# An Analysis of International Trade of Pakistan: With a Focus on Exports

Hanif, Muhammad

2018

# An Analysis of International Trade of Pakistan: With a Focus on Exports

Dr. Muhammad Hanif[1]
Hanifacma@gmail.com

Published in
Paradigms: A Research Journal of Commerce, Economics, and Social Sciences
Print ISSN 1996-2800, Online ISSN 2410-0854
2018, Vol. 12, No. 1 Page 22-30
DOI: 10.24312/paradigms120104

[1] Author is thankful to editorial team of Paradigms (Journal) and anonymous reviewers for their contributions in improving the article.

## ABSTRACT

Pakistan is facing a persistent trade deficit, resulting in foreign debts—leading to compromise on national policies and sovereignty. This study analyzes international trade of Pakistan with a special focus on exports. The analysis is conducted by various lenses including goods traded, trading partners (in exports as well as imports), trading regions (including Australian, Asian, African, European and American regions) and economic cooperation organizations including Organization of Islamic Cooperation-OIC, Economic Cooperation Organization-ECO, and Association of Islamic Developing countries (D-8). International trade Data is extracted from State bank of Pakistan for 12 years (Jul-03 to Jun-15).

Findings suggest Pakistan has trade linkages with multiple countries, across various regions, however, the volume of exports is significantly low than potential, as well as, than the volume of imports—resulting in trade deficit. The major import partners are China, UAE, Singapore, Saudi Arabia and Kuwait, while major export-partners of Pakistan are United States of America, China, Afghanistan, United Kingdom, United Arab Emirates and Germany. Pakistan needs to capitalize on less-expensive young population (rising in skills), low cost (indigenous) raw material, basic industrial infrastructure and agricultural and natural resources, etc. to achieve higher economic growth and exports. Policy makers need to encourage exports in less focused regions including Centrel Asia, Middle East, Africa, Australia and South America. To the best of author's knowledge, this is first ever effort to present a comprehensive analysis of international trade of Pakistan and suggest measures to improve the state of affairs, in recent years.

Key Words: International trade, Exports, Imports, Pakistan

JEL Classification: F10, F14

## I-INTRODUCTION

There are various international trade theories justifying trade across the borders including Mercantilism (pre-Smith), the Absolute advantage (Smith 1776), the Comparative advantage (Ricardo 1817), Factor proportion (Ohlin 1935) and Product lifecycle (Vernon 1966). Mercantilism suggests 'that trade balances must be *favorable*; meaning an excess of exports over imports' (Britannica, 2016). Absolute advantage theory, [usually associated with Smith, 1776], "refers to the ability to produce a certain good or service at lower cost (i.e., more efficiently) than another party" [country] (Bondarenko, 2018), hence, trade will benefit. Comparative advantage theory [Ricardo, 1817], is a modification in the concept of absolute advantage theory, states 'A country is said to have a comparative advantage in the production of a good (say, cloth) if it can produce it at a lower opportunity cost than another country' (Suranovic, 2017). Factor proportion [Ohlin, 1935] postulates 'A country has a comparative advantage in the production of goods that use relatively large amounts of its abundant factors of production and a comparative disadvantage in the production of goods that use relatively large amounts of its scarce factors of production' (Harrington, 2013). And finally, product lifecycle theory [Vernon, 1966], asserts products developed in technologically advanced countries, but gradually production shifts to developing countries due to cheap labor.

International trade is a source of resource exploitation for a better standard of living across trading partners. However, many barriers to international trade—including transportation and tariffs—reduces potential benefits to a great extent. Advances in information and communication technologies have helped in increasing volume of international trade to a great extent. World merchandise exports have reached to US$ 16 trillion, while commercial services closed at US$ 4.77 trillion, by the end of 2016. However, gains from international trade are not uniform for all the nations. In fact, lion's share is occupied by developed countries, followed by developing countries (41%); and less developed countries' share in global trade is less than 1% (WTO, 2017, p.5). There is another aspect of international trade and that is trade balance. Having more imports than exports, create trade deficit. Countries with trade deficits have to face consequences in the form of foreign loans and grants—leading to serve the masters, against their national interest and willingness.

Pakistan is one of the important countries (economies) in the world, with a strategic location in South Asia—7th largest population, 7th Nuclear power, while the 27th largest economy, 71th Exporting economy and 58th importing country in the world (CIA Fact Book-2015). Pakistan's international trade volume closed at US$ 66 billion, comprising of US$ 24.6 billion exports and US$ 41.4 billion imports, in the fiscal year 2014-15 (SBP-2015). Pakistan has faced persistent trade deficit for last decade—an issue needs serious attention by economic managers of Pakistan. Persistent trade deficit leads to trap in foreign debts, resulting in foreign influence on the policy issues. Such influences must be reduced to maintain the sovereignty and independence of a nation.

This study is conducted to analyze and understand international trade of Pakistan by focusing on products, trading partners (imports and exports partners), trading regions and economic cooperation bodies etc. to draw certain conclusions for policy implications. This study covers a period of 12 years (July-03 to Jun-15). Data is extracted from the web of state bank of Pakistan (SBP, 2015). Results are presented through graphs (below).

Our contribution includes following: First, we document international trade structure of Pakistan—including exports and imports of goods—to highlight strategic economic sectors. Agriculture and agro-based industries are very important for the economy and need friendly policies. Pakistani imports led by machinery, chemicals, and petroleum. Pakistan is facing persistent trade deficit on international trade, which is at rising. Interestingly, the trade deficit is more in democratic regimes than military rules, supporting the hypothesis of development under successive military regimes.

Second, Pakistan has extended trade linkages with all countries. During 12 years period, Pakistan has exported goods to almost every country in the world[2]. Pakistan's strategic trading partners in the area of exports are USA, China, UK, Afghanistan, Germany and UAE; and Pakistan needs to improve friendly trade, as well as, political relations with these countries. Major import partners include China, UAE, Singapore, Saudi Arabia and Kuwait. China occupies a prime place in international trade of Pakistan. Major export regions of Pakistan are Europe, North America, GCC, East Asia, and South Asia. Pakistan needs an exploration of new markets for exports in ignored economic regions including Australia, Central Asia, Middle East, Africa and South America.

Third, Pakistan's trade with Organization of Islamic Cooperation (OIC) is close to a quarter of its international trade. OIC region is very important for Pakistan, in economics, as well as, politics. In case of exports, during 2014-15, within the OIC region, only two countries (Afghanistan and the United Arab Emirates) could cross the mark of US$ One billion, followed by Saudi Arabia close to US$ half billion. Pakistan has only Nine countries within OIC region with exports above US$ 100 Millions including Afghanistan, UAE, KSA, Turkey, Oman, Malaysia, Egypt, Indonesia, and Mozambique. Given the importance of OIC region (57 member states), the potential of trade is very high for Pakistan and policy institutions need to exploit opportunities.

Fourth, Pakistan has membership in certain regional economic cooperation organizations including the economic association of eight developing Muslim countries (D-8), South Asian Association for Regional Cooperation (SAARC) and Economic Cooperation Organization (ECO), however, trade potential is yet to be exploited. For the latest fiscal year (2014-15) Pakistan's trade volume with D-8 countries closed at US$4 billion consisting of exports 1.6 billion and balance (2.4 billion) imports. In SAARC region, major export partner of Pakistan are Afghanistan (US$ 13.1 Billion), followed by Bangladesh (US$ 5.6 Billion), India (US$ 3.4 Billion), Srilanka (US$ 2.7 Billion), Maldives (US$ 0.06 Billion) and Nepal (US$ 0.03 Billion) in last 12 years (July-03 to June-15). Trade volume for the latest fiscal year (2014-15) with ECO members was closed at 2.4 billion comprising of exports (2.1 billion) and imports (0.29 billion), displaying trade surplus of 1.79 billion. Definitely, the potential is very high within these regions/countries of economic cooperation with concessions for member countries, however, progress is yet to be seen.

Finally, Pakistan has made significant progress in the area of higher education during last decade (2005-onward), coupled with a significant portion of the population in working age (average 22.5 years), offers a

---

[2] As per state bank country-wise export record (2015), Pakistan has exported to above 200 jurisdictions, although UN members are 193. http://www.un.org/en/sections/about-un/overview/index.html [Accessed 27th June 2018]

significant opportunity for economic growth, as well as, trade surplus. Two major problems of Pakistan—including terrorism and power shortage—have reduced significantly, from 2013 onward, coupled with China Pakistan Economic Corridor (CPAC) projects, funded through foreign investments of US$ 62 billion (Siddiqui, 2017), has already shown impact and economy has started showing progress.

Rest of the study proceeds in the following order. In the next section (II), purpose and methodology is stated, followed by an overall picture of Pakistani-international trade in section III. Analysis based on multiple socio-economic and political unions (especially, with Muslim countries) is presented in section IV (OIC region), section V (Developing-8), and section VI (Economic Cooperation Organization). Summary and conclusion offered in last section (VII).

