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Executive Summary

Pakistan is facing a chronic trade deficit due to the highly concentrated nature of its international trade. It is argued that the major reasons of Pakistan's poor trade performance are the highly concentrated exports market and largely relying on few traditional exports markets, the highly concentrated nature of export products with excessive reliance on few traditional exports and slow transition of trade away from traditional economies towards emerging economies.

In the above-mentioned background, this study is focusing on the Africa region as an emerging market for Pakistani traditional and non-traditional exports (emerging) with the primary aim of proposing an export enhancement strategy based on exports products and markets diversification. The study aims to identify Pakistan's exports products to various economies, regional economic groups of Africa and Africa region with potential exports. The study also aims to identify significant exports partners' economies in the Africa region with Pakistan's exports potentials using the gravity model. The study findings are summarized as follows.

The findings intimate that Africa is the second largest continent of the word – however, its merchandize trade is only around 3 % of the world merchandize trade. It is also found that Africa's merchandise exports are narrowly diversified over sectors. Two sectors – mineral products and agriculture, share more than 60 % in Africa's global exports, while, its imports are relatively largely diversified.

The findings of the study indicate that Asia is the largest exports destination of Africa. Africa's exports to Asia are increasing, while exports to European Union and Latin America regions are declining over the years. In Asia, China is the largest export destination economy of Africa's merchandise exports followed by India. Its exports to China are increasing, while to most of the European Economies such as U.K, Netherlands, France and Italy are decreasing. Intra Africa trade is decreasing over the years, while that with the world is increasing.

Asia also is the largest import source region of Africa's merchandise imports, followed by European Union. Imports from Middle East are on decline, while that from Europe and Asia are on the rise. China is the largest import source economy of Africa and imports from China are increasing, while Africa's imports from United States and European Economies are decreasing over the years. *This implies that Africa's global trade with emerging economies is increasing, while that with the traditional economies is declining over the years.*

The findings of the study intimate that Pakistan's bilateral trade with the African region is increasing over time. However, increase in imports is higher than increase in exports during the recent years, thereby leading to trade deficit. It is also found that Bilateral trade between Pakistan and Africa as percent of Pakistan's global trade is decreasing over the years. *Therefore, the study proposes necessary steps and measures for retaining and increasing the global trade share of the bilateral trade with Africa to deal with the declining exports trend.*

The study also finds out that Pakistan's top trade partners economies in Africa are Kenya, South Africa, Egypt, Mozambique and Tanzania. Pakistan's exports to these economies are on increase over the years. Pakistan's top imports source economies include South Africa, Morocco, Kenya

and Egypt. Imports from these economies are on increase. *This indicates that bilateral trade negotiations with these economies (exports partners) may further increase Pakistani overall exports, and exports to Africa in particular.*

The study's findings intimate that Pakistan's major exports products to Africa include cereals exports (most of cereals are consisted of rice exports) – 39 % of cereals exports are destined to Africa, wadding, felt and nonwovens – 90 % of total exports are destined to Africa, vehicles other than railway – 35% of total exports are destined to Africa, miscellaneous chemical – 37 % exports are destined to Africa and paper and paper board – 10.9 % exports are destined to Africa. Likewise, Pakistan's top sectoral exports to Africa in terms of $ value include *cereals, cotton, other made up textiles, sugar and sugar confectionary and man-made staple fibres et*c. Furthermore, Pakistan's largest imports from Africa include mineral fuels, coffee and tea, inorganic chemicals, iron and steel and miscellaneous manufactures etc.

The study identifies a number of sectors with high and untapped exports potentials to Africa. These include other made-up textiles articles, cotton, articles of apparels and clothing, cereals (rice in particulars), articles of leather, sugar and sugar confectionary and pharmaceutical products. Furthermore, the largest potential exports are revealed by articles of apparels, followed by agriculture, textile and leather products.

