

# Pakistan – Unlocking Private Sector Growth through Increased Trade and Investment Competitiveness

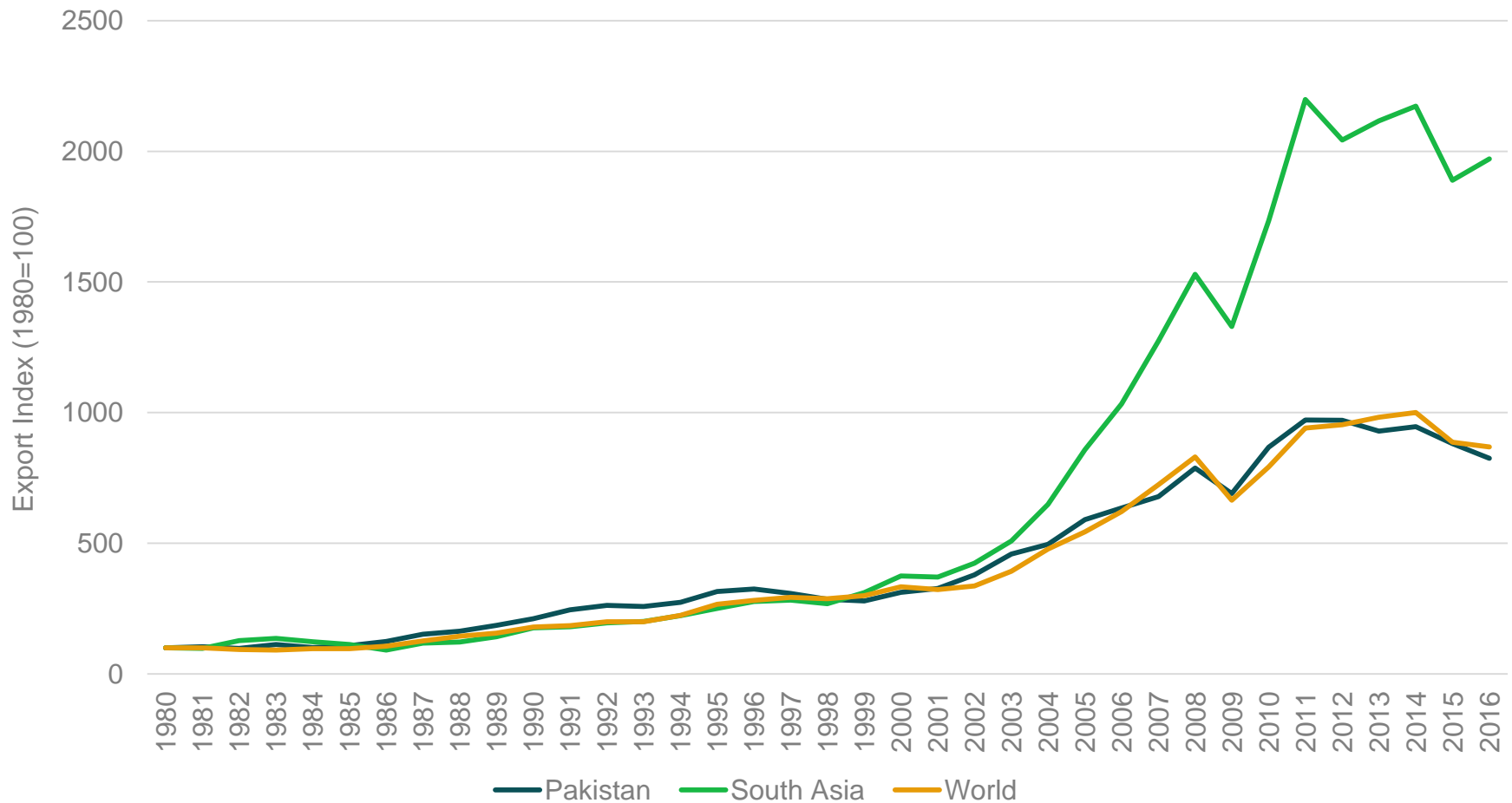


Nadia ROCHA and Gonzalo VARELA

Peshawar, October 18<sup>th</sup> 2017

# Trade dynamics in recent years

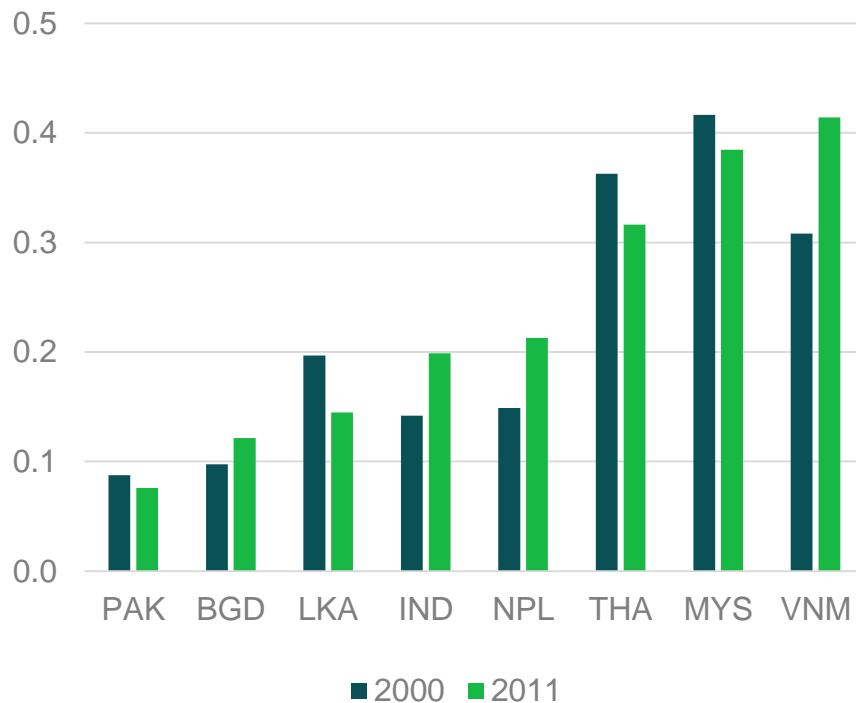
# Pakistan's exports grew far more slowly than those of its South Asian peers



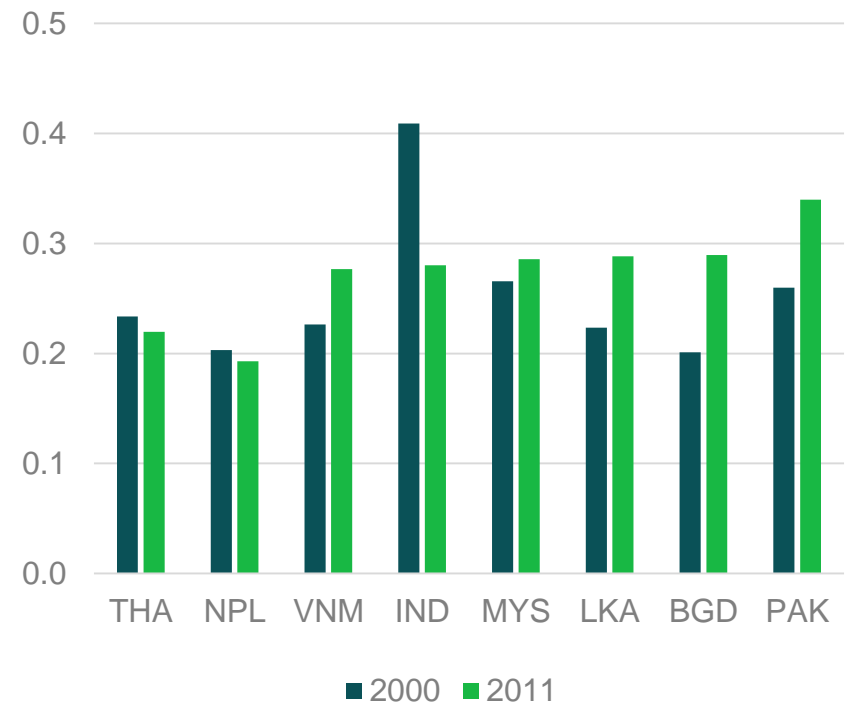
Source: Estimates from UNCTAD statistics, World Bank staff calculations.