## II-PURPOSE & METHODOLOGY

This study is intended to document international trade dynamics of Pakistan, with a special focus on exports—trading goods and trading partners—to document important findings for policy implications. Such a study is helpful in identification of less focused regions, as well as, less focused potential goods and services—candidates for international trade. Such an analysis is expected to help-out in the future course of action for policy-making. Following are specific research objectives:

- An analysis of trading commodities—what are important goods for international trade of Pakistan
- An analysis of trading partners—which countries are most important for economic management of Pakistan
- An analysis of regional international trade—which of the regions have contributed in international trade of Pakistan
- An analysis of socio-economic cooperation—the effectiveness of economic cooperation associations in international trade of Pakistan

To achieve the objectives, we have selected a study period of 12 years (July-03 to Jun-15), to document longer picture. Our main data sources include multiple reports on imports and exports, prepared by the state bank of Pakistan (SBP, 2015). We have done analysis of data based on commodities, trading partners, trading regions, and socio-economic political unions. MS Excel is used for analysis. Results are presented through graphs.

## III- INTERNATIONAL TRADE

### a. Goods Traded

Below is a composite graph (Figure-1), showing major imports as well as exports of Pakistan. Pakistani exports include food items (rice, fruits and fish etc.), textile (cotton yarn, cotton cloth, knitwear, bed wear and readymade garments etc.), petroleum-related products and low to medium technology-based manufacturing goods—including sports goods, leather manufactures, footwear, surgical goods & medical instruments, chemical & pharmaceutical products and engineering goods (cement, electric fans and electrical machinery, etc). While import bill is concentrated in foods, textile, machinery, transport, metal, Agri & other chemicals, and petroleum. It is interesting to note that Pakistan has imported more food items than exports during the fiscal year 2014-15 in spite of the fact that she is known as an agricultural country. In addition, a major contribution in industrial production of Pakistan is from textile sector but still, close to US$ 2.5 billion is spent on import of textile related items in Pakistan. Import of food and clothing clearly depicts the lavish lifestyle of Pakistani elites.

*Exports* play a very important role in bringing in the foreign exchange, required to trade with other countries and discharge import bills. Additionally, it is very important to acquire modern technology produced elsewhere, essential for a better living standard; and foreign exchange is required to pay import bill. In addition, export-led growth hypothesis—stating that countries can achieve higher growth through maximizing exports—has proven in many studies, in case of Pakistan (Chaudhary and Qaisrani, 2002; Aurangzeb, 2006; Faridi, 2012; Saleem and Sial, 2015). Furthermore, exports enhance trade linkages with other countries, resulting in political relations and development of people to people contact through ease of visa restrictions, etc. International trade has also resulted into various economic entities—European Economic Community, converted into European Union; economic associations—ASEAN, Shanghai Cooperation Organization (SCO), and Economic Cooperation

Organization (ECO), WTO, etc; and free trade agreements—NAFTA, and SAFTA, etc).

*Trade Deficit*: Pakistan is consistently facing trade deficit in international trade for last many years. Following (Figure-2) is last 15 years position and the trade deficit is on increasing trends. An interesting observation about last 15 years was regime change. Up to 2003, Military was ruling in Pakistan, and then from 2003 to 2007 a mixture of military and civilian government—with major decision making was with the military dictator. From 2008-onward civilian governments are working, however, the trade deficit is more in civilian regimes than military.

To conclude on trading commodities, it is understandable to import technology based products—not produced in domestic market—however, Pakistan needs to rethink about its policy on import of consumer goods, especially, the goods with substitutes produced within national market. Furthermore policy institutions need capacity building to adopt forward-looking approach (e.g. there is a large consumer base in the area of computers and mobile phones and instead of importing these devices, Pakistan would have offered concessional terms to foreign manufacturers, specific to production of these items within domestic market). In addition, Pakistan needs to capitalize on its abilities in production of defense related items, basic industrial structure, agricultural and natural resources to attain higher economic growth; and search new markets.

### b. Trading Partners

*Export Partners:* Export diversity helps a country to achieve steady growth and minimize risk. In case of Pakistan export diversity lacks severely, as for the number of goods, as well as export partners are concerned. Figure-3 presents export partners of Pakistan with around US$ half billion and above, during the fiscal year 2014-15. Pakistan has 14 exports partners with a volume of US$ half billion or above—USA, China, Afghanistan, UK, UAE, Germany, Spain, Italy, Bangladesh, The Netherlands, Singapore, France, Belgium, and KSA, during 2014-15.Pakistan has exported goods to almost every country (above 200 Jurisdictions) in the world during last 12 years (July-03 to June-15). These trade linkages offer a great potential for diversification of exports across the nations. The major export-partners of Pakistan, during 2014-15, are United States of America (16%), followed by China (9%), Afghanistan (7%), United Kingdom (7%) and UAE & Germany (5% each). These FIVE countries are major export partners of Pakistan and account for about 50% of total exports, during fiscal year 2014-15. Interestingly there are only four countries from OIC region—Afghanistan, UAE, KSA and Bangladesh—where export of Pakistan is close to US$ half billion or more. Over 12-years period, Six countries—USA, UAE, China, UK, Afghanistan, and Germany—have contributed, relatively, larger share in exports of Pakistan.

*Import Partners*: Pakistan has 17 import partners with the volume of US$ half billion or more. The major import partners are China (17%), UAE (18%), Singapore (10%), Saudi Arabia (8%) and Kuwait (5%), during 2014-15. These five partners are accounting for about 60% of imports of Pakistan, during the fiscal year 2014-15. In the long term (12 years), imports of Pakistan are coming from multiple countries. List of countries with import volume of US$ 10 Billions and above includes UAE, China, KSA, Kuwait, Singapore, Japan, Malaysia, India, USA, and Germany.

*Trade Partners*: It will add further insight into the analysis and understanding if we see the composite picture of Pakistan's trade partners in a single figure and disclose the trade balance with these major partners. A composite picture of major international trade partners is presented in Figure-5. In the figure-Panel-A, international trade with top 11 partners is presented which accounts for 66% of international trade of Pakistan, during fiscal year 2014-15. Top three partners are China, UAE, and the USA. Out of 11 trade partners trade balance favors Pakistan with four countries—USA, UK, Germany, and Afghanistan. While in case of rest (seven) trade partners—China, UAE, Singapore, KSA, Kuwait, India and Japan; trade balance favors them. Results for long term (12 years) trade are presented in Panel-B. Countries with trade volume of US$ 10 Billion and above are included. As per record, Pakistan has traded goods amounting to US$ 10 Billion and above with 13 countries—UAE, China, USA, KSA, Kuwait, Singapore, Germany, UK, Japan, India, Malaysia, Afghanistan, and Switzerland. Pakistan gained in trade with three countries—

USA, UK, and Afghanistan. In all other cases trade balance favors to trading partners.

To conclude, Pakistan needs to strengthen further its political and business ties with important trade partners, especially, USA, UK, Germany and Afghanistan [trade balance is favorable]. Pakistan may ask for more concessions to its trading partners. In addition, Pakistan needs to assess the domestic requirements of its other trading partners, especially, GCC region to supply the needed amount of goods, by capitalizing on its agricultural and industrial capabilities and resources.

**c. Region-wise Exports**

It will further add to understanding and clarity if we look at the international trade of Pakistan on a regional basis (Figure-6). In order to understand this, we have divided the globe into 12 economic regions—Australia, Far East Asia, East Asia, South Asia, Central Asia, Middle East (except GCC), GCC, North Africa, South Africa, Europe, North America and South America. According to Figure-6, major export regions of Pakistan are Europe, followed by North America, East Asia, South Asia, and GCC, during the fiscal year 2014-15. In North American region, major partner is the USA; in Europe—UK; in East Asia—China; in South Asia—Afghanistan; and in GCC—UAE. Clearly many regions are being ignored (including South America, North as well as South Africa, Central Asia, Far East and Australia) and potential is yet to be exploited. In order to further understand the exports of Pakistan, we need to present a long-term picture of each region by focusing on the specific countries within the region. In the following paragraphs, we have presented 12 years' (2003-15) picture of Pakistani exports, region-wise.

*North America*: As per Figure-7, Leading export partner, in North America, over the years is the USA, followed by Canada and Mexico. This is very important to note that Pakistan needs to do more diversification within North American region and increase trade in other markets including Cuba, Haiti, Guatemala and Costa Rica etc. [In case of *South America* exports of Pakistan for last 12 years are very low. None of the country could cross the mark of a US$ Billion].

*European Region*: In the Figure-8, a picture of Europe is presented for last 12 years (Jul-03 to Jun-15). As per information, United Kingdom is at the top with US$ 14 Billion, followed by Germany US$ 11 Billion, Italy US$ 7 Billion, Spain US$ 6 Billion, France US$ 5 Billion and Holland (The Netherlands) US$ 5 Billion, approximately. It is very encouraging that Pakistan has trade linkages with almost all major European countries over the years, however, concentration is in few countries and needs diversification through an increase in exports to other countries.

