Chapter-13

INTERNATIONAL TRADE

1. CONTRIBUTION OF FOREIGN TRADE TO ECONOMIC DEVELOPMENT

There is no country in the world today which produces all the commodities it needs. Every country, therefore, tries to produce those commodities in which it has comparative advantage. It exchanges part of those commodities with the commodities produced by other countries relatively more efficiently. The relative difference in factor endowments, technology, tastes etc., among the nations of the world have greatly widened the basis of international trade. The developed countries are generally exporting consumer and industrial goods to the developing world and import primary goods from them. The developing countries, depending upon their state of industrialization, are mostly exporting raw material and semi-finished goods and getting finished goods and services from the advanced countries. The low income countries are thus at a disadvantageous position. However, the main contributions of trade to economic development of the low income countries including Pakistan are as under:

1. The quantitative and qualitative differences in the factors of production or resources of a country lead to specialization in the production of those commodities in which it has comparative advantage. The gains from international trade are thus shared by the trading countries.
2. With the rise in the demand of goods, the domestic resources are utilized. There is, therefore, reduction of underemployment in the developing world.
3. The expansion in the size of market leads to greater division of labour and reduction in the cost of production.
4. The flow of capital goods and technical know-how from the advanced world is helping in accelerating the rate of economic development of the low income countries. Nurkse calls trade as an engine of economic growth.
5. The inflow of foreign capital and investment helps the developing countries to produce value added goods.
6. International trade discourages the formation of monopoly.
7. Revolution in transport communication and the growing facilities for international credit have greatly facilitated and stimulated economic growth in the developing world.

8. International trade provides foreign exchange which can be used for a break through of poverty trap.
9. The industries producing goods on large scale enjoy the economies of scale.
10. The national income of a country increases with the expansion in the scale of production.

2. PAKISTAN'S EXPORT PERFORMANCE

Pakistan's export performance can be studied in three separate sections based on time scale:

1. From 1947 to pre 1971 when formerly East Pakistan was forcibly separated.
2. Post separation ending **1976-77**.
3. The period beginning from fiscal year **1977-78** and onward.

1-Pre 1971 Export Trend:

Pakistan at the time of Partition in **1947** consisted of two Wings. East Pakistan and West Pakistan. These two Wings were separate from each other by a thousand miles of foreign Indian territory. The economies of India and Pakistan were complementary before Independence. The area which came to the share of Pakistan was mainly supplying raw material like jute (from East Pakistan, and cotton from West Pakistan) to India and obtaining manufactured consumer goods in return. This pattern of trade continued for some time after the creation of Pakistan. India purchased about 60% of the total exports of Pakistan.

There was a trade deadlock with India in September, **1949** when Pakistan refused to devalue her currency. The sudden refusal of India to purchase. Pakistan's raw jute and cotton at the new par value of Pakistan currency created difficulties for the Government of Pakistan. It however, accepted the challenge and followed a deliberate policy of diversifying its exports to other countries like U.K. Belgium. France, Germany and Italy. The earnings from commodity exports slightly fell from Rs.542.4 million in **1948-49** to Rs.535.1 million in **1949-50**.

The export of Pakistan's raw material suddenly increased due to the Korean War in June, 1950. India also bowed and recognized the new exchange rate. The export of Pakistan increased to Rs.1342.5 million in **1950-51**. The stimulated demand of Pakistan's raw material was short-lived. The peace talks on Korean War slackened the pace of stock-piling of goods by the developed world. The demand of Pakistan's staples in the international market considerably fell down. The export earnings declined from Rs.1342.5 million in **1950-51** to Rs.491.4 million in **1954-55** partly due to fall in the prices of the raw material in the international market and partly due to increased consumption of the local raw material in the newly established cotton and jute industries in the country. Pakistan reduced export duties on cotton, jute and tea. It abolished export duty on raw wool. The imports were curtailed and trade under OGL (Open General Licence) was abolished. These steps were taken to keep the imports within the limits of the foreign exchange earnings. The Government of Pakistan devalued its currency in July, 1955 for increasing exports of both the raw material, cotton and jute and of the goods processed by the newly established industries. The exports increased from Rs.491.4 million in 1954-55 to Rs.742-40 million in **1955-56**. Then there was a continuous decline in exports and a fall in the foreign e. change earnings due to higher consumption of manufactured goods at home, poor harvests, consecutive floods and unfavourable weather etc. The foreign exchange earnings fell down to a low figure of Rs 542.9 million in **1961-62**.

The Government of Pakistan launched various schemes to promote export of raw materials and the manufactured goods. These schemes were Export Incentive Scheme (1954), Export Promotion Scheme (**1955**), Export Bonus Scheme (**1959**), Export Credit Guarantee Scheme (**1962**), Export Promotion Council (**1964**), Export Market Development Fund (1966), Pakistan House International (**1966**). For widening of the export base, it signed multilateral trade agreements. All these measures gave a saluting effect to the exports. The exports increased from Rs.542.9 million in **1961-62** to Rs.1998.4 million in **1970-71**.

There was a major change in the composition of trade from **1955 to 1970**. The share of manufactured goods in total exports increased from **14%** in 1955 to **41.8%** in 1970-71. Pakistan also found new markets for its products. The exports to North America increased by 25$ and South America by 16.7. Export to Australia, New Zealand increased by **19%** in **1968-69**.

(B) Delinking of East Pakistan ending 1976-77 period:

The delinking of East Pakistan from West Pakistan in December **1971** caused numerous difficulties for People's Party Government led by Late Mr. Zulfiqar Ali Bhutto. Before 1971, the bulk of trade was carried on between East and West Pakistan. West Pakistan's exports to East Pakistan consisted of **52%** of manufactured goods, **48%** of primary commodities, whereas from former East Pakistan, exports to former West Pakistan comprised **80%** of manufactured goods and **20%** of raw material. After delinking of West Pakistan (Bangla Desh) in December, 1971, the Government of Pakistan revised its export policy. It found new markets for its products and traced new sources of supply for the products purchased from former East Pakistan. The main measures which the People's Party Government took to stimulate exports were abolition of Export Bonus Scheme on **May 12, 1972** (b) Devaluation of Pakistan rupee to the extent of **131%** (c) abolition of multiple exchange rate system. (d) trade agreements with Muslim countries.

All the measures stated above increased exports from Rs.3371.4 million in **1971-72** to Rs. 10161.2 million in **1973-74**. In the last years i.e., upto **1977-78**, there was marginal increase in the value of exports, the total exports for the year **1977-78** stood at Rs. 12980.4 million. The main factors which led to the stagnation in the export sector were (i) the policy of nationalization of industry (ii) frequent changes in fiscal and monetary measures, (iii) unorganized efforts to increase exports.

Export performance from 1977-78 onward.

Since 1977-81, there was a sustained increase in exports. However, in 1981-82, the increase in exports was disrupted and the decline was by 17%. The slow down in export earnings were/are mainly associated with:-

(*a*) Unfavourable global conditions characterized by recession.

(*b*) Deterioration in terms of trade.

(c) Growing protection tendencies in the developed market.

(d) Decline in the demand for and the prices of major commodities.

(e) The production at home is being mostly consumed rather than saved for exports.

In order to check the decline in exports, the Government took certain measures. The exports increased by 7.4 per annum during **1982-83**. However, the exports declined again in 1984-85 by **20%** of the target originally fixed for the year **1984-85**. The export shortfall has been contributed by the fall both in the quantity exported and decline in the world prices of major exportables.

Pakistan's exports grew at an annual average rate of **6%** in the **1990's**. Exports, however, stagnated at around $8 billion. Pakistan's export have shown increase and have crossed $9.2 billion in **2000-01** against the target of $10 billion. By the end of the year, **2001**, the major growth poles of the world slipped into recession. The tragic events of **Sept., 11, 2001** in America, global economic slow down, the fall in prices of Pakistan's exports, postponement of shipments from Pakistan, have affected the exports. Inspite of all the above handicaps. Pakistan exported goods worth **$12.31** billion during the year **2003-04**. The exports were targeted at **$13.7** billion in the year **2004-05**. However, with the best efforts of the government, increase in the production of cotton, the exports amounted to Rs. **14.4** billion during the year **2004-05** which shows an increase of **17%**. over the last year export level.

