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## An Analytical Review of Pakistan's Foreign Trade

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### Abstract

This study evaluates the patterns, policies, trends, composition, direction and concentration of trade of Pakistan since 1947-2008. Initially, Pakistan's trade been limited only few countries such as Saudi Arabia, Hong Kong, United State, Germany, Japan and United Arab Emeritus. Over the time, Pakistan widened her trade to other countries as well such as China, Thailand, Singapore, Malaysia and India. Nonetheless, gradually over the time the situation of export have improved. Since decade of sixties the structure of exports has considerably transformed from raw materials to manufacturing goods. The main imports consisted on fuel and fuel products, capital goods (manufacturing machineries and equipment), automobiles and auto parts, electrical goods, agricultural equipment and inputs (fertilizers, such as phosphate, potassium, sulphur, pesticides and insecticides) and medicines and medical equipment. The historical time-frame shows that Pakistan's main import expenditure is on fossil fuels, particularly from Saudi Arabia. Though many economic policies restricted some items to import and become self-sufficient such as wheat, sugar, textile, sports goods and medical instruments. Since independent in 1947 governments have adopted many policies to be self-sufficient or increase the domestic growth of industrial and agricultural growth, but significant results are yet to be achieved. This paper contributes several suggestions also.

**Keywords:** Foreign Trade, Export, Import, BOP, TOT, Tariff

### I. INTRODUCTION

Compare to past, in the current situation the trade among the countries have been more intensive and frequent. Now days, it became very important for all the nations globally to increase the trade among each other to avail anything in international trade which they cannot produce domestically. These international economic activities enhance specialization and comparative advantages. It is observed that from last fifty years that annual trade among countries sixteen fold and the ratio of world export of Gross Domestic Product surpassed twenty per cent. Due to the increased trade globally, there has been more investment, industrial development, increased employment opportunities and economic growth. The basis of trade depends on the differences in relative factor prices among the countries, therefore, those countries which have relatively less cost of production have a great advantage of gains from trade.

As far Pakistan's Export & Import are concerned, its exports mainly depend on textile (e.g. fiber yarn, garments, linens, cotton bales and cloths), rice, goods manufactured of leather, handy crafts and sports goods, dried and fresh fruits, rugs and carpets. The main exporting

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countries of Pakistan are USA, UK, UAE, Afghanistan, China, Japan, Hong Kong, Saudi Arabia and Germany. The share of these countries are 15.87%, 4.7 %, 12.35%, 8.48%, 4.44%, 0.7%, 2.2%, 2.2% and 4.1% respectively in Pakistan's export. They have contributed only \$20.29 billion at the end of (Dec: 2010) and it was \$18.33 billion at the end of (Dec: 2009). On the other hand Pakistan's import mainly depends on fossil fuels, petroleum products, machinery, plastic, transport, equipment, tea, paper, edible oils, iron, and steel. The share of China, Saudi Arabia, UAE, USA, Kuwait, Malaysia and India in Pakistan's import is 15.35%, 10.54%, 9.8%, 4.81%, 4.73%, 4.43% and 4.02%, respectively. The contribution of these partners is US\$ 32.71 billion at the end of (Dec: 2010) while it was US\$ 28.53 billion at the end of (Dec: 2009) in the Pakistan import bill. In 1988, financial institutions like the International Monetary Fund (IMF), World Bank (WB), and Asian Development Bank (ADB) forced Pakistan to liberalized trade for its development. But unfortunately Pakistan could not achieve the significant results of the development in the trade and still suffering from many serious problems like Poverty, Inflation, Unemployment, Deficit in terms of trade (balance of trade) and Deficit balance of payments, and limited international markets for export.

### 1.2 SCOPE OF THE STUDY

The main objective of the study is to explore the policies and trends of Pakistan's foreign trade, results of policies implemented by governments of all time to boost up the export, and schemes launched in every regime since 1947. Major challenges and obstacles followed by the Pakistan in foreign trade.

### 1.3 PURPOSE OF STUDY

The general purpose of this study is to explore the importance of role of foreign trade of Pakistan. Its export and import composition, concentration, direction and causes of favorable and unfavorable BoP, particularly for the period for the 1947-2008. The main reasons for high cost of production in exports are as follows: -----??

