



## Unlocking Markets: Assessing Pakistan's Trade Potential with Gulf Cooperation Council Members

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**Abstract:** This study examines the trade potential of Pakistan with the countries of the Gulf Cooperation Council (GCC). Trade potential is estimated using the RCA (Revealed Comparative Advantage) index technique, utilizing HS-8 tariff line level data from 2007 to 2021. Our findings identify 102 products at the tariff line where Pakistan enjoys a comparative advantage. These products span various sectors, including copper, iron, steel, minerals, wood, pharmaceutical, paper, tobacco, sugar, and plastic. Furthermore, the paper discusses the trade hindering effect of factors such as the absence of effective trade agreements, shortage and high energy prices, and other high input costs.

**Keywords:** Trade potential, Pakistan, Gulf Cooperation Council, HS-8, revealed comparative advantage.

**JEL Classification:** C61, F10.



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## 1. Introduction

International trade theories have evolved from analyzing theories of barter, mercantilism, absolute advantage, the factor proportion (Heckscher-Ohlin) model, and comparative advantage. The primary aim of these models is to maximize the gain derived from international trade. Countries are increasingly connected through different agreements to augment trade and other economic activities (Ahmed et al., 2021; Anderson et al., 2018).

To increase the gains from trade, the historically good relationship between the Gulf Cooperation Council (GCC) and Pakistan makes the GCC a potential destination for Pakistan's exports. Pakistan and GCC member economies are rooted in both religious affinity and economic ties. Pakistan provides GCC members with military services, cheap labor, and agricultural products. Nevertheless, Pakistan is heavily reliant on oil imports, remittances, and financial aid from GCC members (De Cordier, 2013). To put this into perspective: roughly 3.68 million Pakistanis work in the GCC countries, contributing to remittances inflows back home. According to the State Bank of Pakistan (SBP, 2023), Pakistan received US\$16.95 billion from Gulf countries, which is 54.1 percent of its total remittances in the fiscal year 2022.

Furthermore, over the five-year average for the period 2016-2020, Pakistan exported 7.85 percent of its total exports to GCC countries; among them, the United Arab Emirates (UAE) accounted for the highest share at 58 percent of this, followed by Saudi Arab (22%), Oman (8%), Kuwait (5%), Bahrain (4%), and Qatar (3%) (ITC, Trademap, 2022). Pakistan primarily exports *halal* food products, which GCC member economies typically import.

Pakistan is one of the top five exporters of agricultural products to GCC member states. The country is the leading rice exporter to the GCC members (Kodithuwakku et al., 2016). In regards to the textile industry, Pakistan has shown to enjoy a comparative advantage relative to other Asian economies, indicating further potential to improve its exports to the global market (Shahab & Mahmood, 2013).

As the 23<sup>rd</sup> largest economy (based on purchasing power parity), Pakistan can benefit even more from trade with Gulf countries, which contribute over \$1 trillion to international trade (ITC Trademap, 2022).

However, the country faces a \$15bn trade deficit with the GCC, as Pakistan exports commodities worth \$2.34 billion to the GCC while importing \$16.9 billion worth of goods (Trademap, 2022). Chishti et al (2008) explored Pakistan's trade imbalance since 2005, which is primarily caused by increased oil imports from the GCC countries. Javed et al. (2012) analyzed the impact of international trade on the economic growth of Pakistan, indicating the potential for prosperity through increased exports. By revitalizing its trade with GCC, Pakistan can potentially stabilize its economy as well as receive substantial benefits. Notably, 26.8 percent of Pakistan's exports complement GCC imports, showing potential trade synergies (Amir & Abbas, 2022).

Despite the enormous potential, however, statistics indicate that Pakistan has been consistently experiencing a trade deficit with GCC members, with said deficit appearing to grow over the years (ITC Trademap, 2022). This widening trade deficit could in theory be lessened by increasing Pakistani exports to GCC member countries.

Given this backdrop, therefore, the paper aims to identify various products that GCC members import from the global market but not from Pakistan, despite such products falling under the purview of Pakistan's top twenty exporting industries.

