Assessing the impact of fta: a case study of pakistan- malaysia fta

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Abstract

The paper focuses on understanding the dynamics of pre and post Free Trade Agreement (FTA) agreement between Pakistan and Malaysia. It makes use of descriptive analysis and SMART model for simulating the impact of trade liberalization and its impact on the local and ASEAN economy. The impact is measured for top five export product of Pakistan and separate case of automobile sector of Pakistan understanding the changes in export, revenue, trade creation and diversion and welfare impact. The results from the descriptive analysis suggests trade in favor of Malaysia while simulation shows increase in export, welfare and trade diversion with automobile sector showing insignificant impact on welfare.

List of key words: Simulation, trade creation, trade diversion, export revenue and welfare

JEl Code: F10, F15 & F17

I- Significance & Objectives of Pak-Malaysia FTA

One of the important tools for increasing trade within the region and between countries is through FTA which allows for movement of goods from one country to another through concessionary trade policy and impacting the changes in factors of production, creative innovation and economic development of the country. The trend and pattern of each FTA differ from each other yet they carry the weight in illustrating the importance of bilateral and regional trade carried through FTA as a mechanism for achieving the goal. This can be also noticed in terms of direction of trade globally with advanced economies having the highest trade in terms of exports and imports followed by emerging and developing economies and developing Asia (IMF data warehouse statistics 2013).

This is illustrated aptly by Aggarwal (2004), showing that more than 50 per cent of global trade is now carried through the FTAs and it has significant importance with special reference to South East Asia and Asia region. Within this context Pakistan and Malaysia has seen an upward shift as part of the regional growth contributors in Asia with one of the reasons attributed to mode increasing trade via FTA. The Bilateral treaty in the form of FTA is the step towards economic integration through international trade impacting Macroeconomic and welfare indicators. It is proven fact that more than 50 percent of the trade takes place within the trading blocs with every country member of one block or another, thus influencing the level of trade, competitiveness and welfare at country level (Mastel 2004).

To improve the trade and economic relationship between the two countries an FTA was signed between Pakistan and Malaysia in order to improve the flow of goods, provide efficiency and expansion of trade both in goods and services plus investment. The objective was aimed keeping in view the increase in trade flow and increase in investment and boosting trade creation between the two countries. Keeping in view the importance of trade liberalization and its impact and economic growth and welfare of the country, both countries providing variety of absolute and comparative advantage in goods and services which will help achieve the objectives. This will help both the countries in long run and will also accelerate economic development of the countries. The pre FTA witnessed an agreement based on early harvest program (EHP) initiated by both Muslim countries in 2006 based Most Favored Nation (MFN) applied tariff rates of January 1st 2005 of both countries for objectives of securing market space and improve economic and trade relation between both the

countries. The FTA officially brought in 2005 was aimed at impacting both the country's economic indicators and this was Malaysia first free trade agreement with any South Asian country.

At the moment nine years has been completed and it is important to evaluate the pre and post trade impact. This is understood keeping in view the domestic viability and comparative advantage of the countries and understanding the tariff structure, product decomposition and pattern and composition of trade products between both the countries. This is also extended with establishing free trade zone which it provides for market opportunities for goods, services and investment, step by step liberalization and promotion of goods and services with cross border investment inflows, increasing the value of trade and investment in both the countries, viable and transparent framework with facilitation from both the Government for relaxation of rules and regulation for free movement of goods and services and closer economic cooperation in future.

Considering the tariff line schedule under FTA Pakistan has offered 125 tariff lines which cover products including fish (2) with tariff rate 5 percent, agriculture/potato (1) with tariff rate 5 percent, nut (1) with tariff rate 5 percent, palm (2) with tariff rate 5 percent, chemicals (2) with tariff rate 0 percent, pharmaceuticals (2) with tariff rate 5 percent, film/chemical (1) with tariff rate 0-5 percent, polymer (2) with tariff rate 5 percent, rubber (8) with tariff rate 0- 5 percent, wood (5) with tariff rate 0- 5 percent, printed matter (1) with tariff rate 5 percent, glass articles (2) with tariff rate 5 percent, Jewelry (2) with tariff rate 5 percent and others goods with tariff rate 5 percent. While Malaysia offered to Pakistan 114 tariff lines including product waiver considering tariff lines including: Fruits (10 & 46), fabric, yarn, textile etc (19& 19) and jewelry (6).

