
# TOP 5 POTENTIAL GROWTH SECTORS

# INFONALYSIS

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Research & Development Cell

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*The gateway to economic prosperity...*

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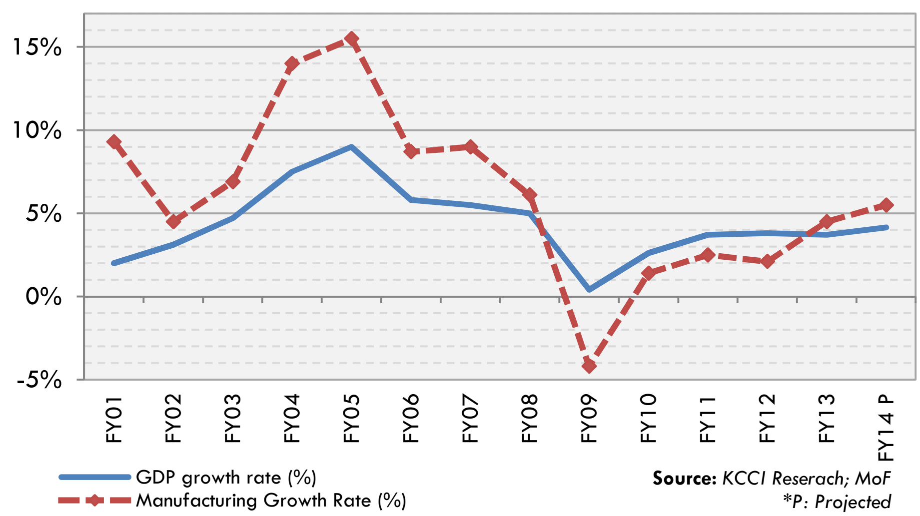
## Unveiling the potential industries

Facing the heat of competition from the region, Pakistan has been struggling to remain abreast in global trade markets. What earlier seemed good progress in conventional manufacturing has now become mundane with regional focus on fast advancing competencies. This is evident from the fact that the manufacturing sector of Pakistan has not been able to accelerate its growth over the years as per its potential, keeping in view the vast resource availability of this country. Thus there arises a dire need for rethinking of prevalent strategies in order to develop the value added sector, one that ought to be more significant in bringing a quick boost to national prosperity.

**Pakistan's GDP and Manufacturing Growth Rates (%)**




**Source:** *KCCI Reserach; MoF*
**P: Projected*

## Top 5 Potential growth sectors

This report is an attempt to explore possibilities of developing certain manufacturing sectors, which bear significant potential and viability. It identifies the top five potential sectors operating in Pakistan which can yield significant benefits in terms of the nation's GDP growth, earn decent foreign exchange through higher exports, contribute substantially to the national exchequer and generate much needed employment with relatively low capital requirement.

The five high potential sectors that have been identified after rigorous evaluation of a set of criteria are:

1. Footwear

2. Synthetic made-ups sector

3. Articles of plastics

4. Processed food sector

5. Seafood sector

## The criteria

The following four criteria were employed to select the top five potential growth sectors mentioned above (See annexure for details).

**CRITERION #1:** Products of the sectors that are not primarily exported by Pakistan despite substantial potential; however these products are exported by other countries having relatively high correlation by virtue of export mix with Pakistan.

Uzbekistan, Bangladesh, Sri Lanka, India, Zimbabwe, Turkey, Vietnam, Egypt and Argentina hold higher correlation in terms of export mix with Pakistan.

**Sectors satisfying the criterion:** Countries which hold higher correlation in terms of export mix with Pakistan include Uzbekistan, Bangladesh, Sri Lanka, India, Zimbabwe, Turkey, Vietnam, Egypt and Argentina. These countries have been able to mark their presence in the exports of frozen and processed food, particularly fish, blue-veined cheese and items like synthetic carpets, rugs, pull-overs and cardigans. Pakistan has largely lagged behind in exports of such items, with virtually no exports in many HS Codes within these sectors.

**CRITERION #2:** Sectors in which imports and exports both exceed $5Mn, and hence bears potential of import substitution.

**Sectors satisfying the criterion:** Articles of plastics, footwear, processed food and synthetic textile made-up like blankets, carpets and rugs are being imported in Pakistan in significant quantities to meet the local demand. Therefore, development of these sectors, would result in saving of at least $ 250Mn for the country through import substitution.

Development of plastics, footwear, processed food and synthetic textile made-up sectors, would result in saving of at least $ 250Mn for the country through import substitution.

**CRITERION #3:** The sectors whose products have recorded significant export growth in 5 Years from 2009 to 2013, reflecting growing demand.

**Sectors satisfying the criterion:** During 2009 – 2013, exports of meat by Pakistan have achieved a remarkable growth of 163%, while those of fish recorded growth of 73%. The exports of sugar and confectionary grew by massive 466%, beverages grew by 200% while dairy products witnessed growth of 146% reflecting a sharp surge in exports of processed food, although the potential is still largely untapped.

**CRITERION #4:** The sectors that have recorded high growth in the world during 2009-2013, reflecting global shifts in demand.

**Sectors satisfying the criterion:** Synthetic cardigans and pullovers reported export growth of 38% during 2009-2013 in the world with total exports surging to more than $ 21Bn in 2013. Footwear products recorded exports of more than $ 51Bn in 2013, recording a growth of 40% in a five year span. Similarly, articles' of plastics and plastic films/sheets worth of $ 51Bn and $ 14Bn were exported in 2013, recording growths of 56% and 38% respectively in the said period. Likewise food preparations, cheese and frozen bovine meat recorded decent growth of 48%, 29% and 57% during 2009-2013 with $ 32Bn, $ 19.5Bn and $ 34Bn exports in 2013, respectively.

Although, the subject calls for an in-depth study of each sector separately, this report briefly elaborates on current industry scenario, growth potential and opportunities within the sectors.

The findings of these four criteria formed the basis to nominate five sectors (processed food, sea food, synthetic made-ups, footwear and articles of plastics) as the top growth sectors for the country. Although, the subject calls for an in-depth study of each sector separately, this report briefly elaborates on current industry scenario, growth potential and opportunities within the sectors. It also highlights constraints faced by them and important measures that can be taken to develop these sectors.

## Footwear Sector

The global market size of footwear industry is expected to reach $ 195Bn by the end of 2015 from present value of $ 125Bn, implying a growth of 56%.