*Gulf Cooperation Region*: The export picture of GCC region follows. As per Figure-9, major exports are to UAE (US$ 18 Billion), followed by Saudi Arabia (US$ 4.8 Billion), Oman (US$ 1.7 Billion), Kuwait (US$ 1 Billion), Yaman (US$ 1 Billion), Qatar & and Bahrain (close to US$ 1 Billion), approximately. Although Pakistan has traded/exported to every member of GCC, however, the volume is very low given the potential in this region. Pakistan needs to focus on GCC region to increase exports given the cultural commonalities and multi-billion trade volume per year in this region. Pakistan has basic industrial structure, as well as, agriculturel resources and need to capitalize on these capabilities through identification of consumer needs within the GGC region. There are multiple export oppurtunities in the area of *Hajj* & *Umrah* related products.

*South Asian Region*: South Asia is a region where Pakistan is located and has a membership of South Asian Association for Regional Cooperation (SAARC). South Asia has an agreement of free trade and Pakistan is a signatory to this agreement. However, Pakistani trade within the region is very low. Pakistan's export to the region is far less than potential in spite of many cultural similarities—lifestyle, food, housing, and dresses, etc. According to Figure-10, major export partner of Pakistan is Afghanistan (US$ 13.1 Billion), followed by Bangladesh (US$ 5.6 Billion), India (US$ 3.4 Billion), Srilanka (US$ 2.7 Billion), Maldives (US$ 0.06 Billion) and Nepal (US$ 0.03 Billion), approximately, in last 12 years (2003-15). Trade with India and Bangladesh is much lesser than the potential. There are three major countries in the region, based on population—Pakistan, India, and Bangladesh—but trade across the borders could not get momentum within the region due to political differences among these countries. Also, Afghanistan is a war-ridden country since Russian invasion (1979), hence, destabilization in Afghanistan is one of the major reasons of de-stability in the whole South Asian region, in addition to Kashmir dispute between India and Pakistan. South Asians need to resolve conflicts very quickly for the betterment of masses, through trade.

*East Asian Region*: East Asia is another emerging trade region—which includes countries like Japan, China, South Korea etc. Pakistan has trade relationships with almost every major country of the region. According to Figure-11, China (US$ 15 Billion) is leading the list as for Pakistani exports are concerned, followed by Hong Kong (US$ 7 Billion), South Korea (US$ 3.5 Billion), Japan (US$ 2 Billion), Vietnam (US$ 1.5 Billion) and Thailand (US$ 1 Billion), approximately, during last 12 years. Exports to this region are very low given the disposable income of residents, especially Japan, China and South Korea. Pakistan needs to focus on this region and search for potential export partners to boost international trade.

*Far Eastern Region*: The far Eastern region is an emerging trade and growth region including Indonesia, Malaysia, Singapore, and Brunei, however, exports of Pakistan (Figure-12) is far less than potential during the period under review. Singapore is leading (with US$ 2.3 Billion), followed by Malaysia (US$ 1.6 Billion) and Indonesia (US$ 1.2 Billion), approximately, during last 12 years. Surprisingly export to Brunei (US$ 22 Million) is very less than potential, given the higher income economy.

*Africa*: The African continent is divided into two economic groups consisting of North and South Africa. Trade (Exports) with Southern African countries is presented in Figure-13. South Africa is leading (US$ 2.8 Billion), followed by Kenya (US$ 1.8 Billion), approximately. None of the remaining countries could cross the mark of US$ one billion for 12 years period under review. The north African region covers majority Muslim countries including Egypt, Libya, Sudan, Algeria, Morocco, Tunisia, and Nigeria; however, exports of Pakistan (Figure-14) to this region are negligible during the period under review. Only one country (Egypt) could cross the mark of US$ one billion of exports during last 12 years, although exports were made to almost every country of the region, but volume is very low. It is encouraging to know that trade is being done with almost every major country in the region, however, Pakistan needs to increase the volume of exports to these countries.

*Middle East*: The Middle East (except GCC) is the region which includes Iran, Turkey, Syria, Lebanon, Israel, Palestine, Jordan and Iraq (majority Muslim region). It is interesting to note that exports to only two countries Turkey (close to US$5 Billion ) and Iran (close to US$1.5 Billion) could enter into US$ Billions, during the last 12 year (Figure-15). Trade potential in the region is very high, given the common civilization, but potential could not be exploited so far, in spite of normality (friendship) in political relations. Pakistan has no trade (diplomatic) relations with Israel due to Palestinian issue.

*Central Asia*: The central Asian region includes Ex-members of USSR. Pakistan's exports to this region are very low in spite of normal political relations, as well as, membership in the OIC (of Muslim-majority countries). Only one country (Russia) could pass the mark of US$ one Billion (close to US$1.6 Billion) in exports during last 12 years (Figure-16). Pakistan needs to focus on this region, given the easy accessibility and common culture and civilization (with some member states) in the region.

*Australian Region*: And the last region of our regional analysis is Australia. Potential of exports is very high given the high-income economies of Australia and New Zealand; however, exports are very low during last 12 years, in spite of normalcy in political relations, as well as, improved ties in the games of cricket and hockey. Exports to Australia only could cross the mark of US$ one billion (close to US$1.8 Billion) [Figure-17], clearly depicts ignorance of this region by Pakistani exporters.

To conclude, Pakistan has shown notable progress in the area of exports to only FIVE economic regions—Europe, North America, East Asia, South Asia, and GCC; although less than potential. Pakistan has missed the potential export opportunities to multiple economic regions—South America, North as well as South Africa, Middle East (ex GCC) Central Asia, Far East and Australia—and need to focus on these regions.

## IV- TRADE WITH OIC-REGION

The Organization of Islamic Cooperation (OIC) (formerly Organization of the Islamic Conference) is the second largest inter-governmental organization after the United Nations; which has a membership of 57 states spread over four continents (OIC, 2015). Member communities of OIC share many commonalities due to the religion of Islam—because Islam specifies basic principles of *Haram* and *Halal* as for foods, dresses, festivals and culture, etc. are concerned—hence, trading of various commodities among Muslims is much easier as compared to non-Muslims. However, OIC region is largely underdeveloped and lacks in research and scientific developments, so in general, a broader interaction of Muslim communities is beyond the region, hence, trade within the region is far less than potential. Pakistan is an important member of OIC, since inception (1969). Also, Pakistan is very active in OIC meetings and agendas. There is a great opportunity for OIC members to get benefit from mutual trades. Figure-18 presents a comparison of international trade of Pakistan globally, with OIC region. Clearly, both time series are correlated for the period of 12 Years (Jul-03 to Jun-15), under review. Correlation of Pakistan's international trade with OIC region is 96% for the period under review.

Comparative exports data is presented in Figure-19. Average Monthly exports of Pakistan during last 12 years is US$ 1,633 Million, out of that US$ 415 Million is exported to OIC region, accounting for 25% of the total exports. It is clear from the graph that 75% of the Pakistani economy, as for exports are concerned, is dependent beyond OIC region; and good relations beyond OIC are must for Pakistan. Pakistan has exported goods amounting to US$ five and half billion to OIC countries, accounting for 23% of total exports, during 2014-15.

Figure-20 represents Pakistan's trade with top OIC partners for last 12 years. This figure includes only those trade partners where trade volume (of 12 years) has crossed the mark of US$ One billion. Accordingly, during last 12 years (Jul-03 to Jun-12), UAE is leading with trade volume of US$ 74.8 billion (deficit), followed by Saudi Arabia US$ 45 billion (deficit), Kuwait US$ 28.5 billion (deficit), Malaysia US$ 15.9 billion (deficit), Afghanistan US$ 13.2 billion (Surplus), Indonesia US$ 7.6 billion (deficit), Turkey US$ 6.7 billion (Surplus), Iran US$ 4.6 billion (deficit), Oman US$ 4.3 billion (deficit), Morocco US$ 2.7 billion (deficit), Egypt US$ 2.6 billion (Surplus), Qatar US$ 2.4 billion (deficit), Bahrain US$ 2.2 billion (deficit) and Yemen US$ 1.2 billion (Surplus), approximately. Out of top 14 OIC trade partners, Pakistan has a trade surplus with four countries and trade deficit with 10 countries during the period under review. This is clearly alarming for the policymakers and requires an immediate attention to increase exports in these markets.

Export data to top ten OIC partners for the latest fiscal year (Jul-14 to Jun-15) is presented in Figure-21. Within the OIC region, Afghanistan (US$ 1.7) is at the top followed by United Arab Emirates (US$ 1.3) with above a US$ One billion and Saudi Arabia close to US$ half billion. Pakistan has only Nine countries within OIC region with exports above US$ 100 Millions including Afghanistan, UAE, KSA, Turkey, Oman, Malaysia, Egypt, Indonesia, and Mozambique. Clearly, policymakers need to address the issue of less than potential exports to OIC member countries. GCC region lacks in agricultural products and Pakistan being an agricultural economy should focus on exporting agricultural products to these economies, given the higher disposable income of residents.

The comparative figures (top 14) for last 12 years are presented in Figure-22. Accordingly, Pakistan has exported a US$ Billion or aobove, approximately, to eleven countries only, within OIC region including UAE, Afghanistan, Turkey, Saudi Arabia, Oman, Malaysia, Iran, Egypt, Indonesia, Kuwait, and Yaman, respectively. These figures clearly show lesser exploitation of export potential within OIC region.