Pakistan will eliminate tariffs on 43.2 percent of the imports from Malaysia by 2012 with same offer to Pakistan from Malaysia on 78 percent of imports. Within the framework of FTA, Pakistan being the second largest importer of palm oil from Malaysia after China to provide tariff discount of 15 percent starting from year 2010. The FTA also covers services and investment sector with Pakistan offering 60 percent foreign equity participation in all investment sectors, while facilitating it with most favored nation treatment with protection to investors. Since signing of free trade agreement the total trade between the two countries has seen an upward trend. It has seen an overall trade increase from US$ 798 million in 2005 to US$ 2365 million in 2012. There is also an opportunity for

expansion for trade and joint ventures for both the countries with Pakistan and Malaysia ideal destination for investment and expansion of trade in various industrial and agriculture products.

II- Status of FTA and Current Composition

Global Comparison Sheet

In terms of global FTA's status and scope, there are in total 261 FTA's out of which 190 are bilateral and 71 is based on Pluralism (ADB Integration Indicators, 2013). The bilateral FTA's have seen an increase from 48 in 2000 to 190 in 2013 suggesting growing trend of bilateralism. The Pluralism has also seen an increase from 7 to 71 but is less than bilateral treaties signed and in implementation process. Currently, out of all FTA's 62 negotiations has been launched while 113 has been agreed, signed and in effect. Moreover, FTA's signed but not in affect is 22 while proposed under consultation is 51 (Asian Integration Indicators, ADB, 2013)

Since 2000 within the sub region South Asia has the highest WTO notified status followed by pacific with implementation for one in East Asia at end of 2013. In across sub region category, East Asia + Southeast Asia have highest WTO notified status followed by 4 in Southeast Asia plus the Pacific. This position is highest for Central and West Asia + Non-Asia Non-Asian Countries. In total since 2000 and increase from 8 to 83 in 2013 has been WTO notified 17 for signed and in affect and 19 for signed but not in effect, negotiations launched in total of 29 and 38 proposed in year 2013. Within the Asia and the Pacific alone there have been in total FTA's in progress with highest for Europe Union (12), Association for Southeast Asian Nations (10) and gulf Cooperation Council (9) followed by other.

If we compare the status of FTA in SAARC region including Malaysia (Annexure I), it is noted that under proposed FTA plan includes: Afghanistan (1), India (7), Nepal (1) and Pakistan (11). Therefore, Pakistan stands the highest in terms of proposed FTA in SAARC region with Malaysia accounting for seven as well. The FTA under negotiation and with signed agreement framework has the highest number for India (4), Pakistan (4) and Bangladesh (2). In this regard the only signed FTA for Malaysia regionally is one, but it is important to note that FTA signed and in implementation stage stands for Malaysia (12), India (13), Pakistan (6) and Sri lanka (4). Therefore in total,

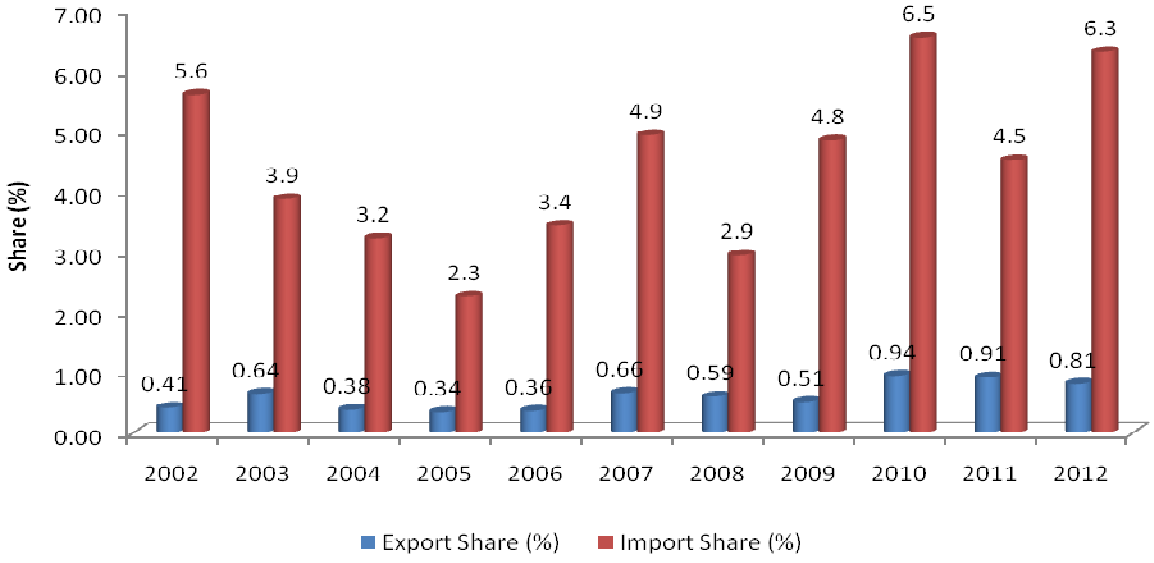
considering the proposed, signed and in effect, negotiations launched and under implementation the position is Afghanistan (5), Bangladesh (6), Bhutan 93), India (34), Malaysia (27), Maldives (3), Nepal (4), Pakistan (27) and Sri lanka (8).