### 1.4 JUSTIFICATION OF THE STUDY

- i. The study will be helpful for concerned government authorities like Trade Development Authority of Pakistan (TDAP) and private institution will use the research to formulate policies regarding the export composition of current scenario of the country's foreign trade.
- ii. The findings of the study research will be useful for exporters particularly manufacturing goods as a guidance to find the venues to successfully fulfill the demand of the foreign nations.
- iii. The study research findings will also assist at the local level particularly universities scholars and researchers to determine the effects/ causes of low exports and high imports which hindering the economic development and growth of the country.

### 1.5 RESEARCH METHODOLOGY

The Study is library based research, which will aim at finding out the composition, behavior, direction of the foreign trade of Pakistan from 1947 to 2008. Secondary statistics will be

used to assess the facts regarding export and import of Pakistan in the given period. The information and statistics would be collected books, economics journals, research papers, newspapers, websites, and annual reports of the national and multinational companies, economics surveys of Pakistan, Bureau Statistic of Pakistan (BSP), CIA World Fact Book and World Development Indicators (WDI).

### **1.6 REVIEW OF LITERATURE**

The global trade is very vital for economic development either developed or underdeveloped countries. The structure and magnitude of international trade have experienced substantial variations. The trade liberalization, new technologies of production and high standard of living became the main elements of world trade. This segment presents a brief review of literature on the pattern of trade and export of Pakistan. Ghafoor and Hanif (2005) had done tremendous work on the pattern of trade in Pakistan for the period 1971-2003 by using ARIMA model and foresee the potential of export and level of imports by the year 2010. . The findings show an increasing trend in export and as well in import during last thirty years, i.e. 1970 to 2000. Observing these findings, the authors came to the point that it would be better to segregate export pattern with reference to the products and destination.

Mahmood and Akhter (1995) had analyzed the export growth linkages in Pakistan on three time period stages that are 1984-1985 to 1988-89 and 1988-89 to 1992-93. The estimation results of the authors indicated that the Pakistan's export in international market seems to be positive and improved except rice and cotton which been traditionally competitive. The highly subsidized agricultural farmers in USA and European Union countries seems be main cause of low demand of Pakistan's cotton. Another reason of decline of cotton export is emergence of new competitors of East Asia in the international cotton market.

Bader (2006) describes realistic evidence that imports of capital and intermediate goods are vital inputs, which are used in process of production of export goods in Pakistan. Hussain and Jalil (2006) address the question of whether intervention in the foreign exchange market in Pakistan has been successful in either altering the exchange rate level or smoothing the exchange rate fluctuations. According to empirical results there is evidence of effectiveness of official intervention on an exchange rate level as well as on the variance.

Trade performance of Pakistan is illustrated under given sections based on following years.

1. Pakistan Trade since 1947-1958 (Early period)
2. Trade policy since 1958-1970 (Decade of Development)
3. Trade Regime since 1971- 1977 (Bhutto Regime)
4. The Beginning of a Liberal Trade Regime: 1977-88 (Zia regime)
5. Trade Liberalization under Structural Adjustment: 1988 to 1996
6. Trade Performance since 1996 to 2007-8

### 1.6.1 PAKISTAN TRADE SINCE 1947-1958 (EARLY PERIOD)

It was time of independence 1947, Pakistan was consisted of two parts, West Pakistan and East Pakistan (now Bangladesh). Both parts were mainly supplying raw materials like jute and cotton respectively. India was the main export shareholder of about 60% of the total exports of Pakistan (Economic Survey 1969-70). In the early period the manufacturing goods were purchased from Bombay and Calcutta. The share of the primary commodities accounted for 99% in export mainly depended on only five primary commodities (cotton bales, raw jute, wool, tea and hides). Ishrat Hussain ("Pakistan the Economy of an ELITIST STATE). Over the time, the pattern of trade often changed from primary products to finished manufactured good. (Zaidi and S. Akber, 2000). Unfortunately, due to the trade lock created with India in September, 1949, on the refusal to depreciate its currency by Pakistan, India denied of purchasing raw jute and cotton at the current new par value. Due to India's refusal Pakistan's Government, however, used to follow a deliberate policy to diversify its exports to UK, Belgium, France, Germany and Italy. The earnings from commodity exports slightly fell from Rs.542.4 millions in 1948-49 to Rs. 535.1 million in 1949-50 (Nasir and Hyder, 2003).