# ...because Pakistan has not fully embraced the GVC revolution...

Foreign Value Added in Gross Exports



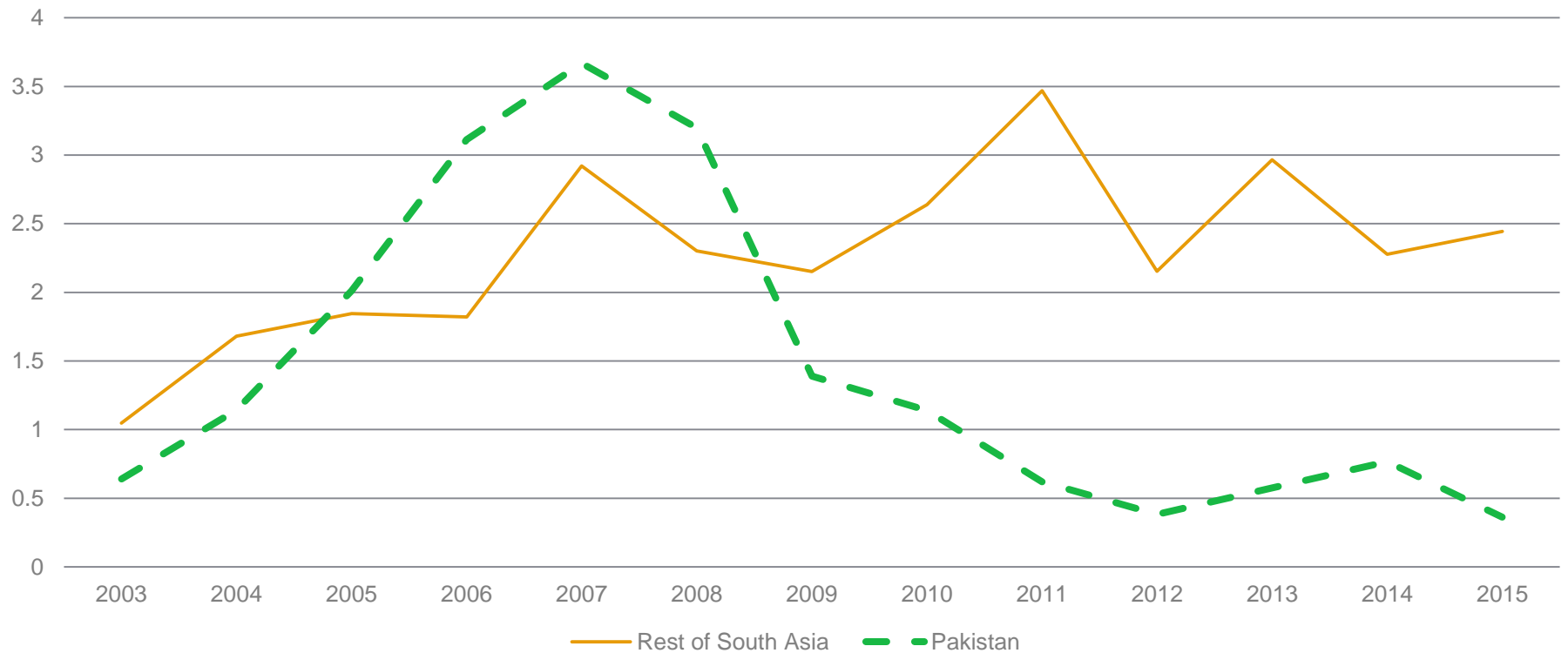
Domestic Value Added in Third Country Exports



Source: Estimates from EORA, World Bank staff calculations.

...and it shows in lower FDI inflows...

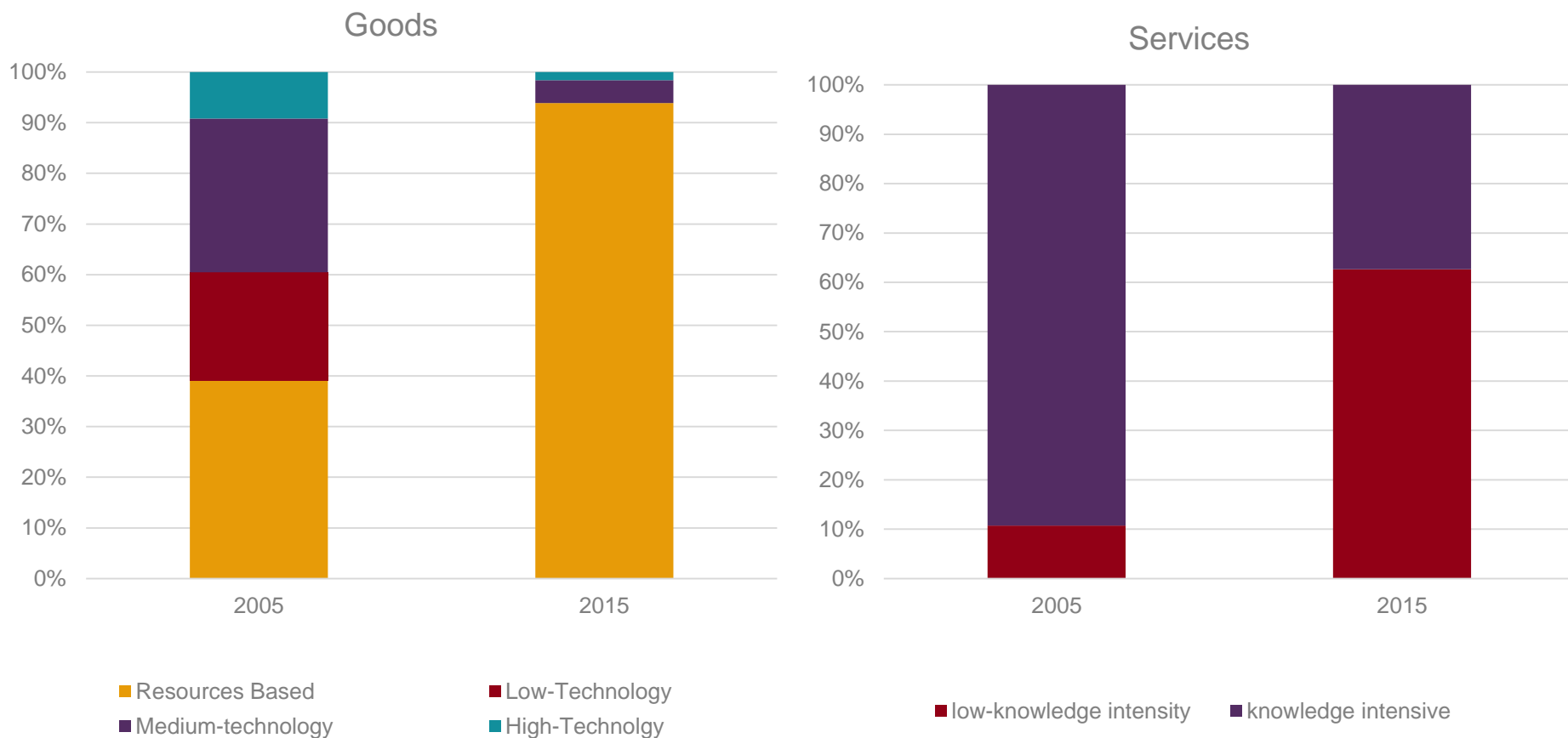
FDI net inflows (% of GDP)



Source: Estimates from UNCTAD statistics, FDI Markets and World Bank staff calculations.