Current State of Trade Composition & FTA Evaluation

The MFN tariffs with final bound for Malaysia with simple average of all goods is 23 with decomposition of agriculture goods at 66.9, non agriculture goods at 14.9 while the applied tariff for 2012 for simple average for all goods is 6.5 percent with decomposition for agriculture goods at 11.2 while for non agriculture goods it is 5.8 percent. Similarly for Pakistan the applied tariff is 13.5 for all good, agriculture goods (15.5%) and non agriculture goods (13.2%) respectively. The period can be divided into three heads considering the pre- early harvest and FTA plan (before 2005), early harvest period (2005-07) and free trade agreement period (2008-2013). Since then the trade has been in favor of Malaysia as provided in

Figure **1** below which provides for export and Import share of Pakistan with Malaysia. The import share has increased more than the export share.

Figure 1: Pakistan-Malaysia trade Composition (%)



Source: State Bank of Pakistan (SBP), 2013

The current trade per capita of Malaysia is US$1681 with export of goods and services at 116 while import of goods and services stand at 131 US$ million. The rank in world trade for Malaysia in 2012 for Merchandise export is 24 with exclusion of intra EU trade it is 18 while for commercial services it is 19. The rank in terms of imports for Merchandise trade is 25 with exclusion of intra EU trade it is 19 while for commercial services it is 29. Similarly, for Pakistan the trade per capita in US$ is 407 with exports of goods and services at US$106 while the imports for 2012 in terms of goods and services is US$115. The rank of merchandise trade in 2012 for Pakistan in terms of export is 69 with imports at 58 while excluding intra trade with EU it is 48 for exports and 40 for imports.

The Malaysia economy is characterized by export of palm oil, tin and rubber, electronic equipments, semi-conductor devices, audio & video devices, electric motor & generators, mineral fuels (petroleum gasses, cokes, crude oil, coal tar), machinery (computer accessories, hard disk drives, air-conditioners, refrigerators, vacuum pumps) and primary industry (Animal and vegetable fats, oil). Regionally speaking, ASEAN has been the biggest integrator to Malaysian export growth with Malaysia multiplying its integration status expansion to currently eight signed FTA including Turkey, Pakistan, New-Zealand, Chile, India, Australia, Japan and EU. Much of the Malaysian global exports are towards the ASEAN with products including electronic equipments, petroleum products, Computers, and semi-conductors. Besides this at country level China is second major trading partner (12.6%) and Hong Kong (5.09%).

Since signing of FTA between both the countries, the cooperation has been sorted out through different modes for monitoring, sharing of ideas, boosting trade and evaluation purpose which include:

- Formation of Joint Economic Commission (JEC)
- Malaysia- Pakistan Business Council (MPBC)
- Revenue Committee (RC)

The Pakistan-Malaysia Business Council was launched on May 30, 2011 with primary objective is to develop a stronger working relationship between Pakistan and Malaysia's business communities and encourage bilateral trade. Currently, one meeting has been held between Pakistan- Malaysia MPBC and two meetings held on JEC at Government level. The purpose of the meeting was to review the FTA and advice about impediments on the smooth implementation of FTA between the two

countries. The first joint business council bilateral meeting was held by members of Pakistan and Malaysia on 27th and 28th February 2012 at Matrade. The members recommended and provided position papers on review meeting of FTA between both the countries with FTA still tilted more in favor of Malaysia. On similar lines revenue committee has submitted its report in 2013 stating many products of interest to Pakistan still to be provided fast track and concessional treatment as agreed in FTA. Both the MPBC and RC have provided proposals for broadening and easing trade restriction for increasing trade flows under the liberalized plan of action.

The JEC held several meeting with its counterpart for steering the recommendation and working together for streamlining the proposals by MPBC and RC. The review meetings have helped not only Pakistan but also Malaysia in better understanding the challenges comforted in implementing FTA in letter and spirit for securing better market access by addressing tariffs and non-tariff measures while strengthening technical cooperation in specific industries. It was also proposed during JEC that Ministry of Plantations Industries and Commodities for the Malaysian Palm Oil Board to have regular presence in Pakistan for steering the advantage offered in the palm industry with concessional treatment given by Pakistan.

