MARKET INSIGHTS
CONNECTING AUSTRALIAN BUSINESS TO THE WORLD

PAKISTAN

Key facts and figures

- Population: 208 million (2020)
- GDP growth: -0.4 per cent (2019–20)
- GDP per capita: US$1,388 (2019)
- Political system: democracy
- Two-way trade: A$1.74 billion (2019)
- Key goods and services traded: fertiliser, pulses, textiles, education
- Two-way investment: A$275 million (2019)

Business Conditions Snapshot

- The COVID-19 pandemic has had a significant impact on Pakistan's economy, with GDP declining by 0.4 per cent in 2019–20, the first contraction in decades.
- The pandemic's impacts are expected to continue being felt on the economy in 2020–21 with muted GDP growth: The World Bank is forecasting 0.5 per cent and the IMF one per cent. The government is targeting 2.1 per cent GDP growth.
- Even before the COVID-19 crisis, Pakistan had been facing long-standing economic challenges. The pandemic hit Pakistan not long after it entered into a US$6 billion loan package with the IMF (in July 2019) to help Pakistan restore macroeconomic stability and undertake structural reforms. The second review of the IMF program has been on hold since late March due to the pandemic and is yet to be resumed. Despite the pandemic, remittances have increased and were 31 per cent higher in the first quarter of this fiscal year compared to last.
- A difficult business environment remains an issue for companies operating in Pakistan, but it has improved. Pakistan climbed 28 places to 108 on the World Bank's 2020 Doing Business ranking out of 190 economies.
- Pakistan has a young and growing population, with English as the main language for business. The expanding middle class has an appetite for imported goods and services. Foreign retail and franchise outlets are spreading. There is rapid urbanisation with 10 cities housing populations over one million. Pakistan enjoys a natural endowment in agriculture and minerals.
- Pakistan's economy has three main sectors – agriculture, manufacturing and services. The largest sector, services, accounts for 61 per cent of GDP, led by wholesale, retail, transport and communications. Agriculture contributes around 19 per cent to GDP, but its share has been decreasing, and farming is often small-scale, inefficient and subsidised. The manufacturing sector – led by textiles – accounts for around 13 to 14 per cent of GDP. Despite potential untapped mineral reserves, the mining sector lags behind because of issues including a poor regulatory framework, and a lack of infrastructure and skilled labour.
- Pakistan's leading imports include fuel, machinery, and agricultural and chemical products. The main exports are textiles, rice and vegetables. In 2019 the US was

Australian Government
Department of Foreign Affairs and Trade

Pakistan's leading export market, followed by China and the UK. As a result of the pandemic, demand for exports has been dampened by the slowdown in economic activity in Pakistan's top export markets.

- China was Pakistan’s top source for foreign direct investment (FDI) in 2019–20, largely due to China–Pakistan Economic Corridor projects. This is a multi-billion dollar project to build power stations, special economic zones and transport links. After China, Pakistan’s largest sources of FDI were Hong Kong, the Netherlands, the UK and US. The main sectors for FDI were power followed by telecommunications, oil and gas, the financial sector, textiles and trade. In August 2020 the Board of Investment released a new investment promotion strategy for 2020–2023, which targets a rise in FDI to US$ 4 billion in 2020–21.
- It has five priority sectors: auto and auto parts, food and beverages, information technology and enabled services, logistics and value-added textiles.

Trade and Investment Opportunities

- Australia’s bilateral trade and investment relationship with Pakistan has grown over the past decade. Total merchandise trade was worth $689 million in 2019 (although this was a decline of 11.5 per cent compared to 2018.
- Australia’s major exports to Pakistan are pulses, fertiliser and scrap metal.
- Major imports from Pakistan are textiles, crude petroleum and rice.
- Total services trade was worth $1,052 million in 2019, up 10.6 per cent on the previous year, reflecting growth in the number of Pakistani students studying in Australia.
- Investment flows between Australia and Pakistan are low. Trade and investment opportunities may include:
  - **Education:** Australia is a top three destination choice of Pakistani students, with over 16,000 Pakistani student enrolments (at September 2020). Pakistan is a top 15 global source market for Australia. Opportunities in this sector include academic and research linkages between institutions, PhD scholarships and other training opportunities through Pakistan Higher Education Commission and TVET collaboration.
  - **Agribusiness:** Pakistan is a regular importer of agricultural food commodities including chickpeas, lentils and canola oilseeds. While these products are grown locally, production does not meet local needs and demand for imported products will grow. There are opportunities in dairy cattle and dairy products, with investments in large dairy farms using imported dairy cattle. The dairy sector is growing as demand for high quality milk products increases, including for imported cheese, butter and flavoured yoghurt. Other agribusiness opportunities include in:
    - supply chain services