The rest of the study is structured as follows: The following section will shed light on the available literature. Section 3 discusses the theoretical framework, methodology and data sources. The results and discussion are presented in section 4. The final section presents conclusion with implications for future directions.

## **2. Review of the Literature**

The Revealed Comparative Advantage (RCA) index has proven to be a valuable tool for measuring comparative advantage and has been extensively applied in the empirical literature to learn trade patterns and assess product specialization across countries. This methodology is widely used due to its feasibility, flexibility and reliability (Sharma & Dietrich, 2004; Utkulu and Seymen, 2004; Uchida & Cook, 2005; Nesterenko, 2006;

and Chaudhary, 2016; Gnidchenko & Salnikov 2015; Stellan & Danna-Buitrago, 2019).

Regarding global studies, Bender and Li (2002) studied the manufacturing export performance of some selected Latin American and Asian economies by using the RCA index. The study revealed that East Asian countries are losing their comparative advantage in exports to Latin America and Southeast Asia. Similarly, Acharya (2008) used the RCA index to study the trade patterns of seven developed economies encompassing 80 percent of world exports. Likewise, Seyoum (2007) found the comparative advantage of developing countries in the services sector, using the RCA index. The results suggest that trade liberalization is weakening the comparative advantage of developing countries.

Pertaining to regional studies, Kodithuwakku et al. (2016) studied the export potential of SAARC to GCC countries in agricultural products at different HS levels. The study shows that India and Pakistan stood among GCC's top five exporters of agricultural products as of 2016. Siddiqi et al. (2022) studied the trade potential of Pakistan with SAARC countries and identified advantages in the export of food, live animals, and certain manufactured goods. Similarly, Kamal et al. (2020) evaluated trade between ASEAN and Pakistan and found that Pakistan enjoys the highest comparative advantage over ASEAN in various commodities, with further trade potentiality. Rashid et al. (2022) analyzed Pakistan's top five exporting industries (textile and clothing, engineering goods, agro-food, manufacturing goods, minerals and metals, and leather) with its top 11 trading partners. The findings indicate that the highest potential for exports lie in the clothing and textile industry while the lowest in the transportation industry.

Regarding Pakistan, Alam et al. (2013) utilized the RCA index for Pakistan and revealed comparative advantage in commodities such as textiles, clothing, cotton, footwear, leather, dairy and agricultural products, pharmaceutical products, and minerals. Besides, Shahab & Mahmood (2013) evaluated Pakistan's trade specialization in the leather industry in comparison to other Asian countries, finding Pakistan had an advantage in this sector. Yasmin and Altaf (2014) used RCA to evaluate the competitiveness of the Pakistani textile floor coverings and carpet industry with other South Asian countries including India and China using data from 1996-2009 and 2004-09, respectively. The study found that China has a competitive edge in this industry, indicating the necessity for Pakistan to strengthen its own trade competitiveness.

Regarding trade with GCC countries, Alam et al. (2013) analyzed Pak-Saudi trade relations, identifying that Pakistan exports apparel, cloths, textile, woven fabrics, footwear, cotton, and rice, while Saudi Arabia primarily exports petrochemical products, oil, and fertilizers to Pakistan. Mahmood & Nishat (2004) investigated the export specialization of Pakistan's non-agriculture production sector from 1990 to the 2000s. The study identified the shift in comparative advantage from traditional labor-intensive production to the export of technology-based non-agricultural products.

Abbas & Waheed (2017) applied RCA to investigate the competitiveness of Pakistan's manufacturing and agriculture sector at the HS-2 level of data. The study found that Pakistan needs to give special attention to the worsening specialization in labor-intensive industries such as textiles. The studies of Yasmin & Altaf (2014) and Shahab & Mahmood (2013), have identified products at HS2, HS4, and HS6 levels in order to pinpoint a comparative advantage for Pakistan over other countries. However, this study has identified the exports of Pakistan, which Gulf countries import from the international market but not from Pakistan at the tariff line.