In the follow up meeting, Pakistan side has proposed minimizing the trade gap between the two countries with trade in favor of Malaysia with policy concern that under Tariff Rate Quota (TRQ) provided, Pakistan side has yet to benefit from it with not even exported single products under this category to Malaysia over the last five years. Currently, Malaysia has offered 17 line items covering poultry products (food products category) and 300 tonnes offered to agriculture product line (round cabbage) with Pakistan not exporting a single product under TRQ offered by Malaysia. Therefore, the review meeting has analyzed these shortcoming in improving trade between the two countries for market access of 17 products offered by Malaysia and also market its products (textile and agro-sector) falling under fast track & normal track with 0 percent and 75 percent respectively. It was also agreed recently, that Pakistan may be provided tariff concession mainly on mangoes for reducing trade imbalance between the two countries under the guise of FTA.

Pakistan will reduce tariff on 7 palm oil tariff lines by 15 per cent Margin of Preference (MoP) that is 10 per cent in 2008 and an additional 5 per cent in 2010. There will, however, be no reduction on the rates of sales tax / Federal excise duty levied at 15% and withholding tax charged @ 2% on the

imported palm oil. In Trade in Services, both countries have provided WTO plus market accesses to each other. In the field of computer and I.T related services, Islamic Banking, Islamic Insurance (Takaful) Pakistan has secured 100% equity in Malaysia. . Mutual Recognition arrangements are also a part of the FTA.

III- Methodology and Data

This paper makes use of SMART methodology to evaluate and understand the impact/potential of the Pakistan- Malaysia FTA. The framework of partial equilibrium model (SMART)- Software for Market Analysis and Restrictions on Trade is used in assessing the trade impact, tariff revenue and welfare effects of an FTA under different tariff scenario for top five export of Pakistan (Cotton, Cereals, Edible vegetables certain roots and tubers, Fish, crustaceans etc and raw hides and skins and leather under HS-2 code category) with latest year available in WITS. We use the SMART model to capture the economic effects of preferential tariff liberalization in Malaysia import market. We make assumption of reducing the tariff to zero for top Pakistan export products from Pakistan and keeping the existing rates for ASEAN group of countries of which Malaysia is an important part of regional group. Similar analysis is carried for automobile sector concentration in Malaysia market at fully liberalized zero tariff trade policy measure which according to FTA is yet to be implemented in letter and spirit at end of year 2012.

The descriptive analysis is carried out to gauze the impact of trade policy change and its impact on overall flows and trade benefit. The simulation illustrate's with investigating the change in Malaysia market if full liberalization takes place for exporting products for Pakistan and more specifically for automobile sector. This is measured with change in tariff revenue, export and trade change and welfare impact on the host economy and on the ASEAN economies (being non member in this analysis) with no tariff change of relevant product trade with Malaysia economy. The simulation is done keeping assumption in SMART model with imports differentiated by national origin and FTA requiring not all shift from one country to other non member countries. The inbuilt data is accounted for COMTRADE, TRAINS, and WTO data on trade and tariff, para-tariff and nontariff trade barriers which also include the parameter values for Import-demand elasticity and Substitution elasticity estimated by World Bank, but can also be changed depending on nature of trade flows. In this analysis we keep the same assumption with only change in tariff scenarios with output

dependent on change in import value and tariff value for a single good with changes reflecting measures of trade creation and diversion for specific product and origin of flows.

IV- Descriptive Pre and Post FTA Analysis

In case of Pakistan, it has taken several steps from FTA, bilateral trade treaties and regional integration towards expansion of trade within the region and globally. This includes liberalization, preferential trade agreements, privatization and FTA's. The average custom tariff has now come down to 14 percent. Pakistan has transferred itself from agro based economy to an industrial economy with textile and clothing sector as biggest contributor of exports followed by export of traditional agro based products like rice and manufactured products like leather, sports goods, gems & jewelry, salts and mineral fuel. As compared to Malaysia regional trade pattern, Pakistan position is different with major trade taking place with non FTA member countries which includes United States which hovers between 17 and 23 percent share of total imports respectively. Pakistan main imports comprises mainly of Mineral fuels which share in export is around 30 percent followed by Machinery (8%), electronic equipment (6.5%), Animal and vegetable oil (4.9%), organic chemical (4.59%) and iron and steel (4.52%).

