Imports and exports on the economy of pakistan economics essay

An import means getting goods into one country from another country in an appropriate method, typically for use in trade. Imports of goods and services are provided to domestic consumers by foreign producers. Imports play vital role in enhancing exports, these imports could be in the form of raw materials or machineries; both are used in the manufacturing sector. It is expected that imports of consumer goods have direct contemporaneous association with exports, while imports of capital goods affect exports with two period lags because machinery imported by the producers first setup and then start production, therefore, it starts impacting exports.

When a country exports goods, it vends them to a foreign market, that is, to consumers, businesses, or governments in another country. Those exports bring money into the country, which upsurges the exporting nation's GDP. When a country imports goods, it buys them from foreign producers. The money spent on imports leaves the economy, and there becomes fall in importing nation's GDP. Net exports can be either positive or negative. When exports are greater than imports, net exports are positive. When exports are lower than imports, net exports are negative. Durable economic growth of a developing country depends on the imports of capital goods and machinery that fast-tracks economic efficiency. In order to maintain the trade surplus, aggregate imports should be less then aggregate exports. But Pakistan is victim of trade deficit since extensive time.

Rise in exports results the rise in nominal GDP, therefore the demand in imports also upturns. Pakistan's economy is highly reliant on the imports like industrial inputs, machinery, fuel and essential food stuffs. The final sector in the globular flow of income model is the foreign sector which converts the model from a closed economy to an open economy. The key leakage from this sector are imports (M), which signify spending by residents into the rest of the world.

The Purpose of Study:

The purpose of my study is to identify what is the impact of imports and exports on GDP of Pakistan. Rise and fall in exports and imports and its effect on GDP. Basically my objective is to diagnose:

What are the problems faced by Pakistan?

Why the Pakistan exports are less than imports?

What are the reasons behind low Exports and High Imports?

What are the suitable remedies and suggestion to overcome this issue and to make a rapid Growth in GDP of Pakistan?

What is the Relationship between (Imports, Exports) and GDP?

FACTS AND FIGURES:

For the last 6 years it has averaged 7-8% growth.

Pakistan had the contracted export base but due to our gouverment efforts it has been improved in the last five years.

During the last 10 years, inflation has amplified to a great extent. Currently the inflation rate is 12. 3%.

Pakistan earns a main portion of foreign exchange from the export of its products such as cotton products, systematic, medical & hospital equipment, Toys, bicycles and other sporting goods, etc.

Civilian aircraft, Computer accessories, Telecommunications equipment, Tanks, artillery, missiles, rockets, guns & ammunition, etc are the major imports.

Major Export of Pakistan:

Rice

Furniture

Cotton fiber

Cement

Tiles and Marble

Apparel

Sports goods

Surgical instruments

Electrical appliances

Carpets

Ice cream

Livestock meat

Chicken

Powdered milk

Wheat

Vegetables & Fruits

Fish

Leather goods

Major Imports of Pakistan:

Petroleum and petroleum products

Edible oil

Chemicals

Capital goods

Industrial raw materials Iron, Steel and Aluminum

Consumer products

Agriculture Machinery

Textile Machinery , fertilizers

History of Import and Export in Pakistan:

Early (1947-1951)

Pakistan as a new born country handled lots of problems it does not have industries to manufacture and export goods. Pakistan had surgical industry at that time which was the basis of the major income. Agriculture was also assistant to Pakistan's international trade because East Pakistan was producing 75% of worlds Jute and cotton was also producing in country so there was no as such problem in trade and it was looked that Pakistan could do well in future but Pakistan instead of going up just went down year by year.

To improve industrial sector and to draw manufacturers, government decided to make plans for the industrial expansion. Till then Pakistan's trade balance persist negative. Then in 1950's all the other countries devalued their currency but Pakistan did not devalued its currency as it supposed that the demand for its product in foreign countries is inelastic but it was a dream gurgle which was burst when all the other countries break doing trade with Pakistan and Pakistan was about to be insolvent because of his foolish decision……

(The Separation 1971)

1971 is the year of Pakistan's division which leads to so many problems in which trade deficit was the chief problem a incredible amount of money was spends in war. In 1971, Pakistan's exports reduced significantly and its imports heaved, especially of capital goods, thus creating a trade deficit. A number of Pakistanis during this time traveled to the Middle East. Workers' remittances, particularly from the Middle East countries, increased tremendously which helped a great in steadying the Bop. The deficit in Balance of Trade was $836 million on an average while current account deficit in BoP was $699 million on an average 1971-72.

