



KCCI - Country Wrap (December 2016)

Pakistan

Economy of Pakistan – a brief overview

Pakistan is a country bearing a significant number of large, and small scale industries and skilled manpower, having a very fertile soil and vast irrigated areas while being rich in natural resources, all of which synchronously contribute towards fast paced economic growth for this emerging economy. Being an agrarian nation (agriculture accounts for more than 20% of output and 40% of employment), Pakistan continues to be a leading force in cotton and textile production, which accounts for more than 50% of its exports. However, the nation of more than 180Mn people is endeavoring to diversify its product and export base so as to reduce its dependence on shifts in global textile demand.

Pakistan is a rapidly developing country and is one of the Next Eleven, the eleven countries that, along with the BRICs (Brazil, Russia, India and China) have a high potential to be counted amongst the world's largest economies in the 21st century. GDP growth of Pakistan was recorded at 4.71% in FY16 which is targeted to grow by 5.7% in FY17. Transportation, financial services, retail and wholesale trade have led the growth of 5.71% in the services sector and industrial sector has contributed growth of 6.8% while the agriculture sector experienced negative growth of 0.19%, in FY16. The Large Scale Manufacturing sector registered a growth of 4.61% in FY16.

Pakistan - serving the world as an important trade route

Located in the heart of Asia, Pakistan serves as a gateway to the energy rich Central Asian States, the financially liquid Gulf States and progressive Far Eastern Countries. This strategic advantage alone makes Pakistan a market place bustling with possibilities.

Furthermore, Pakistan enjoys global recognition as having three seaports; in fact the Karachi Port (KPT) is one of the busiest ports in the whole Arabian Sea. Most of the overseas trade of Pakistan and the landlocked Central Asian countries (most notable of which is Afghanistan) transits through Karachi's two ports. These ports along with newly developed Gwadar port (460km west of Karachi) hold bright prospects for Pakistan becoming a regional transit trading hub for land-locked Central Asian countries, while additionally creating opportunities for re-exports of goods.

Karachi – the lifeblood of Pakistan

Karachi enjoys global recognition as the commercial and industrial capital of the country having an active life complemented with numerous contemporary shopping centers, restaurants, and resorts along with many other coastal attractions, thus appropriately justifying its title of "city of lights". To top all of this, these attractions carry a very low price tag; Karachi has been rated as the least expensive city of the world by Mercer in its report "Worldwide Cost of Living Survey 2012".

Main industries and agricultural products of Pakistan

A plethora of industries operate in Pakistan including those of textiles and apparel, leather, automobiles, dyes, pharmaceuticals, chemicals, metallurgy, food processing, petroleum refining, mining and quarrying, pharmaceuticals, construction materials, and fertilizers. There exist multiple clusters of cottage industries adjacent to its industrial estates. The main agricultural products are cotton, wheat, rice, sugarcane, fruits and vegetables, milk and meat.

Export products and markets of Pakistan

Pakistan is one of the largest exporters of textile products in the world. The commodities mainly exported by Pakistan include cotton yarn, woven cotton, woven fabrics, apparel, cereals, chemicals, leather goods, surgical instruments, sports items, carpets etc. Pakistan mainly exports these commodities to the United States, UK, Germany, China, Saudi Arabia, Afghanistan and U.A.E. Pakistan is gradually making its mark in the global markets for defense and military aviation equipment.

Products mainly imported into Pakistan are petroleum and its products, machinery, plastics, edible oils, paper and paperboard, iron and steel, tea etc. Its major import partners are China, Saudi Arabia, UAE, Kuwait and Malaysia.