In June 1950 the Korean War helped Pakistan to increase its export up to 109 %.The Balance of Payments (BOP) and foreign reserves were substantially increased, but after resolution of war Pakistan's BOP position was severely affected exports fell to \$ 226 million (in constant price) from \$346 millions in the year 1950, and imports increased to \$806 million leading Pakistan to a substantial deficit in trade for the first time in its history. Keeping in view the situation Pakistan abolished Open General License (OGL) system After the collapse of Korean war the government employed trade and foreign exchange controls in 1952, these controls became 'probably the most important cause of the rapid rate of growth of manufacturing in Pakistan'(Asian Development Bank ADB). Due to above taken decision the exports increased from Rs.491.4 million in 1954-55 to Rs. 742.40 million in 1955-56 (Andarus and Muhammad 1966).

The best way to characterize Pakistan's trading strategy for the period from 1947-1958 is to say that the policies of the Government were restricted to the management of short- term crises and reactions to various developments in the foreign trade sector [Amjad and Ahmed, 1984]. However, all measures did not much to help Pakistan's export regime. Sector Under given (Table 1.3.1) indicates the Export, Import and Trade balance performance of Pakistan from 1950-1958.

**Table 1.3.1 Exports, Imports, and Trade Balance, 1950-1958**  
**Year Current prices (US \$ million)**

Year	Exports	Imports	Balance of trade
1950/1	406	353	53
1951/2	276	445	-166
1952/3	262	307	-45
1953/4	194	249	-55
1954/5	149	237	-88
1955/6	156	203	-47
1956/7	147	319	-172
1957/8	91	276	-185

Source: Government of Pakistan, Pakistan Economic Survey, various issues, Islamabad

### 1.3.2 TRADE POLICY SINCE 1958-1970 (DECADE OF DEVELOPMENT)

The accession of Mohammad Ayub Khan in 1958 resulted in a change in the economic policy and structure of the country. During this regime government realized to speed up the industrialization process and new trade policies were introduced. Mainly emphasis was given to intermediate and investment goods industries. To influence the inter sectoral terms of trade and the flow of resources to various sector, the Export Bonus Scheme was introduced in 1959 for to attract export and exporters were permitted to transfer a part of excess profits in imports to the export sector. Bonus import licenses award worth a certain percentage of foreign exchange was introduced. The government also allowed traders to use these export bonus vouchers to import large quantities of consumer goods, raw materials and capital goods. These vouchers could also be sold in the open market at the premium of 100 to 109% of their face value (Andrus and Muhammad 1966). Like this scheme in 1962 "Export Credit Guarantee Scheme" for financial security risk for exporters, in 1967 "Cash -cum-bonus" system and in 1970 primary commodities were included in this scheme (Lewis 1970). The government also supported all of export activities and it was also decided to announce, export policies on an annual basis also. It resulted a major change in the structure of trade between the phase of 1955 and 1970. The share of manufactured goods increased in total export substantially, 14 percent in 1955 to 15 percent in 1971. In this period not only Pakistan increased its share in percentage, but also found new foreign markets for its commodities. The share of export to North America increased by 25% and South America by 16.7 % and export to Australia and New Zealand increased by 19% in 1968-69 (Rashid and Amjad 1984), mainly due to heavy import requirements of capital goods.

The period of the 1960s can be divided into two sub-phases The first phase which lasted until the war with India in 1965 was focused on the relaxation of controls on the prices and distribution and an intense effort was made to liberalize the economy, in second phase this effort received a setback in the period 1966- 70 because of too poor harvest in 1966 and 1968 aggravated both the general economic picture and import demand, and interest in liberalization slack -ended. The given (table 1.3.2) indicates the trade performance of the country for the prescribed period.