# ...and in less sophisticated FDI flows - critical for diversification and productivity gains

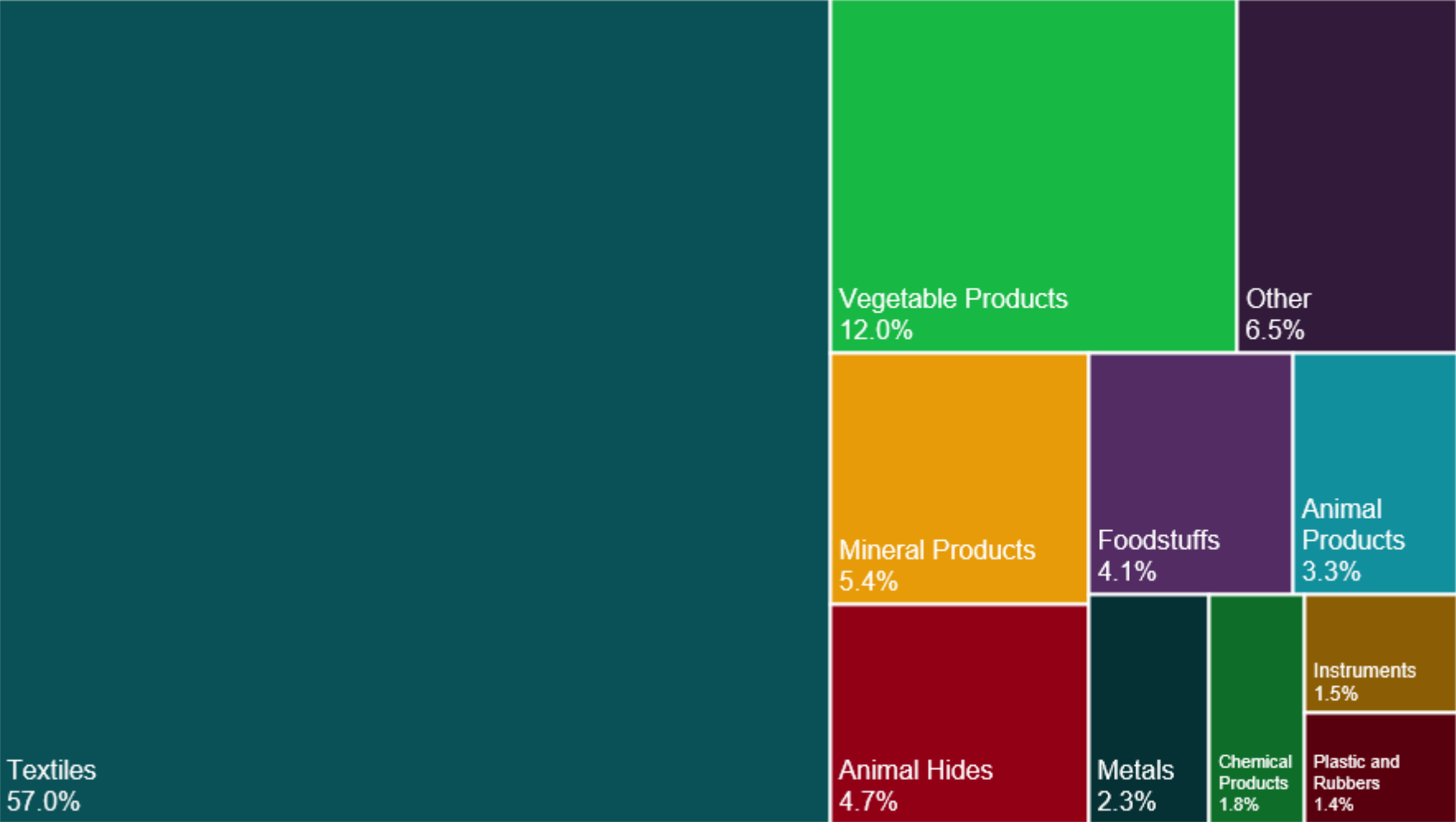
## Share of announced FDI inflows by technology level



Source: FDI Markets and World Bank staff calculations. Note: Refers only to press announcements

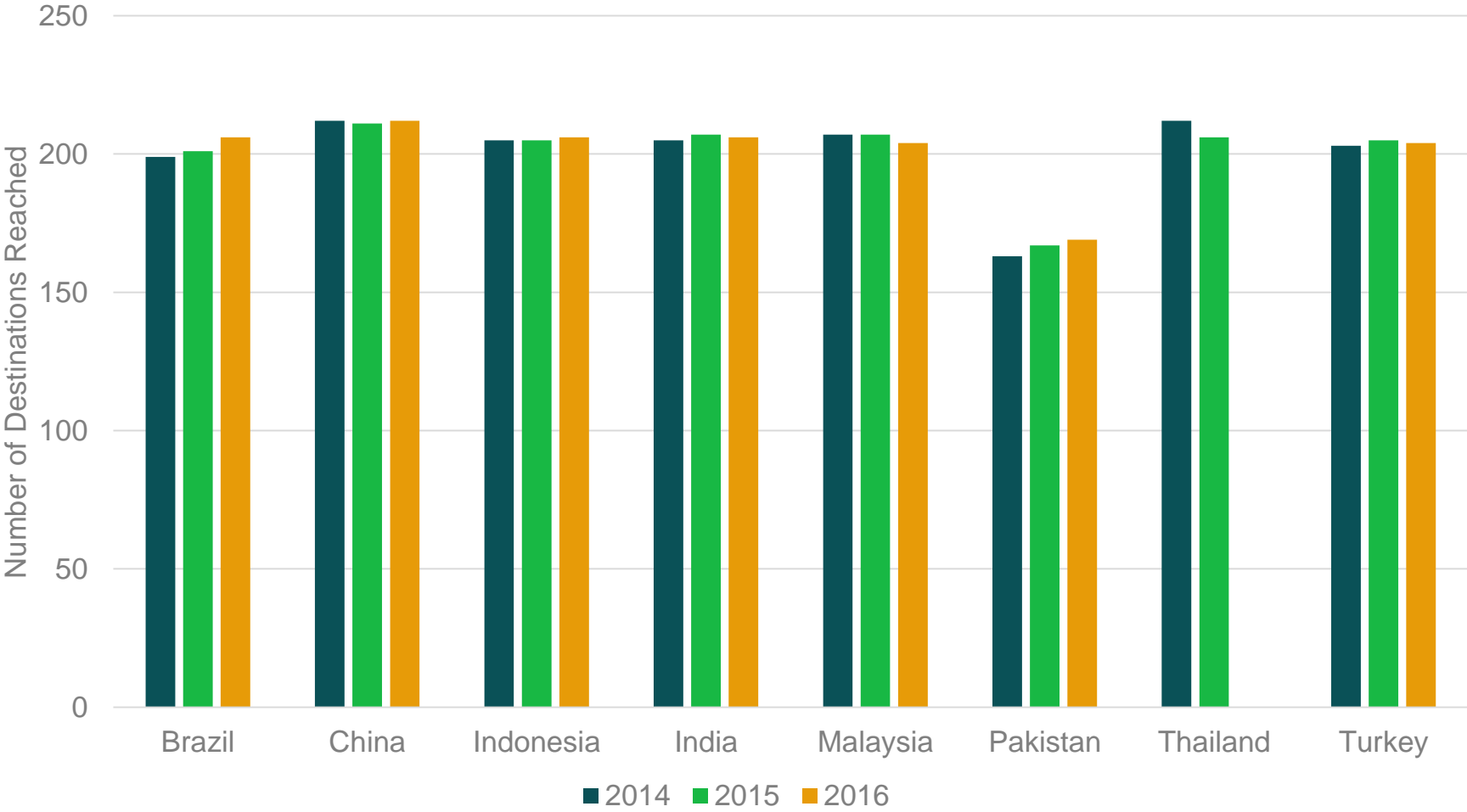
During 2015, Natural resources investments are related with Coal, Oil and Natural Gas projects from (China, UAE, UK, Poland)

# Indeed, Pakistan's export basket is concentrated, with textiles and foodstuff representing more than 70% in 2015



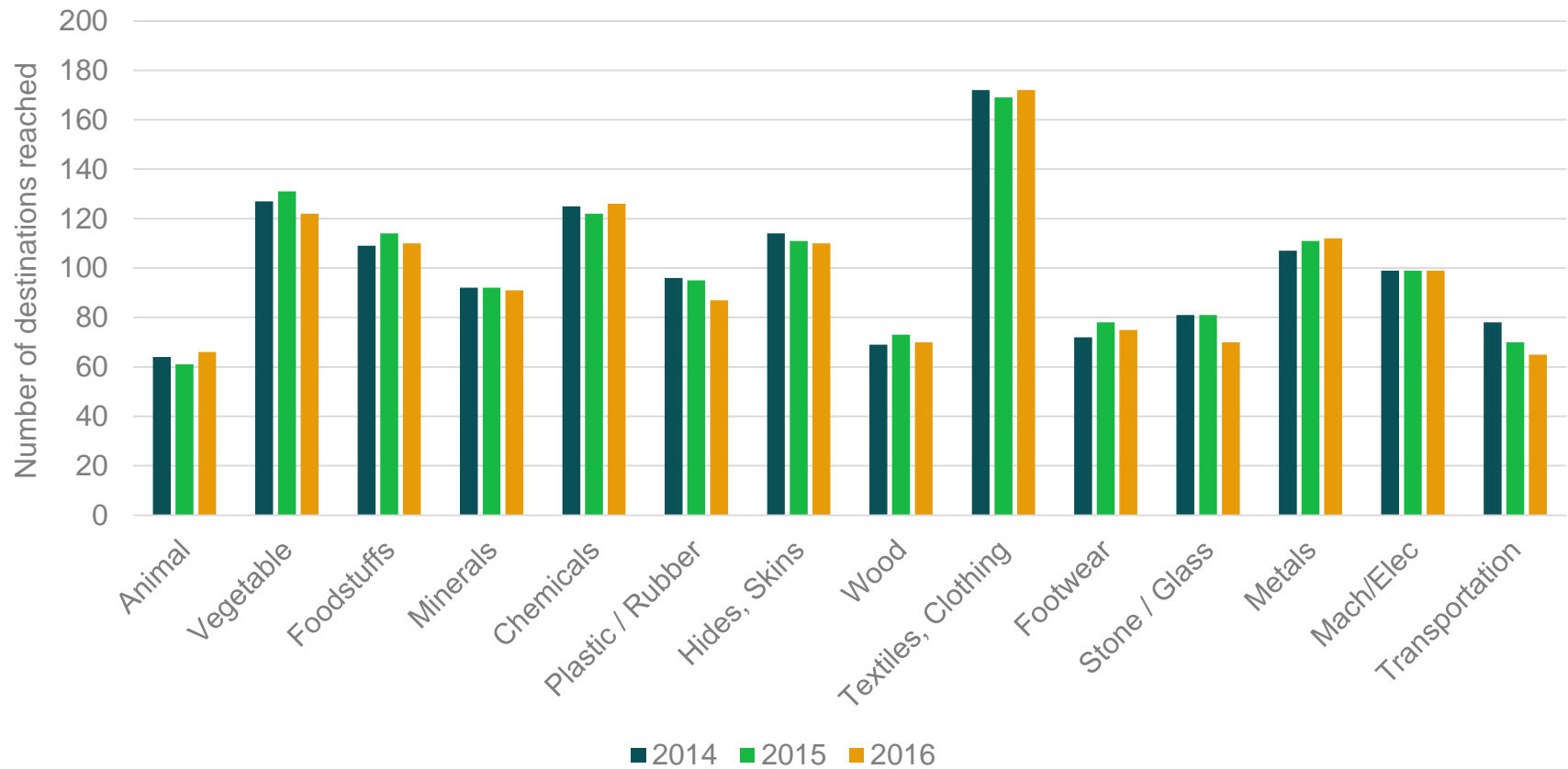
Source: Observatory of Economic Complexity