(1972-Trade Surplus)

In 1972 thirty-one substantial industries were nationalized life insurance and petroleum distribution companies were also nationalized. In 1972 the Pakistan rupee was devalued from 4. 76 US Dollar to Rs. 11. 00 to One US dollar and adjusted to 9. 91 to one US dollars so our export becomes 31% cheaper and our export enlarged by 130% that was a highest trade surplus in history of Pakistan. Only two years 1952 & 1972 were the year of trade surplus but 1972 were the best after that Pakistan never realized a trade surplus its now almost 38 years. On other hand or exports goods were become luxurious for us so this was also for the short time of period. Soon after 1972’s trade surplus Pakistan again in 1973 stand in the same old worse position. The devaluation was not a long term planning for Pakistan.

(Current Scenario)

Today, Pakistan faces a severe balance-of-payments disaster and can cover only about four-six weeks’ value of imports. The Current account deficit has upgraded by $ 2. 6 billion and stood at $ 8. 547 billion during July- April 2008-09 as against $ 11. 173 billion in the corresponding period of last year, thereby showing an enhancement of 23. 5 percent. The Financial and Capital account stood at $ 3608 million during July-April 2008-09 as against $ 6290 million in the corresponding period of last year which shows a decline of $ 2682 million. Pakistan will face a serious B. O. P problem next year partly because: The United States has not compensated over $ 1. 2 billion the country paid on the war on terror. Under the Coalition Support Fund the U. S recompenses Pakistan for terrorism related actions. The govt. has received $447 million since Sep. 2008 leaving a balance of over $ 1 billion.

Problem definition:

Research is conducted to investigate the impact of rise and fall in imports and exports on GDP of Pakistan. Why the Pakistan exports are less than imports?

Objectives of study:

The purpose of this study is to find out:

How Pakistan can resolve import and export problem

How Pakistan import can be reduce

How Pakistan exports can be enlarged

How Pakistan can get achievement in the global market share of export

why Pakistan faces trade deficit since long

Either Pakistan imports more capital goods or consumer goods.

Construct some solutions to overcome the problems of trade deficit.

For this purpose imports of goods and services have been estimated using annual data from 1976 to 2009.

To make empirical analysis of the impacts of trade surplus and deficit on economic growth.

Literature Review

In Literature Review different articles have been debated on National and International level authors about the problem statement that is causes of lack of technology & electricity problem of Pakistan due to which our export is deteriorating and our import is growing up. The economy of Pakistan is the 47th largest in the world in insignificant terms and 27th largest in the world in terms of purchasing power parity (PPP). Pakistan has a semi-industrialized economy and an agricultural economy. Pakistan turn out to be member of the World Trade Organization (WTO) as a result of the Uruguay Round (UR) of trade negotiations (1986-94) to provoke advantages from application of the new regime of multilateral trade liberalization like other countries, under the ambit of the WTO.

Pakistan exports worth 2240 USD in April of 2012. If we look at the historical background, from 2003 until 2012, Pakistan Exports averaged 1529. 7400 Million USD attainment an all-time high of 2660. 0000 Million USD in June of 2011.

According to Federal Bureau of Statistics:

Different commodities including milk, cream, milk food for infants, tea and edible oil costing US$ 249. 7 million were imported during February 2010. Tea import was enlarged by 7. 33% in the month of February 2010. The import of vegetables also remained on down track showing a decrease of 20. 02.

Total imports of Pakistan in 2010 $32. 71 billion.

According to Khan and Zahler (1985):

Khan and Zahler recognized that Trade Liberalization stimulate growth from the supply side, but if there is a negative trade balance then growth will be adversely effected from demand side. Because the payments deficits consequential from liberalization are habitually unmaintainable and not easily rectified by relative price (real exchange rate) changes.

According to Khan and Knight (1988):

They employed 2SLS model to estimate the import solidity and export performance in Pakistan. They find out a complete trade model by applying a cross sectional time series. Their results did not provide country specific import constant; however, the combined elasticity of exports with respect to imported inputs is statistically substantial, the point elasticity was calculated as 0. 52.

According to Akhtar and Malik (2000):

They find out bilateral price and income consequences on Pakistan. They made comparison with four major Trading Partners, (JAPAN, USA, UK, and GERMANY). Using quarterly data for the period 1982-1Q to 1996-4Q applied three stage least square procedure. But their results were not so confined.

