



Pre-empting US Trade Sanctions Against Pakistan

Briefing Paper
October 2017

© 2017, CommandEleven. All rights reserved.

REPORT AUTHORS

“Pre-empting US Trade Sanctions Against Pakistan” was written and researched by Imran Siddiqui, a Contributing Research Fellow at CommandEleven.

ABOUT COMMANDELEVEN

CommandEleven is a private intelligence firm, based in Pakistan, with assets, analysts, and researchers offering apolitical analysis on topics such as security, geopolitics, defence and espionage. CommandEleven’s intelligence covers Afghanistan, Pakistan and Kashmir.

CommandEleven, founded in 2015 as a think tank and policy advisory, with the objective to democratize intelligence, simplify its understanding and real-life application, while offering guidance to governments, agencies, media and private organization.

CommandEleven continues to inform and guide public policy and decision makers in government, business and military through a rigorous program of publications, conferences, digital medias, policy briefings and recommendations.

Visit <http://commandeleven.com> for more information or contact info@commandeleven.com.

INTRODUCTION

Geo-political alliances and partnerships are always based on mutual benefit where stronger party will always have a larger share of pie.

Pakistan's relationship with the USA is no different, but it reached a historically low point because the USA is demanding the entire pie. Well, too bad, so sad.

Pakistan has found a new partner in China.

Pakistan is also working on a stronger relationship with Russia and regional players like Iran.

Is this enough though?

No, *Pakistan can't be fully dependable on China and Russia either, and MUST have strong trade relationships with countries like Canada, Brazil, Germany, and other strong economies.*

Good relations between two countries are based on trade and economic benefit for both parties. Economic and trade viability of a relationship plays a key factor in:

- determining the strength of a relationship and
- how the countries can work together in fending off threats to their interests at a global scale.

The Trump administration has alleged that it believes CPEC is going through disputed territory. This statement is just the tip of an iceberg as it could be a prelude to trade sanctions/restrictions on Pakistan. It is time to act fast and find trading partners in order to preempt trade sanctions by the USA.

CURRENT TRADE WITH THE USA

The current bilateral trade with the USA is at \$5.5 billion. Pakistan exports are at \$3.4 billion in 2016, down by 7% from 2015 and 6% from 2006. Pakistan exports textile, knit apparel, woven apparel, leather products, cotton, bev basses, spices, fruits, vegetables, rice, grains and sugar.

Pakistan imports include machinery, aircraft, cotton, iron and steel, soybeans, cotton, dairy products and coarse grains. These imports from the USA total approx. \$2.1 billion.

Problem – Consider a scenario where Pakistan is not able to sell its product to the USA.

What will Pakistan do? Is there an alternate market for \$5.5 billion worth of trade?

Yes, but Pakistan has yet to explore such options. Besides trade, Pakistan will need friends at the UN and other forums that will help in countering any unjust pressure.

Strategy - Pakistan can't remain in a perpetual mode of exporting its products without importing products/ goods and services from other countries.

Pakistan needs to leverage its strengths and diversify its trade with new markets. It is time that Pakistan take advantage of a 200 million strong consumer market for foreign products along with business connections of overseas Pakistanis that will eventually help in securing foreign investment and significant growth in exports.

There is stiff competition in global trade and without importing products from other countries, Pakistan will not be able to increase its exports. In addition to import of products, Pakistan will need to ensure ease of business and favorable tariff to attract more trade partners.

WHY CANADA?

A trade relationship that needs to be improved is Pakistan's relationship with Canada. One of the many strengths of Pakistan are the strong consumer market of 200 million plus vibrant citizens, another strength is the overseas Pakistani community that is playing a key role in growth of many economies around the globe.

My focus on Canada is due to the following reasons:

- New NAFTA agreement may have a negative impact on Canada's trade with the USA and it will be in mutual interest of Pakistan and Canada to improve bilateral trade
- Canadian government is exploring new venues of trade globally and has shown interest in Pakistani markets
- There is a strong Pakistani-Canadian community in Canada (approx 160K+, specifically in Toronto (approx. 140K+), that is willing to play a role to further improve trade between the two countries
- Pakistan is looking for new partners that will help increase trade and also help in fighting any attempts to isolate Pakistan
- Canadian government holds a favorable opinion of Pakistan as compared to their cousins south of the border

Both Pakistan and Canada has much to gain from a stronger relationship, specifically in trade, and it can help balance their relationships with other partners around the globe.