...and also in terms of markets, concentration is comparatively high...





...only selected products reach a wide set of destinations...

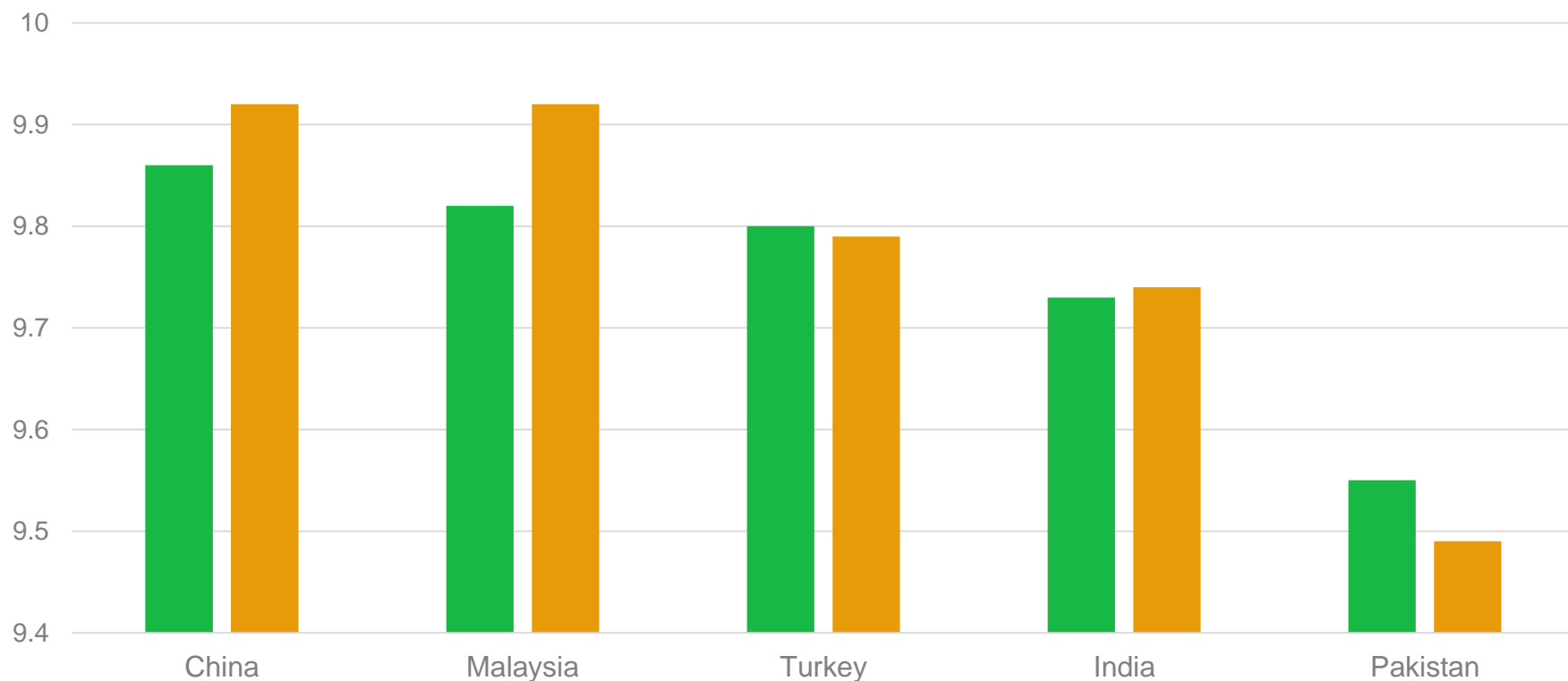


Source: WITS

Notes: This indicator is a measure of the diversification of trade along the destination dimension by product.

## ...and sophistication has also been lagging behind...

### Sophistication of Exports (EXPY)

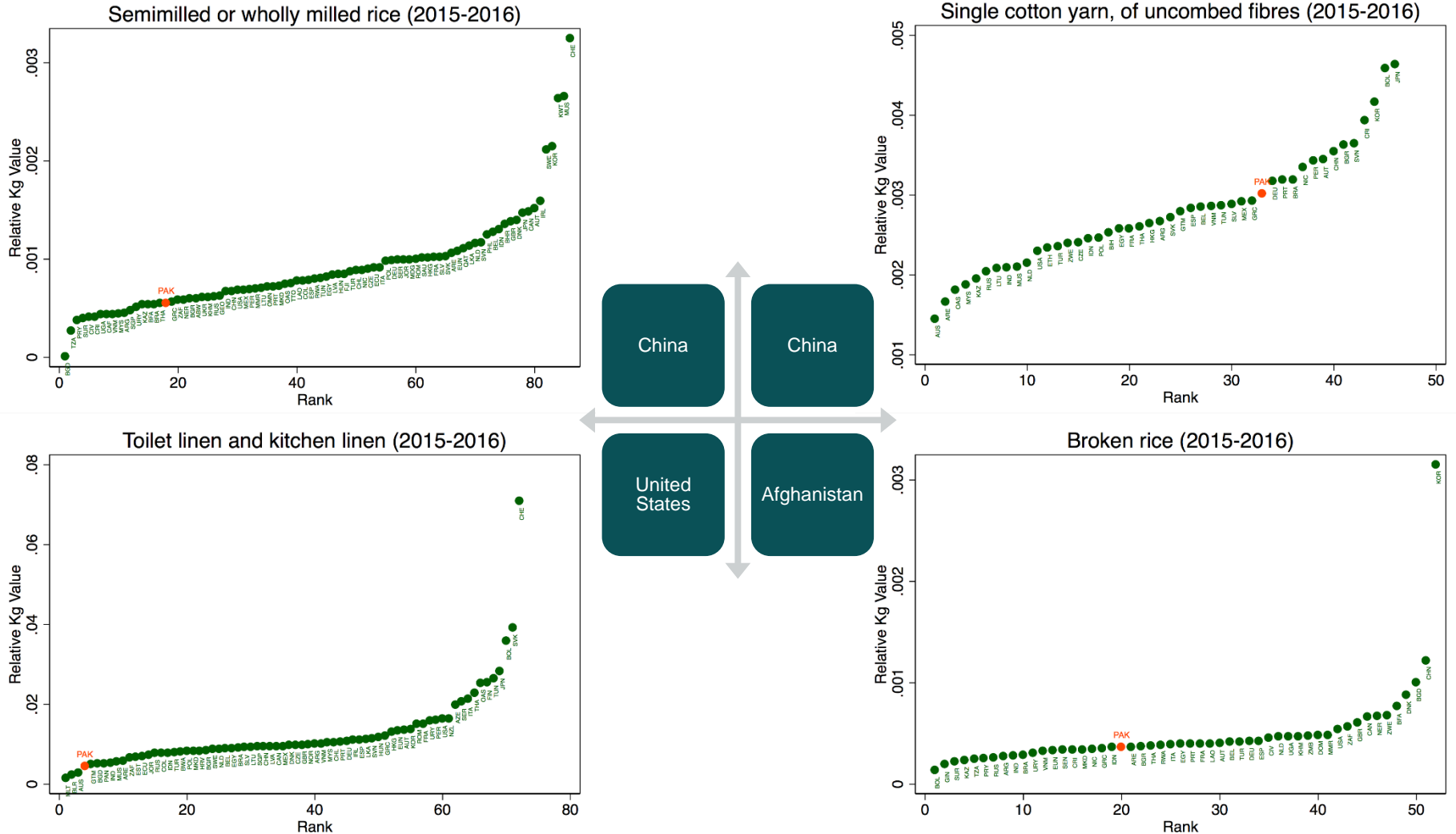


Source: WITS

■ 2006 ■ 2015

Notes: Estimating the level of technological sophistication embodied in a country's export portfolio gives an indication of that country's economic development. The country's expected GDP per capita, EXPY, is given by summing all the PRODY (weighted average of per capita GDP of countries producing that product, with weights derived from revealed comparative advantage) values for the products exported by the country, each weighted by the product's share in total exports.

