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The implications of Brexit and Pakistan's current trade policies

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As time passes, it becomes clearer that Brexit is not going bring positive changes to existing international trade patterns in the short-term. Empirical studies suggest that Brexit will cause backdrop in economic growth both in the medium- and long-term, and both for the European Union nor for the United Kingdom. In the light of the contemporary trade policies of the US administration (if there is any), Brexit becomes even less attractive. Though "trade war" may be a bad jargon and highly epitomized as an exaggeration of what is happening, the reality is that hard-headed neighbourhood negotiation tactics and international business relations do not always march hand in hand. Celebrating battle victories is both ingenuous and misfortunate. In return, especially in the light of the very recent EU Council conclusions, the otherwise careworn European economic bloc will not sit around either: America can confidently count on selective tariffs, legal disputes in the WTO, and reinforced attention to bilateral trade deals with countries around the world. The July meet between Presidents Juncker and Trump bring little change into that.

In such an unfriendly environment, for the UK, the prospects to strike immediate trade deals with the US or anybody else, seems more challenging. Furthermore, we, at this point, have little idea about the future of EU/UK economic relationship and under the current time limits of the negotiation process, it is unlikely that without an extension, sensible long-term strategic relations can already be planned. Negotiators on both sides, for different reasons though, struggle with even outlining a common agreement, let alone laying down the specifics of the would-be final arrangements. Prime Minister Theresa May has deep disagreements within her own cabinet and the EU, logically, does not want to give in on anything, whether it is mutual recognition, border control or citizens' rights. Light-handedness could potentially play cards to the hands of populist leaders who are no strange to advocate against EU membership. Level-headed and sensible regional economics, stable regional growth, frictionless move of goods and people that is. A mass of phenomena that are beneficial to Pakistan, too.

For Pakistan, turbulent global economic relations are trends to track as much as is international security. The mounting Chinese influence in the region is evident. Rightfully, many would argue: the ever-growing economy is a neighbouring state, its investing in the CPEC, which will bring about a reborn, flourishing economy in Pakistan. It also provides a close-by, fat market to sell products on and to take advantage of. At least, according to the mainstream political and short-sighted economic arguments.

Many tend to forget that Pakistan's trade balance has been negative since 2003, and this drift is continuing. It hit a record time low in January 2018. This means that the country imports more than what it sells abroad, in other words, it is dependent on what other countries sell to it. Though import-dependency is a phenomenon of almost any developing country, being in the hands of foreign investors and trading partners is hardly ever a sign of the brightest future, especially in economies where social safety nets are missing, the population is growing at a great speed, while education is not accessible to everyone. Culturally or socially. For Pakistan, in particular, having to rely on imports means that the country is more exposed to the external vulnerability of processed commodities and food (value-added items), and articles that are indispensable in a modern economy (ships, car, trucks, airplane) also come from abroad. While textile imports are also growing, an increasing population can hardly exist without the entry onto the market of the above elements. Overall, in 2018, we cannot moan for the return of the pre-industrial era.

In relation to China, Pakistan's main export products are cotton and rice: both products are highly water-intensive, of which Pakistan has limited quantity. Both are also what is called "primary products", the foreign sale of which adds little value to the local industries, small and medium sized companies in particular. According to the World Development Indicator, value addition in manufacturing hit a record-low 12.7%, since 1962. Difficult to argue that this is a sustainable long-term business strategy, nor that this is desired. Otherwise, the country's trade balance with China is negative, and this gap is also widening.

Pakistan seems to be more and more dependent on Chinese products, which are predominantly textile and electronic equipment. One could even go as far as to argue that the primary input products that Pakistan sells to China find their way back to Pakistan with Chinese added value.

On the other hand, the European Union is Pakistan's number one trading partner, thanks for the GSP+ status of the country given by the EU. Under the "general system of preferences plus" scheme, Pakistan can export a great deal of goods to the EU without tariffs or quotas. Contrary to China, Pakistan's trade balance with the EU is positive (EUR 6689m vs 6149m, in 2017), and it has been so for the past seven years. In other words, the country "makes money on its EU-trade". Trade between the two blocs has been growing by 10.2% since 2010, and 15-20% since the introduction of the GSP+ status in 2014. According to European Commission data, the EU is also responsible for 25% of the foreign direct investments in the country.

Yet, Pakistan is only the EU's forty-second trading partner, being responsible for only 0.3% of EU exports and 0.4% of EU imports. The country's industry 4.0 strategy is rather a myth, too, while it desperately needs a reformed approach to foreign investments in order to boost ventures in local businesses and provide - at least - the masses of youth entering existing or new labour markets.

But there are potential trade breaks to exploit vis-à-vis the EU: the fastest growing imports to the European Union are minerals, electronic components, pharmaceuticals and automotive products. Some of these areas is growing with triple digits, thanks to the preferential system, which has just been reaffirmed earlier in 2018. Pakistan has a chance (and should) take advantage of these success stories by revisiting its foreign trade policies. Not only at governmental level, but directly, business-to-business. Many of the businesses still seem to hold the somewhat twisted view that the EU is far away and is not worth trading with it. The numbers, however prove different. Manufacturing industries could and should also be diversified: the country has a successful IT-industry, yet because of laggard regulatory follow-up the already existing opportunities are faintly cajoled.

A word of warning, though: Pakistan's main trading partner in the European Union is the United Kingdom. All the advantages could and likely will change after Brexit. Businesses and business politics should start establishing relationships in other member states because the GSP+ scheme will likely not apply to the UK. Also, the country will lose its main protector within the bloc. Should this mean that - again - there is no future in trade with 430 million people, under exceptionally special conditions? By no means. But it means that the route needs to be redesigned.

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