Moreover, Malaysia has comparative advantage in capital equipment with Pakistan gateway to resource-rich Central Asian States. Since 2002 Pakistan export share to Malaysia has increased from 0.41 to 0.81 percent in 2012 while the import share considering the same period has increased from 5.6 to 6.3 in 2012. Therefore, suggesting that Malaysia has comparative advantage in trade. Since the signing of trade in 2005, Pakistan export share has seen an increase from 0.34 percent to 0.81 in 2012 with drop in year 2008 and 2009 with percent export share to Malaysia standing at 0.59 and 0.51 respectively. The import share considering the period 2005 after signing of FTA has seen an increase from 2.3 percent to 6.3 percent respectively. Therefore, suggesting again that trade advantage has been more to Malaysia with increase in Pakistan import share with Malaysia after signing of Free trade agreement between the two countries.

Considering the strength of export and import of Pakistan and Malaysia and its global position with signed tariff lines agreed under FTA we now analyze the position of each country. In case of Pakistan export to Malaysia starting from year 2003 to 2013, it is noted that cereals still occupies the

highest export share with increase from 18 percent in 2003 to 45.3 percent respectively, Cotton from 16.5 percent to a drop of 11.1 percent, Fish, crustaceans, molluscs, aquatic invertebrates from 7.4 to 7.8 and and other products have shown the same increase or decrease witnessed before the FTA (WITS calculation annual percent change of products). Therefore, the products which have comparative advantage for Pakistan in Malaysia includes the cereals, cotton, textiles and mining, articles etc. It is interesting to note that except cereals, after post FTA cotton, other made textiles & Mining, edible vegetables and food products plus articles of apparel, gums and organic chemicals have witnessed a downward trend. In other words, the products of high weight age to export contribution of Pakistan has witnessed a drop since signing of FTA with other some new products in the list showing increase but only marginal.

In terms of import share with Malaysia with product decomposition considering (HS-2 code), it can be noticed that Animal, vegetable fats and oils, cleavage products occupies the largest share with 71 percent share in 2003 which has drop to 66.2 percent in 2013 but still is influential in impacting the trade balance. The second one is mineral fuels, oil, distillation products which have seen enormous increase from 0.1 percent in 2003 to 15.8 percent in 2013. This is followed by Machinery, nuclear reactors, boilers etc with 4 percent share in 2013 and rest share is occupied by other products. Since signing of FTA the first two products have seen an enormous increase and Pakistan demand for Machinery, animal vegetable fats etc and mineral have increased substantially.

It is concluded, that since signing of FTA, the liberalized policy has been more in favor of Malaysia with products from Pakistan side have seen an increase but as compared to Pakistan imports from Malaysia the increase in smaller. Moreover, there are new products which have shown increase and potential to increase further, but this would depend highly on trade policy and other measures on Malaysia side for liberalizing tariff regime for Pakistan products to enter the market.

V- Competitiveness Analysis

For competitive analysis we use disaggregated commodity-wise imports and exports data derived from UN COMTRADE database. In order to evaluate the product and industry level specialization of both the countries in terms of exports and imports using the Revealed Comparative Advantage (RCA) Index, competitiveness affect, diversification of product, adaptation and geographical

specialization. Under the RCA calculation for year 2012 Pakistan top categories with comparative advantage include textiles, clothing, electrical equipment, telecommunications, boilers, mechanical appliances, food products, apparels and to some extent in those products which is directly or indirectly linked with these industrial products for production, while for Malaysia it includes machineries, animal vegetable fats etc and mineral, cereals, vegetables, dairy products ores, salt, sulphur, stone, chemicals etc.

VI- Other Competiveness Index Performance

It is noticed that fresh food has high product diversification for Malaysia as compared to Pakistan. The initial geographical specialization and adaptation affect remains similar with Pakistan having advantage in product specialization with Malaysia. This kind of trend is noticed similarly for processed food and wood products with each other (Annexure I).

In textiles which is an important sector for Pakistan with comparative advantage it is noticed that both show similar trend with each other with Pakistan having edge in market share and product diversification in Malaysia market plus product specialization. This is similarly noticed for leather industry but also shows good performance for Malaysia as well showing market improvement of Malaysia growing industry market share in Pakistan and diversification. The product diversification for product diversification in chemicals is high for Pakistan with less market diversification and product specialization including adaptation affects. In basic manufacturing both exhibit similar trends but Malaysia shows strong pattern in IT and consumer electronics and machinery equipment's and mineral which have high value of comparative advantage for the country as well specific to trade with Pakistan.

VII- Outcome of the SMART Model

The result of the simulation done with SMART model using WITS is recorded at Annexure II & III. For the simulation import tariff are reduced to zero for Pakistan with all other ASEAN countries included in the model continue to face the same tariff with no change in it. It can be inferred from the results that majority of the ASEAN countries suffer a drop in exports to Malaysia with increase in Pakistan export share and concentration in Malaysia market, with the exception that there is no

significant change noticed for products of edible vegetables and certain roots and tubers and raw hides and skins (other than furskins) and leather. The total reduction for Malaysia import terms of exports change in revenue in 1000 USD for fish and crustaceans etc are: Indonesia (0.2), Myanmar (0.1) and Thailand (0.1) with no change noticed for Singapore and Vietnam.