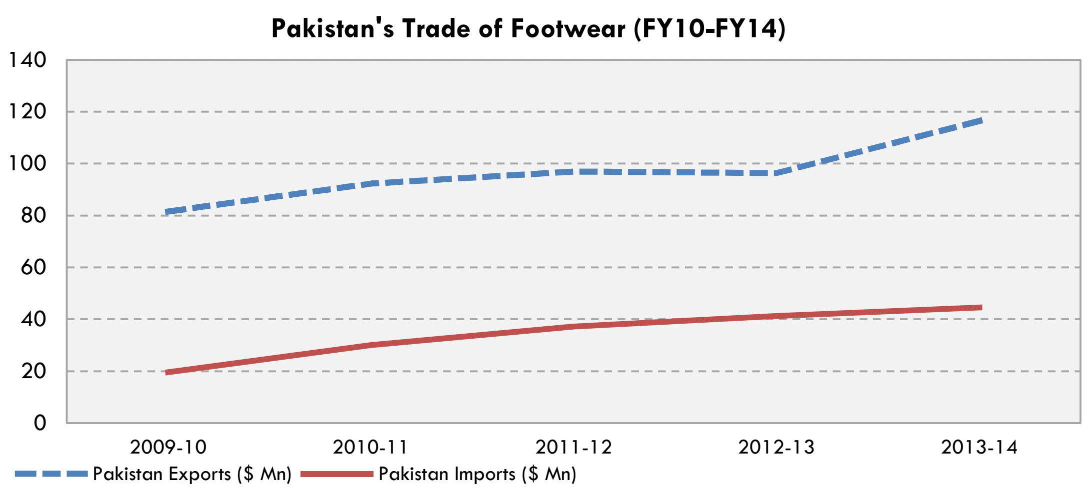
With increasing population of the world which currently stands at 7.21Bn, the demand for footwear is also rising as sales exceeded 13Bn pairs in 2012. The market size of this industry is expected to reach $ 195Bn by the end of 2015 from present value of $ 125Bn, implying a growth of 56%. The world's footwear consumption comprises 60% of simple footwear which is entirely non-leather while remaining 40% consumption covers shoes having leather in their upper part.

Asia is the largest footwear exporting market where China is the leading manufacturer in the world. It commands 39% of the market share with average price of its footwear standing at approximately $ 3. India and Pakistan are also among major footwear exporters in the world with average prices of ~ $13 and ~$15 respectively. European economies like Italy, France and Portugal are renowned for the quality and elegance of their footwear, with average price exceeding $ 30. U.S.A is the largest import market of the world representing 20% of the world's import followed by Germany and France representing 8.4% and 6.3% of the total import market. In Asia, Japan and Hong Kong are the largest importers of footwear having global market share of 4.9% and 4.7% respectively.

With the growing global demand during FY10-FY14, Pakistan's export of footwear has increased by 42.7% over five years where its exports stood at $ 116.49Mn in FY14 as against $ 81.63Mn in FY10.

### Industry gaining momentum though sluggishly

Pakistan's footwear industry has made significant progress in the last decade. In FY14, Pakistan exported 15.3Mn pairs of shoes witnessing a growth of 16.9% as compared to last year. Of these, share of leather footwear constituted more than 80%. The country manufactured 49Mn pairs during FY14 as against 43Mn in FY13 showing a growth of 15.38%. With the growing global demand during FY10-FY14, Pakistan's export of footwear has increased by 42.7% over five years where its exports stood at $ 116.49Mn in FY14 as against $ 81.63Mn in FY10.



On the contrary, imports of footwear have also increased steadily witnessing a growth of 128% during five years period from FY10-FY14 which is mainly contributed by low cost footwear imports from China.

However there exist a strong potential to increase exports as well as substitute imports by enhancing footwear manufacturing capabilities.

**Pakistan's Footwear Sector - Trade & Tariff (2013)**

| HS Code | Export Item | Exports ($ Mn) | Imports ($ Mn) | Change ($ Mn) | Tariffs at Import Stage |
|---|---|---|---|---|---|
| **64** | Footwear, gaiters and the parts thereof | 109.22 | 66.96 | 42.26 | 20% - 25% |

**Source:** *KCCI Research, Trademap & Pakistan Customs Tariff*

### Focus on high end exports and low end imports

Among all the varieties, leather is the mostly exported variety of Pakistan followed by textile, waterproof, rubber and plastic. The average price of Pakistani footwear in the international market is around ~$14 whereas the average price of footwear imported by Pakistan stands at ~$4.

Pakistan produces a broad spectrum of shoes which includes waterproof, rubber, plastic, leather and textile. The availability of high quality skins and hides is considered to be a comparative advantage for Pakistan's Footwear industry that other industries of the world lack. Among all the varieties, leather is the mostly exported variety followed by textile, waterproof, rubber and plastic. The average price of Pakistani footwear in the international market is around ~$14 whereas the average price of footwear imported by Pakistan stands at ~$4.

The country mostly exports its footwear to the world's expensive destinations like Italy and Germany which is testimony to the quality of footwear manufactured in Pakistan. Similarly United Kingdom, United Arab Emirates and Saudi Arabia are the other destinations where Pakistan exports its footwear. On the other hand, Pakistan imports footwear mostly from Asian countries which is in great demand due to relatively low cost. China, Thailand and Vietnam are the top import markets of Pakistan which account for more than 90%.

### A need to upgrade informal sector into formal one

Pakistan exports its footwear to the world's expensive destinations like Italy and Germany which is testimony to the quality of footwear manufactured in Pakistan.

Presently 524 footwear units are operating in the country. Within Pakistan, Karachi is the largest shoe market while Lahore, Faisalabad, Rawalpindi, Gujranwala, Hyderabad, Sahiwal have the largest number of shoe manufacturing units. The formal segment of Pakistan's footwear industry comprises of fully mechanized manufacturing units operating in key industrial areas where major manufacturers include Bata Pakistan, Servis Industries, Footlib and Firhaj Footwear (Pvt.) Limited. On the other hand, the informal segment utilizes relatively labor intensive techniques involving manual approaches or less mechanized procedures with lower levels of capital investments. There is a need to upgrade informal sector into formal one by investing into machinery and skilled labor for enhancing quality of footwear produced by Pakistan.

### Impediments to Pakistan's footwear industry

Although Pakistani shoes are doing well in the international markets, meagre investments in leather sector, low versatility and innovation in footwear designs and lack of technical expertise are some of the issues holding back the growth of this lucrative sector. Some other issues that are hampering the progress of this industry are defined in the following headings.

China has been exporting footwear to Pakistan at low tariff rates due to FTA where 86% of all footwear imported is contributed by China alone.

### Influx of footwear from neighboring countries

China has been exporting footwear to Pakistan at low tariff rates due to concessions provided under Pak-China FTA (Free Trade Agreement). To put things in focus, 86% of all footwear imported in Pakistani is contributed by China alone. This influx of Chinese footwear has affected the local footwear manufacturers to a large extent. Attractively designed Chinese footwear available in striking colors at relatively lower prices had made locally produced footwear uncompetitive. To develop the local industry and bring manufacturers at equal footing with Chinese exporters, there is a dire need to renegotiate this FTA with China.

Pakistan should consider the well-being of the domestic industry while concluding trade agreements with regional footwear exporting countries like India and Thailand that possess a more advanced and larger footwear manufacturing base.

In the same vein, policy makers in Pakistan should consider the well-being of the domestic industry while concluding trade agreements with regional footwear exporting countries like India and Thailand that possess a more advanced and larger footwear manufacturing base.