Pakistan trade deficit has decreased by US$ 1.879 billion in the current fiscal year (July-April 2018-19) as compared to last year. However Pakistan's exports during the period July-April (FY 2019) stood at US$ 20.01 billion compared with US$ 20.49 billion during the corresponding period of FY 2018. It reflects a 1.9 percent decline in dollar terms. Pakistan's imports during the period July-April (FY 2019) stood at US$ 44.03 billion compared with US$ 46.302 billion during the corresponding period of FY 2018. It reflects a 4.9 percent decrease in dollar terms. Overall, the trade deficit has decreased by 7.28 percent in the Jul-Apr FY2019 to US$ 23.93 billion from US$ 25.81 billion in the same period last year.

3. MAJOR EXPORTS AND IMPORTS OF PAKISTAN

The concentration of exports, the composition of exports, the direction of exports and the major items of exports are discussed in brief.

(A) Major Exports:

(I) **Concentration of exports.** The export target for FY2019 was set at US$ 28 billion. Exports registered a decline of 0.1 percent growth during July-April FY2019. As per PBS data, exports during July-April FY2019 reached to US$ 19.17 billion as compared to US$ 19.19 in July-April FY2018. A slowdown in economic growth in the EU, along with spillovers from US-China trade tensions, led to subdued performance in exports. Textile sector remained the most vulnerable sector in these global headwinds.

Pakistan's exports are highly concentrated in few items like cotton & cotton manufacturers, leather, rice and few other items. The first three categories of exports account for 69.2 percent of total exports during July-March FY2019 with cotton & cotton manufacturers alone contributing 56.7 percent. Traditionally, the contribution of these three categories was 70.3 percent during the same period last year, and 71.8 percent during FY 2017.

(2) **Composition of exports.** The composition of exports has not changed much. Exports of textile manufacturers, which accounts 58.5 percent in total exports witnessed a trivial growth of 0.1 percent and remained at US$ 9.99 billion in July-March FY2019 as compared to US$ 9.98 billion during the same period last year.

(3) **Direction of exports.** Although Pakistan trades with a large number of countries, its exports are highly concentrated in few countries. Pakistani exports go to ten countries namely USA, China, UAE, Afghanistan, UAE, Germany, France, Bangladesh, Italy and Spain. Among these countries USA has the largest share of 17 percent in total exports followed by China 8 percent and UK 7 percent.

(4) **Main exports of Pakistan.**

(i) **Textile manufactures.** Textile manufactures (cotton yarn, cotton cloth, ready made garments, towels, bedwear, knitwear, raw cotton) account for about 58.50% of our total exports. Pakistan's export in textile manufactures, after liberalization of trade, is facing stiff competition from China, EU, India and Bangladesh in the international market. For increasing export of textile manufactures, Pakistan has no other alternative but to improve the quality of its product, lower cost of production and meet requirements of consumers in terms of fashion and design.

(ii) **Food group.** Food group constituting 19.6 percent of overall exports posted a decline of 2.4 percent as compared to same period last year. Within the food group, export of rice comprises 44.4 percent of total food group declined by 0.5 percent causing a major setback in overall food exports. The quantum drop in rice was 5.0 percent but its value declined by 0.5 percent.

(iii) **Leather and leather products.** Pakistan is a leading producer and exporter of leather and leather products of various types. The leather industry is flourishing by using trained and skilled operations. The share of leather and products is **3.7%** of total exports in **2018-19 (July - March)**. Leather manufacturers continues to struggle but registered a negative growth of 8.4 percent in value. 21.8 percent decline in value is witnessed in leather tanned while its quantity decreased by 19 percent.

(iv) **Sports goods.** Sports goods export decreased in value by 9 percent on the back of 7.35 percent decline in exports of football.

Other than these, surgical goods and medical instruments, engineering goods and jewelry posted a negative growth of 1.5, 10.8 and 24.2 percent, respectively. Although Cement export posted a significant growth of 32.8 percent in value and 55.4 percent in quantity during July-March FY2019.

(B) Major Imports of Pakistan:

Import target for FY2019 was set to US$ 56.5 billion. As per PBS data, imports stood at US$ 45.471 billion in July-April FY2019 as compared to US$ 49.360 billion in the same period last year showing a decline of 7.9 percent. The reduction in imports is due to decrease in imports of furnace oil, machinery & electric equipment, palm oil and textiles.

(i) **Concentration of imports.** Like exports, Pakistan's imports are also highly concentrated on a few items namely machinery, petroleum and food groups. These three items account for 41.2% of our total imports during **2018-19 (July-March)**.

(ii) **Composition of imports.** The composition shows that raw material accounted for **16.14%** of total during **2018-19**. The share of imports of machinery goods decreased to **11.30%** from **14.69%.** Vibrant domestic construction, progress on mega infrastructure projects and CPEC related economic activities; all have contributed to a surge in demand for machinery and commercial vehicles during FY 2017-2018. Import of Road Motor Vehicles during the year 2018-19 (July-March) decreased to USD 1.810 billion from USD 2.151 billion during 2017-18 (July-March). Food group constitutes 10.5 percent of overall import bill. Food import bill stood at US$ 4.261 billion in first nine months of FY2019 as compared to US$ 4.730 billion in the same period last year. Hence witnessed a significant decline of 9.9 percent.

(iii) **Direction of imports.** Like exports, Pakistan's imports are also concentrated to few countries. Based on the current year data around 65 percent of total imports originated from countries like China, UAE, Saudi Arabia, Kuwait, Indonesia, India, USA, Japan, Germany and Malaysia. China being the largest import destination accounts for the 24 percent of total imports. Share of import from UAE has increased from 12 percent in FY2018 to 14 percent in FY2019.

Our major import markets along with their percentage shares and the changes over time are shown in the following table:

Table 8.13 : Major Import Markets (Rs. Billion & Percentage Share

Country	2015-16		2016-17		2017-18		July-March			
							2017-18 P		2018-19 P	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
CHINA	1261.9	23	1584.3	29	1731.8	26	1252.7	26	1267.2	24
UAE	572.7	10	774.5	14	893.3	13	584.3	12	759.7	14
SAUDI ARABIA	237.2	4	227.7	4	356.4	5	255.8	5	286.2	5
KUWAIT	139.5	3	141.9	3	159.7	2	120.4	3	133.8	2
INDONESIA	222.7	4	240.4	4	278.5	4	205.6	4	245.5	5
INDIA	155.8	3	178.2	3	207.5	3	142.4	3	154.8	3
USA	155.3	3	267.9	5	316.4	5	221.9	5	259.5	5
JAPAN	190.3	3	227.4	4	266.5	4	197.8	4	188	4
GERMANY	97.6	2	124.3	2	146.4	2	101.2	2	105.4	2
MALAYSIA	96.5	2	100.2	2	132	2	94.6	2	103	2
All Others	1469.2	31	1692.9	31	2206.5	33	1592.299	33	1868.043	35
Total	4658.7	100	5539.7	100	6695	100	4768.999	100	5371.143	100

P Provisional

Source: Pakistan Bureau of Statistics

4. BALANCE OF TRADE OF PAKISTAN

What is balance of trade?

Balance of trade is the difference between the values of exports and imports of physical items (goods) of a country during a given period of time. If the value of commodity exports (visible items), exceeds value of commodity imports, the balance of trade is said to be favourable. The country becomes a creditor. In case the value of imports of a country which are recorded at the custom exceed the value of exports in a given period of time, the balance of trade is said to be unfavourable and the country becomes debtor.

