by the International Trade Centre (ITC), is aimed at the Ministry of Commerce and Government of Pakistan in developing a coherent trade policy and attendant regulations for export competitiveness. Specifically, it will aim to reinforce the skills of government officers working in trade related ministries and implementing agencies on issues related to trade policy, commercial diplomacy and regulatory reform. The main way in which to achieve this through the institutional capacity building of key local training institutes, which is intended to have an immediate effect on the capacity of government officers working on trade policy issues.

In addition, Component 1 promotes comprehensive, regular and well informed public-private dialogue among the government, private sector and civil society for trade policy development, monitoring and evaluation. To promote local ownership and legitimacy of the dialogue, a steering committee comprising equal representation of the public and private sectors has been established with the formal approval of the Ministry of Commerce of Pakistan. Its mandate is to oversee the planning, implementation and monitoring of public-private dialogue on key issues. To better inform the public-private dialogue process, research studies are commissioned and internationally peer reviewed before dissemination to stakeholders.

The targeted interventions of Component 1 to achieve these goals constitute the following:

**Result for Component 1: Coherent trade policy and regulatory reform for export competitiveness**

- i. The Pakistan Institute for Trade and Development (PITAD) institutional capacity is strengthened
- ii. PITAD's and other research institutes' expertise on trade policy strengthened
- iii. Government officers' capacity on specific trade policy and international trade negotiations strengthened
- iv. Research studies contributing to the development of a national export strategy conducted
- v. Public-private dialogue for a coherent national export strategy is fostered"

For enquiries and further details about Component 1



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