# ... with lots of space for quality upgrading



Source: WITS

Why has Pakistan's relative trade and investment performance declined?

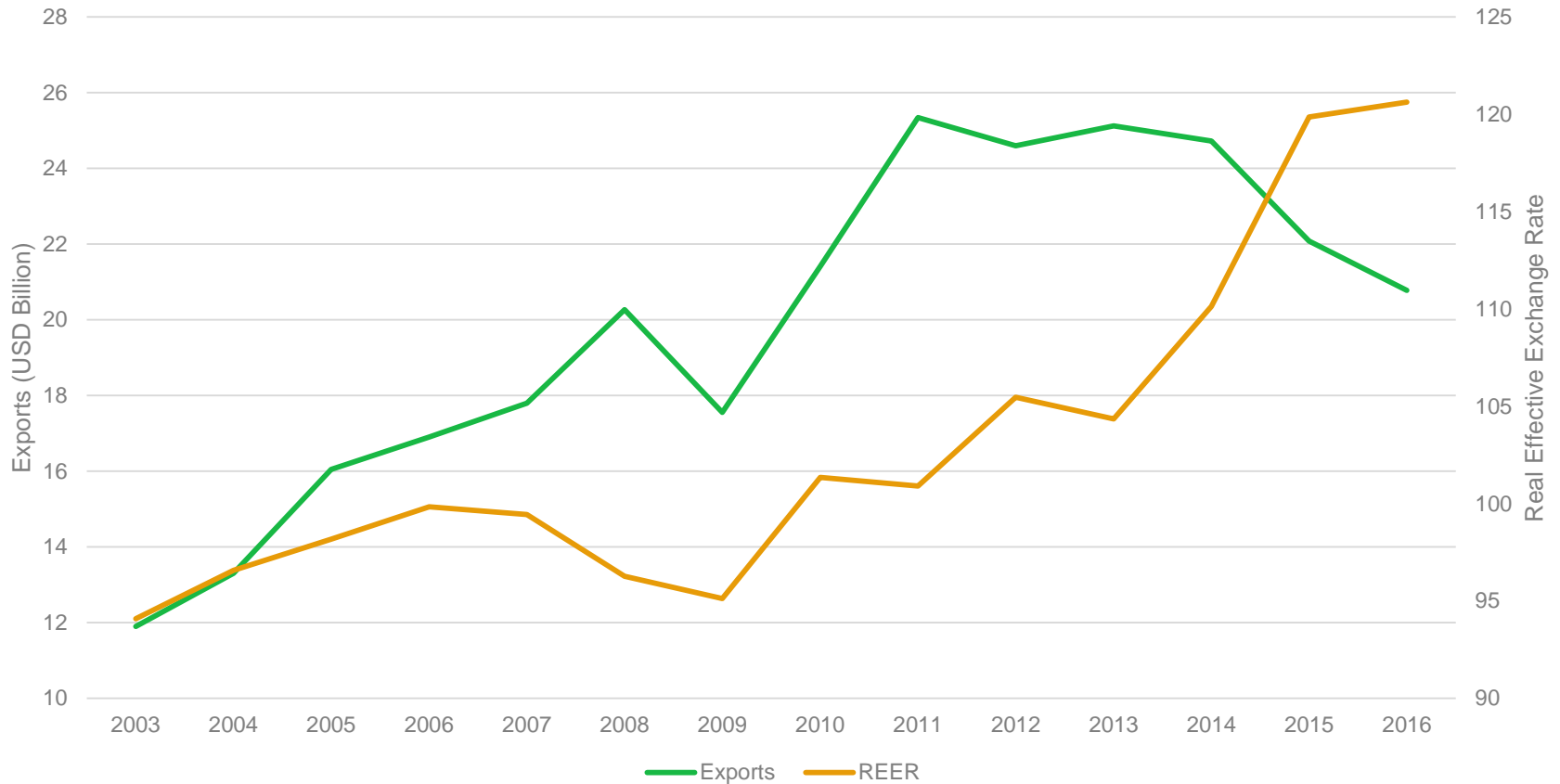
The declining trend in Pakistan's relative competitiveness has structural underpinnings anchored in four areas:

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1. Relative prices
2. Trade Policy
3. Trade Facilitation, Logistics and Infrastructure
4. Investment Climate

# Pakistan's exports are sensitive to real exchange rate movements

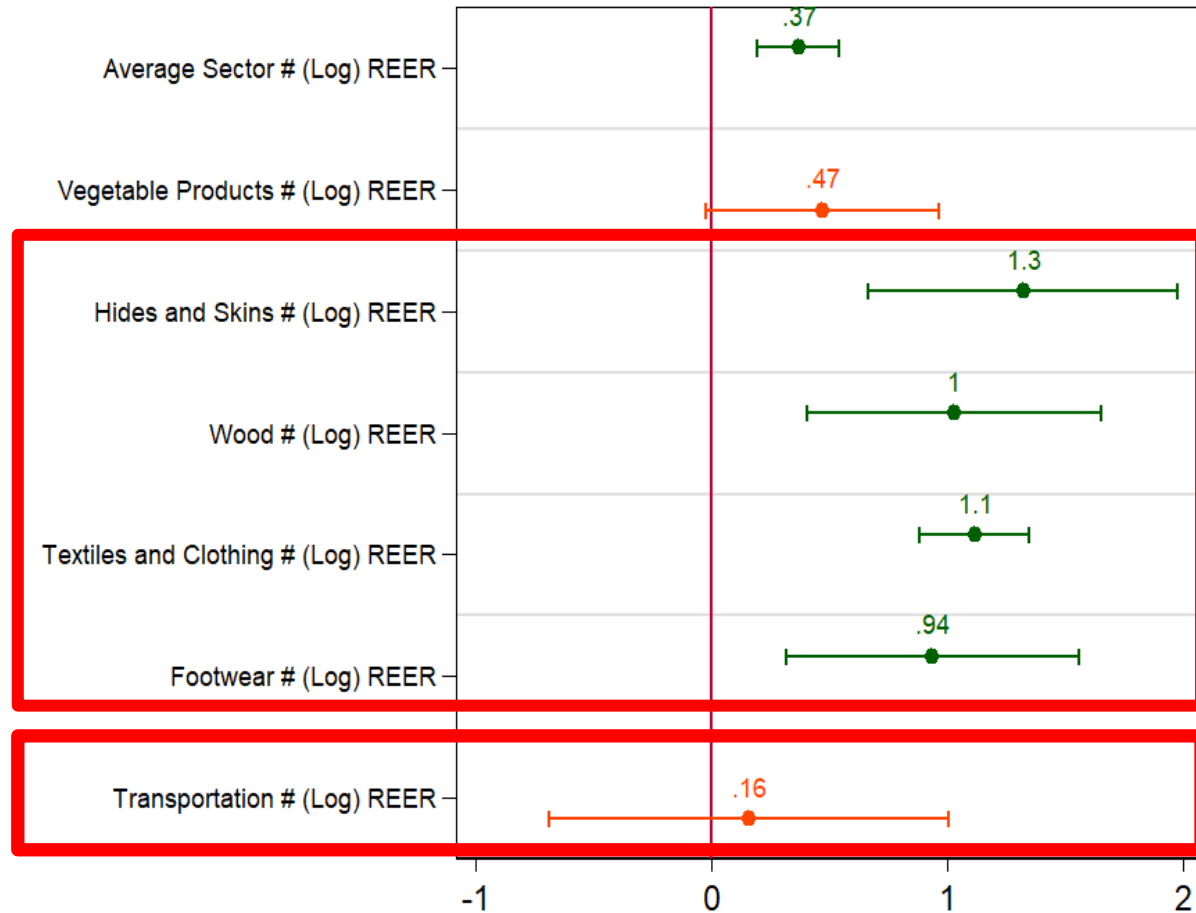
## Real Effective Exchange Rate and exports



Source: Estimates from UNCTAD statistics and State Bank of Pakistan's, World Bank staff calculations