**Table 1.3.2 Exports, imports, and trade balance, 1958-1970**  
**Year Current prices (US \$ million)**

Year	Exports	Imports	Balance of trade
1958/9	93	215	-122
1959/60	160	379	-219
1960/1	114	457	-343
1961/2	114	470	-356
1962./3	210	588	-378
1963./4	226	626	-400
1964/5.	239	772	-533
1965/6.	253	605	-352
1966/7.	273	762	-489
1967/8.	346	699	-353
1968/9.	357	640	-283
1969/ 1970	338	690	-352

Source : Government of Pakistan , Pakistan Economic survey , various issues , Islamabad

### 1.3.3 TRADE REGIME SINCE 1971- 1977 (BHUTTO REGIME)

The trade regime of 1971 was different from that the 1950s and 1960s in almost every respect. In 1971 the East Pakistan separated from West Pakistan, which created many economic difficulties for West Pakistan (now Pakistan). Before the 1971 the bulk of trade had been carried on between both regions of the same country in the form of primary goods and manufactured goods. After the secession of East Pakistan (Bangladesh) in 1971, there was a profound change in the Pakistan's trade strategy and orientation became necessary. Historically, both countries were important trade partners, West Pakistan export to East Pakistan amount to \$169 million in 1969-70 about 50% of export was made in this year , different commodities such rice , raw cotton and tobacco as well as manufactured goods such as cotton fabrics and machinery have to find alternative markets. Similarly, the government had to find an import market for many commodities.

The Pakistan Peoples Party (PPP) came into power in December 1971 and remained in power until July 4, 1977 with an idea of Socialist Ideology, It was Bhutto government and this era is also called "A new country". This exogenous disruption of inter wing trade was accompanied by a radical change in the overall economic policy stance of the new government that came into power in 1971. The revision of domestic economic and export became important for the new Government. It had found new markets for its products and have traced new sources of supply for the products previously provided from East Pakistan. Many measures were taken into account for the face of new challenges to the internal and external trade of the country. The main measures, which the government has taken to stimulate exports were, (a) to end of export Bonus Scheme on May 12, 1972 (b) devaluation of Pakistan Rupee to the extent of 131% (c) to end of the multiple exchange rate system (d) An increase Trade Agreements with Muslim countries (Rashid and Amjad, 1984).

All the measures which were taken to increase the exports resulted with a profound

enlargement of the trade and exports have increased from Rs. 3, 37.14 million in 1971-72 to Rs. 10,161.2 million in 1973-74. Particularly in the last year of this regime in 1977-78 there was a marginal increase in the value of exports, the total exports stood at Rs. 12,980.4 million (Economic Survey of Pakistan 1980-81). The main factors which were held responsible for this miraculous change in the export volume of country were (a) Nationalization Policy of industries (b) Frequent changes in fiscal and monetary policy (c) Organized efforts to increase exports (Haleem, 2003). It is based on fact that Bhutto years were unfortunately characterized by the series of shocks, that severely affected the balance of Payments. The civil war of 1971, OPEC oil shocks in the 1970s, the deterioration terms of trade, poor agriculture harvest, and the large scale acquisition of private assets by the governmental generated an adverse relationship between government and private business. The result was stagnation in the production and consequently deterioration in BOT Shown in the (table 1.3.3).

**Table- 1.3.3 Exports, imports, and trade balance, 1971-1977**  
Year Current prices (US \$ million)

Year	Exports	Imports	Balance of trade
1971/72	591	638	-47
1972/73	817	797	20
1973/74	1,026	1,362	336
1974/75	1,039	2,114	-1,075
1975/76	1,137	2,067	-930
1976/77	1,141	2,325	-1,184

Source: Government of Pakistan, Pakistan Economic survey, various issues, Islamabad.