Comparative figures, for last five years (July-10 to Jun-15) of exports, to top ten partners is presented in Figure-23. Accordingly, Pakistan lost export share to Afghanistan in 2012-13, which is regained in next two years, while reduction is being faced in last two years with UAE, after an upward trend during previous two years. Also, trade (exports) with Turkey shown downward trend during the period under review. In case of Malaysia, Iran, Egypt, and Indonesia, share in exports is also decreasing, while improvement is being shown with KSA and Oman. These figures ring the alarm for Pakistan economy as trusted trade partners including UAE, Turkey, Malaysia, Iran, Egypt, and Indonesia, are reducing imports from Pakistan, which must be addressed by the policymakers. However, an exciting development is being seen in case of KSA, Oman, and Afghanistan, where exports from Pakistan have shown increasing trends.

## V-TRADE WITH D-8

Developing Group of eight Muslim countries, known as D-8, includes Indonesia, Malaysia, Bangladesh, Pakistan, Iran, Turkey, Egypt, and Nigeria. The D-8 group, established in 1997, spans from far East Asia to western Africa, covering, almost, whole OIC-region and represents two continents—including Asia and Africa—with significant trade potential among the members. *"The idea of cooperation among major Muslim developing countries was mooted by Dr. Necmettin Erbakan, the then Prime Minister of Turkey, during a Seminar on "Cooperation in Development" which was held in Istanbul in October 1996. The group envisioned cooperation among countries stretching from South East Asia to Africa. Representatives from Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria and Pakistan attended the Seminar. This conference was the first step towards the establishment of D-8 and it was only after a series of preparatory meetings that D-8 was set up officially and began its activities with the Istanbul Declaration issued at the end of the summit of Heads of State and Government held in Istanbul on June 15, 1997"*[3]

Trade volume (Figure-24) among the members is very low, although it is encouraging that trade linkages have been started. Pakistan trade volume with members is US$ 4 Billions during 2014-15, while it is US$ 45 Billion for last 12 years, approximately. Malaysia is leading with a trading volume of 15 billion, followed by Indonesia 7.6 billion, Turkey 6.7 billion, Bangladesh 6.3 billion, Iran 4.6 billion and Nigeria less than a billion during last 12 years (US$), approximately. Trade remained in favor of Pakistan with Bangladesh, Turkey, Egypt, and Nigeria; while favoring partners in case of Malaysia, Indonesia and Iran, during 12 years period under review. For the latest fiscal year (2014-15) Pakistan's trade volume with D-8 countries closed at US$4 billion consisting of exports 1.6 billion and balance (2.4 billion) imports. In latest fiscal year Pakistan gained from trading with Bangladesh, Turkey, Egypt, Nigeria, and Iran, while faced the deficits in case of Malaysia and Indonesia.

Pakistan could not utilize the potential of D-8 platform, effectively, as for exports are concerned. Pakistan possesses basic industrial structure, agricultural resources and defense related production capabilities, which can be very helpful in increasing the exports to D-8 region.

## VI- TRADE WITH ECO

*"Economic Cooperation Organization (ECO), is an intergovernmental regional organization established in 1985 by Iran, Pakistan, and Turkey for the purpose of promoting economic, technical and cultural cooperation among the Member States. ECO is the successor organization of Regional Cooperation for Development (RCD) which remained in existence since 1964 up to 1979. In 1992, the Organization was expanded to include seven new members, namely: Islamic Republic of Afghanistan, Republic of Azerbaijan, Republic of Kazakhstan, Kyrgyz Republic, Republic of Tajikistan, Turkmenistan and Republic of Uzbekistan"*[4]

Trade volume of Pakistan with ECO region is 25 billion (Figure-25) for last 12 years (Jul-03 to Jun-15), comprising of exports (20 billion) and imports (5 billion), approximately, displaying a trade surplus of 15 billion. Major partners within the region are Afghanistan, Turkey, and Iran. Trade volume for the latest fiscal year (2014-15) with ECO members was closed at 2.4 billion comprising of exports (2.1 billion) and imports (0.29 billion), displaying trade surplus of 1.79 billion.

Potential of trade is very high given the abundant natural resources; however, resource exploitation is yet to be seen in the ECO region. Pakistan needs to exploit trading potential with ECO members by capitalizing on basic industrial structure, agricultural and other natural resources, coupled with skilled and semi-skilled young growing population.

---

[3] www.Developing8.org [Accessed 19th December 2015]

[4] (WWW.http://www.ecosecretariat.org [Accessed 19th December 2015]

## VII-SUMMARY AND CONCLUSION

Based on this analysis we can draw certain conclusions and policy implications as follows:

Pakistan has trade links, as well as, engaged in trade with almost every notable country at the global level, however, the volume of exports is very low—leading to the persistent trade deficit.

Pakistan's trade is concentrated in Far East Asia, East Asia, South Asia, GCC, Europe and North America, while volume of trade is low with Central Asian, Middle Eastern, Australian, Northern & Southern Africa and South American regions

Major trading partners are UAE, China, USA, KSA, Kuwait, Singapore, Germany, UK, Japan, India, Malaysia, Afghanistan, and Switzerland. USA, UK, Afghanistan, and Germany have significant importance for Pakistani economy—offering trade surplus, favoring Pakistan. Major import partners are UAE, China, KSA, Kuwait, Singapore, Japan, Malaysia, India, USA, and Germany, while Major exports partners are USA, UAE, China, UK, Afghanistan, and Germany.

It is recommended that Pakistani traders (exporters/importers) should also focus on ignored regions and territories for boosting trades.

Pakistan also needs to re-look into nearer regions including South Asia, Central Asia and the Middle East for extended trade links. Also, South America, as well as Australian region, offers great opportunities for international trade and promising returns. The African continent is a potential future for trade and commerce.

Within OIC region trade volume of Pakistan is very low and also favoring trade partners more than Pakistan. Major trade partners within OIC region are UAE, Saudi Arabia, Kuwait, Turkey, Malaysia, Afghanistan, Indonesia, Iran and Oman. Exports of Pakistan reducing within OIC trusted trade partners—UAE, Turkey, Malaysia, Iran, Egypt, and Indonesia,—which must be addressed by policymakers.

Trade volume with D-8 as well as ECO is very low in spite of political support; and policymakers need to focus on causes of less than potential progress on these fronts.

On the criterion of Absolute advantage, Pakistan has clearly an absolute advantage in the area of agricultural production in comparison to Middle Eastern and North African countries, especially, Gulf Cooperation Council (GCC) region.

On the criterion of comparative advantage, Pakistan is a low-income country—with the cheap raw material (indigenous) and labor—can excel in the production of goods at much lesser cost than high-income economies (including USA, UK, and UAE).

On the criterion of Factor proportion, Pakistan can capitalize on its less expensive labor force and agro-based industries in comparison to economies with high costs and aged population (including Japan and Germany).

On the criterion of the product lifecycle, Pakistan is really in deficit, as for innovations are concerned, however, capabilities can be developed to produce the goods at maturity stage, invented elsewhere, like China.

A major portion (20%) of Pakistan economy is from agriculture (Economic Survey, 2017, p.8) and demand for agricultural products is very high in certain regions including GCC and North Africa—offers a potential for exports. In addition, Pakistan has the basic industrial infrastructure—in the area of sports goods, surgical instruments, textiles, defense-related production, leather goods, basic electrical appliances and cement, etc. as well as, a major portion of the population with working-age—average 22.5 years—(Statista, 2015). Pakistan has also focused on higher education during last decade (2005 onward). Number of degree awarding Institutions has reached to 160 (plus) with an enrollment close to 1.3 million in 2014-15 (HEC, 2015). Pakistan can capitalize on the strength of skilled working population to achieve higher GDP growth and increased exports.

Shortage of electricity and terrorism has remained major problems for industry and business environment during last decade, however, by 2017 terrorism has reduced significantly and signs of improvements in the provision of power emerge (The Economist, 2017) and expectations are positive. China Pakistan Economic Corridor (CPAC) projects, funded by foreign investments to the tune of US$ 62 billion (Siddiqui, 2017) has helped Pakistan to address the shortage of capital, as well as, improvement in infrastructure and power generation. A healthy growth in the economy is expected, and Pakistan needs to exploit export potential within economic cooperation organizations including OIC, SAARC, ECO, D-8, and Shanghai Cooperation Organization (SCO), as well as, look beyond traditional markets and focus on ignored regions of Australia, central Asia, Middle East, Africa and South America. Extended trade linkages with almost every jurisdiction (country), during last 12 years (July-03 to June-15), are big assets for Pakistan, offering a huge potential for growth in exports.