### Low Value addition to shoe leather

Low value addition to locally produce finished leather is an impediment that hinders the growth of footwear industry in Pakistan. Instead of optimally consuming locally produced leather for footwear manufacturing, a sizeable portion is exported to neighboring countries like India. By utilizing this excess quantity in domestic manufacturing, the country can further boost up its footwear exports in the world markets while also fulfilling the local demand.

### Outdated production techniques and lack of skilled labor

The footwear industry of Pakistan is faced with outdated production techniques which does not allow the labor to acquire advance skill sets important for manufacturing quality shoes. Furthermore there is a lack of proper training institutes where the workforce could be provided with latest technical training. This leads the industry to have low absorption level of workers despite having abundance of human resource and growth prospects.

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### Opportunities are ripe though out of the limelight

Pakistan's footwear sector possesses enormous potential to increase its exports of leather footwear and even boot out competition of imported footwear from the domestic market. Ample quantity of fine raw hides, finished leather and labor force availability are the comparative advantages that bode well for the sector. By adopting measures like increased focus on value added items, introducing versatile and high quality footwear, accentuating non leather footwear to cater to world demand, importing state of the art machinery, incentivizing technology transfers and by renegotiating trade agreements, the sector will make progress by leaps and bounds. Businessmen should come forward to invest in this sector which has comparatively less capital requirements and high growth prospects.

## Synthetic Made-ups Sector

Owing to the ever rising cost of labor and intermediary items in the developed economies, manufacturing units of synthetic made ups have been shifted to the developing countries.

Owing to the ever rising cost of labor and intermediary items in the developed economies manufacturing units of synthetic made ups have been shifted to the developing countries. With the increasing demand for synthetic made-ups in the world, developing countries have great opportunity to enhance their exports. China has emerged as the largest exporter in finished goods market of synthetic made ups followed by Germany and Turkey.

The industry covers a number of items however, in this report synthetic carpets, fabrics, apparel and textile articles have been analyzed in particular along with the analysis on synthetic raw materials like man-made staple fibers and man-made filaments.

### Pakistan's synthetic industry still in its embryonic stage

Pakistan's synthetic industry is involved in manufacturing, exporting and importing several items where carpets, manmade staple fibers, knitted or crocheted fabric, articles of apparel, hosiery and textile made articles are the mostly traded items. Still the industry is in its embryonic stage where industry constraints and lack of technical expertise have affected its growth.

Pakistan's synthetic industry is still in its embryonic stage where industry constraints and lack of technical expertise have affected its growth.

The industry has a mix of both formal and informal units. However number of manufacturing plants operating under the informal sector have outnumbered the formal units as the total production capacity of the mills sector stood at 762.420Mn Sq. meter while non-mill sector production capacity stood at 5,886.393Mn Sq. meter[1] during 2009-10. The informal sector is seven times more of the formal sector.

**Pakistan Synthetic Made ups - Trade & Tariff (2013)**

| HS Code* | Synthetic Made-ups | Exports ($ Mn) | Imports ($ Mn) | Balance | Tariffs at Import Stage |
|---|---|---|---|---|---|
| **54** | Manmade Filaments | 30.35 | 527.17 | -496.82 | 0%-15% |
| **55** | Manmade staple fibers | 418.17 | 532.44 | -114.00 | 5% - 15% |
| **57** | Carpets | 1.45 | 7.66 | -6.20 | 5% - 25% |
| **60** | Knitted or crocheted fabric | 8.70 | 32.70 | -24.00 | 20% - 25% |
| **61** | Articles of apparel | 56.18 | 2.25 | 53.93 | 25% |
| **63** | Textile made articles | 72.73 | 8.19 | 64.54 | 25% |

***denotes respective heading of HS Code** **Source:** *KCCI Research, Trade Map & Pakistan Customs Tariff*

[1] Data provided by Ministry of Textile

The cumulative raw material imports of man-made fibers and filaments which mainly forms basis for synthetic made ups was worth $ 1.05Bn showing that Pakistan is highly dependent on imports for the value added synthetic sector. In this perspective, the import duty on Polyester Staple Fiber (PSF) was gradually reduced from earlier 25% to 6%. Although this step is a disincentive for Pakistan's domestic PSF industry, it bodes well for the value added sector.

Pakistan's local industry mainly manufactures hand-made woolen carpets however buyers prefer more of synthetic carpets due to their low cost.

On the other hand, duty on apparel and textile made articles have been kept high in order to promote the domestic production of finished products which can be taken also an opportunity to develop local value added sector.

Pakistan's local carpet industry manufactures beautifully designed hand-made woolen carpets. However, due to their manual production technique, prices of woolen carpets are quite high making the buyers to prefer more of synthetic carpets. Synthetic carpets have significant demand in the international markets and are available at cheaper rates. Pakistan spent $ 7.66Mn on its import as compared to the exports of $ 1.45Mn during 2013 reflecting the potential of this item in the local market as well. Expanding local manufacturing of synthetic carpets will not only reduce the imports but will also support the country to earn foreign revenues.

### Sourcing the raw materials for the industry

Among raw materials for synthetic made ups, polyester occupies dominant position capturing 80% market share of synthetic industry globally while nylon, polyolefin and acrylic are the other widely used raw materials accounting for 18% of all the textile production. During 2012, 58.60Mn metric tons of man-made fibers were produced in the world where China's production alone stood at 63%.

Polyester occupies 80% market share of synthetic industry globally while nylon, polyolefin and acrylic are the other widely used raw materials accounting for 18%.

Domestically, Ibrahim Fibers Ltd., ICI Pakistan Ltd., Pakistan Synthetic Ltd., Dewan Salman Fibre Ltd. and Rupali Polyester Ltd. are the major producers of man-made staple Fiber (MMF) and filaments. PSF is the major produce whereas Viscose rayon and acrylic staple fibers are produced on a limited scale.

Pakistan has 3 units of nylon filament yarn with production capacity of 2,000 tons, 21 units of polyester filament yarn with production capacity of 105,376 tons and 1 unit of acetate rayon yarn with production capacity of 3,000 tons[2]. Pakistan produced 585,000 tons of man-made fiber and filaments while its consumption was 983,000 tons, where the difference was met through the imports during 2011. Thus sourcing of raw materials is not a major issue; the core problem

[2] Estimates of 2011

lies in the non-utilization of the sectors potential.

As developed economies are shifting their synthetic made-ups production to developing countries, the time is ideal for businessmen in Pakistan to make their mark globally in this sector. The country has world-recognized expertise in the textile sector which can easily be emulated onto the synthetic sector. Pakistan has an abundance of low cost skilled and unskilled labor along with easy availability of ancillary goods needed for this sector. Renewed focus with new zeal will not only help in generating employment but will also contribute significantly in exports, while simultaneously elating Pakistan as a dependable source of synthetics worldwide.

### Challenges facing synthetic made ups industry in Pakistan

The sector of synthetic made-ups has largely remained out of focus from the perspective of businessmen and new entrants also because of the lack of awareness of its true potential. Moreover, there are variety of other challenges that are hindering the growth of this sector where the prominent ones have been highlighted below.