#### **1.3.4 TRADE REGIME SINCE 1977-88 THE BEGINNING OF A LIBERAL TRADE (ZIA REGIME)**

Since 1977-78, the exports of Pakistan continue to increase. The accession to power of General Zia coincided with a sharp increase in export performance, due to policies of denationalization and began a series of steps to liberalize the trade regime, particularly imports, by reducing the number of banned goods and lifting other restriction. In 1979 the invade of Afghanistan by Soviet made Pakistan a front line state. This attracted a huge foreign inflow of aid in Pakistan during the decade of 1980's. Simultaneously some economic strategies were formulated and implemented to encourage the private sector to invest and contribute to Pakistani economic expansion and an upswing in world trade. The Pakistani export subsequently had increased from \$1.1 billion in 1977 to \$ 3.0 billion by 1981 in (constant dollar terms). Not only did exports of rice and raw cotton grow faster in this period, but exports of non- traditional trade goods, such as leather, sports and engineering goods, performed remarkably well (Khan, 1990).

By 1982, unfortunately the increase in exports had been disrupted and then decline was by 17 percent. The slumps in export earnings were mainly due to unfavorable global conditions characterized by recession. Growing protection tendencies in the developed market, decline in demand for and the price of major commodities and the production at home is being mostly consumed rather than save for exports. In order to check the decline in exports, the Government took certain measures. The exports increased by 7.4% per annum during 1983. In this period the combination of foreign financial assistance with remittance gave policy makers some breathing space. The remittances reached at a high level of \$3 billion in 1983. This new source of foreign exchange earnings would not have been possible if the exchange rate had remained overvalued. But the exports again declined by 20% in 1984-85 of the target originally fixed for said years. The export shortfall has been contributed by the fall both in quantity exported and decline in the world price of major exportable commodities (Zaidi, 1999). The exports again increased from dollars 2.942 billion to dollar 4.92 billion during the period 1985/86 to 1988 but overall foreign trade remained in deficit while import expansion continued unabated (Nasir, and Hyder 1999). (Shown in table 1.3.4).

**Table 1.3.4 Exports, imports, and trade balance, 1977-1988**  
(US \$ million)

Year	Exports	Imports	Balance of trade
1977/78	1,311	2,810	-1,499
1978/79.	1,710	3,676	-1,966
1979/80	2,365	4,740	-2,375
1980/1	2,958	5,409	2,451
1981/82	2,464	5,622	3,158
1982/83	2,694	5,357	-2,663
1983/84	2,768	5,685	-2,917
1984/85	2,491	5,906	3,415
1985/86	3,070	5,634	-2,564
1986/87	3,686	5,380	-1,694
1987/88	4,455	6,391	-1,936

Source: Government of Pakistan, Pakistan Economic Survey various issues, Islamabad

### 1.3.5 TRADE LIBERALIZATION UNDER STRUCTURAL ADJUSTMENT: 1988 TO 1996

The period from 1988 to 1996 can be best characterized as a time of political consensus on the nature of country's trade policy. Although changes of administration and leadership have resulted in constant administrative adhocism. Even though both Benazir and Nawaz sharif have been committed to trade liberalization, the policies have been so variable that the period has been characterized as a 'muddle-through' scenario. In the early years of the decade of 1990, Pakistan's economy was upset by Gulf crisis, which laid to a sudden rise in international prices of oil and petroleum products and interruption in new flow of worker's remittances and remittances fell by a big margin. The import bill suddenly escalated by 13% due to increased prices of crude oil, POL products and sharply increased in edible oil and



fertilizer prices. The government, with the intention to improve that situation of worse balance of payments with the suggestion of the World Bank (WB) backed upon implementation of trade liberalization and exchange reforms packages. In light of recommendations the government announced a new trade reform package for the tariff reduction from 35% to 50% to motor vehicles, POL, fertilizer, life saving drugs, and on many other goods tariff will be reduced gradually. (S.Akbar Zaidi "Issues in Pakistan's Economy" 2005). But all these measures helped a little to improve the BOP account.

In the mid of 1990's a marked improvement in the balance of payments was witnessed exports increased to some encouraging extent. That increased brought down slightly the trade deficit from 3.8% of GDP in 1993-94 to 3.7% in 1994-95. The workers remittances swung from negative growth of 7.5% in 1993-94 to an increase of 29.1% in 1994-95 (Shaikh 2004). Foreign trade remained under severe pressure during 1995-96 and 1996-97 and current account balances deteriorated to an unprecedented level. An increase in imports accompanied by a decline of export growth worsened the balance of trade. The Current Account Balance deficit also deteriorated by 84% rising to \$4,575 million the largest trade deficit in the history of the country (Shaikh 2004). The table 1.3.5 indicates the performance.