The paper aims to bridge gaps in the literature in two ways: firstly, by focusing on trade potential at the HS-8 level to examine the product that GCC countries import globally but not from Pakistan. Secondly, it provides a comprehensive analysis covering all six countries GCC countries to analyze trade potentials between Pakistan and the GCC.

### **3. Theoretical Framework Methodology and Data**

Adam Smith's (1776) absolute advantage theory challenged the mercantilist view, which later evolved with Ricardo's concept of comparative advantage. According to Ricardo, countries can trade even if one country has an absolute disadvantage in producing both commodities. Later, the comparative advantage was further extended with the introduction of Revealed Comparative Advantage (RCA). Liesner (1958) and Kojima (1964) contributed significantly to measuring comparative advantage through indices and analyzing trade patterns. However, Balassa (1965) introduced the term "Revealed Comparative Advantage" and presented a methodology to measure relative export performance.

The RCA index has become the most widely used measure of comparative advantage in empirical research. Several studies have used the RCA index to assess products patterns of comparative advantage across countries and regions (Balance et al., 1987; Moyi & Kimuyu, 1999;

Richardson & Zhang, 1999; Proudman & Redding, 2000; Ferto & Hubbard, 2002; Kaitila, 2007; Ahmed & Masood, 2021).

The index used for the measurement of comparative advantage is given as:

$$RCA_{cg} = \frac{\frac{E_{cg}}{E_{gw}}}{\frac{E_{ct}}{E_w}} \quad (1)$$

where  $\frac{E_{cg}}{E_{gw}}$  shows the country's exports of product  $g$  under consideration by the world exports of the same in USD terms and  $\frac{E_{ct}}{E_w}$  shows the proportion of the country's total exports by world total exports in USD. Here,  $E$  represents exports in US dollar terms,  $c$  is a country,  $g$  is a commodity (or industry), and  $w$  represents the world.

Furthermore;

$E_{cg}$  = Exports of product  $g$  from country  $c$  in USD.

$E_{gw}$  = Product  $g$  world exports to the country under consideration in USD

$E_{ct}$  = Country  $c$  total exports in USD

$E_w$  = World total exports in USD

The data for this paper was extracted from ITC Trade Map at the tariff line on Pakistan and GCC member economies, from 2007 to 2021. We use the ITC data source because of the availability of all data at the Tariff line / HS-8 level. Further to this, the aggregated and disaggregated data at ITC is up-to-date and can be easily retrieved for an extended time series. Additionally, World Integrated Trade Solution (WITS) and OEC (The Observatory of Economic Complexity) have been used as secondary data sources for validating the total export data retrieved from ITC.

The Harmonized System (HS) classification system allows member countries to classify traded goods that share common factors, for customs purposes. It comprises roughly 5,300 articles arranged in 99 chapters and grouped into 21 sections. The six digits can be split down into three categories, as the first two digits (HS-2) show the chapter in which goods are classified, the next two digits (HS-4) show the groupings within that chapter, and the next two digits (HS-6) shows further details in that category. All countries classify products similarly to the HS-6 digit level (a few exceptions exist where some countries apply previous versions of the HS<sup>1</sup>). The HS-8 level classification is done at the tariff line.

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<sup>1</sup> <https://unstats.un.org>

The top twenty exporting industries of Pakistan accounted for 87 percent of the total exports of Pakistan<sup>2</sup> and the top twenty importing industries of GCC in terms of US\$ were identified at HS-2. Once the identification at HS-2 had been carried out, we analyzed the top industries of GCC where they are importing from the world but not yet from Pakistan. The study has not considered those industries in which the bilateral trade between Pakistan and GCC member is already operational. After identifying particular industries, a more detailed analysis is done at the tariff line, i.e. HS-8, in calculating the RCA Index.

#### 4. Results and Discussions

Based upon trade data for 2022, it is evident that GCC member countries import only 0.55 percent of their total imports from Pakistan (Trademap, 2023). To leverage its exports to GCC countries, Pakistan needs to focus on the 102 products<sup>3</sup> identified in the study at the HS-8 level.

Table 1 highlights the main categories of the products in which Pakistan has revealed a comparative advantage in exporting to the Gulf countries.