Foreign labels establishing their mark in the retail segment

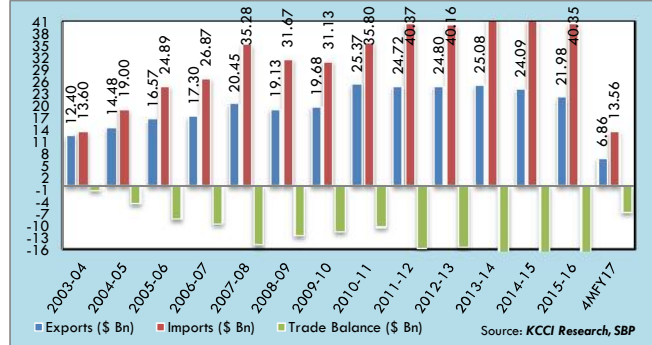
In recent years, numerous foreign labels (mainly from Europe and America and even India) have ventured into Pakistan by launching their flagship stores, resultantly empowering the retail sector. All these activities have brought an influx of foreign investment in Pakistan, a symbol of the trust that astute businessmen place in this wonderful country.

Economic Indicators

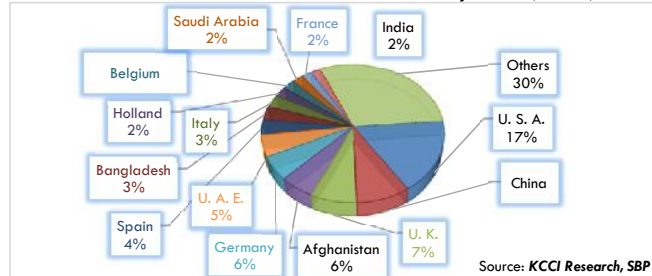
| Indicators      | Unit  | FY15   | FY16   | Change  |
|-----------------|-------|--------|--------|---------|
| GDP*            | \$ Bn | 271.43 | 284.15 | 4.69%   |
| GDP per Capita* | \$    | 1,517  | 1,561  | 2.91%   |
| GDP growth      | %     | 4.04   | 4.71   | 0.67%   |
| Forex Reserves  | \$ Bn | 18.70  | 23.10  | 23.53%  |
| External Debt   | \$ Bn | 46.86  | 51.71  | 10.36%  |
| Exports         | \$ Bn | 24.09  | 21.98  | -8.77%  |
| Imports         | \$ Bn | 41.28  | 40.35  | -2.26%  |
| Trade Balance   | \$ Bn | -17.19 | -18.37 | -6.86%  |
| Current Account | \$ Mn | -2,709 | -3,262 | -20.41% |
| CPI             | %     | 4.5    | 2.8    | -1.70%  |
| Unemployment    | %     | 5.9    | -      | -       |
| Discount Rate   | %     | 6.50   | 5.8    | -0.75%  |

Sources: KCCI Research, SBP, PBS \* = Figures converted at last day

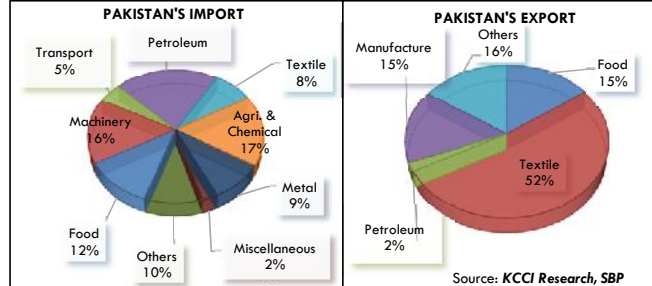
Pakistan's Trade with World (FY04 - 4MFY17)



Pakistan's Export to the World - Country Wise (FY16)



Pakistan's Trade - Commodity wise (FY16)



Pakistan's Ranking in the World

|                                |     |
|--------------------------------|-----|
| Karachi - Least Expensive City | 1st |
| Gwadar-Largest Deep Sea port   | 1st |
| Khewra Salt mine               | 2nd |
| K-2 Mountain Peak              | 2nd |
| Milk Producer (Buffalo)*       | 2nd |
| Milk Producer (Goat)*          | 3rd |
| Coal Reserves                  | 3rd |
| Rice Exporter                  | 3rd |
| Cotton Lint*                   | 4th |
| Reko Diq Gold & Copper mine    | 5th |
| Largest Army                   | 5th |
| Date Production*               | 5th |
| Nuclear Power                  | 7th |
| Wheat Producer*                | 7th |
| Textile Exporter in Asia       | 8th |
| Shale oil Resources**          | 9th |