**Table 1.3.5 Exports, imports, and trade balance, 1988-1996**  
(US \$ million)

Year	Export	Imports	Balance of Trade
1988/89	4,661	7,034	- 2,373
1989/90	4,954	6,935	1,981
1990/91	6,131	7,619	-1,488
1991/92	6,904	9,252	-2,348
1992/93	6,813	9,941	-3,128
1993/94	6,803	8,564	-1,761
1994/95	8,137	10,394	-2,257
1995/96	8,707	11,805	-3,098

Source<sup>1</sup>: S. AKBAR ZAIDI "Issues in Pakistan's Economy" 2005

Source<sup>2</sup>: Dr. lutuf Ali Phulpoto 2009.

### 1.3.6 TRADE PERFORMANCE SINCE 1996 TO ONWARD 2007-8

During 1996-1997 the trade balance however improved to some extent, by 15.1% and current account balance by 15.9% (Saeed 2004). These improvements were the result of sharp fall in the imports and significant increase in the workers' remittances. The external environment remained hostile for Pakistan during last years of nineties. However the during period of 2000/1 to 2005/6 the external sector had begun gains some buoyancy due to improvement in the acceleration in world economic growth and on other hand favorable macroeconomic environment within the country. The merchandise trade deficit of Pakistan was in the range of US\$ 2 billion during 2000-2003, nonetheless, it had started worsening thereafter at the back of increasing oil import bill. Had Continued strengthens in internal

demand, generating cause picking up in investment while continuous occurring of one-off imports (commercial aircraft, oil rigs, wheat, sugar, etc.) and sudden and sharp slowing in export growth, in 2006-7 particularly. Deficit in merchandised trade soared from US\$ 2.01 billion in 2002-3 to around US\$12 billion by 2005-6. It seems that just in three years it increased several fold. The current worsening in merchandise trade deficit over the last two years resulted mostly to the continued high domestic demand in the back of strong economic growth and an unexpected rising in the food related and international oil prices, triggering import bills to soar at new high level.

Throughout the first ten months of the current fiscal year (July- April, 2007-8), the merchandise trade deficit plunged down to US\$ 17 billion as compared to around US\$11 billion last year in the same period. The increasing deficit in merchandize trade caused to an outsize increase of 28.30 per cent in imports that more than offset a modest export growth 10.20 percent. On the basis of exist trend, the trade deficit is likely to touch US\$ 20.50 billion or 12.30 percent of GDP during 2007-8.

**TABLE1.3.6 COMPONENTS OF BALANCE OF PAYMENTS  
(AS PERCENT OF GDP)**

Year	Exports ^	Imports ^	Deficit
1995-96	13.8	18.7	4.9
1996-97	13.4	19.1	5.7
1997-98	13.9	16.3	2.4
1998-99	13.3	16.1	2.8
1999-00	11.7	14.1	2.4
2000-01	12.9	15.1	2.1
2001-02	12.8	14.4	1.7
2002-03	13.5	14.8	1.3
2003-04	12.5	15.9	3.3
2004-05	13.0	18.5	5.5
2005-06	13.0	22.5	9.5
2006-07	11.8	21.2	9.4
Jul-April			
2006-07 *	9.6	17.3	7.5
2007-08 *	8.9	18.7	9.8

^ Based on the data compiled by FBS. Source: FBS, SBP & E.A. Wing, Finance Division.

# Based on the data compiled by SBP.

\* : Provisional.

## 2.1 Composition of Exports

The export structure of Pakistan has altered prominently since first quarter of 1990s decade as it transformed from raw and semi-manufactured exports to final manufactured exports. The composition of Pakistan's export reflects that, what Pakistan's economy lacks is the export of high technological products and software's. The composition of Pakistan

export is given the Table 2.1.