Therefore under this category, there is no significant decrease with zero tariff import policy for Pakistan. For cereals the drop of exports change in revenue includes Myanmar (103.6), Thailand (2089) and Vietnam (8077.4) with no change for Indonesia and Singapore. Therefore, suggesting that for this product Vietnam is affected the most while for Cotton the change in drop of export revenue is noticed for Indonesia (112.6), Singapore (2.5), Thailand (65.8) and Vietnam (128.3) with no change for Myanmar. Under this category, Indonesia is affected the most with zero tariff policy for Pakistan.

The results suggest that product change is different for different categories of product depending on nature of comparative advantage of each country of the product they export to Malaysia and that is affected with concessional zero tariff policy to Pakistan by Malaysia. The results also indicate increase in export change in revenue in 1000 USD for Pakistan with zero tariff policy by the host economy. The results indicate increase of fish and crustaceans etc. (2), cereals (12235.2) and Cotton (1801). The results for Pakistan suggest the highest increase for all products of comparative advantage to Pakistan with highest beneficiary of cereals exports in Malaysia market.

In terms of trade impact under zero tariff policy for Pakistan, the trade creation of Malaysia with world measured in 1000 USD is 0.9 for fish and crustaceans etc., 1695.4 for cereals and 1009.1 for Cotton. The trade diversion under this policy with Indonesia results in 0.24 for fish and crustaceans etc and 112.56 for Cotton with no change in cereals. Similarly the trade diversion for Myanmar results in 0.11 for fish and crustaceans etc and 103.61 for cereals with no change in Cotton, while for Singapore the change are witnessed in the form of 0.01 for Cotton and 2.55 for cereals with no change in fish and crustaceans etc. Thailand shows trade diversion of 0.09 for fish and crustaceans etc., 2088.99 for cereals and 65.76 for Cotton, with Vietnam showing trade diversion of 0.01 for fish and crustaceans etc., 8077.42 for cereals and 128.31 for Cotton. The trade creation and trade diversion of Malaysia with Pakistan under this tariff scenario will show change of 0.9 and 1.01 for fish and crustaceans etc, 1695.4 and 10539.76 for cereals and 1009.1 and 791.84 for Cotton

respectively. This indicates a significant change for cereals and Cotton product in terms of trade creation and diversion. Under the trade diversion scenario, impact is high on Vietnam and Thailand with change in cereals trade flow and for Indonesia and Vietnam with change in Cotton trade flow no insignificant change in fish and crustaceans etc. Thus, indicating that Vietnam is affected the most by this policy with trade diversion in Cereals and Cotton both simultaneously. Considering the welfare impact, the results from the model under this scenario suggests that there will be negative revenue affect of Malaysia in terms of these products with zero tariff policy with positive total trade affect and value measured in 1000 USD with significant increase in welfare impact on the local population. The highest trade effect and welfare impact is noticed for Cereals with 1695.4 total trade effect and 622.673 welfare impact followed by Cotton with values of 1009.116 and 52.007 respectively.

The results from the simulation of Automobile sector taking category of HS-mode 2 of vehicles other than railway or tramway rolling stock, and parts and accessories thereof under the FTA agreement is still to be materialize fully and we simulate the impact of this product change under scenario of 10 and zero percent tariff change by Malaysia tariff trade policy. The results show that there is positive change of 0.149 with 10 percent reduction of tariff policy and 14.85 of export change in revenue measured in 1000 USD with zero tariff policy. There is no change in export for any other ASEAN country under this policy scheme with only change noticed for Thailand with drop of 0.005 with assumption of 10 percent tariff policy and 0.149 with zero tariff policy. This suggests insignificant decrease showing that 10 percent drop in current rate and zero tariffs does not seriously impacts the export revenue change of Malaysia with other ASEAN block.

Understanding the trade impact of automobile sector liberalization under different tariff scenario's, the result indicate trade creation of 0.054 and 5.466 under 10 and zero tariff assumption measured in 1000 USD. Malaysia trade creation and diversion with Pakistan stands at 0.054 and 0.095 respectively under fist assumption, while 5.466 and 9.389 under second assumption of zero tariff policy by Malaysia for Pakistan automobile sector. There is insignificant change notic3ed for many ASEAN countries with this policy in action with no and less change of trade creation and diversion with Malaysia. In terms of measuring revenue and welfare, the results indicates miniature drop in revenues under both tariff measures assumed with increase of welfare of 0.004 and 0.425 respectively for both tariff scenarios and trade policy change for automobile product of Pakistan.