Balance of trade account has an important bearing on the economy of a country. If the balance of trade is favourable, it enhances the capacity of a country to import goods and services. There is expansion in the foreign trade. The tempo of development increases. In case, the balance of trade is persistently unfavourable, it reduces the capacity of a country to import goods. The foreign trade is reduced. The rate of growth/development slows down. Pakistan since Independence has been experiencing deficit in her external merchandise account with the exception of three years, **1947-48**, **1950-51** and **1972**. The balance of trade was favourable in **1947-48**, because the imports of the newly born country were not well defined. In **1950-51**, there was a sharp and sudden rise in demand of jute and cotton in the international market due to Korean War. The export prices of the Pakistan's primary commodities increased and she earned large foreign exchange amounting to 405.6 million dollars. Pakistan's balance of trade was favourable in **1972-73** due to devaluation in Pakistani rupee to the extent of **131%**. With the exception of the above years, the balance of trade of Pakistan has remained unfavourable as shown in the table below:

(Amount in $ million)

Balance of Trade

2016-17 (Jul-Jun)	2017-18 (Jul-Jun)	2017-18 (Jul-Apr)	2018-19 (Jul-Apr)
-26,680	-31,824	-25,813	-23,934

Source: SBP

Main causes of unfavourable balance of trade of Pakistan. In the current era of globalization and free trade, our export goods are facing intense competition in the international market. The main causes of unfavourable balance of trade are as under:

Table S.1: Summary Balance of Payments

Item	Jul-June		Jul-April	
	2016-17	2017-18	[illegible]	[illegible]
Current Account Balance	[illegible]	[illegible]	[illegible]	[illegible]
Trade Balance	[illegible]	[illegible]	[illegible]	[illegible]
Exports of Goods FOB	[illegible]	[illegible]	[illegible]	[illegible]
Imports of Goods FOB	[illegible]	[illegible]	[illegible]	[illegible]
Service Balance	[illegible]	[illegible]	[illegible]	[illegible]
Exports of Services	[illegible]	[illegible]	[illegible]	[illegible]
Imports of Services	[illegible]	[illegible]	[illegible]	[illegible]
Income Account Balance	[illegible]	[illegible]	[illegible]	[illegible]
Income Credit	[illegible]	[illegible]	[illegible]	[illegible]
Income Debit	[illegible]	[illegible]	[illegible]	[illegible]
Balance on Secondary Income	[illegible]	[illegible]	[illegible]	[illegible]
Of which				
Workers' Remittances	[illegible]	[illegible]	[illegible]	[illegible]

P: Provisional

Source: State Bank of Pakistan

1. **Narrow export base.** Our exports during the last five years is increasing. However, it is not growing to the desired extent. The reason is that our export base is narrow. It is mainly concentrated on cotton group (58.5% of total exports).

2. **Import oriented industries.** Most of the import substitution industries which have been set up in Pakistan are importing inputs and technology. The import of industrial raw material in the aggregate import is placed at **16.14%** which is eating away the precious foreign exchange earnings of the country.

3. **Consumption oriented society.** Pakistanis are mostly consumption oriented. Due to rapid rise in population and increased consumption habits, the domestic manufactures

goods are mostly consumed in the country. The exportable surplus is, therefore, on the decline.

4. **Less modernization of machinery.** Since **1970's** there has been less modernization, balancing and replacement of machinery in the private industrial sector. The fall in production and deterioration in the quality of products has adversely affected exports.

5. **Increase in the sick industrial units.** The number of sick industrial units, mainly due to nationalization of industries has gone up. It is on record that the performance of most of the industries in the public sector is not satisfactory. They are not producing goods according to their full capacity. The decline in production of semi-manufactured and manufactured goods reduces the exportable surplus and adversely affects the volume of trade.

6. **Less production of value added goods.** The share of manufacturing sector in the GDP is round **13.0% in 2018-19.** The share of value added goods must increase to earn foreign exchange and turn the trend of adverse balance of payment.

7. **Political uncertainty.** The political uncertainty, over staffing and labour unrest in the industrial units have considerably affected the efficiency of the industries. The fall in the volume of production, particularly in the manufacturing value added sector, has reduced export earnings.

8. **Tough competition in the international market.** Stiff competition in the foreign market particularly of our value added goods is affecting the volume of foreign trade in Pakistan.

9. **Rise in freight rates.** The rapid rise in the air and sea freight rates has adversely affected the trade balance.

10. **Propaganda about exploitation of child labour.** The adverse propaganda about the use of child labour, anti-dumping duties in the importing countries are important factors causing imbalance in the trade.

11. **Increase in prices of inputs.** The increase in the prices of fuel, electricity, high capital costs of imported machinery utility, rates downward exchange rate etc have inflated the costs of both imported capital goods and industrial raw material on which domestic industry is heavily dependent. The inflationary impact of the rise in the prices of inputs is not helping in achieving the export targets set in each financial year.

The exports can be increased by (i) improving the technology of our manufacturing sector as well as agriculture sectors (ii) Cost of doing business has to be reduced to internationally competitive levels (iii) Efficient utilities and infrastructure need immediate improvement (iv) The inputs are to be made available at internationally competitive price (v) Skilled manpower must be developed (vi) New markets to be developed through trade diplomacy efforts. (vii) The daily strikes and taking out processions by the political parties must be regulated and controlled.

5. PAKISTAN'S BALANCE OF PAYMENTS

What is balance of payment?

Balance of payments is a record of economic transactions between the residents of one country and the rest of the world during the course of one year. The balance of

payments like all balance sheets must balance. The items which lead to an inflow of foreign earnings are placed on the credit side of the balance sheet, whereas the items which give rise to an outflow of foreign currency are placed on the debit side.

The main items which are included in the balance of payments are:- (1) current account and (2) capital account. The current account is composed of (a) imports and exports of visible goods (b) services such as expenses on travel, transport, insurance, fees, commissions (c) private unrequited transfers, donations, pensions grants etc. Services and unrequited transfers are called invisible items of the balance of payments.

If the total receipts of visible and invisible items of balance of payments exceed the value of visible and invisible payments during the course of a year, the balance of payments on current account is said to be surplus. In case, the total receipts on visible and invisible items are less than the value of visible and invisible payments, the balance of payment on current account is said to be deficit. The deficit in the current account is met from reserves of gold and foreign currencies and borrowing from the rest of the world.

Capital account is made up of a variety of capital movements between one country and the rest of world during a given period of time which is a year. The capital movements [illegible] short and long term loans between the countries are carried out by Government, firms and households.

Pakistan's Balance of Payments.

Pakistan's balance of payments situation has not been satisfactory since Independen[ce]. The country with the exception of five years *i.e.,* (**1950-51, 1954-55, 1955-56, 1958-59** a[nd] **1959-60**) has been running a persistent deficit in her balance of payments on current acco[unt]. The deficit on current account is being met by short and long term loans and grants from [the] outside world. The Government of Pakistan is earnestly making efforts to restore equilibri[um] in the balance of payment by increasing exports, minimizing imports but the measures ta[ken] so far have not proved effective. The deficit in the balance of payments is on the increase.

The surplus of Rs.**578.0** crore in **1950-51** in the balance of payments was mainly du[e to] the Korean War. There was a sharp rise in demand of the two primary commodities [illegible] and cotton in the outside world. Due to increase in exports, the inflow of foreign cur[rency] increased and Pakistan had a surplus on current account.

The favourable balance of payment in the year **1954-55** amounting to Rs. 09.9 crore [was] marginal. However, the surplus on current account, was mainly due to devaluation o[f] rupee and greater restrictions on imports.

Pakistan again had a surplus in its balance of payments from **1958** to **1960** due t[o] introduction of Bonus Vouchers Scheme and placing of restrictions to import commodit[ies] the import licenses only.

Excluding the five years stated above, Pakistan has been facing a deficit in its bala[nce of] payments. The resource gap is being met through loans and grants from various interna[tional] agencies and friendly Muslim countries particularly Saudi Arabia. The current a[ccount] surplus was **$2.4** million for the year **1996-97**.

During 2011-12 (July-June) current account balance was unfavourable (-\$4,658 million) which reduced to –\$2,496 million in 2012-13 and then \$3,130 million in 2013-14, –\$2,709 million in 2014-15, –\$4,867 million in 2015-16, –\$12,621 million in 2016-17, -\$19,897 million in 2017-18 and -\$11,586 in 2018-19 (July-April).

Pakistan's balance of payments remained under stress due to rising imports of capital equipment and fuel during July-March FY2019. Recovery in global oil prices also played a role in pushing up the import bill. The remarkable growth in exports earnings and remittances inflows was not sufficient to overcome the widening current account gap. Although higher financial inflows (both foreign investment and external financing) could not completely offset the increase in the current account deficit growth. Foreign exchange reserves stood at US\$ 15.722 billion till end-April FY2019. This was below than the total reserves of US\$ 17.519 billion of the same period last year. Out of this SBP reserves were US\$ 8.781 billion, where reserves held with commercial banks were US\$ 6.941 billion..