**Table 2.1 Composition of Exports % share**

Year	Primary commodities		Semi manufactured		Manufactured	
	Total%	goods	goods	goods	goods	goods
1990-91	19	24		57		100.0
1992-93	15		21		64	100.0
1994-95	11	25		64		100.0
1996-1997	11		21		68	100.0
1998-1999	12		18		70	100.0
1999-2000	12		15		73	100.0
2000 -1	13		15		72	100.0
2001-02	11		14		75	100.0
2002-3	11		11		78	100.0
2003-4	10		12		78	100.0
2004-05	11		10		79	100.0
2005-6	11		11		78	100.0
2006-7	11		11		78	100.0
July -March						
2006-7	11		11		78	100.0
2007-8	11	11		78		100.0

Source: Economic Survey of Pakistan 2007-8

## 2.2 Direction of Exports

Globally, Pakistan's 50 percent exports are also highly centered in only few countries such as United States of America (USA) United Kingdom (UK) Kingdom of Saudi Arabia (KSA), Germany, Hong Kong, Japan and United Arab Emirates (UAE). Among all as mentioned the USA remained the major destination for Pakistan's exports accounting for 27 percent. Heavy concentration of exports in few commodities and few markets can lead to export instability. Therefore Pakistan should increase the capability of producing more dynamic commodities and find more markets for its sound BOP issue resolve.

**Table 2.2 MAJOR EXPORT MARKETS OF PAKISTAN**

Commodity	92-93	94-95	96-97	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08
USA	13.9	16.2	17.7	21.8	24.8	24.4	24.7	23.5	23.9	23.9	26.9	24.6	26.4
Germany	7.8	7.0	7.5	6.6	6.0	5.3	4.9	5.2	4.9	4.8	4.6	4.1	4.3
Japan	6.8	6.7	5.7	3.5	3.1	2.1	1.8	1.3	1.1	1.1	0.8	0.7	0.8
UK	7.1	7.1	7.2	6.6	6.8	6.3	7.2	7.1	7.6	6.2	6.0	5.6	5.6
Hon Kong	6.6	6.6	9.4	7.1	6.1	5.5	4.8	4.6	4.7	3.9	3.9	3.9	4.0
Dubai	5.9	4.0	4.6	5.4	5.7	5.3	7.9	9.0	7.3	3.3	5.3	7.5	1.6
Saudi Arabia	4.7	2.7	2.6	2.4	2.5	2.9	3.6	4.3	2.8	2.5	2.3	1.7	1.7

<b>Sub-total</b>	52.8	50.3	54.7	53.4	55.0	51.8	54.9	55.0	52.3	45.7	49.9	48.1	44.4
<b>Other Countries</b>	47.2	49.7	45.3	46.6	45.0	48.2	45.1	45.0	47.4 7	54.3	50.1	51.9	55.6
Total	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0

Source Government of Pakistan(\*2006), Economic Survey 2005-6 and Ministry of Commerce 2007-8 Islamabad

synthetic textiles (2.9%) and sports goods (1.6%). The degree of concentration has changed little from the last fiscal year. Pakistan should more concentration of export on European and Gulf markets for a balanced BOP. The annual percentage shares of the major export commodities are given **below in (the table 2.2)**

### 2.3 Concentration of Exports

Pakistan's exports are highly concentrated in a few items namely, cotton, leather, rice, synthetic textiles and sports goods. These five categories of exports account for 72.4 percent of total exports during the first nine months of 2007-08 with cotton manufacturers alone contributing 54.7 percent, followed by rice (7.1%), leather (6.1%),