There are no specialized units for the production of nylon and spandex in Pakistan that are central for the manufacturing of synthetic carpets and hosiery items.

#### Non Specialization in raw material production

Although various companies are producing polyester, viscose rayon and acrylic, unfortunately there are no specialized units for the production of nylon and spandex central for the manufacturing of synthetic carpets and hosiery items. Mostly basic polyester fibers are produced while fibers having high specifications like optical bright, high tenacity and carbon black are not given attention which restricts the sector from going into higher value addition.

#### Smuggled synthetic wear making its way to Pakistan

It is estimated that thousands of tons of smuggled synthetic made ups make their way to Pakistan every week from the bordering countries. The Afghan Transit route is one of the ways used for these illegal imports through which synthetic made ups reach Peshawar and are distributed to other parts of the country. Availability of informally imported synthetic made ups like wash and wear, crinkle and silk fabrics are great attraction for the individuals as they are provided at cheaper rates. This phenomenon intensifies competition for the local manufacturers which needs to be controlled for promoting this sector.

Free trade agreements are hurting the local industry of synthetic made ups where China has been dumping huge quantities of PSF at low price.

#### Heavy influx from China hurting local industry

Free trade agreements are also, in a way, hurting the local industry of synthetic made ups where China has been dumping huge quantities of PSF at low price, synthetic fabrics and yarns to Pakistan making locally manufactured products uncompetitive in the market.

### Low levels of investment in downstream industry

Owing to the weak technological base in the downstream industry, Pakistan produce low quality made ups that are not in demand in the international markets. Countries like India, Sri Lanka, Korea have made heavy investments in water jet weaving machines for manufacturing high quality made ups which helped them in capturing and sustaining market shares in the world. Similarly, modern air-jet, projectile looms and shuttle-less looms of wider width are also not available which are required for producing quality fabrics. Pakistani mill owners mostly invest in the spinning and weaving that are part of upstream industry due to which finished goods industry has not been able to upgrade its capability for producing high quality fabrics.

### Multidimensional measure needed to bring this sector in the limelight

Textile has been a dominant sector in Pakistan, however, there has been more reliance on cotton where MMF is mostly utilized in producing blended cotton textile. On the global front, trade is dominated by blended textile products where ratio of manmade fiber to cotton is 80:20. However in case of Pakistan, it is the other way round, with 80% cotton and 20% manmade fiber. This situation has restricted Pakistan to be able to capture only 20% of the global textile market making it to earn $ 13Bn out of total trade of $ 640Bn.

Despite having good potential, the synthetic made-ups sector could not get into the limelight. For instance, even though the upper limit of duty on synthetic carpets is kept high at 25% making it expensive in the local markets, there has not been any worthwhile development visible in this segment. Therefore, there is a potential to enhance the local production of synthetic carpets.

On the global front, ratio of manmade fiber to cotton is 80:20 however in case of Pakistan, it is the other way round, with 80% cotton and 20% manmade fiber.

The policy makers should also extend incentives like tax rebates and restrict the unabated influx of products from other countries. The informal trade of such products from the borders needs to be curtailed which makes the price of locally manufactured synthetic made ups uncompetitive in the domestic market. Similarly, units operating under cottage industry should also be brought under the formal sector.

Boosting local manufacturing will not only fulfill the domestic demand and will reduce the country's dependence on imports. Domestic production will also enhance the exports of synthetic carpets. There exists a decent opportunity not only for the new entrants but the seasoned textile players can also capitalize on their on-ground expertise and can upgrade their units by adding specialized machinery for synthetic made-ups to their manufacturing portfolio.

## Articles of plastic

### Plastics – a major industry

Pakistan's plastic industry is the second largest in South East Asia after India. The industry contributes 1.6% to the GDP of Pakistan.

Pakistan's plastic industry is the second largest in South East Asia after India. The industry contributes 1.6% to the GDP of Pakistan. From sales tax alone, it has contributed around PKR 29.42Bn in FY13 to the national exchequer.

The plastic industry has more than 600,000 metric tons production capacity per annum and it produces extensive range of household, industrial and other diversified goods which include plastic furniture, parts of electronic items, automobile and machinery parts, medical and surgical instrument, PVC pipes, syringes, batteries and containers for the oil industry etc. Products of plastics also have strong forward linkage as they are either used as components or in their entirety in numerous finished products.

There are approximately 7 upstream and 6,000 downstream production units in the country which provide employment directly and indirectly to ~ 600,000 people. Of the downstream units, only 700 belong to the organized sector while the remaining 5,300 units operate in the unorganized sector.

Primary raw material for the industry is produced by a single major player and numerous small scale manufacturers in Pakistan. They are able to fulfill only around 10-20% of plastic industry demand while more than 80% of raw material demand is fulfilled by imports from different countries.

### A sector with huge trade potential

Exports of finished plastic products of Pakistan have boundless scope as global exports were recorded at $ 50Bn in 2013 while we managed to export just $ 54.14Mn which account for 0.1% of the total.

Exports of finished plastic products of Pakistan have boundless scope as global exports were recorded at $ 50Bn in 2013 while we managed to export just $ 54.14Mn which account for 0.1% of the total. Moreover, its exports have sustained an upward trajectory, recording a growth of 47.09% in 2009-2013 period. Afghanistan, Turkey, US, China and UAE are the main exports destinations while other regions can be targeted considering its strategic location.

Plastics' imports have shown a growth of 32.45% in 2009-2013 period. Imports of raw materials contain the major chunk of $ 1.55Bn out of the total plastic

**Pakistan's Plastics Sector - Trade & Tariff (2013)**

| HS Code | Category | Exports ($ Mn) | Imports ($ Mn) | Trade Balance ($ Mn) | Tariffs at Import Stage |
|---|---|---|---|---|---|
| 39 | Plastics and articles thereof | 449.79 | 1,569.50 | -1,119.71 | 0% - 25% |
| Respective Heads | Plastic raw materials | 395.65 | 1,550.14 | -1,154.49 | 0% - 25% |
| Respective Heads | Plastic finished goods | 54.14 | 19.37 | 34.77 | 5% - 25% |

**Source:** *KCCI Research, Trade map & Pakistan Customs Tariff*

imports of $ 1.57Bn in 2013 which constitutes around 98%. The major imported raw materials include polypropylene (30%), ethylene (29%), resins (11%) and sheets and films (9%), amongst others, mainly from Saudi Arabia, China, India, Qatar, UAE and Korea.

It is worth noting that the figure of finished plastic products mentioned in the above table contains kitchen and table ware, tubes and pipes, baths and shower-baths, washbasins and toiletry articles, amongst others. There are several finished products which do not come directly under the HS code of plastics as they come under the HS codes of their respective product categories.

### A boon for new entrants and local magnates

The private sector has a gigantic space for balanced vertical integration as it can reap maximum benefits by establishing raw material facilities and/or uplifting their manufacturing capabilities.