**Table 1: Summary of for Export Potential product of Pakistan to GCC Members**

Code	Product	Pakistan Export Potential to the GCC Members					
		Bahrain	Kuwait	Oman	Qatar	Saudi Arab	UAE
HS-17	Sugars and its Confectionery	✓	✓	--	--	--	--
HS-24	Tobacco and Substitutes	--	--	--	--	--	✓
HS-25	Salts, Plasters, Lime and Cement	--	✓	--	✓	--	--
HS-30	Pharmaceutical Products	--	--	✓	--	✓	✓
HS-39	Plastics and Articles Thereof	--	✓	--	--	--	--
HS-44	Wood and its Articles	--	--	--	--	✓	--
HS-48	Paper and Paperboard	--	--	--	--	✓	--
HS-72	Iron and Steel	--	✓	✓	--	--	--
HS-73	Articles of Iron or Steel	✓	--	--	✓	✓	--
HS-74	Copper and its Articles	--	--	✓	--	--	✓

*Source:* Authors' own calculations based on RCA indices.

<sup>2</sup> <https://www.trademap.org/countrymap/>

<sup>3</sup> Details of RCA calculation for the said products can be provided on request.



Pakistan possesses a robust capacity to export agricultural products, thanks to a 25 percent surplus in agro-products. The agro-product surplus opens up opportunities to export sugar (17) and its products to Bahrain and Kuwait. It is important to mention that Pakistan is ranked the ninth largest sugar producer globally<sup>4</sup>. Furthermore, the country has a comparative advantage in exporting white chocolate, sugar confectionery, chewing gum, lactose, and sugar and syrup to these countries.

Regarding paper (48) and wood (44) products, Pakistan has a comparative advantage in exporting to Saudi Arabia. Saudi Arabia lacks farm production and heavily relies on other countries to fulfil its agri-based needs, making it an attractive export market for wood and paper products. Moreover, at the HS-8 product level, the particular advantage lies for Pakistan in coated paper, non-printed paper, paper sacks and bags, account books and pads, cartons, boxes and cases, handmade paper, sacks and bags, folding cartons, blotting pads, other articles of paper and notebooks. Similarly, in wood products, the country has an advantage in wood tables and kitchenware, plywood, articles of wood, wood marquetry and inlaid wood, and wooden frames.

The United Arab Emirates (UAE) presents an opportunity for Pakistan to export tobacco (24), as Pakistan is one of the top producers of tobacco products globally. Pakistan has a comparative advantage in all tobacco variants, such as stripped, unstripped, chewing tobacco, and cigarettes, which are also in high demand in the UAE market.

The cement industry of Pakistan is among the world's top cement-producing industries<sup>5</sup>, and Pakistan is the world's 12th largest exporter of cement<sup>6</sup>. In addition, the country also produces salts, plasters, and lime (25). Qatar and Kuwait are the two potential markets for exports of cement, barium sulphate, salts, denatured salt, marble and travertine, table salt, clays, and barytes.

In the pharmaceutical industry, Pakistan has a comparative advantage in exporting to Oman, Saudi Arabia and the UAE. The country also has the potential to export vaccines, bandages, medicaments, antibiotics, unani, ayurvedic, blood, acrynol pads, adhesive dressing articles, first aid boxes, and veterinary vaccines.

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<sup>4</sup> "Pakistan sugar," Trade Development Authority of Pakistan.

<sup>5</sup> [minerals.usgs.gov/minerals/pubs/country/](https://minerals.usgs.gov/minerals/pubs/country/)

<sup>6</sup> <https://oec.world/en/profile/bilateral-product/cement/reporter/pak>

Pakistan has an advantage in exporting several plastic products, and certain GCC countries also import them. Because of this, Pakistan has the potential to export plates, conveyance goods articles, plastics articles, polymers, self-adhesive plates, unworked plates, plastic tables, kitchenware, clothing accessories, washroom accessories, foil and strip, household articles, and polymers of ethylene to Kuwait.