Foreign investment is on low growth trajectory. It dropped by 51.7 percent in July-April FY2019 to US \$ 1.376 billion as compared to US \$ 2.849 billion in July-April FY2018. FDI from China remained at 31.2 percent of overall inflows as compared to 60.5 percent in the preceding year.

Foreign portfolio investment account witnessed outflows of US\$ 1.27 billion during July-April FY2019 as compared to US\$ 2.352 billion inflows in the same period last year. It is worth to be mentioned that previous government had mobilized US\$ 2.5 billion in FY2018 by issuing Eurobond and Sukuk in December 2017.

Pakistan's current account deficit has seen containment in FY 2019. Current account deficit reached to US\$ 11.586 billion in July-April FY2019 as compared to US\$ 15.864 billion in the same period last year showing a contraction of 26.9 percent. This is mainly attributed to healthy remittances inflow and low import bill.

Factors Contributing towards adverse balance of payments:

The main factors which contributed towards persistent adverse balance of payments on current account are as under:

1. **Import of capital goods.** At the time of Partition in **1947**, Pakistan, in Rostow's term was a traditional society. Age old customs determined organization and productio members. Science and technology had little impact on the economy. The industrial ba was almost negligible. In order to build up the economy and raise it to preconditio stage, Pakistan had to import and is importing capital goods for rapid industrialization the country. The heavy import of machinery, technocrats etc, has considerably increa the import bill and has adversely affected the balance of payment on current account.
2. **Rise is oil prices.** The sharp rise in the prices of oil until recently particularly in 70's also in the beginning of **1980's** and **1990's** and from **2003** onward took a big chunk o foreign exchange earnings.
3. **Increase in import payments for fertilizers etc.** Due to increase in the pric fertilizers, machinery, petroleum, edible oil etc., there is a sharp increase in the i

payments to the outside world. The balance of payment has, therefore, been adversely effected.

4. **Consumption oriented society.** The Pakistanis as a whole are consumption oriented. The import of consumer goods is about **7.7%** of the total imports. Most of the consumer goods imported from abroad can be easily manufactured in the country and can ease the situation in the balance of payments.

5. **Import of industrial raw material.** Most of the industries which were established for achieving the twin objective of earning and saving foreign exchange have been eating away roughly **16.14%** of the aggregate import bill. The excessive import of industrial inputs is a strain on the balance of payments on current account.

6. **Deterioration in terms of trade.** In Pakistan, the import unit values are higher than the export unit values for the last over three decades. A decline in term of trade causes imbalance in the balance of payments.

7. **Higher payments for freight insurance.** Pakistan has to make higher payments for non factor services such as freight, insurance, transports, travel etc.

8. **Cotton-rice led growth.** Pakistan is heavily depending on the exports of two primary commodities cotton and rice and textile manufactures. If Nature is kind, the per hectare yield of crops increases. In case weather is unsuitable, production of crops drastically goes down. Pakistan is then not left with surplus of primary commodities. It directly affects the manufacturing sector also. The decline in exports causes an imbalance on the current account.

9. **Domestic developments.** A number of domestic developments like shortage of electricity and gas political uncertainty, floods, droughts, nationalization of industries, shortage in availability of credit to private sector, labour, unrest, inefficient handling of vessels and cargo at Karachi Airport, have cut down industrial production, reduced exports and have enlarged the import bills. All these and other factors singly and jointly have contributed in making a persistent deficit in the balance of payments.

10. **Global economic slow down.** The global economic slow down have also contributed to the adverse balance of payments by reducing demand for our exports.

Measures for Correcting the Adverse Balance of Payments:

Pakistan cannot afford to run a persistent deficit in the balance of payments on current account as it does not have unlimited reserves of gold and foreign currencies. It can neither persistently borrow from the rest of the world. There is, after all, a limit of accumulation of debt which may be for the development purpose.

The adverse balance of payments can be decreased in three ways:

(*i*) The foreign earnings should be increased by export led growth.

(*ii*) The imports should be curtailed to essential items only.

(*iii*) The expenditure on invisible imports should be minimized.

6. EXPORT PROMOTION MEASURES

Since Independence in **1947**, Pakistan has been facing a peculiar situation of slow growth in respect of its exports. The exports have increased at an annual growth rate of **5.6%** whereas some other developing countries in Asia like Korea, Taiwan, China, Malaysia have succeeded in increasing their exports manifold and reducing poverty at rapid speed. The Government of Pakistan is quite aware of this situation and has taken concrete measures to boost external trade in the country. The exports have an upward trend as shown below:

Exports of Pakistan

Year	Exports (US $ In Million)	Growth Rate %
2011-12	23,624	–
2012-13	24,460	3.54%
2013-14	25,110	2.66%
2014-15	23,667	-5.75%
2015-16	20,787	-12.17%
2016-17	20,003	-3.76%
2017-18	24,768	23.82%
JULY – APRIL		
2017-18	20,489	-
2018-19	20,099	-1.9%

Source: Pakistan Bureau of Statistics

Main elements in export development:

Pakistan's exports base is extremely narrow. About **58.50%** of its exports earning are contributed by the cotton group alone. The other three items namely leather, synthetic made ups and rice contribute about 15% of total exports. Unfortunately the above four items are relatively low value added product. Pakistan has not made much progress in increasing the number of products. Pakistan is also yet to enter in hi-tech exports. In short, Pakistan is lagging in product diversification, value addition diversification, hi-tech industries to face the fierce global competition. Faced with lower % share of industry in GDP, the Government of Pakistan is taking the following measures for export promotion.

Steps for Export Promotion:

(1) **Diversification of product and market:** At present our exports are highly concentrated in three products namely leather, rice, and textiles which account for 73% of our exports. These items are generally of low quality and low priced in the international market

compared to other competitive countries. Pakistan is gradually moving towards not only higher value added products in export of textile manufactures but have **added ten more sectors** like engineering goods, marble and granite, fisheries, IT and finance and accounting services etc., for increasing earnings in exports. In addition to diversification of products, new markets for the Pakistan's goods are also being explored in African countries, South America, Russia Eastern Europe etc.

(2) **Value added in exports:** Pakistan's share in international trade is merely 0.12 percent. For increasing exports, it is necessary that it should move **towards higher value added in exports.** Pakistan is importing new machinery for quality improvements in textile manufactures, leather jackets, and other products so that its exports should grow.

(3) **Cluster development:** If there is a concentration of small and medium enterprises b producing related goods, it helps the industries in complementing each other resources and exports. The Government of Pakistan is providing loan and building infrastructure to develop light engineering industry ot Gujranwala and Gujrat, cutlery industry of Wazirabad and Sports industry of Sialkot, marble industry of Karachi. If the businesses succeed in improving the quality and productivity of their produce, it will help in increasing the volume of exports.

(4) **Brand development:** The Export Promotion Bureau (EPB) now called Trade Development Authority of Pakistan (TDAP) is persuading the exporters of textiles, leather garments, rice, sports goods to develop their own brands and labels for their products. The highest level of value addition occurs when products are sold under a brand name.

(5) **Setting export processing zones:** The Government is establishing new export processing zones in Sialkot, Gawadar, Quetta and Multan for facilitating businesses to export goods.

(6) **Appointment of trade Commissioners.** The appointment of trade commissioners is also helping in promoting country's image and securing orders for exports.

(7) **Improvement in physical and financial infrastructure:** The Government is investing heavily in the improvement of physical and financial structure including shipment, clearance, cargo space, handling at the parts and airports for smooth flow of export and import of goods.

(8) **Package of gems and Jewellery sector:** In order to increase exports of gems and jewellery, it has been declared as an industry. The sector has now easy access to credit and avails of the advantages in utility rates and taxes. The reduction in cost of production will make these goods competitive in the international market and help in promoting trade.

(9) **Refund o sales tax:** The procedure for refund of sales tax has been simplified. It will help the exporters to free up time and focus on marketing of goods in the international market.

