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

WORLD BANK GROUP

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Peshawar, October 18th 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**

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2011</th>
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<tr>
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**Domestic Value Added in Third Country Exports**

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*Source: Estimates from EORA, World Bank staff calculations.*
...and it shows in lower FDI inflows...

Source: Estimates from UNCTAD statistics, FDI Markets and World Bank staff calculations.
…and in less sophisticated FDI flows - critical for diversification and productivity gains

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...

Source: WITS

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:

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Tariff Lines Paying RDs</th>
<th>% Total Imports Paying RDs</th>
<th>RDs Revenue as % of Paid Custom Duties</th>
</tr>
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<tbody>
<tr>
<td>FY 12/13</td>
<td>105</td>
<td>0.6</td>
<td>1.9</td>
</tr>
<tr>
<td>FY 13/14</td>
<td>250</td>
<td>0.7</td>
<td>1.9</td>
</tr>
<tr>
<td>FY 14/15</td>
<td>568</td>
<td>9.7</td>
<td>9.3</td>
</tr>
<tr>
<td>FY 15/16</td>
<td>1,090</td>
<td>11.9</td>
<td>15.7</td>
</tr>
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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

What would it take to move the trade agenda forward?
Now it’s your turn! Your opinion matters

Private sector engagement exercise