  - water management services
  - feedlot and animal fattening
  - meat supply
  - farm management services
  - training and capacity building, particularly in dairy
  - forage seeds (e.g. Rhodes grass, alfalfa, sorghum and oats).
- **Food and beverage**: the growing middle class is driving demand for premium food and beverage.
  - There are potential opportunities in franchising (with a number of foreign franchise brands already in the market, including some Australian brands), packaged foods (including leading retail chains seeking to import premium Australian food and beverages), food services, and exports of meat and seafood. Infant milk formula has potential for growth in the future with an Australian company beginning sales in Pakistan in 2020.
- **Infrastructure:** particularly in transport links associated with the China Pakistan Economic Corridor; upgrades to ageing infrastructure, particularly in railroads; major design changes in oil refineries; and LNG terminals.
- **Energy and resources:** opportunities in this sector include in mining equipment, technology and services, and consultancy services in mine safety, as well as mine planning and resource estimation, and sampling and de-watering mines. As the government is seeking to increase the energy mix to include more renewable energy, there may be opportunities in green energy including solar power.

• A number of Australian companies are active in Pakistani, mostly through local distributors.
  - Blackmores launched sales of its health supplement products in Lahore in March 2019.
  - Australian dairy company Viplus Dairy Australia entering the Pakistan in 2020 to sell infant milk formula.

• In the education sector, Australian universities and well known education groups have established in-country managers in Pakistan.
  - Navitas
  - Study Group
  - Deakin University
  - LaTrobe University
  - Edith Cowan College
  - Monash University

  - Macquarie University
  - Murdoch University
  - Flinders University
  - IDP Education.
- AEO Pakistan, HR Consultants Pakistan, AusPak International, and RMT Enterprises also has an in-country presence.
- In the agribusiness sector, Australia's presence includes:
  - grain exporters from Western Australia, NSW, Queensland, Victoria and South Australia
  - Olam (almond sales)
  - S&W Seeds Pty Ltd (forage seeds)
  - Heritage Seeds Pty Ltd (Rhode Grass and alfalfa seeds, through Matra Asia Ltd)
  - Blue Ribbon Seeds Pty Ltd (grass seed, through Farm Dynamics Ltd)
  - Selected Seeds Pty Ltd (grass seed, through Maxim International)
  - Austrex Pty Ltd (dairy livestock, through distributor Matra Asia Ltd)
  - NASNA Livestock Pty Ltd (dairy livestock, through Dairy Solution Ltd)
  - Atlas Exports Pty Ltd (dairy livestock, through Pro-Farm Limited)
  - Genetics Australia Cooperative Pty Ltd (dairy cattle genetics, through Matra Asia Ltd)
  - CE Bartlett Pty Ltd (water management equipment, through Farm Dynamics Ltd)
  - Sentek Technologies irrigation technology (through Farm Dynamics Ltd)
  - Elders International Pty Ltd (dairy livestock, through Maxim International).
- In food and beverage, Australia's presence includes:
  - Ballantyne (dairy ingredients, through Far Eastern Impex
  - Heat & Control (snack manufacturing equipment, through Far Eastern Impex).
- There are also Australian companies operating in other sectors including:
  - C-Cor Pty Ltd (Information technology)
  - Blackmores Pty Ltd (Health Supplements, through Base-6 Ltd)
  - Alluvium Consulting (Water management consultancy)
  - Pierlite Pty Ltd (Light fittings and assembly)
  - Cochlear (hearing implants)
  - The Smith Family (used clothing
  - SMEC International (project management, roads, construction).

Trade Policy Focus

- Pakistan uses tariffs on imports and non-tariff barriers to protect domestic industries from foreign competition. It subsidises exports of key commodities such as sugar.
- Bureaucracy and red tape are a hindrance to trade. According to the World Bank, Pakistan's high duties on imports constrain competition, and Pakistan's tariff posture generates an anti-export bias, giving local firms strong incentives to sell domestically where they are sheltered from competition.
- The government released a National Tariff Policy in November 2019, which recognised that high tariffs had created an anti-export bias, manufacturing inefficiencies and global competitiveness issues. However, it also noted tariffs could have a role in protecting industry and employment, improving the balance of payments, raising revenue and safeguarding developing sectors.
- The policy aims to remove anomalies in the tariff structure and employ tariffs as an instrument of trade policy rather than revenue generation.
- Pakistan has bilateral free trade agreements with China, Malaysia, Sri Lanka, and preferential trade agreements with Iran, Mauritius and Indonesia. However, Pakistan's use rates are low. Pakistan is a member of the regional South Asian Free Trade Area (2006). Pakistan joined the WTO on 1 January 1995 and GATT on 30 July 1948. It extends Most Favoured Nation status to all WTO members except India and Israel.

Insight current as at December 2020.