Source: KCCI Research, \*FAO STAT(2011), \*\*EIA, \*\*\*others

Disclaimer

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## KCCI - Country Wrap (December 2016)

### In the quest for strong trade ties - Pakistan's International Trade Agreements

Pakistan seeks to have far reaching and mutually beneficial trade relations with its trade partners. In this context, it has signed agreements with many countries; these include three Free Trade Agreements (FTAs) and three preferential trade agreements (PTAs) (as listed in the chart) while negotiations on FTA with Thailand are in progress. Pakistan is also part of South Asian Free Trade Area (SAFTA) under which it has concessional trade access to the SAARC nations. It is part of the US - Generalized scheme of preferences (GSP) and EU-GSP schemes, which allow various tariff concessions on exports to the two major global trade blocs. Likewise, it is also a signatory to the Afghanistan Pakistan Transit Trade Agreement (APTITA).

Trade agreements have facilitated Pakistan with preferred or zero tariff rates on trading commodities with its neighbors and counterparts. Efforts are underway to cement similar ties with other trading partners as well. Pakistan also has Bilateral Investment Treaties (BITs) with 47 nations. Pakistan has also marked history by signing the world's first ever BIT with Germany in 1959.

### Grant of EU's GSP plus Status: An additional step towards higher exports

Pakistan is a strong contender to EU's GSP Plus status under which EU would extend further concessions that were not available in its previous EU-GSP plan. Applicable from January 1, 2014, this is likely to significantly boost exports to the EU, which are estimated to jump by \$6-8Bn. In this regard, a final nod is awaited from the European Parliament. The textile sector is expected to be the major beneficiary of the additional concessions.

### Liberal investment policy – A boon for savvy investors

In line with the vision of encouraging foreign investments into the country, Pakistan has kept its investment policy liberal, perhaps the most liberal in the region. The most attractive features of the policy are the facilities for foreign companies to have 100% equity ownership in their businesses while having minimal equity requirement and not having any restrictions whatsoever on the repatriation of capital, profits and dividends.

Pakistan ranks well above its regional competitors India and Bangladesh in the "Ease of Doing Business 2013" index published by the World Bank and IFC. There are already more than 600 multinational companies belonging to different sectors including FMCG, banking, pharmaceuticals and automobiles, operating profitably and safely in the country, with many others all set to join them.

### Rising foreign direct investment inflows - a precursor of more to come

The net Foreign Direct investments received by Pakistan during FY16 were recorded at \$ 1,901Mn, an increase of 107% as against \$ 923Mn received in the preceding year. The inflows of \$ 2,761Mn have been recorded during the period of Fiscal Year 2015-16 as against inflows of \$ 2,732Mn received in the same period last year thereby expanding by 1%.

### Energy, transport, halal food, gems and jewelry, telecom sectors up for grabs

Opportunities are ripe for investments in different sectors particularly, the energy sector including in coal and renewable energies, which of late have been the center of attraction of many business groups from around the globe. Other alluring sectors include transport and infrastructure, halal food processing which is a nascent yet high potential export market, an informal and hitherto untapped gems and jewelry sector, much needed construction and housing, 3-G oriented telecom and wide ranging agriculture, all of which offer much promise to the perceptive investor.