VIII- Conclusion & Recommendation

The state of FTA and its implication is still highly debated in the context of its impact on the overall economy and especially on the welfare of the country. In the context of Pak- Malaysia, several studies were conducted understanding the dynamics of change in terms of overall trade and potential sector of influencing trade patterns since signing of FTA, but none of the studies have focused on policy direction and trade policy for future sectoral products of interest to the host economy. The current results indicate and direct the policy makers to be cautious in terms of granting full liberalization scheme which at some instance will not benefit greatly. This is seen in the case of automobile sector where result suggest that even if Malaysia grants full zero tariff to the Automobile sector it does not impact the overall trade creation and diversion and welfare in the economy. In the light of these results it is important to investigate the potential of the sector before fully liberalizing it. This holds true both for Pakistan and Malaysia which have recognized potential export sector in addition to top export of interest and pre determine the innovation, competitive structure and capacity of the sector to be launched for the promotion of trade sector.

In line with this, the results for the top exports show benefit for Pakistan in three products with rest making no change or indicative of the pattern that ASEAN country with similar export potential in products, there is no difference to be seen in welfare export revenue impacting the welfare. This was noticed for increase in trade diversion with ASEAN with increase in trade form Pakistan impacting the welfare positively but the research question in future would need to analyze the magnitude of welfare impact other countries (ASEAN) imparts on the Malaysian economy and then the final decision is reached. Although, FTA has benefitted a lot in terms of bilateral trade but similar developing and trade structure sometimes benefits one economy at the cost of other share and future deliberation will rest on measuring the extent to which FTA has been successful in accomplishing and balancing the nature of trade gap as explained above for the policy makers.

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Annexure I: Performance of trade Indicators in terms of Indices

Indicator's Description (Value)	Share in world market (%)		Product diversification		Market diversification		Competitiveness effect (%)		Initial geographic specialization (%)		Initial product specialization (%)		Adaptation effect (%)	
	Pak	Mal	Pak	Mal	Pak	Mal	Pak	Mal	Pak	Mal	Pak	Mal	Pak	Mal
Fresh Food	0.01	0.01	4.00	5.00	9.00	23.00	-0.03	0.05	0.02	0.02	0.10	0.05	-0.05	-0.02
Processed food	0.04	0.00	4.00	6.00	17.00	2.00	0.01	0.04	0.04	0.05	0.02	0.02	0.00	0.02
Wood Products	0.02	0.00	14.00	4.00	12.00	2.00	-0.03	-0.03	0.03	0.06	-0.03	0.03	0.01	0.32
Textiles	0.01	0.03	21.00	25.00	22.00	15.00	-0.01	-0.01	0.04	0.00	0.00	0.02	-0.01	-0.01
Chemicals	0.01	0.00	55.00	11.00	11.00	17.00	-0.01	0.05	0.04	0.01	0.01	0.06	-0.02	0.01
Leather Products	0.00	0.00	11.00	7.00	13.00	12.00	-0.06	0.02	0.03	0.00	0.02	-0.02	-0.04	-0.04
Basic manufacturing	0.01	0.00	53.00	16.00	15.00	13.00	0.03	0.07	0.03	0.01	0.00	0.00	-0.01	-0.01
Non Electronic Machinery	0.01	0.00	31.00	16.00	14.00	13.00	0.06	0.07	0.02	0.01	0.00	0.00	-0.02	-0.01
IT & Consumer Electronics	0.03	0.00	9.00	3.00	13.00	6.00	-0.06	-0.07	0.00	0.05	-0.02	0.01	0.01	-0.06
Electronic components	0.04	0.00	3.00	7.00	9.00	2.00	-0.01	-0.03	0.00	0.07	-0.09	0.04	0.10	-0.04
Transport Equipment	0.00	0.00	13.00	12.00	14.00	12.00	0.02	-0.17	0.07	-0.02	0.04	0.02	-0.10	0.00
Clothing	0.01	0.01	2.00	18.00	7.00	5.00	-0.02	0.02	0.02	0.00	0.04	-0.02	0.00	-0.02
Misc. Manufacturing	0.01	0.00	32.00	6.00	12.00	7.00	0.02	0.03	0.02	0.03	0.02	-0.01	-0.04	0.02
Minerals	0.01	0.00	3.00	2.00	6.00	3.00	-0.06	-0.01	0.08	0.09	0.06	-0.06	-0.08	-0.04