## References


Aurangzeb, (2006). Exports, Productivity and Economic Growth in Pakistan: A Time Series Analysis. *The Lahore Journal of Economics* 11 (1), 1-18

Britannica, (2016). Mercantilism, Encyclopedia of Britannica, updated 29th August, https://www.britannica.com/topic/mercantilism [Accessed 29th December 2017]

Bondarenko, P. (2018). Absolute advantage. https://www.britannica.com/topic/absolute-advantage (May 14) [Accessed 28th June 2018]

Chaudhary, M.A. and Qaisrani, A.A. (2002). Trade Instability, Investment and Economic Growth in Pakistan. *Pakistan Economic and Social Review* XI (1), 57-73

CIA Fact Book, (2015). Central Investigation Agency—United States of America; www.cia.gov/library/publications [Accessed 12th December 2015]

Economic Survey of Pakistan, 2017. Overview of the economy, [Accessed 29th December 2017] http://www.finance.gov.pk/survey/chapters_17/overview_2016-17.pdf

Faridi, M.Z. (2012). Contribution of Agricultural Exports to Economic Growth in Pakistan. *Pakistan Journal of Commerce and Social Sciences* 6 (1), 133-46

Harrington, J.W. (2013). International Trade Theory (Geography 349), University of Washington, http://faculty.washington.edu/jwh/349lec03.htm [Accessed 30th December 2017]

HEC, (2015). University wise enrollment of year 2014-15, [Accessed 29th December 2017] http://www.hec.gov.pk/english/universities/Pages/AJK/University-wise-enrollment-of-yearwise.aspx

OIC, (2015).Organization of Islamic Cooperation **www.oic-oci.org** [Accessed 1st December 2015]

Saleem, A. and Sial, M.H. (2015). EXPORTS-GROWTH NEXUS IN PAKISTAN: Cointegration and Causality Analysis. *Pakistan Economic and Social Review* 53 (1), 17-46

SBP, (2015). Monthly Reports on Exports and Imports, [Accessed 28th November 2015] http://www.sbp.org.pk/publications/Pub-Mon.htm www.sbp.gov.pk

Siddiqui, S. (2017). CPEC investment pushed from $55b to $62b. The Express Tribune (April 12). [Accessed 30th December 2017] https://tribune.com.pk/story/1381733/cpec-investment-pushed-55b-62b/

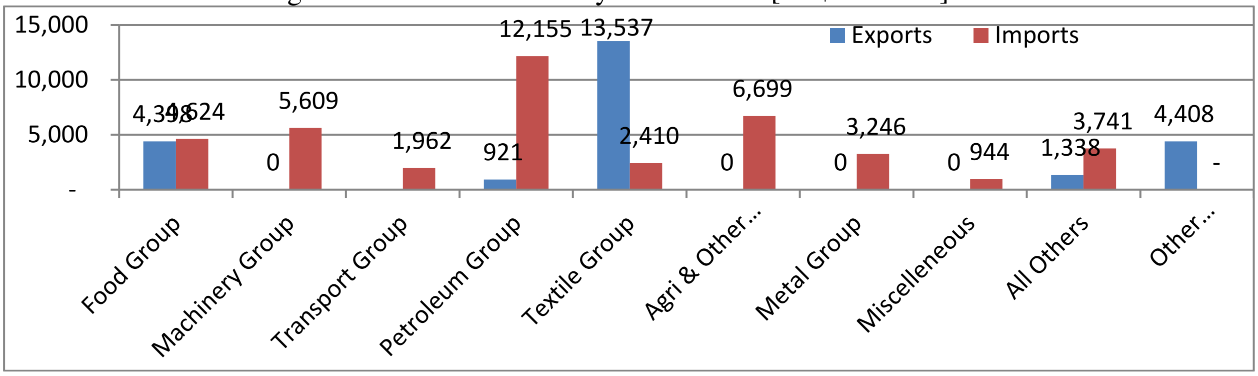
Statista, (2015). Pakistan Average age of Population, [Accessed 29th December 2017] https://www.statista.com/statistics/383227/average-age-of-the-population-in-pakistan/

Suranovic, S. (2017). International Trade: Theory and Policy, v. 1.0--The Theory of Comparative Advantage: Overview. https://catalog.flatworldknowledge.com/bookhub/reader/28?e=fwk-61960-chab#fwk-61960-ch02_s02 [Accessed 30th December 2017]

The Economist, 2017. Volt-face: Pakistan's government is fixing a power shortage. https://www.economist.com/news/asia/21731185-revealing-other-problems-process-pakistans-government-fixing-power-shortage (November 9) [Accessed 29th December 2017]

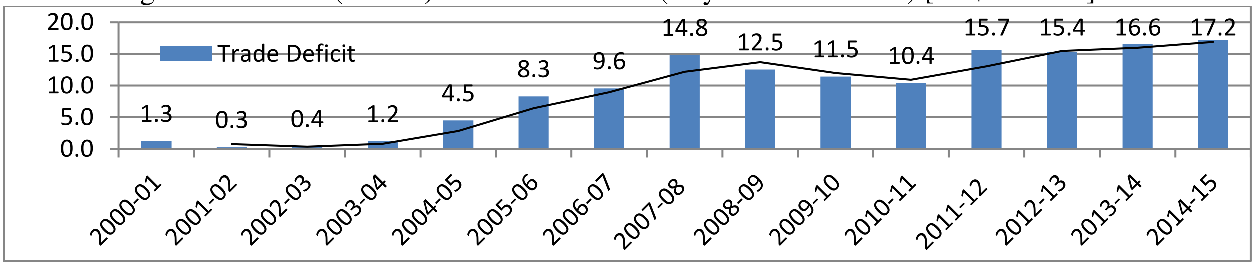
WTO, (2017). World Trade Statistics Review, World Trade Organization, [Accessed 30th December 2017] https://www.wto.org/english/res_e/statis_e/wts2017_e/WTO_Chapter_01_e.pdf

Figure-1. Pakistan Trade July 2014- Jun15 [US$ Millions]



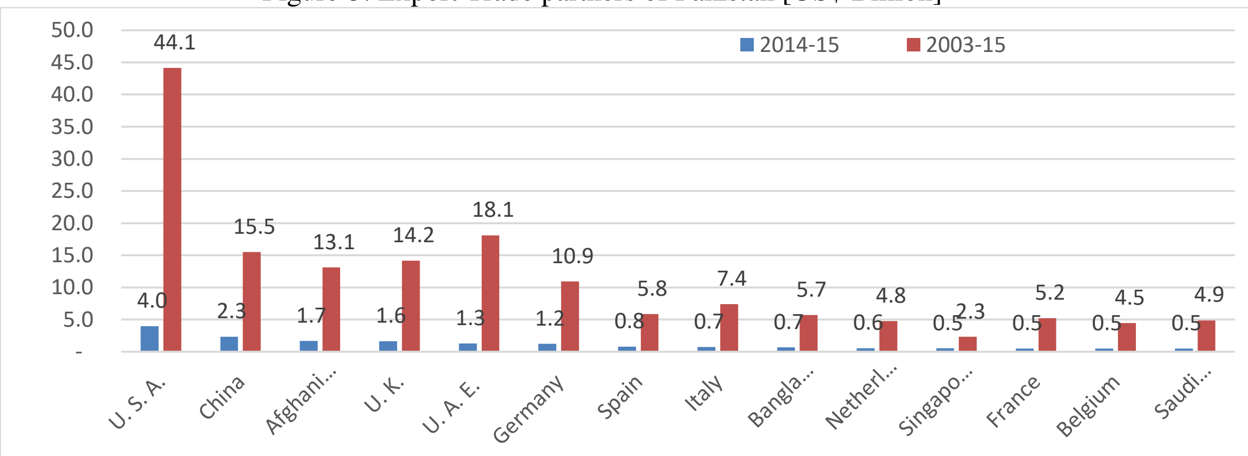

Source: SBP-2015

Figure-2. Balance (Deficit) of Trade-Pakistan (July 2000- Jun 2015) [US$ Billions]



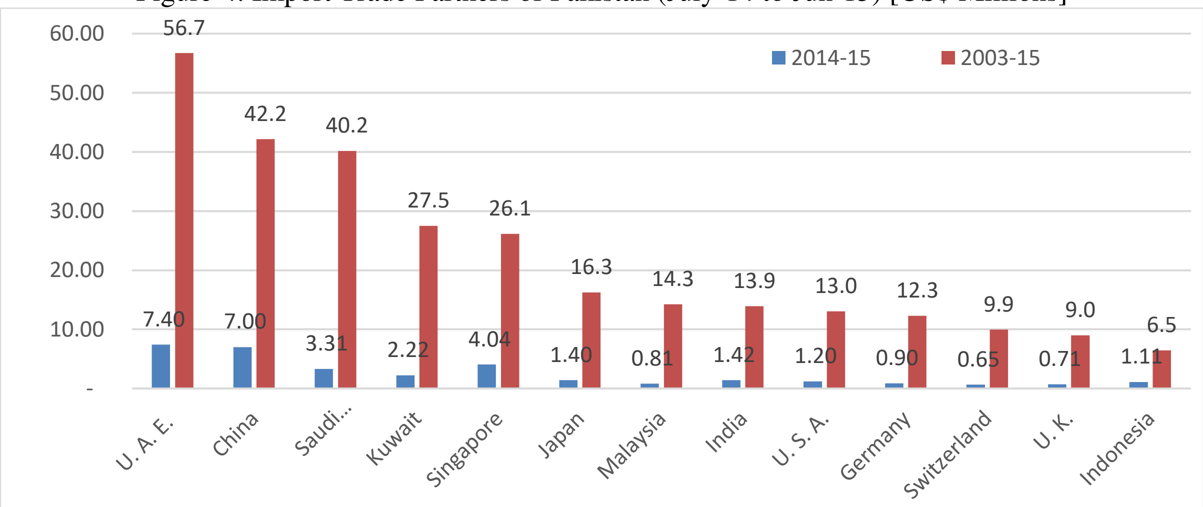

Source: SBP-2015

Figure-3. Export Trade partners of Pakistan [US$ Billion]