(10) **Improving Skill development:** For increasing exports, stress is now being laid on increasing labour productivity through education, on the job training, skill up gradation and importing new knowledge and latest techniques. This will help the businesses to produce higher value added goods at low labour unit cost.

(11) **WTO obligations:** Pakistan is one of the founding members of World Trade Organization (WTO). It is fully abiding by WTO rules of non-discrimination among various members in their tariff regimes and other rules and regulations. It is hoped that Pakistan will get a larger share of its products in the international market.

(12) **New era of exports:** Pakistan is now preparing itself rapidly for the new era of exports where hi-tech and information technology (IT) has major role to play.

(13) **Establishing Trade Development Authority (TDAP):** The Government has established TDAP for rapid trade promotions in the fast changing international trading environment. This TDAP has replaced Export Promotion Bureau (EPB) establisher in 1953. The TDAP is equipped with the necessary resources and autonomy for effectively taking decisions to increase exports.

(14) **Export of horticulture products:** For increasing export of perishable horticulture products, the setting up cool chains and cold storages is being encouraged in the country.

(15) **Warehouse city:** A modern warehouse house city in Karachi has been set up with public private partnership and run by professional management.

(16) **Support for footwear sector:** Our leather and foot wear sector has significant export potential. The Government has allowed research and development support to this sector.

(17) **Steps taken by the government for the formation of exports in the recent past:**

Three year Trade Policy Cycle: To promote exports the government has started three year trade policy. Under this initiative the first Strategic Trade Policy framework 2008-12 was presented in September 2009. It achieved its export targets at the end of 2010-2011 our exports increased by 31.2% in the year 2010-11 and touched a record level of US $24.8 billion.

Building on the STPF 2009-12, the second strategic trade policy has been launched for next three years 2012-15. It envisage to identify those aspects of Pakistan's export competitiveness have not been adequately attended to sofar. The salient features of STPF 2012-15 are as follows:

- Focus on Regional Trade
- Create Regulatory Efficiencies
- Promote Agro-processed exports
- Increase Exports from less developed regions of Pakistan
- Promote exports of Services Sector
- Enhance access to export financing and credit guarantees
- Revamp Export Promotion Agencies
- Mobilize new investment in export oriented industries
- Facilitate exporting industry overcome energy crisis
- Enhance Product and Market Development and Diversification

- Undertake effective Trade Diplomacy
- Increasing Green Exports
- Rationalize the Tariff Protection Policy
- Enhance Role of Women in Exports
- Reform and Develop Domestic Commerce

With the help of development interventions enunciated in STPF 2012-15, the government hopes to take Pakistan's cumulative exports from $ 65 billion to $ 95 billion. The STPF 2012-15 has three major parts. The first part consists of the interventions aimed at strengthening the existing trade related institutions and seeking to establish the 'missing' institutions. The second part consists of the export development initiatives to overcome the competitiveness deficit identified in the form of the fifteen principles given above. The Cabinet has approved Rs. 5 billion for these initiatives for 2012-13 and Rs 26 billion for the whole policy cycle. The third part of STPF 2012-15 consists of the regulatory amendments to Import Policy Order and Export Policy Order with a view to enhance the ease of doing business and streamlining of procedures and strengthening the regulations related to public safety and security.

The export development initiatives as incorporated in the STPF, 2012-15 are outlined below:

- Mark-up support of 2% on prevailing Long Term Financing Facility(LTFF) for future import/purchase of machinery.
- Mark-up Rate support of 1.5% on Export Finance Scheme (EFS) to selected export sectors
- Ad-Hoc relief @ 3% of fob to offset the impact of higher cost of utilities for Pakistani exporters in selected sectors
- Marketing development assistance for regional countries
- Export promotion campaigns for agro-processed products
- Encouraging the opening of retail outlets
- Subsidizing 50 percent cost of plant and machinery for establishing processing plants for meat, fruits, vegetables, dates and olives in Baluchistan, Gilgit-Baltistan, Khyber Pakhtun Khwa and FATA
- Up-gradation of Rice Inspection Labs
- Mark-up subsidy @ 100 percent of the prevailing mark-up rate and 50 percent subsidy for wire saw cutting machinery to reduce wastages for establishing mining and processing in KPK, FATA, GB and Baluchistan
- Strengthening Women Chamber of Commerce
- Establishment of Leather Export Promotion Council

INITIATIVES IN PIPELINE

Pakistan's exports remained under stress in 2016-17 due to disconnect between Domestic Competitiveness and International Trade Competitiveness. The Domestic Commerce Wing of Commerce Division is working to improve regulatory and policy frameworks of different provinces and administrative units. For this purpose the Domestic Commerce Wing is preparing State of Domestic Commerce provincial reports. The wing has helped the provincial governments in drafting the provincial Strategies for improving business environment. After approval of these strategies by the competent authorities in provinces and administrative units, a policy framework of domestic commerce will be developed. The commerce division through these initiatives is working towards creating an enabling environment for "Enterprise Development".

1. The services sector plays an important role in Pakistan's economy, contributing around 60 percent to the GDP, creating employment opportunities, and providing crucial inputs for the rest of the economy. The sector witnessed a robust growth of 6.43 percent during 2017-18 as compared to over all GDP growth of 5.79 percent. Also, Services represent the fastest growing sector of the global economy, accounting for two thirds of global outputs, one third of global employment and nearly 20 percent of global trade. Pakistan's share in the global export of services is 0.07 percent which is considerably lower than country's potential warrants

2. Keeping in view the growing significance of the Services sector, Commerce Division took certain initiatives, which include the establishment of Services Trade Development Council (STDC) and Trade in Services Wing. The aim is to initiate and lead the services sector reforms aiming domestic liberalization and facilitation for enhanced exports.

3. Pak-China Trade in Services Negotiation: The 9th meeting of 2nd Phase negotiations of China-Pakistan FTA (CPFTA) was held in Beijing on 6-7 February, 2018. Both countries agreed that Trade in Services negotiation be excluded in the 2 Phase CPFTA outcome in order to continue discussion on Trade in Services separately after the conclusion of 2nd Phase CPFTA (Trade in Goods).

4. Draft E-Commerce Policy

With the advent of modern technology, the significance of Electronic Commerce has increased manifold. The inherent complexities of e-commerce has prompted the government to put in place appropriate policy/regulations to create a conducive environment for foreign investment, increase competitiveness of domestic business entities, and at the same time safeguard consumer interests. Following the conclusion of long drawn out consultation process with the stakeholders spanning over two years, Commerce Division is now finalizing the draft "Policy Framework for e-commerce". The draft policy framework will be approved by the Prime Minister.

7. RUPEE EXCHANGE RATE

The Pakistan rupee was linked to the US dollar in Sept. **1971**. Pakistan delinked the rupee from US dollar on **Jan, 8, 1982**. The Government is maintaining a managed floating exchange rate of rupee. It is tied to major trading currencies of the world. The U.S. dollar is an intervening currency to set exchange rate with a trade weighted basket of other currencies.

The Pak rupee has been made fully convertible from July **1, 1994**. Under the floating exchange rate, the value of the currency in terms of the other currencies fluctuates according to the market forces of supply and demand for foreign exchange. If the domestic economic conditions, the terms of trade, the balance of payments of a country are favourable, then the value of its currency appreciates. In case the economic conditions are unfavourable, then there is depreciation in the value of the currency. The system of managed floating exchange rate is adopted to manage or stabilize short term speculative variations in the exchange rates so that the flow of trade and finance is not disrupted in the country. The exchange rate of rupees is regulated by the State Bank of Pakistan on weekly basis.

When Pakistan delinked the Rupee form US dollar on **January 8, 1982**, it had two more options, one to devalue the rupee and the second to provide export subsidy through compensatory rebates. As regards the first remedy, it was tried in **1955, 1975** and in **1995 and 1999**. The devaluations of the currency did not help in improving the balance of payments satisfactorily. The second method *i.e.*, the subsidization of exports was not considered proper as that involved increase in import duties. The Government of Pakistan, therefore opted to delink the rupee from US dollar and adopted the managed floating exchange rate. The main factors which led to severe the link of rupee from US dollars are as follows:-

Factors for Delinking from US Dollar.