The trade figures are ample evidence that plastic sector is a repository of huge potential on both domestic and external fronts. The private sector has a gigantic space for balanced vertical integration as it can reap maximum benefits by establishing raw material facilities and/or uplifting their manufacturing capabilities. Local entrepreneurs also have a plausible opportunity to establish industries in plastic sector. This would be an import substitution option for the industry and would be beneficial for the balancing the trade deficit of the country.

### Flexible Packaging – a blooming prospect

Despite concerted efforts put towards developing the plastic packaging industry, Pakistan faces a huge gap in producing 'A' quality packaging material.

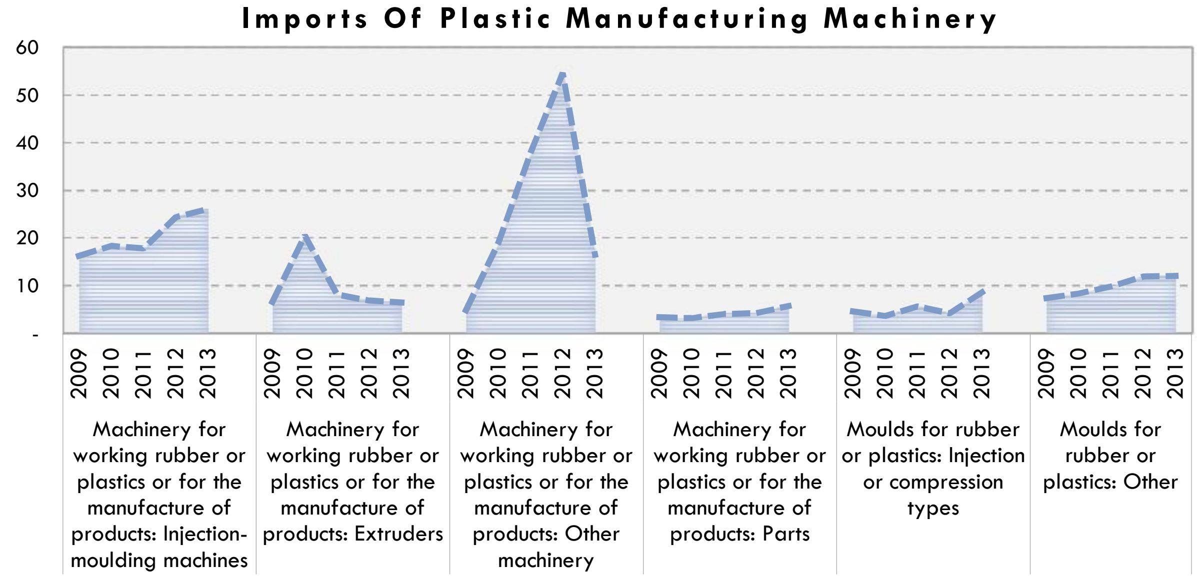
Despite concerted efforts put towards developing the plastic packaging industry, Pakistan faces a huge gap in producing 'A' quality packaging material. As a result, plastic films (polypropylene, polyethylene and others) are imported from Oman, Malaysia, UAE, Saudi Arabia and some other countries.

There are limited number of local industries that produce 'A' quality plastic packaging material due to lack of lab equipments and trained personnel put them at odds. There is an abundant space of growth in this area which can be tapped by local industrialists to grab market share and play its role in raw material import substitution.

### Focus on automation implies a promising future

It is evident that the local industrialists have realized the potential of this sector, further investment should be made to reap optimum benefits.

Imports of plastic manufacturing machinery was recorded as $ 75.89Mn in 2013 as compared to $ 43.33Mn in 2009, depicting a growth of 74.72%. Injection moulding machines have been the major ones imported, followed by other plastic machinery and extruders.




**Source:** *KCCI Research; Trade map*

The graph reflects that in the past 5 years, main investment has been made in the finished goods industry. Although, it is evident that the local industrialists have realized the potential of this sector, further investment should be made to reap optimum benefits.

### Constraints faced by plastic industry

Considering the inherent potential in the sector, investors have the golden opportunity to take advantage of the prospects and utilize them to reap maximum benefits. Yet there are few constraints faced by the sector which create hurdles for local industrialists to grow and enter into the upstream and downstream segments.

#### The less supportive duty structure

Streamlining of duty structure is a major constraint for the plastic sector. For instance, in 2013 raw materials worth of around $ 250Mn faced duty rates ranging from 15% to 25%. These raw materials include plastic commodities of various HS codes like polyethylene, polyether, films and petroleum resin.

High tariff rate for imported raw material dependent plastic industries inflates the cost of production. This affects finished plastic products, making their price uncompetitive in the domestic as well as the international market.

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#### Quality standards compliance and obligations

In Pakistan, the management systems are implemented in limited plastic manufacturing units and that too are partially followed.

There are some standards and certifications which are necessary in case of doing business with many international buyers. Of those standards, the most asked for and globally recognized certifications are ISO 9001 (Quality Management System), ISO 14001(Environmental Management System), ISO 22000 (Food

Safety Management System) and OHSAS 18001 (Occupational Health and Safety Assessment Series), etc.

In Pakistan the aforementioned management systems are implemented in limited plastic manufacturing units and that too are partially followed. Resultantly, local manufacturers face hindrance in securing orders from multi-national companies in Pakistan and international customers.

The challenges of plastic sector are not such that cannot be overcome through determination & coordinated efforts of the businessmen and the government. Such a high potential sector should be developed while moving towards self-sufficiency as well as contributing its due share in the country's overall exports.

## Processed food sector (excluding seafood)

Fast changing life styles due to higher income levels, influence of media, increasing urbanization and changing preferences of the population are some of the reasons for the growth in demand of value added foods in the country.

Food processing denotes the transformation of basic ingredients into consumable food, or the value additive conversion of food into other forms. Processing mostly involves one or many of the steps of cleaning, cooling, churning, culturing, grinding, cooking, drying and smoking. Food processing enhances shelf life of perishable food, and reduces its post-harvest losses, which at times can exceed 40% of production. Processed foods mostly consumed and exported by Pakistan include wide range of products like jams and jellies, dairy products, ice creams, confectionary items, biscuits, processed fruits and vegetables, soups, syrups and seasonings, breakfast cereals, pasta and noodles, processed meat and its products.

### Paradigm shift causing high demand

Pakistan itself holds the world's 7th largest consumer market, by virtue of its more than 196Mn population. Pakistanis spend a large share of their income on food, estimated at 42%. Fast changing life styles due to higher income levels of middle and upper classes, influence of media on mindsets amid globalization, increasing urbanization and changing preferences of the population are some of the reasons for the growth in demand of value added foods in the country. This demand is further augmented by the availability of a wide range of processed foods at a growing number of international and locally owned retail supermarkets in urban areas.

### Food sector contributes high to national manufacturing

Pakistan's food manufacturing sector comprises more than 17% of its overall manufacturing, and 12.37% of the large scale manufacturing sector. Retail sale of processed food has been expanding by approximately 10% in recent years. On the global scale, size of the food processing industry is estimated at around $3.5Tn, which accounts for about a fourth of the total food sales.