### A prospective market for portfolio investors

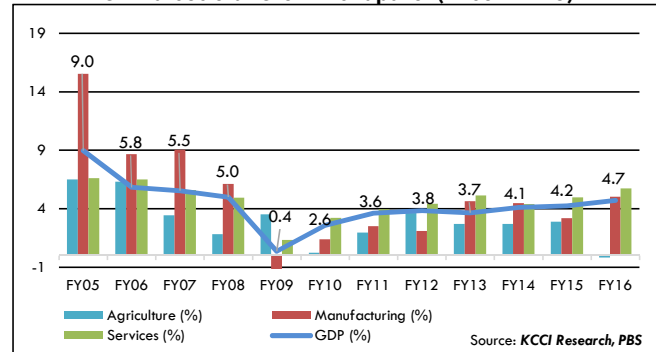
Pakistan has a robust and versatile capital market which includes variety of mutual funds, money/bond markets, a unified stock exchange and a mercantile exchange while Global Depository Receipts (GDRs) of some of the nation's leading blue chip companies are traded in global markets. Pakistan's stock market, recently converted into Pakistan Stock Exchange Limited, is one of the largest capital markets in the region, and provides ample prospects for portfolio investments. It is the merger of the country's three stock exchanges namely Karachi Stock Exchange (KSE), Lahore Stock Exchange (LSE) and Islamabad Stock Exchange (ISE). Oil and Gas, Electricity, Chemicals, Construction and Materials and Banking sectors provide valuable portfolio investment propositions amongst others sectors.

### Pakistan's Trade Agreements

| Nature of Agreement          | Partner               | Date of Signature | Entry into Force |
|------------------------------|-----------------------|-------------------|------------------|
| Free Trade Agreement         | China                 | Nov 24th, 2006    | July, 2007       |
|                              | Malaysia              | Nov 8th, 2007     | Jan 1st, 2008    |
|                              | Sri Lanka             | Aug 1st, 2002     | June 12th, 2005  |
| Preferential Trade Agreement | Mauritius             | Jul 30th, 2007    | Nov 30th, 2007   |
|                              | Iran                  | Mar 4th, 2004     | Spet 1, 2006     |
|                              | Indonesia             | Feb 3rd, 2012     | Sept 1st, 2013   |
| APTITA                       | Afghanistan           | Oct 28th, 2010    | June 12th, 2011  |
| SAFTA                        | South Asian Countries | Jan 6th, 2004     | Jan 1st, 2006    |

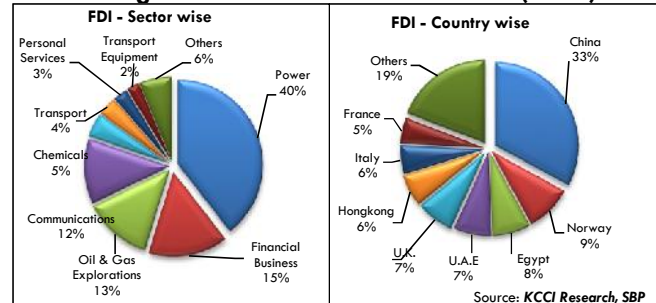
Source: KCCI Research, MoC

### GDP & Sectoral Growth Snapshot (FY05 - FY16)



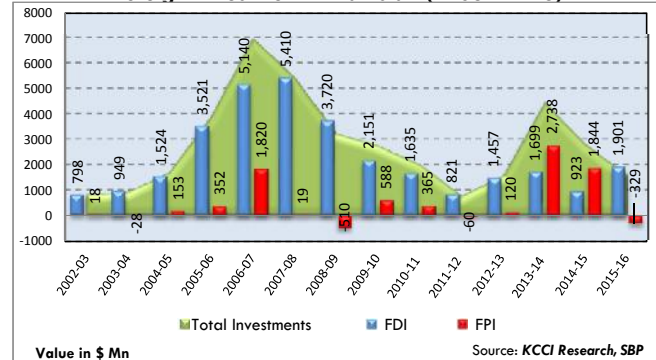
Source: KCCI Research, PBS

### Foreign Direct Investment in Pakistan (FY16)



Source: KCCI Research, SBP

### Foreign Investment in Pakistan (FY03 - FY16)



Source: KCCI Research, SBP

### Key Memberships of Pakistan

ADB, ARF, ASEAN (dialogue partner), C, CICA, CP, D-8, ECO, FAO, G-11, G-24, G-77, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IDB, IFAD, IFC, IFGRS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAIA (observer), MIGA, MINURSO, MONUSCO, NAM, OAS (observer), OIC, OPCW, PCA, SAARC, SACEP, SCO (observer), UN, UNAMID, UNCTAD, UNESCO, UNHCR, UNIDO, UNISFA, UNMIL, UNMIT, UNOCI, UNSC (temporary), UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

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