Source: SBP-2015

Figure-4. Import Trade Partners of Pakistan (July-14 to Jun-15) [US$ Millions]




Source: SBP-2015

Figure-5A. International Trade Partners of Pakistan (July-14 to Jun-15) [US$ Millions]

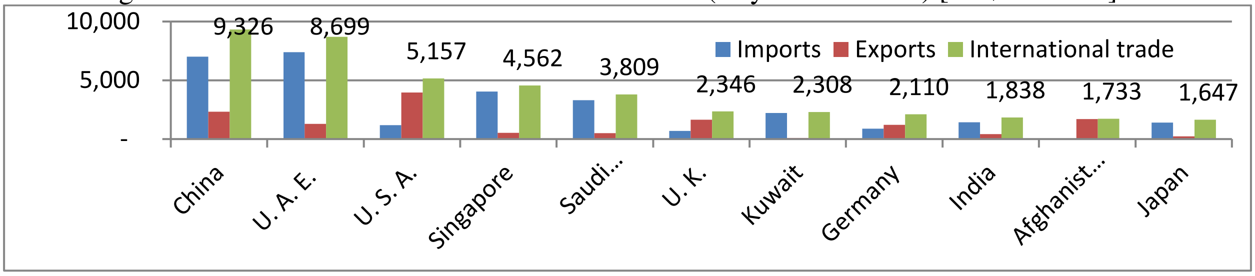
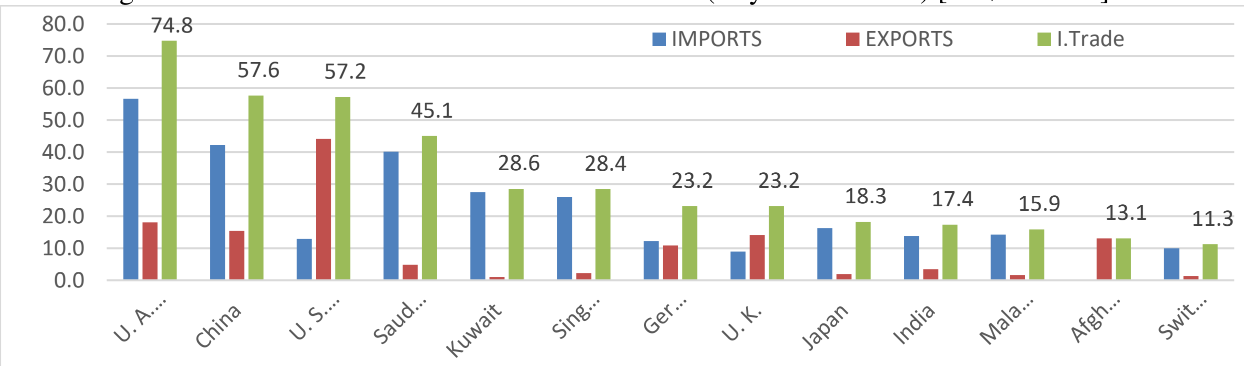
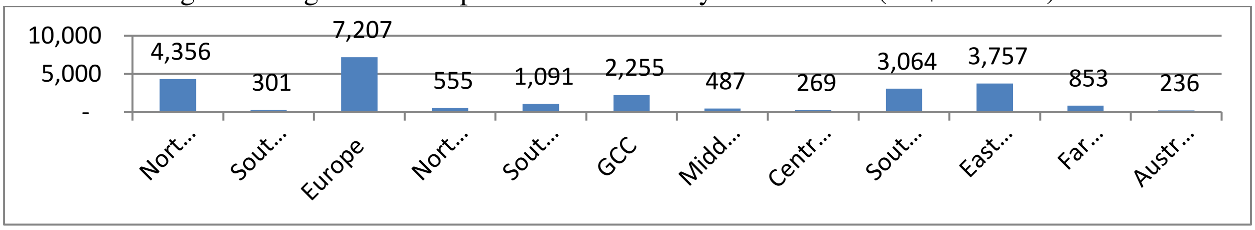



Figure-5B. International Trade Partners of Pakistan (July-03 to Jun-15) [US$ Billions]



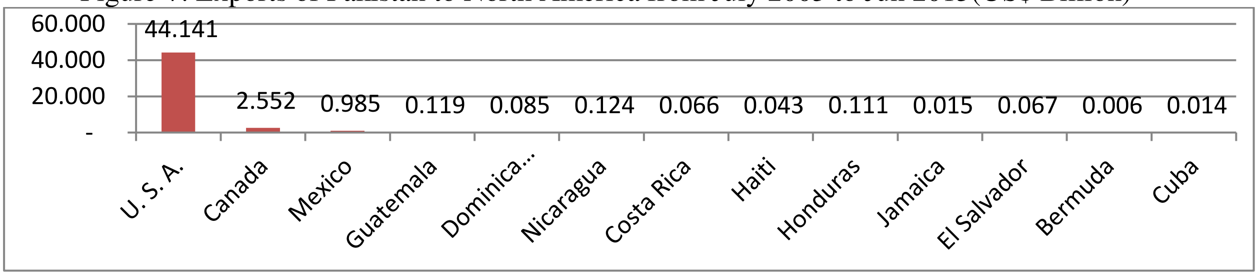

Source: SBP-2015

Figure-6. Region-wise Exports of Pakistan July-14 to Jun-15 (US$ Millions)



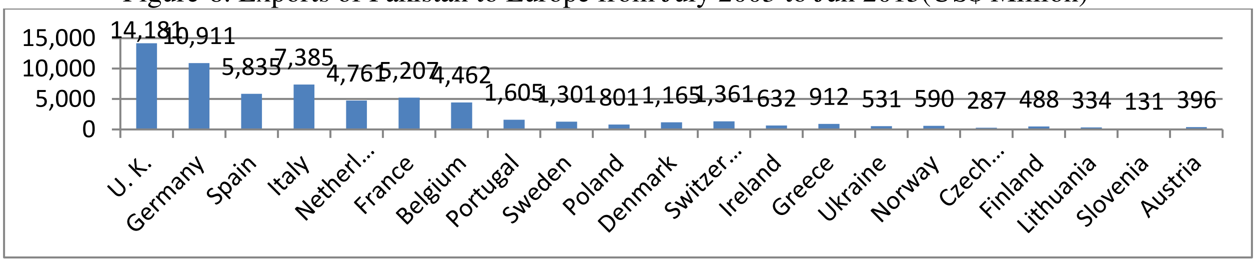

Source: SBP-2015

Figure-7. Exports of Pakistan to North America from July 2003 to Jun 2015(US$ Billion)



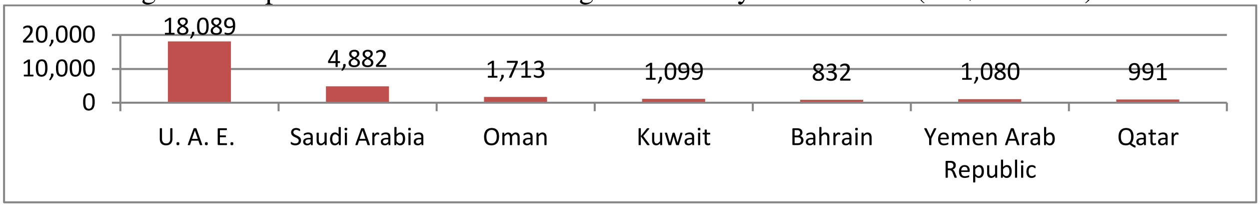

Source: SBP-2015

Figure-8. Exports of Pakistan to Europe from July 2003 to Jun 2015(US$ Million)



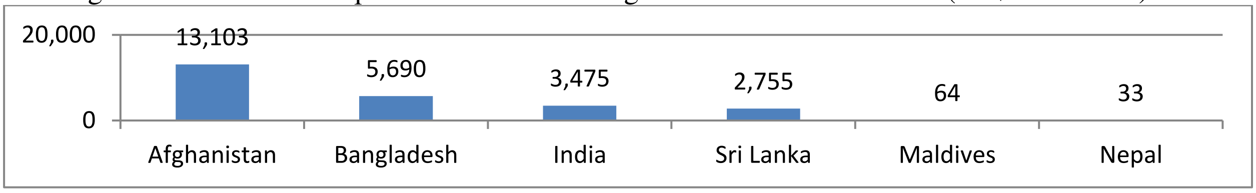

Source: SBP-2015

Figure-9. Export of Pakistan to GCC region from July-03 to Jun-15 (US$ Millions)