The below table gives a snapshot of the international trade carried out by the processed food sector during FY13.

**Pakistan's processed food sector – trade and tariff snapshot (2013)**

| HS Code | Foods | Exports ($ Mn) | Imports Mn) | Balance | Tariffs at Import Stage |
|---|---|---|---|---|---|
| 02 | Meat and edible meat offal | 212.60 | 4.57 | 208.03 | 0% - 25% |
| 04 | Dairy products, eggs, honey, edible animal products | 108.45 | 95.86 | 12.59 | 5% - 30% |
| 16 | Meat, fish and seafood food preparations nes | 12.62 | 5.26 | 7.37 | 20% - 25% |
| 18 | Cocoa and cocoa preparations | 0.21 | 26.06 | -25.85 | 5% - 30% |
| 19 | Cereal, flour, starch, milk preparations and products | 74.50 | 77.52 | -3.01 | 15% - 30% |
| 20 | Vegetable, fruit, nut, etc. food preparations | 69.31 | 36.04 | 33.28 | 15% - 30% |
| 21 | Miscellaneous edible preparations | 25.10 | 53.34 | -28.24 | 10% - 30% |

**Source:** *KCCI Research, Trade Map & Pakistan Customs Tariff*

Pakistan is a net exporter in most categories of processed food, with its strength being meat, dairy and vegetable food preparations. However, meat preparations fare low on the, and present lots of opportunities for prospective businessmen.

The table indicates that Pakistan is a net exporter in most categories of processed food, with its strength being meat, dairy and vegetable food preparations. However, its meat exports constitute only 0.2% of global meat exports of $122Bn, while dairy and vegetable food preparations both form 0.1% of its global exports of $90Bn and $ 60Bn, respectively. Moreover, meat preparations fare low on the above list as compared to raw meat, and thus present lots of opportunities for prospective businessmen as a lucrative investment avenue.

**Minimal focus on food processing in spite of huge potential**

Major fruits produced in Pakistan are citrus, mangoes, apples, bananas, apricots, plums, guavas, peaches, grapes and almonds. Combined production of all these fruits stands at around 7Mn Tons while cumulative yield of all vegetables stands at around 6Mn Tons. Of these, a miniscule 5% is processed, while the remaining is either marketed in the raw form or is lost post-harvest. Fruit processing is dominated by mangoes and oranges, whereas potatoes, tomatoes, peas, onions, corns, ginger and garlic have great processing potential, yet quantities processed at present are very meagre as compared to their fresh production.

Similarly, Pakistan is 5th largest milk producer in the world with an estimated 48Mn tons milk production per annum, out of which less than 5% milk is processed. In the same vein, Pakistan holds the 8th largest herd of livestock in the world. But it inefficiently uses its livestock resources due to primitive home-based slaughtering mechanism and processing techniques. Same is the case with the country's poultry sector, which fares amongst the high producers in Asia, yet it is still disorganized and not performing as per its full potential. To cite an example, processed chicken industry in the country is in its infancy and comprises only 1% of total chicken market of the country, while annual growth of the industry is merely 3% to 4%.

Pakistan produces 7Mn tons of fruit and 6Mn tons of vegetable, of which only 5% is processed. Milk production stands at 48Mn tons, of which again, less than 5% is processed, while processed chicken comprises only 1% of the total market.

**Halal foods – a fast growing domain…**

Halal food product category is increasingly being recognized as potential engine of economic growth, having annual turnover of hundreds of billions of dollars globally. Halal certified products are recognized as being hygienic and of good quality and are hence in high demand even in non-Muslim countries. Industry experts estimate the global size of the halal food industry (including services) at around $3Tn. Ironically, more than 80% of the global halal trade is carried out by non-Muslim countries. The US, Brazil, Canada, Australia, New Zealand and France are the biggest halal food suppliers in the west, while Thailand is the dominant player in the east with Malaysia, Indonesia, Singapore and India being the other notable exporters.

**…which Pakistan should rapidly become a major part of**

Due to its halal food consuming predominantly Muslim population, Pakistan is

Pakistan is in the most advantageous position to carve a significant share in the global Halal market due to its halal food consuming Muslim population.

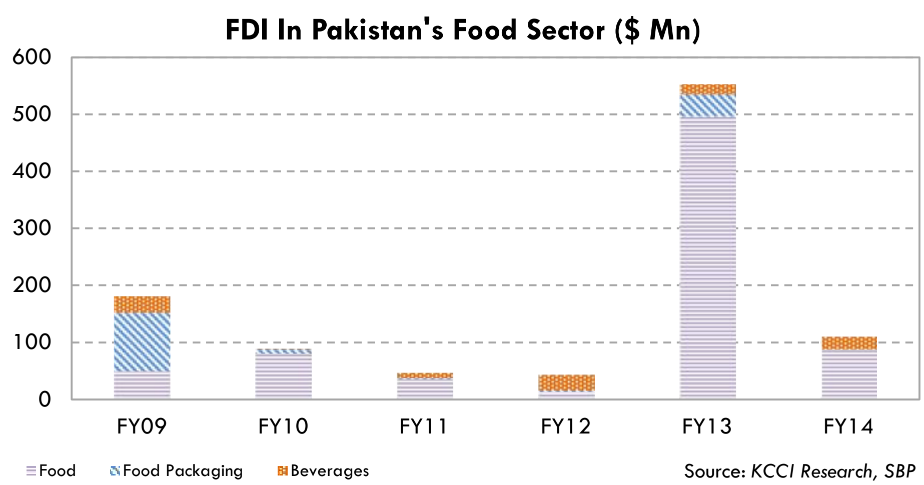
perhaps in the most advantageous position to carve a significant share in the global Halal market, which is rapidly developing not only in the Middle East, Southeast Asia and North Africa but also in the US, Canada and Europe. Currently, there are about 22 Halal meat processing plants in the country of which 16 are operational in Punjab. As per estimates, Halal meat alone can generate exports of $5Bn annually, which is about 1/5$^{th}$ of Pakistan's total exports in FY14.

Local food manufacturers have not yet caught up with the product diversity of the global Halal food market as they still consider Halal food as being limited to raw and meat only. They need to broaden their horizon and get hold of missed opportunities inherent in the growing global Halal market by venturing into processed foods. Pakistan needs to leverage its wealth of agricultural and human resources; with guided efforts and acumen, even if it succeeds in capturing 1% of the global Halal food market, it can fetch export earnings of $ 30Bn from food only, which is 20% greater than the country's total exports in FY14!!

Even if Pakistan succeeds in capturing 1% of the global Halal food market, it can fetch export earnings of $ 30Bn this segment only, which is 20% greater than the country's total exports in FY14!

### An eye candy for foreign investors

Potential of Pakistan's food processing and packaging industry has been recognized on the global front as well, as is evident by the stream of inflows depicted in the chart below. Many investors from UAE have also signed MoUs worth millions of dollars for investment in Pakistan's food sector.