Notes: The real effective exchange rate is referred as REER, which measures the development of the real value of a country's currency against the basket of the trading partners of the country. Increases in the REER denote real appreciations

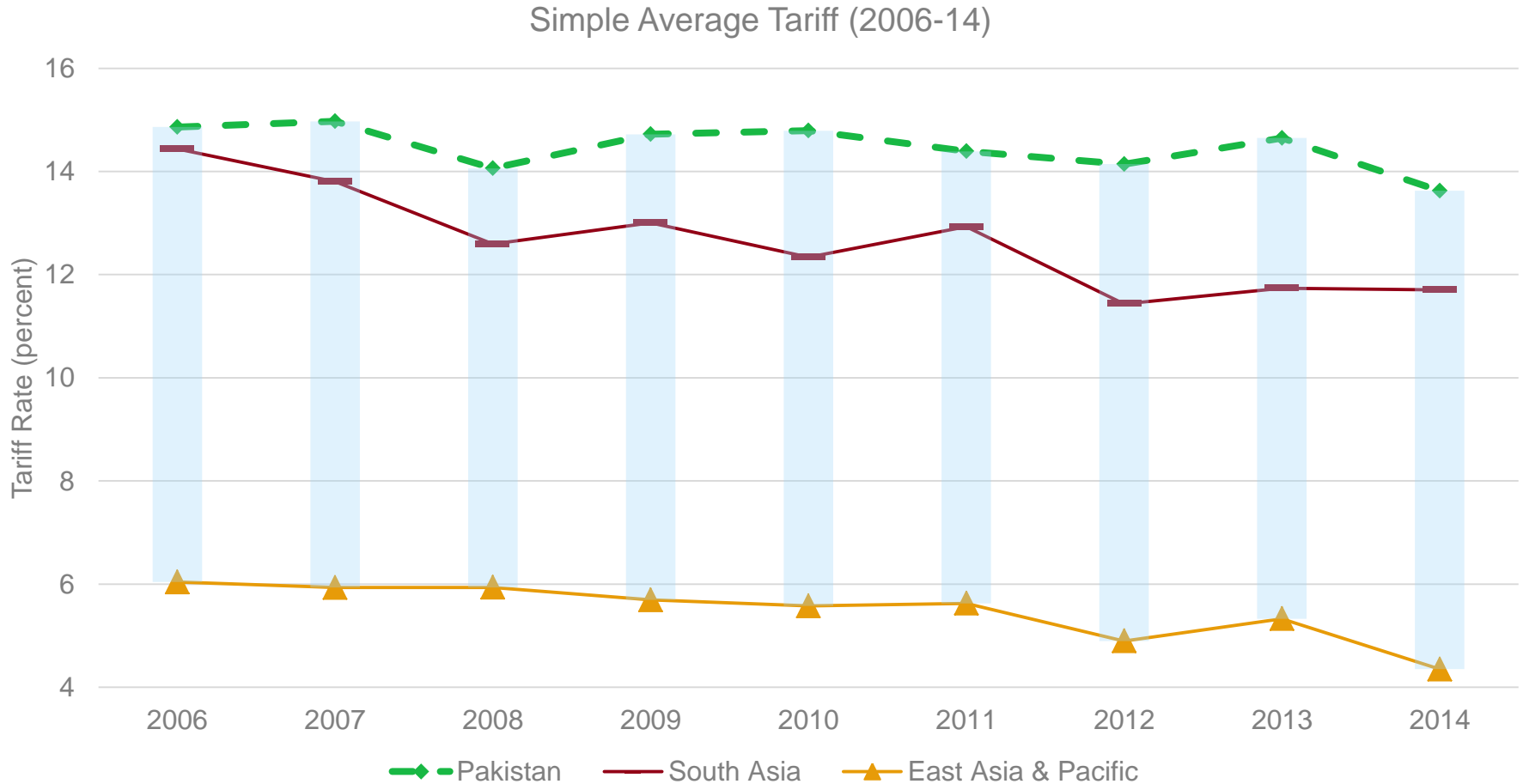
... indeed, the 30 percent appreciation since 2010 contributed to a decline in exports of 17 percent, and affected more high value added exports



Source: Estimates from UNCTAD statistics and State Bank of Pakistan's, World Bank staff calculations

Notes: The real effective exchange rate is referred as REER, which measures the development of the real value of a country's currency against the basket of the trading partners of the country. Increases in the REER denote real appreciations

# Pakistan has a protectionist, discretionary and complex trade policy

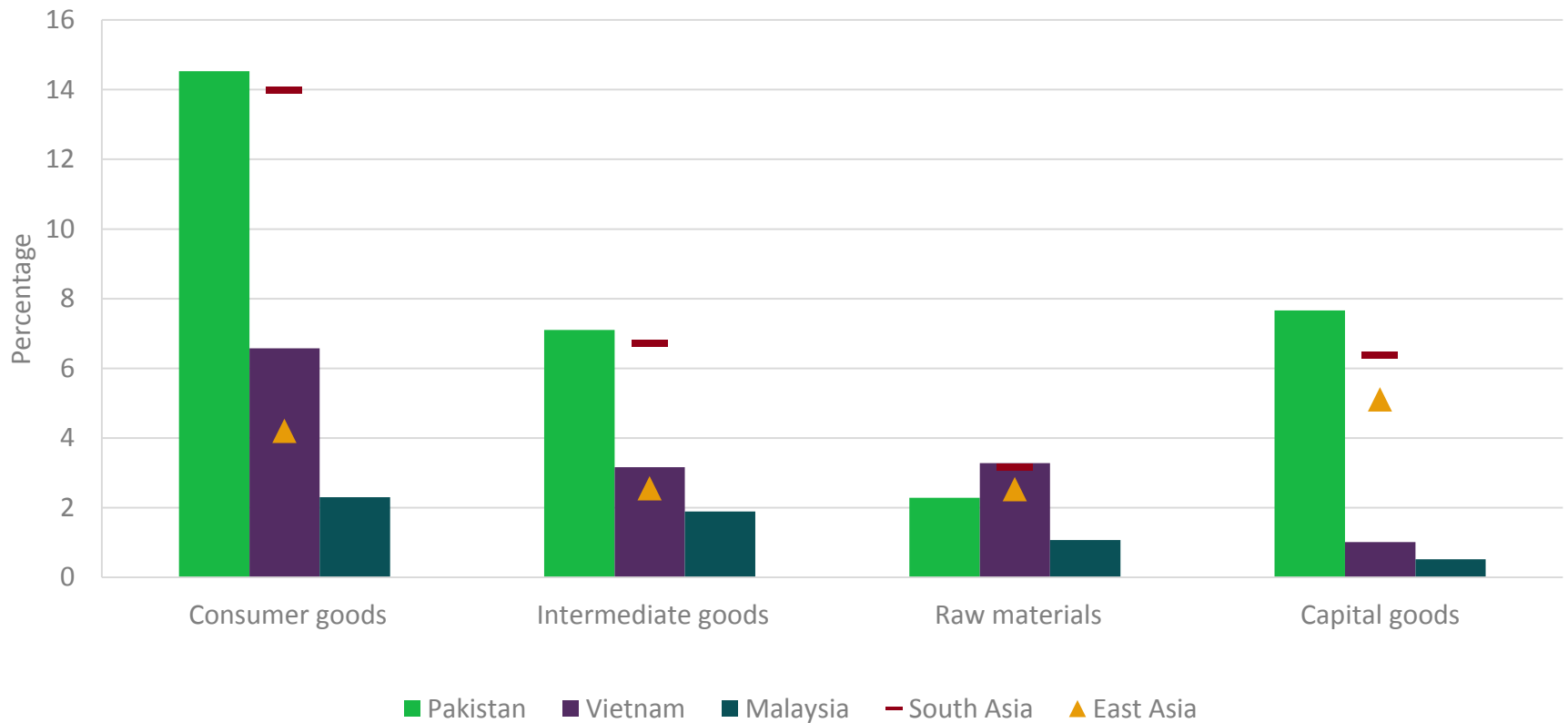


Source: Estimates from WITS, World Bank staff calculations.