The findings indicate that Pakistan's competitors' economies of other **made-up textile** in *South Africa* are China, India and Swaziland, in *Kenya* are China, India and Canada and in Tanzania are China, India and USA. Pakistan's top competitors' economies of **Cereals** in *South Africa* are Thailand, India, Russia, in *Kenya are* Mexico, Russia and Argentina and in *Egypt* are Russia, Ukraine and France. Pakistan's competitors' of **Cotton** exports in *South Africa* are China, Zambia and India, in *Egypt* – India, China and Greece etc. and in *Morocco* – Turkey, Spain and Italy. Likewise, Pakistan's competitors' economies in **Articles of Apparels** are China, Mauritius, Swaziland, Jorden, Turkey, Spain and Portugal etc., while, the competitors' economies in exports of **Sugar and sugar confectionary** are Swaziland, Brazil, U.A.E, Egypt, U.K, India, China and Turkey etc.

The findings of the study indicate that the largest export sectors with potential exports **to CEMAC** region are cereals, salt. Sulphur, other made up textiles and mineral fuels, **to COMESA** are cereals, cotton, articles of apparels and other made up textiles. Top sectoral exports potentials to **EAC** include cereals, other mad up textiles articles, sugar and sugar confectionary and articles of apparels, top sectoral export potentials to **ECOWAS** include cereals, other made up textiles, sugar and sugar confectionary and fish and crustaceans etc. Likewise, Pakistan's largest sectoral exports potentials to **SACU** include cereals, articles of apparels, cotton and sugar and sugar confectionary etc., and top sectoral exports potentials to **SADC** include cereals, articles of apparels and clothing, other made up textile and cotton etc. Pakistan's largest sectoral exports potentials to **WAEMU** include cereals, fish and crustaceans, salt; Sulphur, sugar and sugar confectionary, other made up textiles and mineral fuels.

To identify Pakistan's exports partners' economies in the Africa region for the proposed market diversification strategy, the study undertakes the **Gravity Model** analysis using a large sample of

98 economies from across the world – with 42 countries from the African continent. The gravity model identifies a number of significant variables, which determine Pakistan's exports to the partners. These include size of Pakistan and size of the partners' economies – measured by GDP. The positive and significant impact of economy size on Pakistani exports implies that Pakistani exports are highly sensitive to domestic production.

The negative and significant impact of the variable 'Distance' in the gravity model indicates that bilateral trade negotiations with the neighbouring and regional economies may be helpful for enhancement of exports performance. Likewise, the negative, small and statistically insignificant coefficient of real exchange rate variable in the gravity model intimate that exchange rate fluctuations may have no significant impact on exports performance of Pakistan.

The gravity model also suggests a negative and significant impact of per capita differentials (used as measurement of differences in preferences) on Pakistan's exports to the partners. This result is consistent with the *'Burenstam-Linder Hypothesis,* which postulates that the more similar the demand structure of the two countries the more intensive potentially is the trade between these two countries and vice versa. *The study suggests negotiations of bilateral agreements for exports enhancement with trade partners with similar demand structures and similar consumers' preferences.*

The study suggests a positive impact of the dummy variables: 'common language' and 'FTAs' on Pakistan's exports to the partners, which indicates that bilateral trade agreement with the partners with appropriate market access may be helpful for exports enhancement.

The gravity model estimation results have been utilized for predicting of export potential to the trade partners so as to identify important trade partners for the proposed exports market diversification strategy of exports expansion. The study identifies a number of trade partners in the Africa region with significant and untapped Pakistan's exports potentials and with whom Pakistan's has high scope of increasing exports. These include Zambia. Nigeria, South Africa, Egypt, Morocco, Algeria, Cameroon, Mali, Tunisia and Chad etc. In addition, the study also identifies a number of important trade partners with exhausted export potentials (economies with no Pakistan's exports potentials) to Africa, including Kenya, Tanzania, Mauritius and Madagascar etc.

Analysis of Pakistan's Existing and Potential Trade with Africa

1. Introduction

It is well recognized that integration to the world economy through the instrument of trade liberalization is a powerful tool for achieving the different economic outcomes (Edwards, 1993). Therefore, most of the developing countries across the world have made it their leading policy objective to integrate their economies with the world to enhance the international trade performance. As a result, the world trade has grown up by around 6 percent per year on the average coupled with a modest growth of world output over the past twenty years[1]. However, the overall performance of the world trade decelerated during the last few years, particularly in the aftermath of the international financial crises. During this period, the world trade in goods and service has grown up only by 3 percent on the average. The primary reason of the adverse performance of the world trade is the worldwide slowdown of economic activity and investment.