Source: *KCCI Research, SBP*

Savvy investors looking for investment have ideal opportunities to set up facilities for processing Halal surplus cereals, fruits, vegetables, milk, fish meat and poultry produced in the country as value-added products, for domestic and export markets. The time is also ideal for investors who are looking to set up and operate halal food certification companies as the number of such companies operating locally is too limited.

### The sector has its own set of constraints

Although the processed food sector in Pakistan possesses enormous potential, it has its own set of challenges and constraints.

### On the supply side

Major problems faced by the food processors include:

i) Insufficient and fluctuating supply of raw materials

ii) Inadequate cold chain infrastructure, lack of storage and handling facilities

iii) Deficient transportation networks and

iv) Conformance to quality standards

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Due to lack of vertical integration in most cases, food processors are dependent upon raw materials from the open market, which maybe of lesser than required quality, or of a variety not suitable for processing, in case of fruits and vegetables. As the processor has no other option but to utilize what is available to him, the end product falls short of the desired quality.

Food manufacturers in Pakistan mostly rely on accreditations by foreign certifying agencies like SGS, Bureau Veritas etc. to get their products and procedures certified for quality and for being halal, as local food quality certification is in early stages of development. Ensuring quality and attainment of certificates raises cost of business, specifically for exporters, as adherence to strict quality controls standards is a mandatory requirement of most importing countries.

### Of finance and entrepreneurship

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Poor financial support from the commercial banks and government, along with lack of entrepreneurial skills and innovation are also some of the constraints faced by this sector. Despite all these hindrances, Pakistan is ranked 28$^{th}$ in annual growth rate for agriculture value added in the world, with a growth rate of 3.3%[3] in 2013. However, majority of this achievement is due to the investment by the private sector.

### On the demand side

Growth in domestic demand of the processed food market is constrained by a number of factors:

[3] World Bank Statistics

i) Processed food is mostly liked by consumers dwelling in the developed urban centers, as compared to population in other parts of the country, who has yet to develop the taste for such food.

ii) Processed food costs higher and is out of reach of the low income urban man, as its production including packaging incurs high costs. In the case of fruits and vegetables, processing units work on seasonality basis and remain idle for the rest of the year, thus increases operating fixed costs.

The processed food sector offers too lucrative a prospect to be ignored, in spite of all its constraints. As players in the industry are limited at the moment it has yet to attain saturation, which adds to its high potential.

### Stakeholders need to realize the potential - sooner the better

The processed food sector offers too lucrative a prospect to be ignored, in spite of all its constraints. The sector caters to a market which is captive on a local scale and broad at the international level. Raw materials (animals, spices, fruits, vegetables) are abound in the country and are mostly independent of imports. The sector has relatively low startup costs and lesser need for specialized skills. Further, as players in the industry are limited at the moment it has yet to attain saturation, which adds to its high potential.

## Seafood sector

Pakistan's decent performance in seafood sector over the past couple of decades has been a result of high fish production capabilities of the Arabian Sea, high demand for fish products in the international markets, private sector investment and its export expertise, and support from government and other international developing agencies. In spite of increasing exports of sea food products, Pakistan's exports are still far less ($333Mn in CY13) as compared to the available potential of more than $1Bn. Global trade of fish crustaceans, molluscs, and aquatic invertebrates accumulates to $103Bn, of which Pakistan forms only 0.3%.

**Trade and Tariff snapshot of Pakistan's Seafood sector (2013)**

| HS Code | Sea Food | Exports ($ Mn) | Imports ($ Mn) | Balance | Tariffs at Import Stage |
|---|---|---|---|---|---|
| 03 | Fish, crustaceans, molluscs, aquatic invertebrates nes | 333.13 | 11.55 | 321.58 | 5% - 10% |

**Source:** *KCCI Research, Trade Map & Pakistan Customs Tariff*

The sections below highlight the constraints faced by the sector in enhancing its exports to its full potential, while recommending measures that can be taken to enhance them.

### Improper handling - a cause of wastage

Poor quality and contaminated ice is often used on the vessels which results in

In spite of increasing exports of sea food products, Pakistan's exports are still far less ($333Mn in CY13) as compared to the available potential of more than $1Bn.

About 35% of the sea food catch is wasted due to improper handling.

Though exports to EU have resumed in early 2013, and volume is increasing as gradually more exporters are being cleared for shipment to the bloc, Pakistan still needs to make great strides to improve its product quality.

wastage of about 5% of the catch. A further 10% is lost due to ill handling causing fish/shrimps to lie off the ice, or being crushed by the weight of other fish/shrimp on top of it. The situation is the same at the harbor and auction halls where again poor handling results in a loss of 8%. Here too, contaminated ice results in an additional 10% loss, thus taking the cumulative effect of all these losses to ~35%.[4]

While it is not completely possible to eliminate wastage, around 9-10% of the catch can be salvaged by bringing improvements in fish handling techniques. An option is to install on-board ice-making equipment which would instantly provide clean good quality ice, or flash freezing the fish immediately after they are caught. Other less expensive options are to renovate the fish holds of the boats and installing better insulation in them and creating separate compartments to minimize the effects of crushing.

To preserve the freshness of the catch, the govt. must build up a dedicated harbor for shrimp peeling plants, install large power generators at Karachi Fish Harbor (KFH) to ensure uninterrupted supply of electricity and develop Ibrahim Hyderi fish harbor to reduce congestion at KFH. Part of the funding required for these development projects can be taken from the huge amount of unutilized export development funds collected from exporters.

### Stricter quality requirements of importing countries

Attaining and maintaining international quality standards and getting quality certificates is a mandatory requirement in sea food processing industry, in addition to meeting international Sanitary and Phytosanitary Standards (SPS). As export markets develop, countries are prone to put their own stricter approved quality standards, which exporting companies in Pakistan find difficult to cope with.

To cite a case in point, Pakistan imposed a voluntary ban in 2007 on exports of fishery products to the EU after EU's Food and Veterinary Office identified serious deficiencies in the hygiene control system of seafood at various stages of the process. Though exports to EU have resumed in early 2013, and volume is increasing as gradually more exporters (from initial two) are being cleared for shipment to the bloc, the country still needs to make great strides to improve its product quality.[5]

Although Pakistan has substantially upgraded its SPS capacity over the past few years, further investment in facilities, training and operating procedures would

[4] Enterprises based fisheries sector study by United Nation Industrial Development Organization

[5] http://www.dawn.com/news/789315/eu-to-resume-pakistan-fish-imports-after-six-years

help the govt. maintain and improve the SPS status and address its requests of importing partners.

Appeal of Pakistani seafood products in the international markets can be increased by betterment of physical infrastructure facilities and equipment

Appeal of Pakistani seafood products in the international markets can be increased by betterment of physical infrastructure facilities like modern processing units, cool chain, and other supply related logistics. Urgent steps are needed which would improve the management structure of fisheries, upgrade infrastructure and equipment to improve the quality and value of fish in the cold chain, and add value to the products.