As the world's 15<sup>th</sup> largest producer of iron and steel<sup>7</sup>, the country can potentially export iron and steel (72) to Kuwait and Oman. This includes products like bars and rods of steel, flat-rolled steel, non-alloy pig iron, steel alloy, ferrous products of iron, iron or non-alloy steel.

Regarding the articles of iron and steel (73) category, Pakistan leverages its comparative advantage in exporting a wide range of products to Saudi Arabia, Qatar and Bahrain. This includes forged/stamen-work, metal containers, wire, rope and cable, iron or steel wire, kitchen/household articles, steel baths, sanitary ware, iron pipe fitting, cooking appliances, iron table and kitchen articles, iron or steel wool, scaffolding equipment, threaded iron/steel articles, pipes, containers, towers and lattice masts, structures iron or steel, tables, threaded screws and bolts, other articles of iron or steel, helical springs, cans of iron or steel, self-tapping screws, and structures.

Moreover, copper and its articles (74) are included in Pakistan's top exports. Pakistan has a revealed comparative advantage in this industry and can export sanitary ware, copper and alloy, brass scrap, brass, copper articles and kitchen and house articles to UAE.

These opportunities reflect Pakistan's untapped potential and opportunity to strengthen its exports to GCC countries and capitalize on its comparative advantages in different product categories.

Table 2 provides a fact sheet on an overview of potential export industries from Pakistan to GCC member economies. Each tick mark  $\checkmark$  denotes that the respective member country imports products from that sector in Pakistan. The x signs indicate that the member economy does not import those specific products from Pakistan, but they are imported from another market. The dash mark - denotes that the member economy may import those products globally, but they do not rank in their top twenty imports. For instance, in the case of Oman, the potential exports for

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<sup>7</sup> <https://blog.mwpcnp.com/the-complete-guide-to-the-iron-and-steel-industry-in-pakistan>

Pakistan lie in pharmaceuticals, iron and steel industry and products of copper and articles thereof. The potential export industries for every member economy vary and can be checked through cross-sign.

**Table 2: Fact Sheet of Potential Industries for Exports to GCC Members**

Top Twenty Exporting Industries of Pakistan	Imports from Pakistan						Imports from the world					
	Oman	Qatar	Kuwait	Bahrain	Saudi Arabia	UAE	Oman	Qatar	Kuwait	Bahrain	Saudi Arabia	UAE
Textile Articles	√	√	√	-	√	√	-	-	-	-	-	-
Cotton Knitted Clothing	-	√	√	√	√	√	-	-	√	-	-	√
Un-knitted Clothing	√	√	√	√	√	√	-	-	√	-	-	√
Cereals	√	√	√	√	√	√	√	-	√	-	√	-
Leather Articles	-	√	-	-	√	√	-	-	-	-	-	-
Sugar	-	-	x	x	√	-	-	-	√	-	-	-
Optical, photographic	-	-	-	-	-	-	-	√	√	-	√	√
Fishes	-	√	-	√	√	-	-	-	-	-	-	-
Minerals	√	x	x	-	-	√	√	√	√	√	√	-
Beverages & Spirits	-	-	-	-	√	-	-	-	-	-	-	-
Tin & Articles	-	-	-	-	-	-	-	-	-	-	-	-
Plastics	√	√	x	√	-	√	-	√	√	√	-	√
Pharmaceuticals	X	-	-	-	x	x	√	√	√	√	√	√
Iron and Steel	X	x	x	x	x	-	√	√	√	√	√	√
Paper Articles	-	-	-	-	x	-	-	-	√	-	√	-
Copper and Articles	X	-	-	-	-	x	√	√	-	-	-	√
Tobacco	-	-	-	-	-	x	-	-	-	√	-	√
Dairy Products	√	√	√	√	√	√	√	√	√	√	-	√

**Note:** The tick mark denotes that the respective member country imports the products from Pakistan. The cross sign indicates that the GCC member does not import the product from Pakistan, but from the other markets. The dashed sign denotes that the member economy may import those products globally, but they do not rank in their top twenty imports.