According to Badar (2006):

Badar used Time Series Data from 1973-2005 and determined the import intensity for Export production in Pakistan. His study told us about a long run relation between exports and imports of intermediate and capital merchandises. His study also determines that country's exports are more sensitive to imports of raw-material rather than capital imports. It should import consumer goods only and exports the capital goods.

According to Jordan (2007):

Jordan determined the interconnection between Exports and GDP of a country for a period 35 years. He applied hypothesis of growth in GDP by exports. He tested whether there is uni-directional or bi-direction causality between export and GDP. His results describe that exports effect the per capita income and as exports increases, GDP also increases.

According to Pazim (2009):

Pazim applied Panel Data Analysis. He tested the validity of export-led growth hypothesis. It was decided that there is no major relationship between the sizes on national

income and amount of export on the basis of applied model. The panel unit root test showed that the method for both GDP and Export at first difference is not immobile while the panel co-integration test designates that there is no co-integration relationship between the export and economic growth.

Article No: 1(Pakistan Textile Industry Facing New Challenges)

Abstract:

The Pakistan textile industry contributes more than 60 percent (US $ 9. 6 billion) to the country's total exports. However, currently its growth rate is being declined. The major reasons for this decline can be the global recession, internal security concerns, political issues, the high cost of production due to increase in the energy costs etc. in Pakistan. Depreciation of Pakistani rupee that significantly raised the cost of imported inputs, rise in inflation rate, and high cost of financing has also effected seriously the growth in the textile industry. As a result both the exporter and importer are unwilling to move from Pakistan to outside countries for better solution of their problems. With an in-depth investigation it was found that the Pakistan's textile industry can once again be brought back on winning track if government takes serious actions in removing or stabilizing the above revealed hurdles. The government should provide subsidy to the textile industry, minimize the internal dispute among the exporters, withdraw the withholding and sales taxes etc. New machinery should be purchased to enhance the quality of the existing machinery and introducing new

technology can also be very useful in enhancing the trade surplus that will help for industrial growth and economic development in future.

Article No 2 ;(Mango export badly hit by ravages of floods)

Abstract:

This article disclosed that export of mango, the second largest fruit crop of Pakistan, was badly hit by the results of floods, During the current year, 11 on-farm workshops on mango quality improvement (harvest maturity determination, harvesting techniques, de-sapping, field, sorting, categorizing and packing) were conducted in different Pakistan cities but lot of other reasons Pakistan mango export is decreasing and one of them in freshly is flood.

Article No 3;(U. S. Arms Sales to Pakistan)

Abstract:

In this article it is briefly discussed the issue of U. S. arms sales to Pakistan. It provides background details regarding recent major weapons transactions between the United States and Pakistan. It also described the current statutory framework that governs U. S. weapons sales to Pakistan, plus existing authorities that could be used to curb or terminate existing or prospective sales to that country. Political pressure has been strong with this transaction

Gross Domestic Product (GDP)

GDP = C + I + G + (X-M)

Exports of goods and services (% of GDP)

Exports of goods and services signify the value of all goods and other market services provided to the rest of the world. They include the value of retail, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They eradicate compensation of employees and investment income and transferal payments.

Exports of goods and services (% of GDP) in Pakistan:

The Exports of goods and services (% of GDP) in Pakistan was last stated at 13. 55 in 2010, according to a World Bank report in 2011. The Exports of goods and services (% of GDP) in Pakistan was 12. 86 in 2009, according to a World Bank report, published in 2010. The Exports of goods and services (% of GDP) in Pakistan was reported at 12. 85 in 2008, approving to the World Bank. It can be further explained by a historical data chart. Pakistan's economy has suffered in the past from decades of internal political disputes, severe condition of Law and Order, a reckless growing population, different levels of foreign investment, and high cost of production. Nevertheless, IMF-approved government policies, boosted by foreign investment and renewed access to global markets, have generated solid macroeconomic recovery during the last decade. It would be a good step for economic development.