Source: World Integrated trade solution (WITS), World Bank, 2013

Annexure II: Simulation of Top Exports products at fully liberalized zero tariff Policy

Reporter	Partner	Prod. Code	Export Change In Revenue(1000 USD)
Malaysia	Indonesia	3	-0.2
Malaysia	Indonesia	10	0.0
Malaysia	Indonesia	52	-112.6
Malaysia	Myanmar	3	-0.1
Malaysia	Myanmar	10	-103.6
Malaysia	Pakistan	3	2.0
Malaysia	Pakistan	10	12235.2
Malaysia	Pakistan	52	1801.0
Malaysia	Singapore	3	0.0
Malaysia	Singapore	10	0.0
Malaysia	Singapore	52	-2.5
Malaysia	Thailand	3	-0.1
Malaysia	Thailand	10	-2089.0
Malaysia	Thailand	52	-65.8
Malaysia	Vietnam	3	0.0
Malaysia	Vietnam	10	-8077.4
Malaysia	Vietnam	52	-128.3

Reporter	Partner	Prod. Code	Trade Total Effect (1000 USD)	Trade Creation (1000 USD)	Trade Diversion (1000 USD)
Malaysia	World	3	0.9	0.9	0

Malaysia	World	10	1695.4	1695.4	0
Malaysia	World	52	1009.1	1009.1	0
Malaysia	Indonesia	3	-0.2	0.0	-0.24
Malaysia	Indonesia	10	0.0	0.0	0.00
Malaysia	Indonesia	52	-112.6	0.0	-112.56
Malaysia	Myanmar	3	-0.1	0.0	-0.11
Malaysia	Myanmar	10	-103.6	0.0	-103.61
Malaysia	Pakistan	3	2.0	0.9	1.01
Malaysia	Pakistan	10	12235.2	1695.4	10539.76
Malaysia	Pakistan	52	1801.0	1009.1	791.84
Malaysia	Singapore	3	0.0	0.0	0.00
Malaysia	Singapore	10	0.0	0.0	-0.01
Malaysia	Singapore	52	-2.5	0.0	-2.55
Malaysia	Thailand	3	-0.1	0.0	-0.09
Malaysia	Thailand	10	-2089.0	0.0	-2088.99
Malaysia	Thailand	52	-65.8	0.0	-65.76
Malaysia	Vietnam	3	0.0	0.0	-0.01
Malaysia	Vietnam	10	-8077.4	0.0	-8077.42
Malaysia	Vietnam	52	-128.3	0.0	-128.31

Reporter	**Prod. Code**	**Revenue Effect (1000 USD)**	**Trade Total Effect (1000 USD)**	**Trade Value (1000 USD)**	**Welfare (1000 USD)**
Malaysia	3	-0.709	0.947	583087.9	0.02
Malaysia	10	-14194.3	1695.432	1465298	622.673
Malaysia	52	-791.799	1009.116	281344	52.007

Annexure III: Simulation of Automobile Sector with Change in Trade Policy

Description			10 percent tariff	Zero tariff
Repor. Name	**Part. Name**	**Product Code**	**Export Change In Revenue in 1000 USD**	**Export Change In Revenue in 1000 USD**
Malaysia	Indonesia	87	0	-0.011
Malaysia	Myanmar	87	0	0
Malaysia	Pakistan	87	0.149	14.855
Malaysia	Philippines	87	0	0
Malaysia	Singapore	87	0	-0.001
Malaysia	Thailand	87	-0.005	-0.149
Malaysia	Vietnam	87	0	-0.001

Description			10 percent tariff		Zero tariff	
Repor. Name	**Part. Name**	**Prod. Code**	**Trade Creation (1000 USD)**	**Trade Diversion (1000 USD)**	**Trade Creation (1000 USD)**	**Trade Diversion (1000 USD)**
Malaysia	World	87	0.054	0	5.466	0
Malaysia	Indonesia	87	0	0	0	-0.011
Malaysia	Myanmar	87	0	0	0	0
Malaysia	Pakistan	87	0.054	0.095	5.466	9.389
Malaysia	Philippines	87	0	0	0	0
Malaysia	Singapore	87	0	0	0	-0.001
Malaysia	Thailand	87	0	-0.005	0	-0.149
Malaysia	Vietnam	87	0	0	0	-0.001

Description	10 Percent tariff	Zero tariff

Repor. Name	Prod. Code	Revenue Effect (1000 USD)	Trade Total Effect (1000 USD)	Welfare impact (1000 USD)	Revenue Effect (1000 USD)	Trade Total Effect (1000 USD)	Welfare impact (1000 USD)
Malaysia	87	-0.062	0.054	0.004	-7.559	5.466	0.425