However, the aforementioned trade potential has not been tapped, owing to the absence of any trade agreement with Gulf countries. Although some proposed agreements are under consideration, they have not been finalized. As a result, the volume of trade is low. India, on the other hand, has a framework agreement with GCC. Similarly, GCC countries have trade agreements with other countries. Besides trade agreements, there is a paucity of marketing strategies which makes the exports lackluster and

consequently, no one takes an interest in the exports of the country. Furthermore, red tape is another obstacle. The mismanagement and corruption of high authorities also force the importer to import from other countries, which are easily assessable at a lower cost (National Tariff Commission, 2015).

## **5. Conclusion and Recommendations**

This study attempts to assess the revealed comparative advantage in exporting specific products (at the HS8 tariff line) to GCC countries. The study identified products that the GCC import from the world market but not from Pakistan, using the top twenty exports and imports products of Pakistan and GCC.

Pakistan has revealed comparative advantage in exporting sugars and its confectionery (17) to Bahrain and Kuwait. For tobacco and substitutes (24), Pakistan has revealed a comparative advantage in exporting to the United Arab Emirates. In the category of salts, plasters, lime and cement (25), Pakistan has revealed comparative advantage in exporting to Kuwait and Qatar. In regards to pharmaceutical-related products (30) the country can maximize its export potential to Saudi Arabia, UAE and Oman. Furthermore, Pakistan has a potential in plastics and its articles (39) to Kuwait. For wood and its articles (44) and paper (48), Pakistan can potentially export it to Saudi Arabia.

Additionally, Pakistan can export iron and steel (72) to Kuwait and Oman. Similarly, in iron or steel products (73), Pakistan can potentially export to Qatar, Saudi Arabia and Bahrain. Likewise, the country has also export potential for copper and its articles (74) to Oman and the UAE.

A number of factors have hampered Pakistan's export potential, such as the lack of trade agreements in the region, lack of export awareness and strategies, and institutional rigidities contributing to the region's low exports, among others.

To address these challenges and strengthen Pakistan's export potential and trade relations, Pakistan can sign trade agreements with GCC countries to improve bilateral trade and enhance its export competitiveness in the market. Pakistan needs to strengthen service delivery in formal and vocational education through increased investment in research and development. Pakistan's commercial and foreign policies should be more focused on designing and implementing new trade agreements. Moreover,

Pakistan needs to establish effective trade offices and need-based market research centers inside and outside Pakistan.