The performance of Pakistan's international trade over the past few years also is not appreciable. Exports of textile and rice (basmati and non-basmati rice varieties) are declining mainly because of a shift in demand from key markets like Saudi Arabia and UAE, away from Pakistani rice to other countries. The demand for cement is also declining mainly due to low demand from South Africa and Afghanistan.[2] Pakistan also is facing an increasing trade imbalance with China and Malaysia-the two bilateral FTA partners along with imbalance in the overall trade flows. Pakistan also is losing competitiveness of the domestic market due to cheap goods imported from China and Malaysia, which has hindered potential investment in the local industries.

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[1]One of the prominent factors of the growth of world trade is the establishment of General Agreement on Tariff and Trade (GATT) as argued by the researchers. Gowa and Kim (2005) find that bilateral trade between the GATT members has increased by around 29 percent on the average over the GATT era. Tomz et al., (2005) show that trade flows among members during the GATT era [1947-1994] has increased by around 71 percent. However, Rose (2004a, 2004b) points out that GATT and WTO didn't contribute significantly to the world trade. Subramanian and Wei (2007) by re-examining the findings of Rose (2004) comment that only the industrial economies that are engaged more actively in trade liberalization on the reciprocal basis have benefitted substantially from this policy in the framework of GATT.

[2] https://www.dawn.com/news/1361399

The major reasons of the decline in Pakistan's exports include, the overall world economic slowdown, severe energy crises, low value addition of our exports, poor and slow market and exports diversification, decrease in the international prices of exports and the sluggish growth of remittances inflow over the past few years. World demand for Pakistani exports is decreasing. China has continued to reduce its demand for Pakistani yarn and fabric as competing countries are undercutting their prices significantly. Moreover, China is now more inclined towards high-tech products instead of low-tech products like textiles and footwear. A change in taste and preferences in global demand has also been seen. The market for man-made fibre products is expanding at a fast pace whereas Pakistan's textile exports remain predominately based on cotton. It is reported that the regulatory constraints faced by businesses, rising cost of doing business in several key sectors and anti-export bias seen in the prevalent tax and tariff structure. The limited participation of the domestic industry in the global value and supply chains, poor trade facilitation measures and low and uncertain availability of export credit for small and medium enterprises have led to the poor performance of Pakistani exports.

The poor performance of Pakistan's bilateral trade is also due to the poor diversification of Pakistan's trade destination. According to Pakistan Economic Survey (2017), share of Pakistan's top 10 trade partners in total exports is more than 60 percent. These include US, China, UAE, Afghanistan, UK, Germany, France, Bangladesh, Italy and Spain. United States remained the top destined region-absorbing 17 percent of Pakistan's exports in 2017. It is followed by China, whose share in total Pakistan's exports is roughly 9 percent and then Afghanistan absorbing around 8 percent of Pakistan's total exports during the same period.

On the import side, China is the top import source country of Pakistan sharing around 26 percent of Pakistan's imports (2017). The main reason of the massive import diversion towards China is the Pakistan-China FTA under which, Pakistan has awarded market access to China on more than 6000 items. On the other hand, the higher increase in Pakistan's imports from China coupled with the higher share in Pakistani imposts as compared to exports indicating that Pakistan-China FTA has further deteriorated Pakistan's trade balance. The other top import source economies such as U.A.E and Saudi Arabia share 12 percent and 7 percent respectively of Pakistan's aggregate imports.

It has been realized that the principal reason of Pakistan's poor export performance is the poor market diversification and narrow product base. Pakistan is mainly concentrating on few

traditional markets like US and Europe as top exports destination. Additionally, few export products hold a major share in Pakistan's total exports. However, Pakistan has high and untapped exports potential to the non – traditional markets such as Africa and north America regions. Unfortunately, no proper concentration was given to these regions as Pakistan's potential exports market.