Out of the 177 member countries of the IMF, there are only 39 countries which are linked to the US dollar and 14 with France. The rest of the countries have adopted a managed floating exchange rate. It was not in the interest of Pakistan also to keep its currency pegged with US dollar and keep its fortune tossing around with the fortunes of another country's currency. So Pakistan decided to delink the rupee from US dollar.

1. The delinking of Rupee provided Pakistan an active exchange rate with basket of currencies. Pakistan is now able to ensure a positive and independent exchange policy suited to its own interest.
2. The delinking is supported on the ground it increases the competitive strength of a number of traditional and non-traditional exports of Pakistan in the world market.
3. The delinking of rupee provides incentives for overseas workers to remit their hard earnings through normal banking channels rather than through illegal means.
4. The adoption of managed floating exchange rate discourages the flight of capital from the country.
5. The delinking of rupee has the advantage of bringing down the prices of the exports and helping the country in recapturing the lost markets.
6. There is an optimum resources allocation under the floating rate.
7. There is less frequent politically motivated official intervention in the managed floating rate.

Criticism on Delinking

The delinking of rupee from the USA dollar and putting it on a managed float has been criticised on the following grounds:

1. **Devaluation in disguise.** The delinking of rupee from U.S. dollar is infact a devaluation in disguise. Since **8th January, 1982**, the rupee has continuously depreciated against dollar.
2. **Exports not pushed up.** The delinking has not worked effectively for pushing up exports.
3. **Rise in the cost of imported goods.** Due to delinking, the cost of imported goods has gone up to the extent of decrease in the value of rupees.
4. **Increase in debt servicing.** The delinking has increased the debt service obligations.
5. **Deficit in the balance of payments.** The balance of payments continue to deteriorate sharply. The managed float rate has not helped in improving the situation.

The Government of Pakistan regards the delinking of rupee from US dollar a wise step. The delinking of rupee, enabled the Pak currency to find a level of its own in international market. It is now independent of the change of the fortunes of any single country.

Duel Exchange Rate System

The SBP Pakistan pursued a managed floating exchange rate policy until **July 1998**. In order to minimise the effects of economic sanctions, Pakistan moved to a duel exchange rate system with effect from **July 22, 1998**. Under this system, there existed two exchange rates, namely inter bank floating rate and official exchange rate determined by the State Bank of Pakistan. The inter bank floating rate is determined by market forces of demand and supply.

Unitary Exchange Rate System

The duel exchange rate system was replaced with market based exchange rate system with effect from **July 21, 2000**. The official exchange rate determination was abolished. Under the unitary exchange rate system, floating inter bank rate would apply to all foreign exchange receipts and payments both in public and private sectors. All foreign exchange requirements will be met by the Authorised Dealers from the inter bank market. **The State Bank of Pakistan by taking effective monetary measures has succeeded in eliminating the difference between the open market rate and interbank exchange rate. This has encouraged the Pakistanis working abroad to send the remittances through the official banking channel.**

The Free floating exchange rate has helped in building up in foreign exchange reserves, surplus in current account balance, strengthening of Pakistan rupee viz US dollar both in the inter bank foreign exchange market and in open market. The interbank exchange rate per USA dollar was Rs. **60.6** per dollar as on **June 30, 2007**, Rs. 60.4 per dollar in July 2007 and 62.41 in January 2008. During July-October 2008-09 Pakistan faced tremendous pressure on exchange leading to over 16% depreciation of rupee. This was due to substantial loss of exchange reserves, massive business buying and outflows, political uncertainty and speculative activities. The situation, however, improved after signing of the standby arrangement with IMF. The pressure, however, continued pushing to around **Rs. 104.80** at March 2017 end. The PKR depreciated against the US Dollar by 4.5 percent during second quarter of FY2018, it then dropped by a further 4.3 percent in March 2018, bringing the cumulative depreciation of 9.2 percent during Jul-March FY2018. Notably, the PKR depreciation came at a time when most currencies of developed and developing economies were strengthening against the USD, mainly due to dollar's weakness and favourable economic conditions in these countries. The PKR remained under pressure during the year 2018-19, as despite the decline in the current account gap, it stayed at a high level. Responding to the resulting payment pressures, the PKR depreciated by 14.1 percent against the US Dollar between July 1, 2018 and April 22, 2019. In the current fiscal year FY2019, it of May 20, 2019, PKR cumulatively depreciated by 18.7 percent against the US$ since end June 2018.

8. DEVALUATION OF RUPEE. ITS IMPACT ON THE ECONOMY

What is devaluation?

If an economy is operating under a fixed exchange rate and it officially lowers the price of its currency in foreign exchange market, it is referred to as devaluation. Devaluation, thus, is the official decrease in the domestic value of the currency in relation to gold or other foreign currencies. In the words of Samuelson, "A decrease in the official price of a nation's currency or in terms of gold is called devaluation".

Difference between devaluation and Depreciation.

The term devaluation is often confused with the term depreciation. Devaluation is decrease in fixed exchange rate system. It is the result of official government action. Depreciation on the other hand, is a fall in the free market on change rate of the domestic currency with foreign currencies. So when a country has a floating exchange rate system and it allows the external value of its currency to decrease due to market forces, it is named as depreciation. The State Bank of Pakistan devalued exchange rate a number of times before **January 8, 1982**. However, when it delinked the rupee from dollar in **1982**, the rupee parity stood at **Rs.9.90** to a dollar. Since **2000**, Pakistan has a floating exchange rate. The value of rupee is now determined in the foreign exchange market on the basis of market mechanism. The market rate of rupee to a dollar as on **30.06.2007** was at **Rs 60.66** to one dollar. In June **2008**, the rate has further declined to **Rs. 67**. During **July-October 2008-09**, rupee further declined by over **16%** against dollar. In **March 2009-10** the rate further declined to **Rs. 84.68**, in **July 2010-11** to **Rs.85.83** and further **Rs.94 July 2011-12**. Average Rate of exchange rate against US Dollar during the year, from 2012-13 to 2017-18 was as follows:

2012-13: Rs. 96.73/USD

2013-14: Rs. 102.86/USD

2014-15: Rs. 101.29/USD

2015-16: Rs. 104.23/USD

2016-17: Rs. 104.70/USD

2017-18: Rs. 109.84/USD

2018-19 (P): Rs. 132.33/USD

Objectives of devaluation

The main objectives of devaluation of currency are:

(a) to encourage exports;
(b) to discourage imports;
(c) to correct deficit in the balance of payments of a country.

Impact of devaluation

The State Bank of Pakistan has repeatedly decreased the external value of the currency since 1956 with the main objective of increasing the volume of exports and correcting the adverse balance of payments. However, these objectives could not be satisfactorily achieved due to the following reasons:

(a) *Exports not competitive:* The share of cotton group is about **60%** of our total export earnings. It is followed by the share of leather group and rice. Pakistan is facing stiff competition of the manufactured, semi-manufactured goods and raw materials in the foreign markets. The demand for our goods is price elastic. They are neither low priced nor are of superior quality. The country, therefore, has not been able to reap the full benefits of devaluation;

(b) *Rise in the prices of imports:* Most of the commodities imported into Pakistan have by and large price inelastic demand. The four major imports which contribute about **74%** in the import bill are machinery, petroleum products, chemicals and edible oil. Due to devaluation of the rupee, the import prices of these essential goods go up. Devaluation has not resulted in the decrease of imports, either;

(c) *Effect on prices:* Devaluation makes exports cheaper and imports dearer in terms of foreign currency. When the rupee cost of imports goes up, the prices of the goods using imported machinery, raw material etc. begin to rise. Devaluation, thus, is one of the factors which is causing inflationary pressure in the country;

(d) *Debt burden:* Pakistan has been relying on foreign economic assistance since 1950's. The overall debt burden and the debt servicing liability has been increasing by reductions in the external value of the rupee by the same percentage as of devaluations;

(e) *Increase in smuggling:* Devaluations have created cost push inflation in the country. A general rise in the prices of goods in the country encourages smuggling of foreign goods which are cheaper in price and better in quality. The Government is deprived of taxes from the formal sector of the economy;

(f) *Increase in defence expenditures:* The devaluation of rupee increases the import cost of military equipments. It leads to rise in defence expenditures. This item is taking away considerable part of the budget which under the present circumstances is inevitable;

(g) *Stimulates speculation:* Frequent devaluation of the currency and its rapid depreciation stimulates speculation in the economy, creates unequal distribution of income, leads to flight of capital abroad and shakes the confidence of the people in the value of the currency;

(h) *Effect on common man.* The repeated depreciations of the rupee have led to the increase in the prices of sugar, vegetable ghee pulses, grams, wheat energy rates, transport fares.

cloth etc. The common man is adversely hit due to downward adjustments of the rupee parity with dollar, as most of these items are imported now.