**Table 2.3 Major Export of Pakistan (percentage share)**

Commodity	92-93	94-95	96-97	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08
<b>Cotton</b>	59.8	58.7	61.3	59.1	61.0	58.9	59.4	63.3	62.3	57.4	58.4	59.7	54.7
<b>Leather</b>	9.3	8.0	7.7	6.9	6.3	7.5	6.8	6.2	5.4	5.8	6.1	5.2	6.1
<b>Rice</b>	4.7	5.6	5.6	6.9	6.3	5.7	4.9	5.0	5.2	6.5	6.9	6.6	7.1
<b>Synthetic Textile</b>	7.4	7.1	6.1	5.1	5.3	5.9	4.5	5.1	3.8	2.1	1.2	2.5	2.9
<b>Sport Goods</b>	1.9	3.2	3.7	3.3	3.3	2.9	3.3	3.0	2.6	2.1	1.9	1.7	1.6
<b>Sub-total</b>	83.1	82.6	84.4	81.3	82.2	80.9	78.9	82.6	79.3	73.9	74.5	75.7	72.4
<b>Others</b>	16.9	17.4	15.6	18.7	17.8	19.1	21.1	17.4	20.7	26.1	25.5	24.3	27.6
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Government of Pakistan (2006) Economic Survey 2005-06, Islamabad, P.132. Pakistan Economic Survey 2007-8

### 2.4 CAUSES OF UNFAVORABLE BALANCE OF TRADE OF PAKISTAN

#### 1. Reliance of export of Primary commodities

Primary commodities: cotton, rice, leather etc. all depends on natural circumstances. Therefore Pakistan should produce manufactured and heavy goods for the positive BOP.

#### 2. Huge import of Petroleum, Oil and Lubricants

One fourth of earnings from export is spent on import of these items every year, which results unfavorable terms of trade. Pakistan should adopt new bio fuel technology for its positive terms of trade.

**3. Political instability and uncertainty**

It creates lack of persistency in monetary and fiscal policies which affects foreign trade.

**4. Ignorance towards setup of exports oriented industries**

Most of industries in Pakistan are setup so far as imported oriented industry instead of export oriented

**5. Increased freight rates**

Pakistan is depending on foreign shipping companies for export transport. The devaluation in rupee is increasing their freight.

**6. Impact of devaluation and depreciation of rupee.**

Devaluation makes our export cheap in international market and affects severely foreign exchange earnings.

**7. Ignorance of MBR**

Since the beginning of seventies, proper attention has not been given to MBR; (Modernization , balancing and Replacement of machinery in both sectors . Such ignorance is also the cause of deterioration in quality and production also.

**8. Import of unfavorable terms of trade.**

Pakistan is bearing high prices of imports as compared to exports.

**2.5 CONCLUSION**

While analyzing the foreign trade of Pakistan it is mainly affected by adverse balance of payments account, deficit in balance of trade has ever created a burden upon the economy. Pakistan's export market size is very narrow and consisting on only a few countries and export commodities are very few in numbers that comprise 74.5% of its exports. While analyzing other neighbor countries are increasing its market size for its exports and producing dynamic commodities to strengthen the BOP. Only USA is the largest export market for Pakistan, which depends upon a political understanding between both governments of all the time. The reliance upon few markets will not bring any improvement in foreign trade. Pakistan should derive the experience from china and there is also a need of aggressive marketing in collaboration with multi- national companies. Pakistan governments should adopt convergence and catch up model in the economy to boost up trade with the world for the prosperity of masses.

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Source: Pakistan Economic Survey 2015 - 2016

**Box-III: Evaluation of Pakistan's exports to European Union (EU) under the GSP Plus regime**

**Pakistan's exports to EU Calendar year 2005 - 2014**

Pakistan's exports to EU member states increased from US\$ 4.25 billion in 2005 to US\$ 6.21 billion in 2013. The Compound Annual Growth Rate (CAGR) of exports to EU has been 4.85 % only. However as a result of grant of GSP Plus to Pakistan by EU, Pakistan's exports to EU during the year 2014 amounted to US\$ 7.54 billion.

(US\$ billions)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Exports	4.25	4.55	4.76	5.00	4.59	5.31	6.40	5.67	6.21	7.54
Imports	5.35	5.74	5.15	5.34	4.94	5.11	5.15	5.64	5.26	5.6

**Exports & Imports of goods and services (% of GDP)**

	Exports	Imports
2009	12.40	19.68
2010	13.52	19.35
2011	13.97	18.97
2012	12.40	20.41
2013	13.28	20.06
2014	12.24	18.66
2015	10.59	17.02

Source: world bank Pakistan data