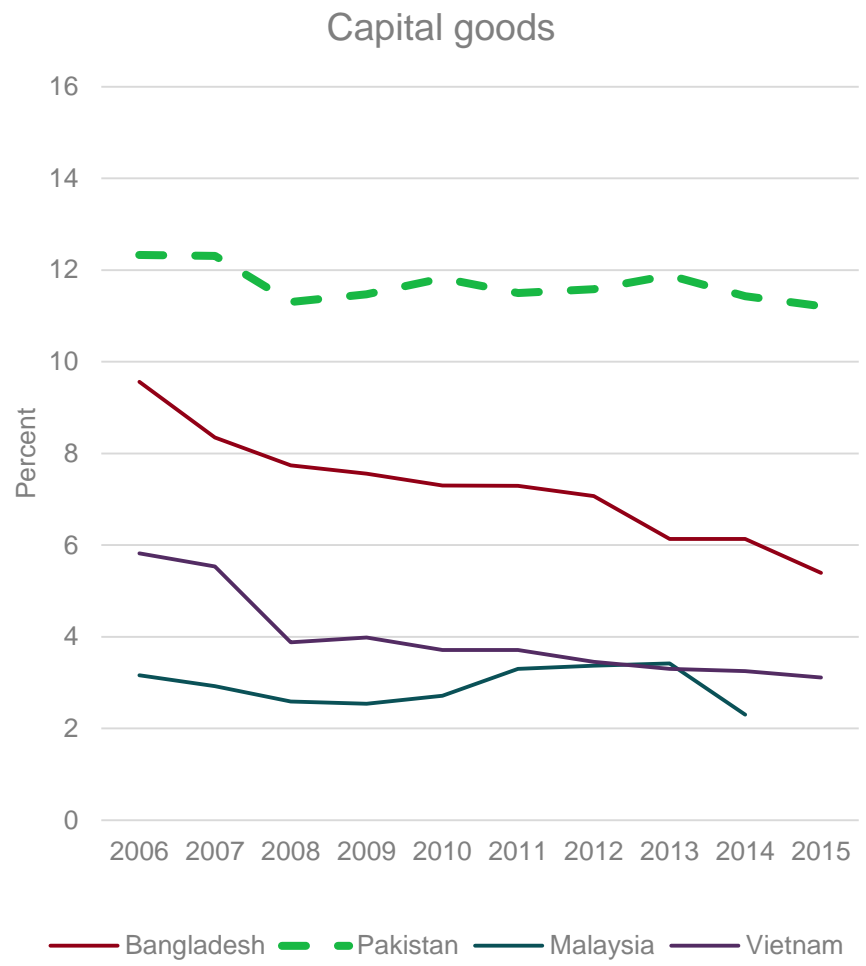
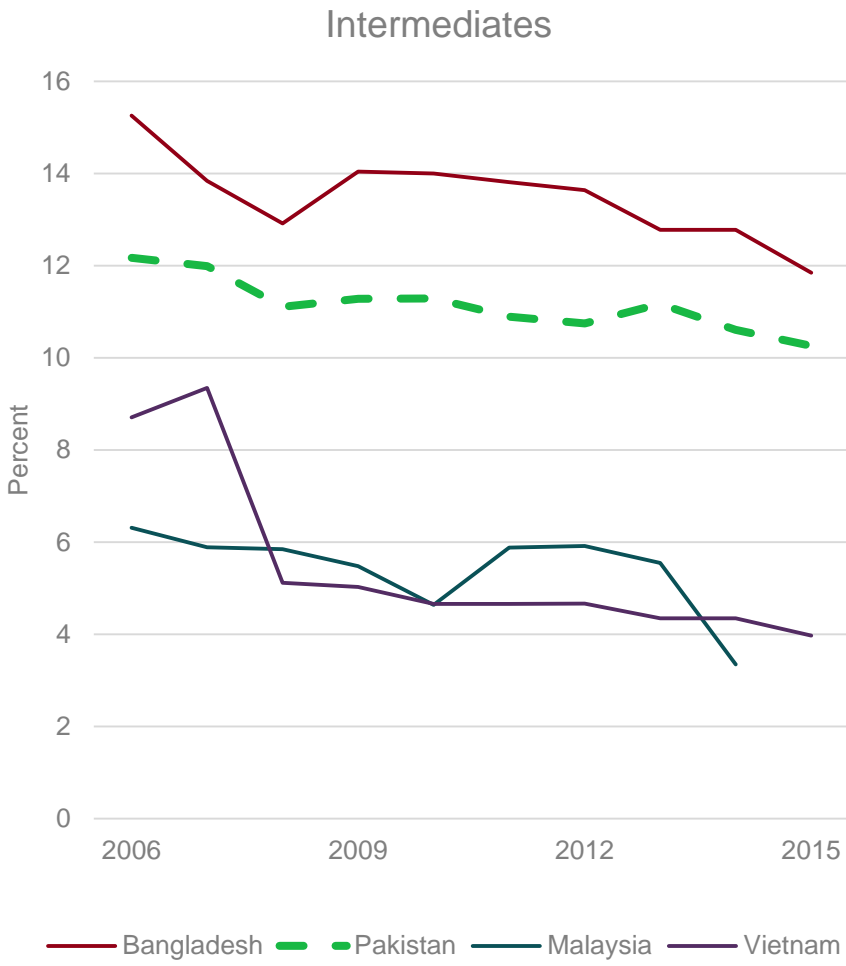
# ... and tariff rates are high compared to other countries and regions

Weighted Average Tariff by Category (2014)



Source: Estimates from WITS, World Bank staff calculations.

# Observed tariff liberalization efforts in capital and intermediate goods are not enough



Source: Estimates from WITS, World Bank staff calculations.

... and are often inconsistent with other policy measures

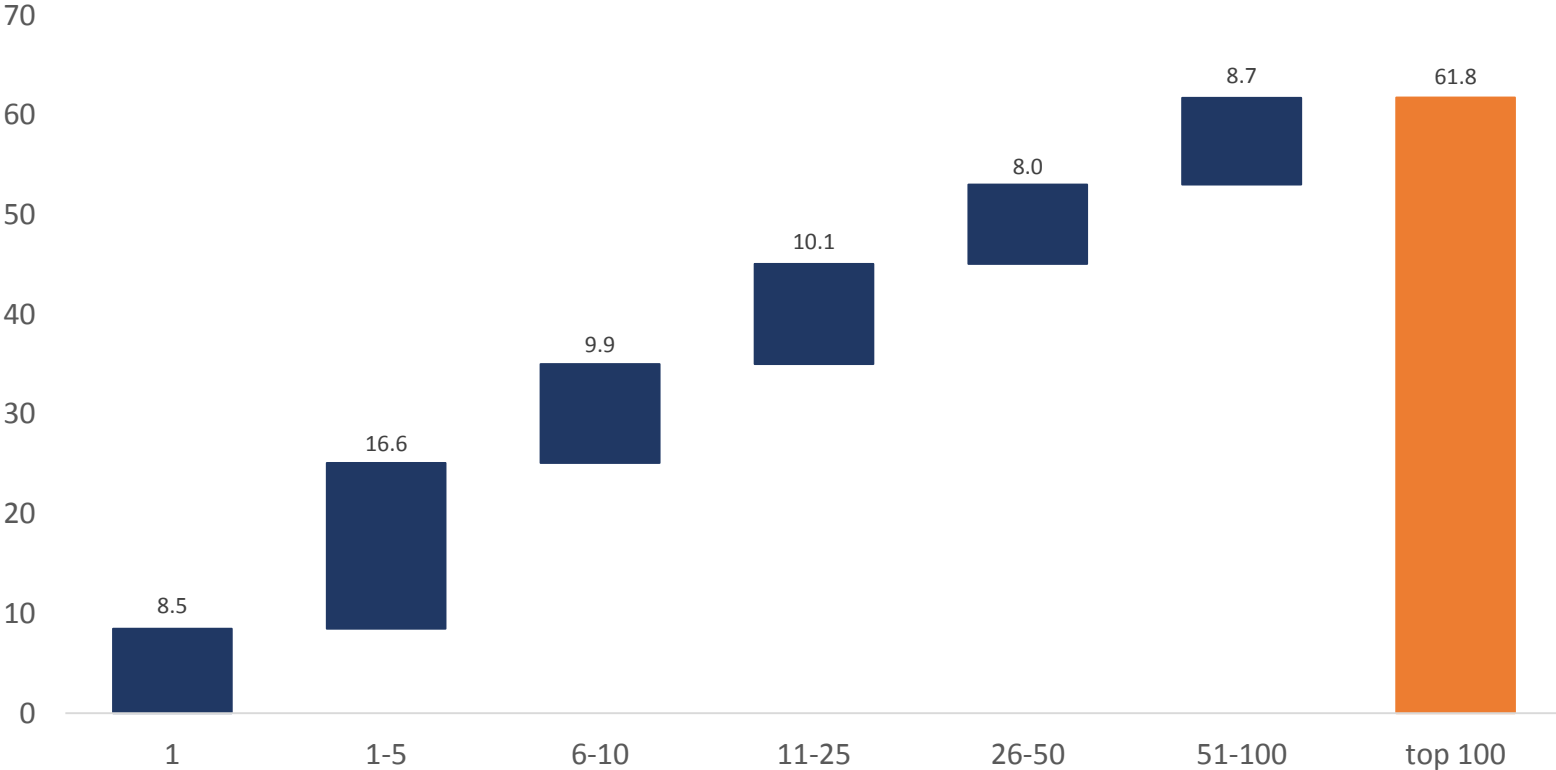
	<b>Number of tariff lines paying RDs</b>	<b>% total imports paying RDs</b>	<b>RDs revenue as % of paid custom duties</b>
FY 12/13	105	0.6	1.9
FY 13/14	250	0.7	1.9
FY 14/15	568	9.7	9.3
FY 15/16	1,090	11.9	15.7

Source: Authors' elaboration with customs data from FBR.