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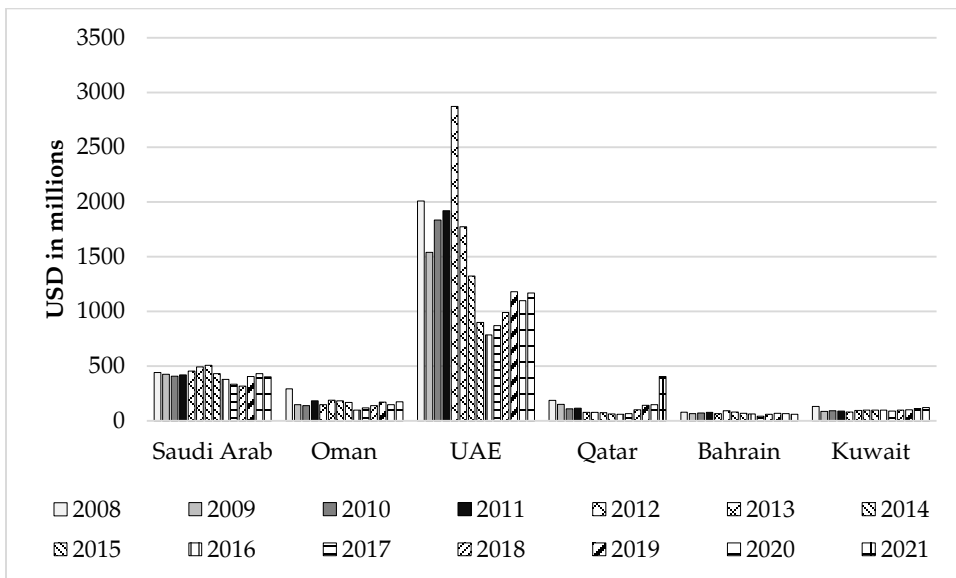
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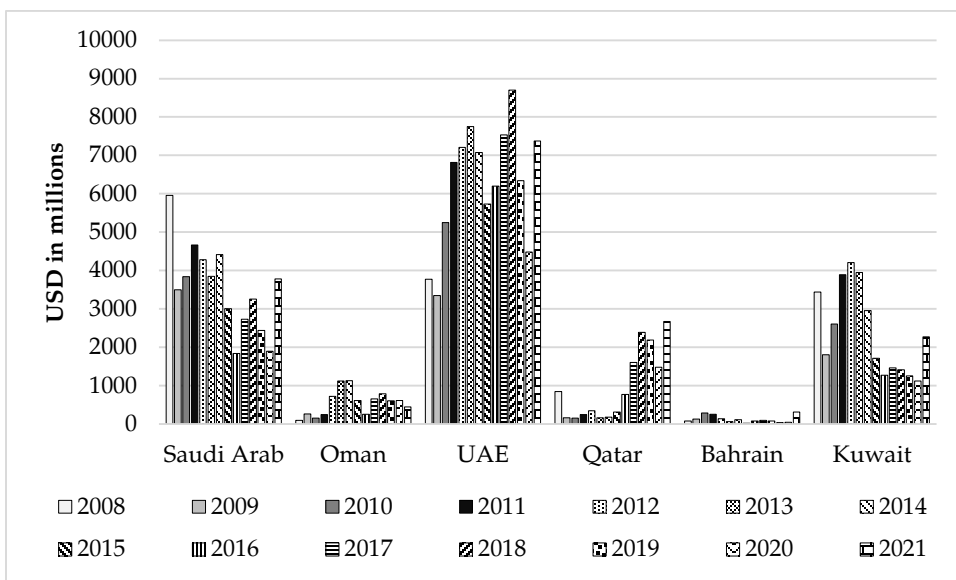
Appendix