To overcome the poor trade performance, the government currently is working in many dimensions. It is looking for the possibility of exploring new export markets and trade negotiations and agreements. The primary focus is on Africa, Central Asian Republics (CARs), Middle East and North America regions, where Pakistani exports have diversified demands.

In the above-mentioned background, the present study aims to suggest an export enhancement strategy for promotion of domestic exports. The primary focus is on identifying export products having high Pakistan's potential exports and trade partners with whom Pakistan has high scope of increasing bilateral trade and win-win gains. The study mainly focuses on Africa as a non-traditional export destination region for Pakistani exports. The specific objectives of the study are given as follows.

1.1. Objectives of the Study

- To review the Africa's global trade structure and to analyse Pakistan's existing trading relation with Africa
- To identify potential export products and services exports potential to Africa
- To identify Pakistan's competitors of its top export products in its top export destination in Africa
- To identify Pakistan's top export partners to whom Pakistan has high scope of increasing exports using the gravity model.
- To suggest an exports diversification strategy for enhancement.

1.2. Significance of the Study

It has been realized that the excessive reliance on few traditional export products and few exports markets is one of the main reasons of Pakistan's poor international trade performance. A diversified export base reduces reliance on few exports product and therefore, help reducing the

vulnerability of exports to product-specific adverse shocks like decrease in the international demand of exports and decline in the international prices of exports. Likewise, a diversified export market reduces reliance on few export markets and thus, reduces the vulnerability of domestic exports to market specific shocks associated with the country of destination's specific circumstances such as inflow of competing goods and emergence of the trade negotiations of the country of destination with other countries.

It has also been realized that most the emerging economies such as India, Bangladesh, Thailand, Malaysia and Vietnam have followed the export product and market diversification strategies for exports enhancement, which has helped them expanded their global trade. In addition, share of traditional trade partners in global trade of these economies has been decreasing, while, share of non-traditional economies, is increasing. This also has led to increase in their global trade. All this implies that, what has done for these economies is the diversification of exports base and particularly diversification of exports market and transition of internal trade from traditional trade partners towards same structured, non-traditional economies.

Unlike the competitors' economies, trade policies of Pakistan are more concentrated in nature. It is still relying on few export markets and few traditional products. Therefore, its trade performance is not appreciable. The government of Pakistan and relevant departments have been working from multiple dimensions to design outward oriented and market friendly polices and undertake bilateral trade negotiations with countries across the world to overcome the poor export performance and the resulting trade deficit. The primary focus is on non-traditional export markets such as Africa and North Americas, as the untapped and potential regions for Pakistani exports. Examples are the 'Look Africa initiative' and the ongoing missions in North Americas and non – traditional economies Middle East Economies.

In view of the above theoretical underpinning, this study aims to suggest an export enhancement strategy based on the export product and market diversification. The primary focus is on identifying export product with potential exports and important trade partners in the Africa with whom Pakistan has high scope of increasing exports that may lead to win-win gains. The study has many distinctions. It undertakes a detailed analysis of Africa global trading relations. The study also undertakes an in-depth analysis of Pakistan's bilateral trading relations with Africa to pinpoint the opportunities of increasing exports. It also identifies Pakistan's competitor economies of its top and high potential export products in Africa. The most important distinction of the study is to

identify important destination economies in Africa using the gravity model approach to whom Pakistan has high potential exports. The findings of the study may be helpful for suggesting various policy recommendations to the government.

1.3. Organization of the Study

The study is organized as follows. Section '1' includes introduction, objectives and significance of the study. Section '2' provides detail overview of Africa's global trade. Section '3' is reserved for overview of Africa's economic community groups and trading relation of Africa by Economic Community groups. Section '4' discusses and analyses Pakistan's bilateral trade with Africa, while section '5' is meant for identifying Pakistan's export potentials to Africa, of which section 5.1, is meant for identifying indicative potential exports of Pakistan to Africa, to various trading blocks of Africa and economies of Africa. Whereas, section '5.2' is meant for constructing the gravity model for Africa. Section '6' provides conclusion and recommendations. The last section gives appendixes of the study.