CURRENT TRADE WITH CANADA

The trade between Pakistan and Canada stands at \$1 Billion. As per the High Commission of Canada in Pakistan:

"As of 2015, Pakistan is Canada's 41st largest export destination for services and 34th largest export destination for merchandise trade. In that same year, Canada-Pakistan bilateral trade reached \$1.044 billion with Canadian exports to Pakistan at \$693 million and imports at \$351 million. Opportunities for Canadian companies exist in infrastructure, information and communication technologies, mining, energy, oil and gas, and the agri-food and wood sectors."

The trade balance is in favor of Canada as the Canadian exports are more by \$342 million. The imports from Pakistan form .07% of total Canadian imports and the imports from Canada form .23% of total Pakistani imports.

NON-TRADITIONAL OPPORTUNITIES

Both Pakistan and Canada will benefit from the export of non-traditional items to each other. Here is a list of some opportunities that are possible between Pakistan and Canada.

PAKISTAN

CPEC

Canada was the first western country to recognize China but till date it remains the fourth exporter of goods and services to China. The Canadian government is keen in significant trade increase with China. The CPEC project is an attractive investment for Canada as it offers a shorter route to Canadian products to Central Asia and Western China. In addition, CPEC also offers new markets in Central Asia for the Canadian products.

On the other hand, Pakistan and China will significantly benefit from having a world leader like Canada as part of a partner in CPEC. Pakistan must leverage the relationship with China and the relationship between China and Canada to pursue Canadian investment, whether government/ public or private, in CPEC.

IT exports

A strong marketing campaign along with deliverables will be required for Pakistan to establish itself as a dependable IT services provider/ exporter. The Government of Pakistan can also request all businesses exporting goods and services to Pakistan to consider using some IT services offered by Pakistan. A Consulate General that is connected with the community can achieve a lot. Pakistani-Canadians need active support and participation from the Consulate General to conduct IT Road Shows, forums and to engage the Canadian business leadership that can lead to more IT exports from Pakistan. It is a long road but the investment is completely worth it.

Defense

Pakistan is looking to increase its defense exports to \$100 million but the target market is limited to select countries. This mindset has to change and marketing strategies need to be formed. As per SIPRI Trend Indicator, Canada imported approx. \$258 million worth of defense equipment. It is likely that most of it is from the USA.

Pakistan need to partner with Canadian companies to understand the needs and import/export laws in Canada. Pakistan also need to think outside of large orders and focus on small defense related equipment that can help foster a relationship that eventually becomes mutually beneficial.

Defense exercises and training could be a good start. Both countries can benefit from each other's expertise in counter-terrorism, COIN, Maritime Security, Police training and Drug Enforcement.

CANADA

Bombardier

One company that can provide a win-win result for all stakeholders is Canada based Bombardier, a leading manufacturer of trains and planes. It is under tremendous pressure from the US government because the US government has alleged that Bombardier has sold planes in the US at below cost thus hurting the business of Boeing (a US company).

Bombardier is facing 300% in duties as penalties from the US government.

Bombardier provided the latest railway signals for Pakistan Railway and can provide commercial and business jets, Aerostructures and engineering Services, rail vehicles, bogies, propulsion and controls, and rail control system. Besides Pakistan, their customers include China, India, Australia, Indonesia etc. This means that Bombardier can provide state of the art product at an affordable cost.

It can be a win-win situation for Pakistan, Canada and Bombardier if Pakistan is able to place orders for commercial jets and other products etc. for PIA and Pakistan Railway respectively. The Canadian government can provide subsidy along with suitable payment terms from Bombardier that would help Pakistan to own best product at an affordable cost.

Services

Canadian government is very keen in increasing exports of Canadian services. What are Services? Training, education and consulting etc. This is a great opportunity for Pakistan to engage Canadian public and private sector firms for training of Pakistani bureaucracy. The Canadian government may even help by subsidizing the cost of Services from Canadian businesses. Pakistan can most certainly benefit from training in environment, parks and services, education, health care etc. In addition, Canadian firms can provide consulting in digital space, construction and in CPEC.

Alternate Energy products

Pakistan can meet its requirements for hydro, solar and wind turbine from Canada. This is a huge opportunity for Canadian businesses to set up manufacturing in Pakistan to meet demand in Pakistan. This can be based on a model, where Pakistani requirements of products are first satisfied by the available output capacity of Canadian manufacturers and after that, Pakistani plants of Canadian companies provide the same product to meet the balance of requirements.