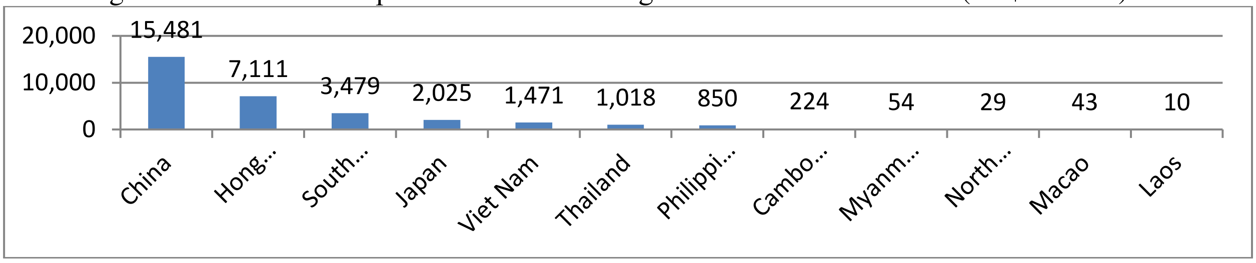

Source: SBP-2015

Figure-10. Pakistan's Export to South Asian Region from Jul-03 to Jun-15 (US$ MILLION)



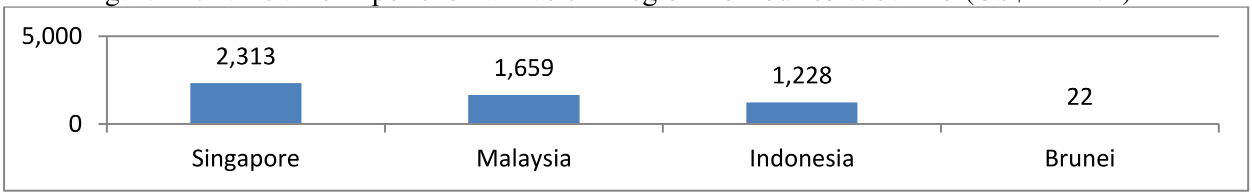

Source: SBP-2015

Figure-11. Pakistan's Exports to East Asian Region from Jul-03 to Jun-15 (US$ Million)



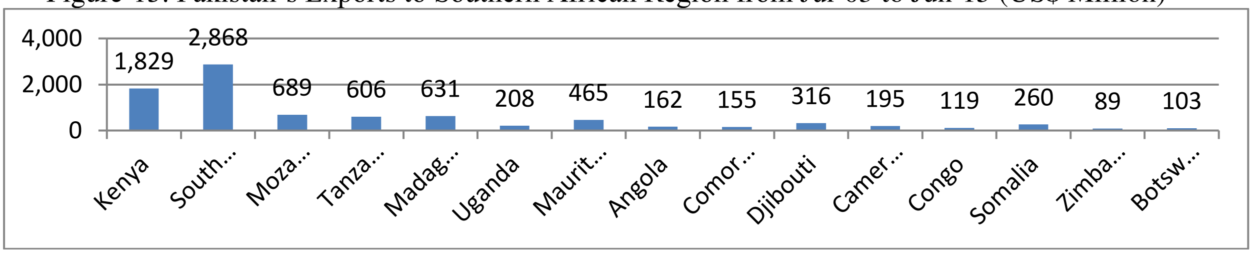

Source: SBP-2015

Figure-12. Pakistan's Exports to Far Eastern Region from Jul-03 to Jun-15 (US$ Million)



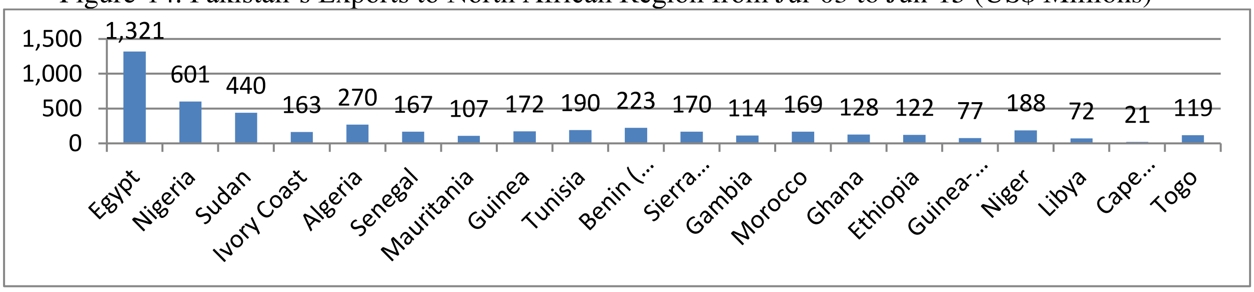

Source: SBP-2015

Figure-13. Pakistan's Exports to Southern African Region from Jul-03 to Jun-15 (US$ Million)



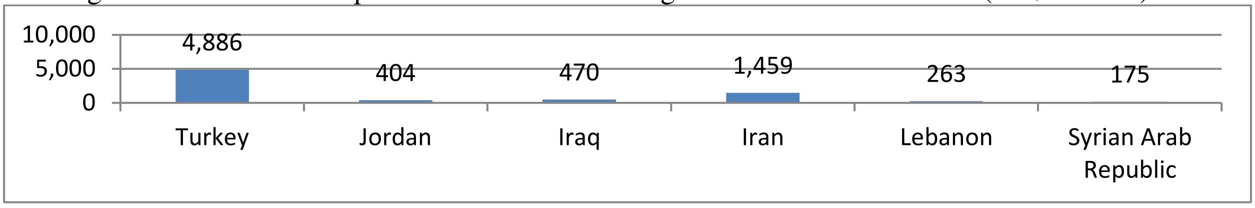

Source: SBP-2015

Figure-14. Pakistan's Exports to North African Region from Jul-03 to Jun-15 (US$ Millions)



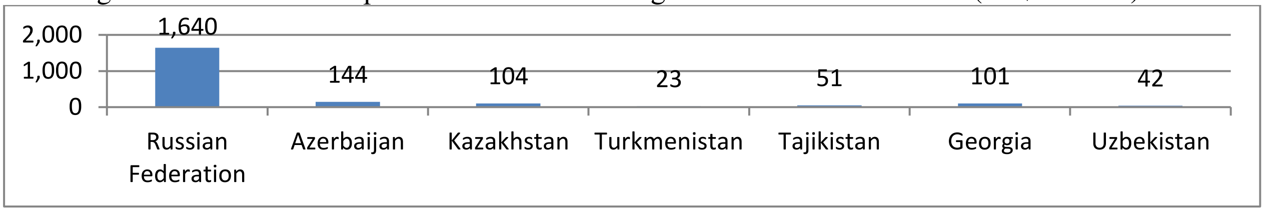

Source: SBP-2015

Figure-15. Pakistan's Exports to Middle Eastern region from Jul-03 to Jun-15 (US$ Million)



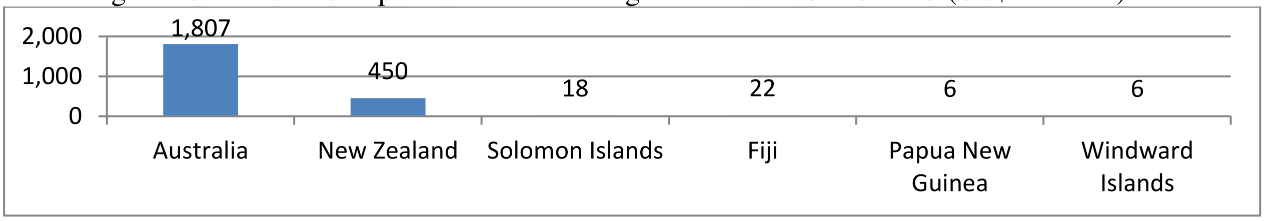

Source: SBP-2015

Figure-16. Pakistan's Export to Central Asian Region from Jul-03 to Jun-15 (US$ Million)



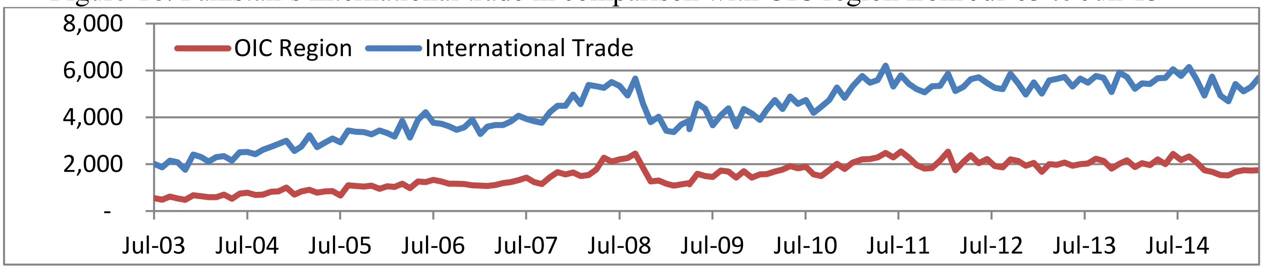

Source: SBP-2015

Figure-17. Pakistan's Export to Australian Region from Jul-03 to Jun-15 (US$ Millions)