Figure 1: Pakistan's Exports to GCC Countries



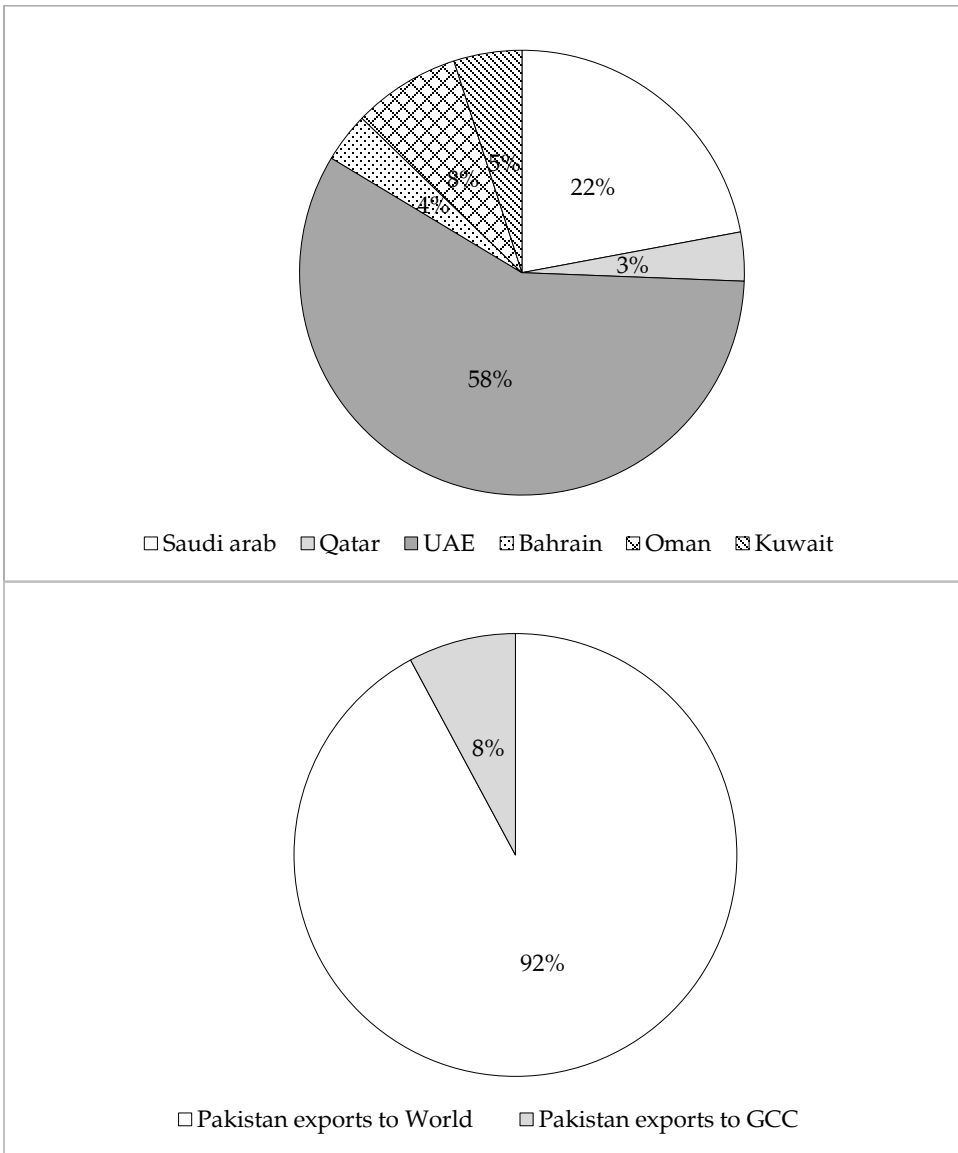
Source: ITC, Trade Map

Figure 2: Pakistan's Imports from GCC Countries

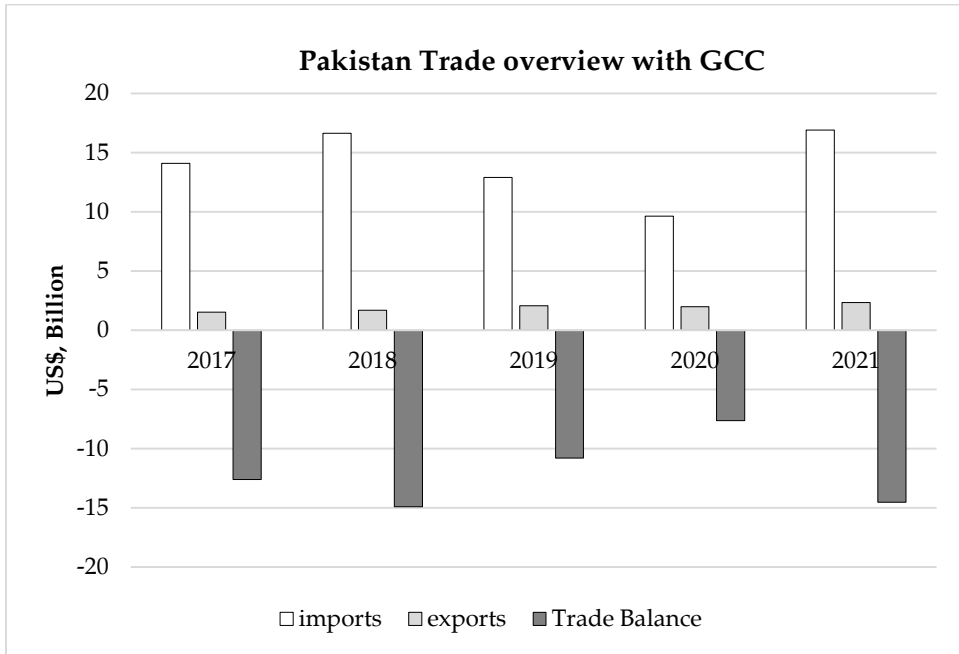


Source: ITC, Trade Map

**Figure 3: Pakistan Exports to the World and the Share of GCC**



Source: ITC Trade Map

**Figure 4: Pakistan Trade overview with GCC**

Source: ITC Trade Map