Traditional Opportunities

Here is a list of opportunities that Pakistan and Canada can benefit from:

PAKISTAN

Merchandise	Current provider	Annual trade	Opportunity (estimates)	Comments
Precious stones, metals/ gems	India & others	\$2.3 Billion	\$115 Million	Target 5% of total imports.
Footwear & Footwear manufacturing	China, Bangladesh & others	\$3 Billion	\$150 Million	Finished product and raw materials. Target 5% of total imports.
Sporting and Athletic Goods	China, US and other countries	\$1.9 Billion	\$100 Million	Finished product and raw materials. Target 5% of total imports.
Total opportunity			\$365 Million	Based on a preliminary review of three industries.

CANADA

Merchandise	Current provider	Annual trade	Opportunity (estimates)	Comments
Commercial jets	USA and Europe	N/A	\$100 Million	Railway signal system for PR.
Machinery	USA, Europe & China	\$4 Billion	\$200 Million	Target 5%. Firm demand due to CPEC and infrastructure construction.
Electronic equipment	USA, Europe & China	\$3.5 Billion	\$175 Million	Target 5%. Firm demand due to CPEC and infrastructure construction.
Total opportunity			\$475 Million	Based on a preliminary review of three industries.

ROADBLOCKS AND HOW TO REMOVE ROADBLOCKS

Pakistan and Canada will face the US pressure if there is a significant growth in business. India will also try to counter any attempts of Pakistan to further improve the relationship between Pakistan and Canada.

In order to counter these roadblocks, one can hope that the government of Pakistan will take the following steps:

1. A trade centric foreign policy with Canada, and rest of the world, needs to be formalized
2. Trade attaché are appointed at Pakistan's embassies, high commissions and consulates in Ottawa, Toronto, Montreal and other major cities

3. Trade attaché aggressively engage the overseas Pakistani community in Canada that can help:
 1. in creating contacts with Canadian businesses
 2. solidify political connections
 3. finding partners that can help understand the laws and requirements around export
 4. identify new opportunities in Pakistan and Canada
 5. conduct Pakistan Trade shows across the country
4. Validate the ROI that the relationship can offer to both countries
5. Invest money in Pakistani missions abroad and send highly qualified officials

Pakistan can certainly import heavy machinery and other items from Canada instead of the USA and can divert many export items for the USA to Canada. There are many other opportunities for both countries to explore and build strong trade relationships. Unfortunately, Pakistan has not been able to take full advantage of its potential. Let's hope and see if the Government of Pakistan will take necessary steps to preempt trade sanctions by the USA.

REFERENCES

<http://vancouversun.com/opinion/opinion-time-for-a-third-option-in-canadas-trade-strategy>
<https://ustr.gov/countries-regions/south-central-asia/pakistan#>
<http://nation.com.pk/business/06-Jul-2017/pakistan-canada-trade-touches-record-level>
<https://www.forbes.com/sites/charleswallace1/2017/09/27/trade-war-looms-with-canada-over-tariffs-on-jets/#5ccc120441e8>
<http://canadaimmigrants.com/pakistani-immigrants-to-canada/>
<http://pm.gc.ca/eng/news/2017/08/14/statement-prime-minister-pakistans-independence-day>
http://www.canadainternational.gc.ca/pakistan/bilateral_relations_bilaterales/canada_pakistan.aspx?lang=eng
<https://www.ic.gc.ca/app/scr/app/cis/summary-sommaire/33991>
<http://www.asiapacific.ca/statistics/trade/bilateral-trade-asia-product/canadas-merchandise-trade-pakistan>
<https://www.ic.gc.ca/app/scr/app/cis/summary-sommaire/3162>
<https://www.ic.gc.ca/app/scr/app/cis/summary-sommaire/33992>
https://www.ic.gc.ca/eic/site/026.nsf/eng/h_00078.html
<http://www.bombardier.com/en/home.html>
https://data.worldbank.org/indicator/MS.MIL.MPRT.KD?year_high_desc=false

ABOUT THE AUTHOR

“Pre-empting US Trade Sanctions Against Pakistan” was written and researched by Imran Siddiqui, a Contributing Research Fellow at CommandEleven.

ABOUT COMMANDELEVEN

CommandEleven is a research organization focused on Pakistan’s national security aspects and enhancing global understanding and collaboration opportunities for the nation.

Founded in 2015, CommandEleven provides situational awareness to facilitate a better understanding of the key dynamics that effect Pakistan from a national security perspective, especially in relation to terrorism, insurgencies and extremism.

CommandEleven seeks to inform and guide public policy and decision makers in government, business and military through a rigorous program of publications, conferences, digital medias, policy briefings and recommendations.

Visit <http://commandeleven.com> for more information or contact info@commandeleven.com.