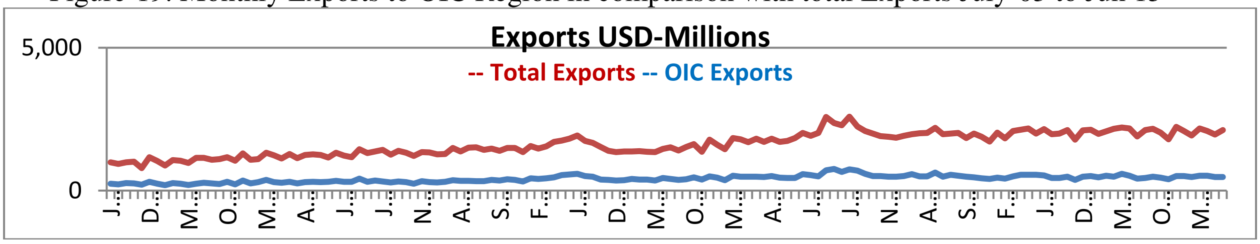

Source: SBP-2015

Figure-18. Pakistan's International trade in comparison with OIC region from Jul-03 to Jun-15



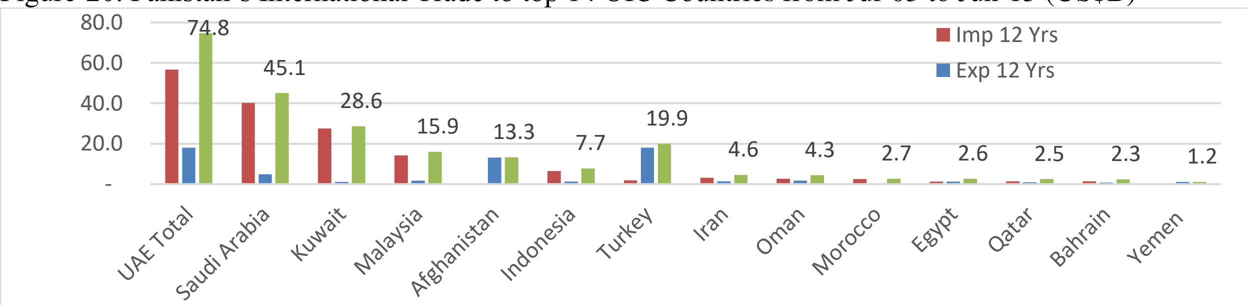

Source: SBP-2015

Figure-19. Monthly Exports to OIC Region in comparison with total Exports July-03 to Jun 15



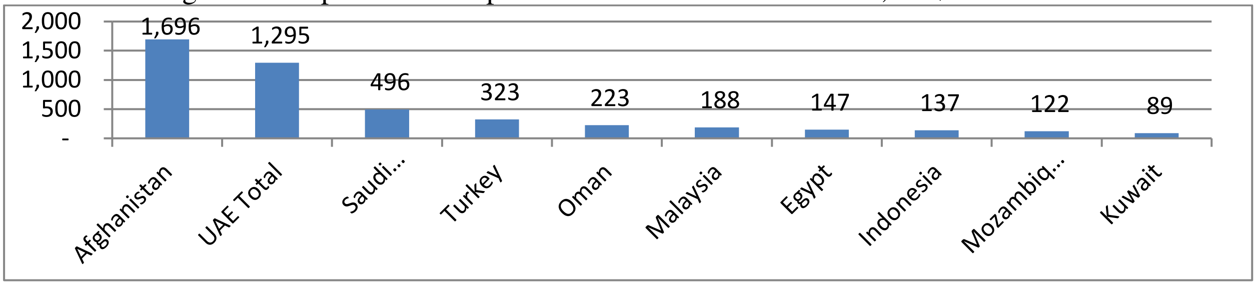

Source: SBP-2015

Figure-20. Pakistan's International Trade to top 14 OIC Countries from Jul-03 to Jun-15 (US$B)



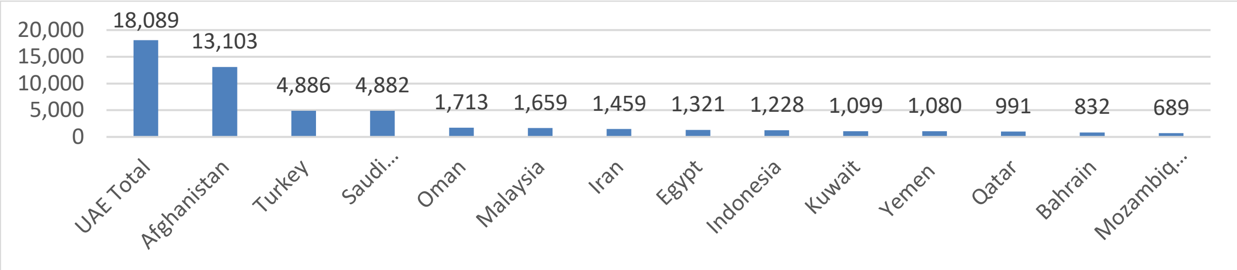

Source: SBP-2015

Figure-21. Top Ten OIC Export Partners of Pakistan 2014-15, US$ Millions



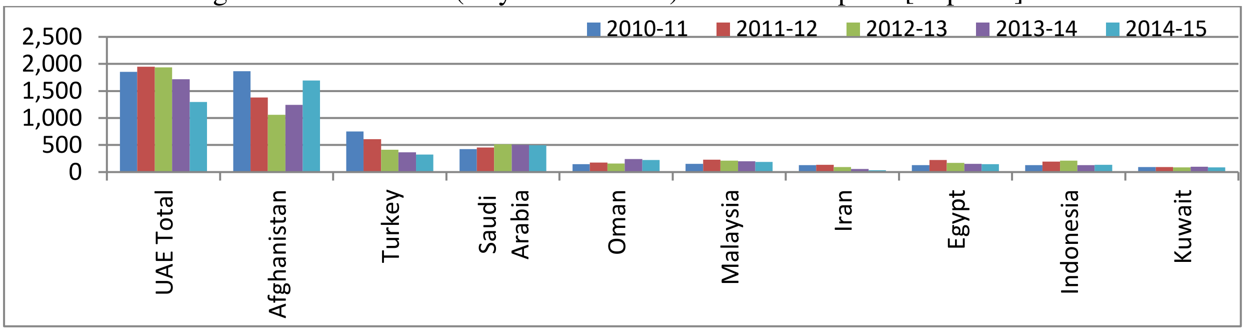

Source: SBP-2015

Figure-22. Top 14 Export partners from OIC region of Pakistan (Jul-03 to Jun-15) US$ Millions



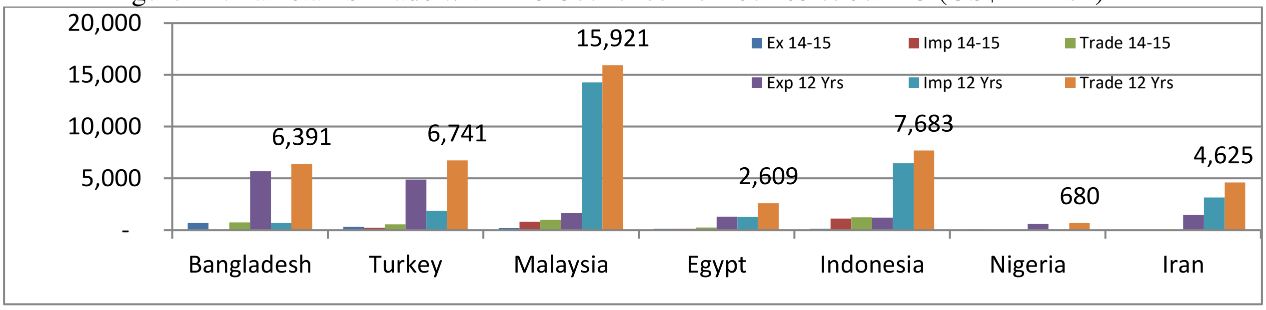

Source: SBP-2015

Figure-23. Five Years (July-10 to Jun-15) Trends in Exports [Top Ten]



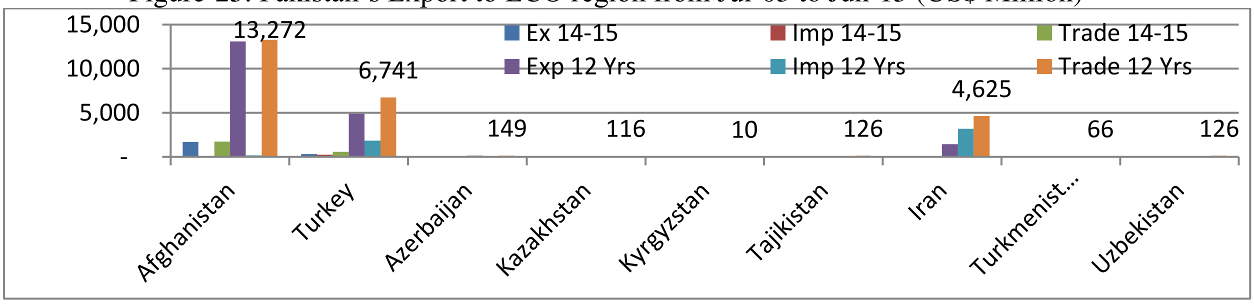

Source: SBP-2015

Figure-24. Pakistan's Trade with D-8 Countries from Jul-03 to Jun-15 (US$ Million)




Source: SBP-2015

Figure-25. Pakistan's Export to ECO region from Jul-03 to Jun-15 (US$ Million)




Source: SBP-2015