Source: Estimates from WITS, World Bank staff calculations.

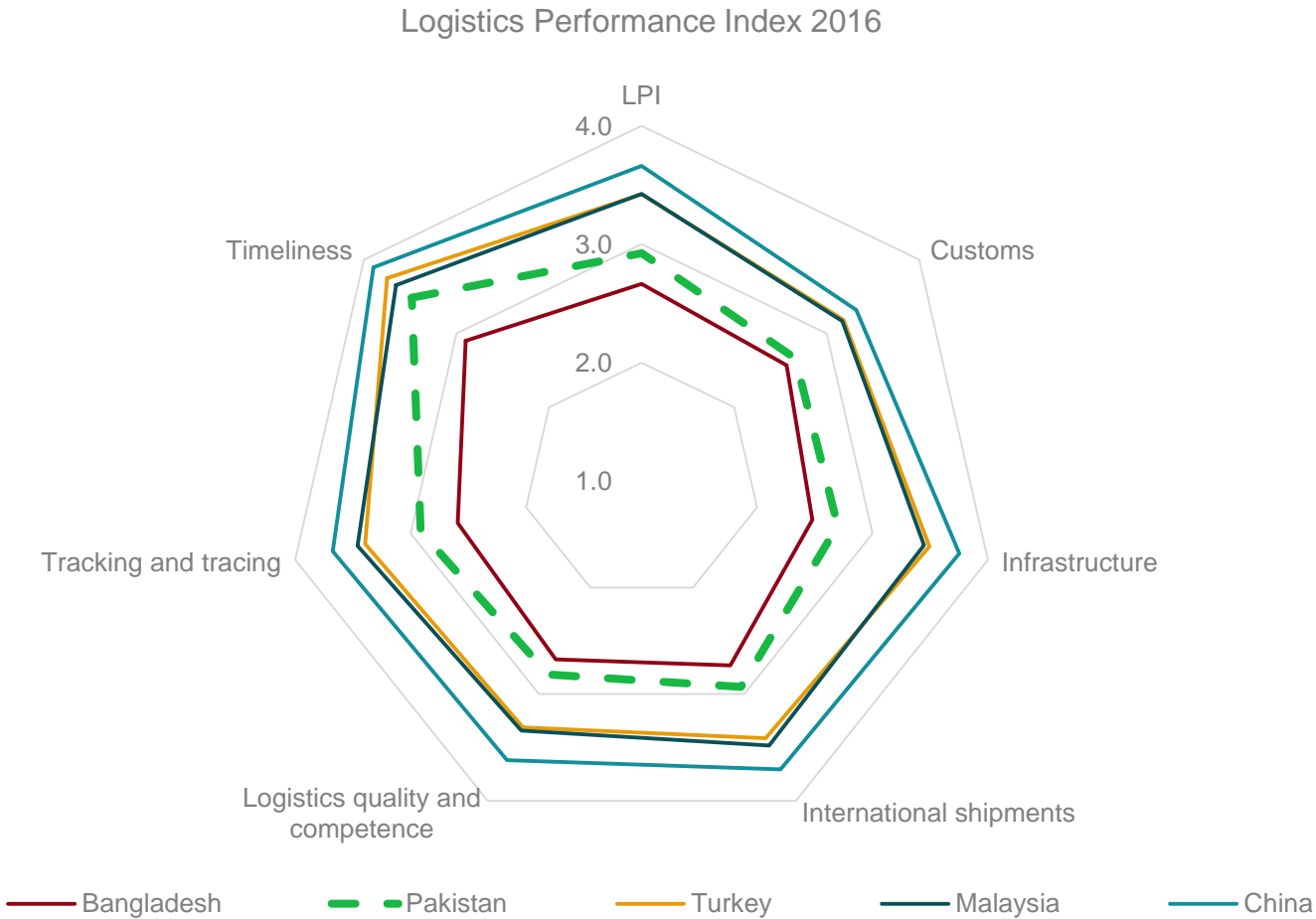
# And exemptions don't do the trick: they are skewed towards larger firms

Percentage of Duty Exemptions claimed by top 100 firms, FY 15/16



Source: World Bank staff calculations.

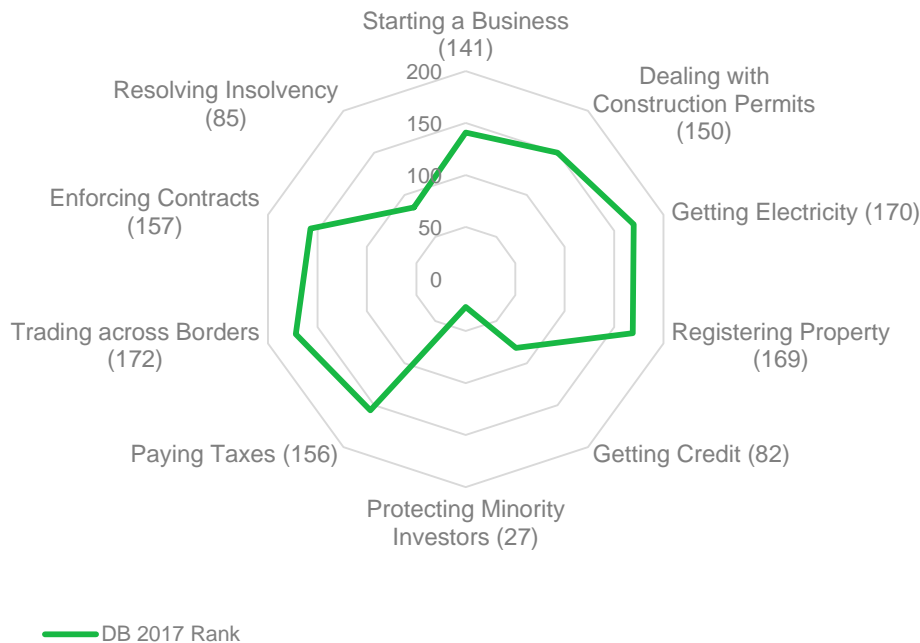
# Trade facilitation and logistics need to be improved to enhance GVC integration



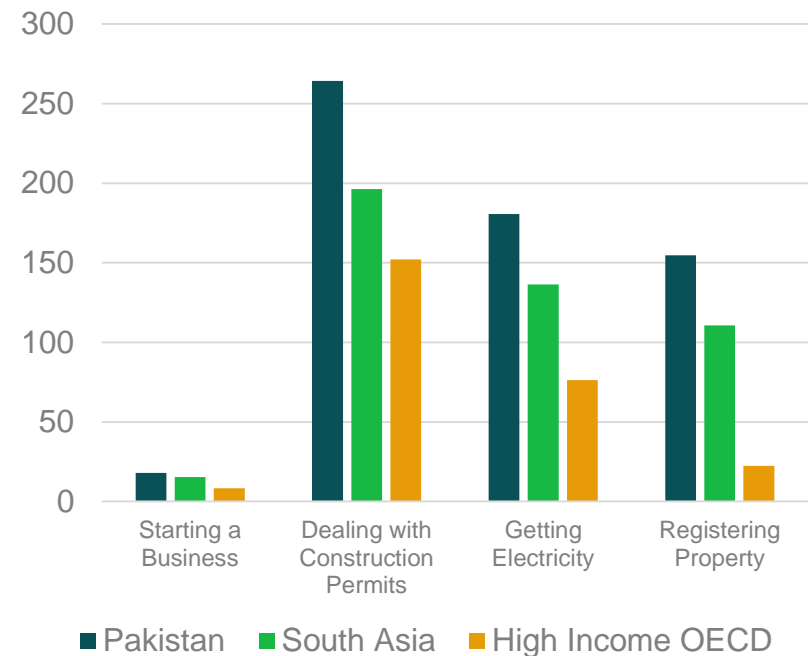
Source: WITS, World Bank staff calculations.

# Investment climate constraints continue to impede private sector growth

**Pakistan's performance on DB indicators, 2017**  
**Position: 144/190 Economies**



**Time Entailed in Doing Business**



Source: World Bank Doing Business, World Bank staff calculations.

What would it take to move the trade agenda forward?

# Now it's your turn! Your opinion matters

## Private sector engagement exercise