Summing up, the devaluation of rupee is a defensive and desperate short-term measure of boosting exports of the country. It should not be applied in isolation for raising exports. The other corrective measures such as diversification of exports, the production of value-added goods, reducing cost of production, eliminating unfair trading practices, controlling labour indiscipline, minimising holidays and above all improving the quality of exportable goods and making their prices competitive in the foreign market should be adopted first. The recourse to devaluation should be the last. It is now an outdated instrument since the adoption of Free floating exchange rate system in July 21, 2000 in Pakistan.

9. ROLE OF REMITTANCES

A very large number of skilled and non-skilled Pakistanis persons from Pakistan are working in different countries of the world. They are sending their hard earned money to their relatives or in their own accounts in Pakistan. These workers remittances continue to be a significant component of balance of payments. They have made sufficient contribution towards overall increase in foreign exchange earnings of the country.

The flow of workers remittances has been widely fluctuating over the years. The remittances were **2,013** million dollars in **1987-88**, 1468 million dollars in **1991-92**, 1,087 million in **2000-01**. The main reason for the decline of workers **remittances was a marked difference between the inter bank and open market exchange rates.** The workers due to higher receipts from *hundis* preferred to send the remittances through non banking channels.

However, during the next two years, the workers remittance were on the increase. It has touched the figure of about $ 4.2 billion in 2002-03. It came down to $3.87 in 2003-04 but has rose to over $4.168 billion in 2004-05, $ 4.6 billion in 2005-06 and $5.5 billion dollars in 2006-07. The amount is $6.45 billion during 2007-08 increasing to $7.8 billion during 2008-09 and $8.9 billion in 2009-10, $11.2 billion in 2010-11, $13.19 billion in 2011-12 and $13.92 billion in 2012-13, $15.84 billion in 2013-14, $18.72 billion in 2014-15, $19.915 billion in 2015-16, $19.35 billion in 2016-17, $19.913 billion in 2017-18 and $16,096 in 2018-19 (Jul-Mar).

The remittances registered a significant growth of 8.45 percent during July-April FY 2019 as compared to 5.36 percent last year and reached to US$ 17.875 billion during first ten months of current fiscal year against US$ 16.482 billion during the same period last year. On the back of initiatives taken by the government and the trend observed, it is expected that target of US$ 21.2 billion for FY 2019 is likely to be achieved.

The major share of remittances are from Saudi Arabia 23.36 percent (US $ 4,180 million), U.A.E 21.19 percent (US $ 3,790 million), U.K 15.41 (US $ 2,760 million) , USA 15.59 percent (US $ 2,790 million), other GCC countries 9.6 percent (US $ 1,720 million), EU 2.72 percent (US $ 490 million) and other countries 5.07 percent.

Role of Foreign Remittances

(i) The foreign remittances have greatly helped in maintaining the exchange rate stable both in the inter bank and open market.

(ii) The significant inflow of workers remittances has enabled the government of Pakistan to repay the hard loans.

(iii) The creditability of Pakistan has increased in the eyes of international donors and the other countries of the world.

(iv) The inflow of remittances has increased the purchasing power of the recipients. The aggregate demand for goods has gone up which has led to the increase in production of goods and employment opportunities.

(v) The substantial increase in foreign remittances has helped in improving the trade and current balances of the country.

10. GATT AND WTO

After the Second World War, mainly the industrialized countries of the world started imposing trade barriers to protect their economies from recession. In order to decrease trade barriers and liberalize trade flows on equal footing, a conference was held in Geneva in 1947. It was agreed in writing among 23 participating nations of the world to extend trade concessions. The first step taken in this direction was the signing of General Agreement on Tariffs and Trade (GATT). **GATT, thus is not an organization. It is a set of bilateral agreements among countries around the world to reduce tariffs and other barriers to trade among nations.**

The main objectives of GATT were (i) to treat all the member nations on equal footing (ii) helping each other in raising the standard of living of the people (iii) increasing volume of real income and effective demand for ensuring increased employment to the people (iv) developing and making full use of the resources of the world and (v) expansion of production and promoting of international trade by reducing tariffs and trade restrictions in a phased manner over a period of time. The members of GATT increased to 132 countries by 1994 including Pakistan. Since its inception, several rounds of negotiations were held among member nations to reduce tariffs and non-tariff barriers. The most important were the **Kennedy Round of Trade Negotiation** 1964-67, **Tokyo Round** of 1973-79, **Uruguay Round** from 1986-94. GATT was transformed into World Trade Organization on Jan., 1, 1995.

(b) World Trade Organization (WTO)

Birth of WTO: The World Trade Organization was established on January 1, 1995. Currently there are 150 member countries of WTO. The purpose of setting up WTO was to replace GATT which was merely a **legal arrangement** among member nations to liberalize and deregulate trade. WTO, on the other hand, is an **international organization** having headquarter in Geneva (Switzerland). The WTO has a wider scope than the old GAT. It has brought under it trade in services, intellectual property and investment. It follows all trade pacts which all members are committed under GATT. **The WTO is a watch dog of international trade**. It regulary examines the trade regimes of individual members.

Role of WTO: The WTO is playing an important role in administering the new global trade rules in the following manner:

(a) The WTO helps the member nations in solving the trading disputes through its Dispute Settlement Court.

(b) The 28 agreements included in the Uruguay Round are administered through various councils and committees of WTO.

(c) The WTO is a management consultant for world trade. Its economist keep a close watch on the pulse of the global trade.

(d) WTO is helping in promoting environment friendly trade.

(e) WTO has provided forum to member nations to settle trade disputes through negotiations.

(f) The WTO can seek help from IMF and IBRD for greater cooperation in global trade policies.

Pakistan and WTO:

Pakistan is a member of WTO since its inception in 1995. The opinion is divided over the issue of gains to be achieved from liberalization and deregulation of trade and the role of WTO. It is claimed particularly from the WTO that reduction in tariff and non-tariff barriers will give international trading a new dynasim and vitality. Further, it will provide increasing market access opportunities to the member nation. The volume of world trade would go up and there will be significant increase in world income from trade liberalization.

Disadvantages of globalization:

(i) There is loss of sovereignty and interference in the functioning of state.

(ii) The inclusion of trade in services is bound to affect adversely the domestic banking, insurance and telecommunication and shipping services which are less developed and are in the initial stages of development.

(iii) There is extreme inequality within the structure of WTO. The developed countries try to dictate their own terms on the developing countries which affect them adversely.

(iv) Another disturbing aspect of the functioning of WTO is that the disputes settlement mechanism is by its very nature is biased and is in favour of the rich nations.

(v) Another sensitive issue from the point of view of the developing countries relates to labour standard and environment. The developing countries cannot maintain labour standard as enforced in developed world. Linking trade to international quality environment is also difficult to achieve by the developing countries including Pakistan.

Gains to Pakistan from the membership of WTO:

(a) The World Bank has estimated that the liberalization of trade will add 275 bilion dollar annually to world income. Obviously, Pakistan will also get its share from the trade gain.

(b) Pakistan is also gaining from the export of agricultural products particularly rice, fruit and vegetables which are in great demand in the international market.

(c) For increasing exports, Pakistan is also following the standard set by WTO for exports such as standardization, quality control, environment of protection, trade marks etc.

(e) At present restrictions are placed by the developed countries on the mobility of labour. When such restriction are removed on the service sector in subsequent meetings of WTO. Pakistan is likely to gain from service in trade such as technical and professional services and unskilled labour also.