### Application of outdated fishing techniques

An important factor of relatively low catch rate in Pakistan is the use of primitive and inefficient fishing techniques. Lack of echo-sounding fish finders makes setting the depth of the nets a matter of learning by experience and trial and error. Non-usage of GPS navigation hinders returning to proven lucrative fishing spots, and thus increases dependence on human judgment.

As per estimates, potential gains from employing better technology, as mentioned above, will yield an increase of about 20% in the total catch.

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### Over-fishing and pollution - threats to future sustainability

Ironically, Pakistan remains one of those few countries which have yet to develop the capacity and knowledge to manage its fishing resources sustainably. Over-fishing, which reduces the overall resource base, is one of the reasons for the low incremental fish production due to depletion of fish species, as it has effectively wiped out several important fish species of commercial value. Further, pollution caused by industrial and domestic waste also results in the extinction of fish species. As more and more pollutants are being spilled into the waterways, bio-toxins and metallic substances are increasingly showing up in the seafood.

The govt. needs to put a check on unabated over-fishing, use of illegal nets and destruction of mangroves which serve as a breeding ground for shrimps. It should also develop a strategy to deal with issues of waterway pollution, before this issue becomes contentious with the seafood importers and create export hindrances.

The govt. needs to put a check on unabated over-fishing, use of illegal nets and destruction of mangroves

### Development of Marine aquaculture to ensure sustainable supply

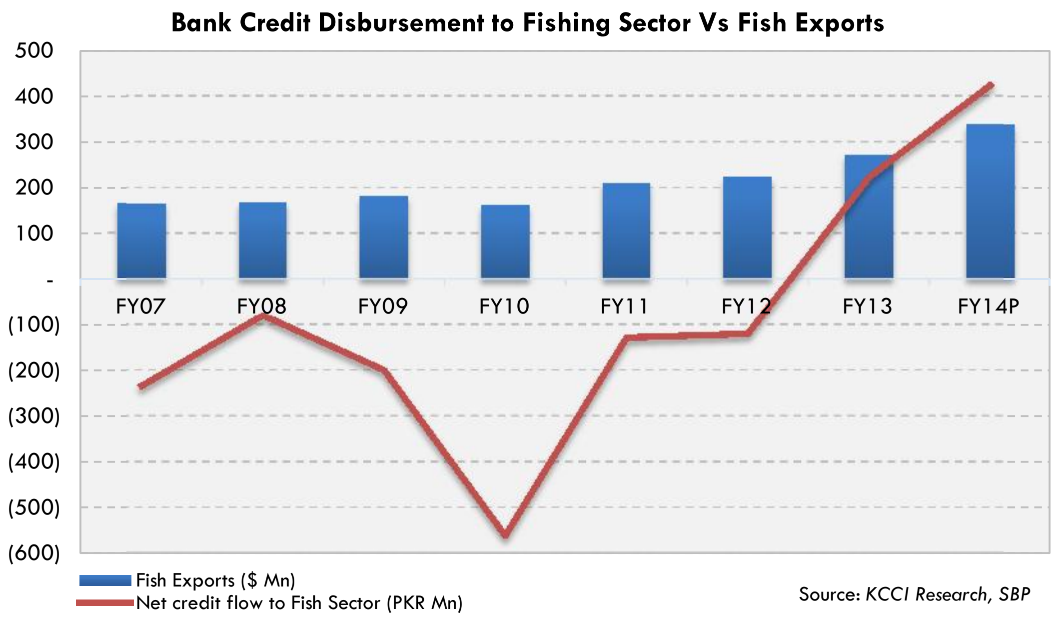
Aquaculture, also known as fish farming, refers to the breeding, rearing, and harvesting of plants and animals in all types of water environments including ponds, rivers, lakes, and the ocean.

Pakistan needs to explore feasibilities for marine aquaculture, and inculcate it as part of a long term plan

Although fish farming has long been carried out in customized on-shore farms in Pakistan, the country needs to explore feasibilities for marine aquaculture (in natural waterways), and inculcate it as part of a long term plan for developing an environmentally sustainable fishing exports base.

### Lack of formal financing facilities for exporters

As the data from SBP shows, sea food exporters have little access to formal financing from banks, which may be an integral factor hindering the development of their processing facilities. In fact, the sector had paid off its loans on a net basis in the period FY07 to FY12, while a pickup in credit has been observed since then, which bodes well for the sector.




Source: *KCCI Research, SBP*

Banks need to devise financial products specific to the needs of the fishing and seafood industry as has been done for the agriculture sector. Though the SBP has provided guidelines to the banks for issuing credit to the sector, more efforts are required on part of the regulator and disbursing banks to increase outreach and awareness of their products. On the other hand, the fishery sector needs to be more proactive in tapping formal sources of financing for capacity building, as compared to the traditional informal sources which tend to be more exploitative in nature. The govt. on its part, had developed a Medium Term Development

Banks need to devise financial products specific to the needs of the fishing and seafood industry as has been done for the agriculture sector.

Plan (2005-10) for the economy which included development of the fisheries sector, and drafted a National Policy and Strategy for Fisheries and Aquaculture Development (2006) in Pakistan. However, implementation of the plans remain limited over the years owing to various factors. The private sector thus has tremendous opportunity to come forward to overcome the constraints mentioned above and capitalize on the huge potential that the sector offers.

## Step up for industrialization – better late than never

The time has come to rethink strategies for uplifting these high growth industries and make concerted efforts to develop them in line with international best practices.

By now, we should be fairly convinced that each of the sectors highlighted in this report possesses immense potential in its own right. Indeed the time has come to rethink strategies for uplifting these high growth industries and make concerted efforts to develop them in line with international best practices.

However, such a rethink would require all the stakeholders to be on the same wave length. On its part, the govt. should offer tax incentives, ensure security to business and businessmen, make available low cost credit and create an enabling environment where businesses can flourish. Moreover, it should also establish platforms to promote Pakistani brands across the globe. Such stimuli would boost confidence of the private investors and encourage them to invest in these sectors.

The private sector needs to come up with ideas to develop both upstream and downstream industries. An out of the box approach is vital to promote the sectors which can also be done in the form of effective public private partnership models. The businesses can also look for upgrading their product lines as per the latest trends and market demand and can introduce innovative products. It is advisable to focus on import substitution while also catering to export demand by adopting modern manufacturing techniques. Furthermore, businesses can collaborate with the training and research institutes to develop their own human resource.

Social media is an emerging platform for product and brand promotion. Industry players must adapt to this new phenomena for advertising and showcasing their

Moreover, businessmen should utilize platforms of national organizations like TDAP and SMEDA to effectively promote and flourish their businesses. BTL (Below The Line) activities which include participation in major international exhibitions would help Pakistani products grasp attention globally. Social media is an emerging platform for product and brand promotion. Industry players must adapt to this new phenomena for advertising and showcasing their products.

We believe that only through dedicated and determined efforts, the business community and government can together pull the economy out of the doldrums towards progression and prosperity.

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