11. GLOBALIZATION OR LIBERALIZATION OF INTERNATIONAL TRADE

By Globalization or liberalization of trade, in short, means lowering of tariff and non tariff barriers progressive through negotiations among member countries. The reductions of quantitative restrictions on trade, removing of quotas, opening of markets for foreign goods and services etc has increased and broadened the scope of international business.

The aim of World Trade Organization (WTO) is to make international trade freer. The movement of goods and services is to be based on open competition and market forces. Here it may be cleared that opening of the doors of free trade and investment or globalization, does not mean absence of all regulations or restrictions on trade. The trade countries can impose restrictions and regulate trade to safeguard the interest of their consumers and businesses. They can levy tariffs on imports. However, the WTO encourages tariff reduction by mutual consent among the trading countries.

The idea of globalization or liberalization of trade and privatization of the economy is not new. It was persuaded and propagated by Adam Smith and David Ricardo and other classical economists. According to the classics, in the system of perfectly free commerce, each country generally devotes its labour and capital to such uses which are most beneficial to each. They advocated free trade and market oriented economy or laissez-faire economy.

The globalization or the emergence of a global village is beneficial for the industrially advanced countries of the world. The rich countries have exploited their own markets upto the peak level. They are in search of new markets for their multinational companies. It is infact the revival of imperialism. Globalization drive was launched by them in 1980's. Since then it is being vigorously pursued and followed through various multinational agreements. In the 8th Uruguay Round of GATT (General Agreement on Tariffs and Trade) held in **1993** in Uruguay, an agreement was reached among 124 participant nations. The new agreement was made effective on **January 1, 1995**. The main provisions of the GATT agreement are (I) liberalization of financial market (ii) cutting agricultural subsidies (iii) phased reduction of quotas on textiles (iv) setting up of WTO in **1995** (World Trade Organization) with judicial powers among members disputing the new rules of liberalizing the trade in goods and services.

Advantages of Globalization:

The globalization or the emergence of a global village is beneficial for the industrially advanced countries of the world which have advance technology for the production of goods in various sectors of the economy. Their capital intensive industries are producing goods on bigger scale reaping the benefits of large scale economies. **Briefly,** the advantages of globalization are as under:

(1) Productivity increases faster when countries produce goods and services in which they have a comparative advantage Living standard of the people can increase more rapidly.

(2) Global competition and cheap import help in reducing inflation.

(3) An open economy promotes technological development and innovation with fresh ideas from abroad.

(4) There is increase in jobs and wages in exporting industries.

(5) The developing countries get access to foreign investment at low interest rates.

The advanced countries of the world stand to benefit more from removing of trade barriers. Inspite of gaining all the advantages stated above, the rich advanced countries are showing double standard. On the one hand they are propegating and forcing the WTO rules for removal of barriers on international trade on developing countries. On the other hand, they themselves are violating and protecting their own markets by placing barriers on the free movement of goods and services from developing countries. For example;

(i) The free movement of workers among all the nations as per provisions of WTO is not being allowed on one pretext or the other.

(ii) The industrialized countries are protecting their farming sector by providing subsidies but the IMF is forcing the developing countries including Pakistan to lift subsidies on the farm sector.

(iii) In accordance with the WTO Agreement signed by member countries, the textile quota of the developing countries will be lifted gradually by the developed world within 10 years which goes against the interest of cotton producing countries including Pakistan.

(iv) The advanced countries are placing anti dumping duties to restrict the free flow of goods to the developed world.

(v) The implementation of WTO agreement that the developing countries will be brought in a position to repay the debt is not being fulfilled.

The developing countries, on the other hand, are being persuaded and forced by IMF, World Bank and WTO to life quotas and tariffs on the goods which are brought into the foreign market by the exporting enterprises. **What a dual standard of the game?**

What should the developing countries do now?

The developing countries including Pakistan who are signatories under the WTO compulsion have no other way but to lift the trade barriers. The liberalization of trade and deregulation of the economy is to be carried in letter and spirit. Pakistan and other developing countries shall have to review their economic policies. In-order to face the challange of liberalization of trade from **2005** onward, the developing countries including Pakistan shall have to focus on the following issues.

(i) The developing countries cannot depend entirely on domestic market for the sale of goods produced in the country. They have to export goods for earning of foreign exchange for the import of machinery, repayment of loans etc. For raising of production at home, the following steps are to be undertaken.

(a) The labour productivity in the country shall have to be increased through technical education, on the job training, skill upgradation and spread of new knowledge and techniques.

(b) The foreign investors are to be attracted in export oriented industries for increasing exports.

(c) The physical and financial structure shall have to be improved including cutting down delays in shipments, clearance, cargo space etc.

(d) The labour standards and environmental standards as agreed under international codes shall have to be adopted.

(e) Measures to diversify the export base by moving to develop engineering goods, chemical industries are required. With the textile sector, value addition should hold the key.

(f) Export is to be encouraged by simplifying tax and tariff regime for exporters.

(g) The small medium. enterprises which are exporting goods should be properly organized for exports.

(h) Law and order situation in the country is to be improved for making the country an ideal place for foreign investment.

(i) The exporters in Pakistan shall have to enter into contract with the genuine importers in other countries. The middle men should not be relied upon as they often exploit the exporters.

Summing up, Pakistan can face the challenge of open trade and earn foreign exchange only by making value addition in cotton manufactured goods and improving the quality of goods produced by small medium enterprises and making them price wise competitive also.

12. TRADE DEVELOPMENT AUTHORITY OF PAKISTAN (TDAP)

Formerly called Export Promotion Bureau (EPB). The international trading environments are rapidly changing. In order to achieve rapid growth in exports, the Export Promotion Bureau (EPB) which was responsible for trade promotions since 1953 has been replaced with Trade Development Authority of Pakistan (TDAP) in the year 2006. This new Authority (TDAP) is equipped with the necessary resources and autonomy for effectively exploiting opportunities to increase exports. The TDAP is supervised by Policy Board and its members represent both from the public and private sectors.

The TDAP is following an important role in increasing exports. It is helping in boosting exports by adopting the following strategy.

(1) Raising share in world market by focusing on neglected regions.

(2) Increasing current trade with USA and EU.

(3) Increasing competitive strength of the goods by achieving value addition.

(4) Diversification of exports.

(5) Entering into bilateral trade agreements.

(6) Enhancing export competitiveness by reducing cost of doing business.

(7) Encouraging women entrepreneur to enter into export business.

Services provided by TDAP:

The main services provided by TDAP are:

(i) market research

(ii) holding of fairs and exhibitions at local and international level.

(iii) sending of trade delegations for exploring of markets for our goods

(iv) making overseas publicity to create brand / country / product awareness

(v) conducting seminars and workshops to create awareness about export related issues

(vi) establishing of training institutes for skill development especially in textiles, surgical and leather

(vii) helping industry to adopt quality standard certification

(viii) educating the manufactures and exporters about WTO, rules.

QUESTIONS

1. Discuss in brief the contribution of foreign trade to economic development of a country.
2. 'Pakistan's export performance since 1947 has been quite encouraging'. Do you agree with this statement?
3. What are the major commodity exports of Pakistan? Discuss their importance.
4. Discuss in brief the major commodity imports of Pakistan.
5. **What is the position of balance of trade of Pakistan since Independence? What measures can be taken to correct the adverse balance of trade?**
6. **Exports play a vital role in the economic development of a country. What steps have been taken to promote exports by the government of Pakistan.**
7. **What are causes of adverse Balance of Payment in Pakistan. Suggest measures to improve the Balance of Payment of Pakistan.**

8. What are the factors which contribute towards persistent adverse balance of payments? Discuss the measures for correcting adverse balance of payments in Pakistan.
9. **Discuss in brief the latest trade Policy of Pakistan.**
10. Write a note on delinking of rupee from USA dollar in 1982.
11. Discuss in brief the export and import policy of Pakistan for the year 1990-91.
12. "Devaluations of rupee have not helped in achieving its objectives in Pakistan". Do you agree with this statement?
13. What is meant by devaluation? Discuss in brief the impact of devaluations of Pakistan's Rupee on the economy of Pakistan.
14. Discuss in brief the impact of globalization on Pakistan's economy.
15. Describe the role of Export Promotion Bureau in expanding Pakistan's exports.
16. Discuss the importance of Textile Imports in the economy of Pakistan.