Data is taken from 1976 to 2009:

C: UsersZAHIDDesktopchart. png

Imports of goods and services (annual % growth) in Pakistan

The Imports of goods and services (annual % growth) in Pakistan was last stated at 4. 44 in 2010, agreeing to a World Bank report in 2011. The Imports of goods and services (annual % growth) in Pakistan was -15. 16 in 2009, according to a World Bank report, published in 2010. The Imports of goods and services (annual % growth) in Pakistan was reported at 3. 51 in 2008, permitting to the World Bank. Annual growth rate of imports of goods and services based on constant local currency. Aggregates have their basis on constant 2000 U. S. dollars. Imports of goods and services signify the value of all goods and other market services received from the rest of the world. They include the value of merchandise, freight, protection, transport, travel, royalties, license subscriptions, and other services, such as statement, construction, monetary, evidence, business, individual, and government services. They exclude compensation of employees and investment income and transfer payments. It can be seen by chart, news and forecasts for Imports of goods and services (annual % growth) in Pakistan. Pakistan’s economy has suffered in the past from periods of internal political clashes with India. Though, IMF-approved government policies, augmented by foreign investment and renewed access to global markets, have generated solid macroeconomic recovery during the last span of time.

Data is taken from 1976 to 2009:

C: UsersZAHIDDesktopchart. png

Growth Rate of Exports and Imports:

The following table shows that the rates of growth of exports and imports have both

Decelerated between 1999-00 and 2010. It can be seen that drop in import growth is

Meaningfully greater than in export growth.

Years Exports Imports

1977-78 to 1987-88 14. 4 10. 3

1988-89 to 1998-99 5. 6 4. 3

1999-00 to 2000-2001 8. 8 6. 7

2000 to 2005 10. 2 9. 3

2005 t0 2010 7. 4 4. 1

Source:

Social Development in Pakistan, Annual

Review, 2001.

Research Methodology

My research is secondary base. In research methodology I have made the research about this project and the detail about my research is as below.

Research Design

The research design is secondary based. Research method is descriptive. I have made descriptive study according to the project and take knowledge from different sources of information to collect more sophisticated results and know more about the problem and also their suggestions for the solution of the problem.

Methodology:

The methodology I have apply in project is the OLS (ORDINARY LEAST SQUARE) by using statas. In this frame work I have one dependent variable that is GDP (GROSS DOMESTIC PRODUCT) and two independent variables that EXPORT and IMPORTS.

My data is secondary based.

GDP is dependent variable.

Exports and imports are independent variables.

I will apply Multiple Regression Model to estimate the relationship.

Model:

GDP= f (exports, imports)

We can write it as

Y= Î²1+Î²2X2+Î²3X3+Ïµ

Variable Description:

Y= GDP

X2= Exports

X3= Imports

Ïµ = Error term

Where:

Î’2 is the coefficient of X2 (exports), which shows that how much export will effect on GDP.

Î² 3 is the coefficient of X3 (imports), which shows that how much imports will effect on GDP.

YEARS

IMPORTS

EXPORTS

GDP

1976

2812. 13

1449. 76

13338. 49

1977

3216. 56

1438. 29

15126. 06

1978

4096. 06

1805. 67

17820. 1

1979

5414. 18

2503. 91

19707. 98

1980

6706. 94

3232. 9

23689. 7

1981

6980. 35

3389. 5

28100. 61

1982

7256. 31

3154. 73

30725. 97

1983

7188. 17

3662. 62

28691. 89

1984

8021. 17

3286. 53

31151. 83

1985

7785. 09

3509. 1

31144. 92

1986

7957. 43

4035. 98

31899. 07

1987

8480. 27

4928. 01

33351. 53

1988

9535. 39

5282. 18

38472. 74

1989

10222. 06

6005. 66

40171. 02

1990

11385. 92

6834. 73

40010. 43

1991

12258. 92

7941. 74

45451. 96

1992

13884. 47

8472. 57

48635. 24

1993

13628. 19

8366. 37

51478. 35

1994

13714. 28

8869. 46

51894. 8

1995

16310. 68

10213. 6

60636. 07

1996

17820. 3

10523. 48

63320. 17

1997

15774. 82

9975. 9

62433. 34

1998

14358

9254

62191. 96

1999

13625

9046

62973. 86

2000

14484

10119

73952. 37

2001

14260

10590

72309. 74

2002

15083

12261

72306. 82

2003

17676

14837

83244. 8

2004

24610. 05

16046. 01

97977. 77

2005

32453. 2

19111

109600

2006

39109. 92

20555

127500

2007

42683. 1

21955. 1

143171. 18

2008

53552

25476. 5

163891. 68

2009

39238

22220

161989. 98

All the data is in us million dollar

Sources:

1. World Development Indicator

2. Federal Bureau of Statistics

Reg GDP on exports, imports

Source SS df MS Number of obs = 34

F(2, 31) = 733. 48

Model 5. 3183e+10 2 2. 6592e+10 Prob > F = 0. 0000

Residual 1. 1239e+09 31 36254279. 1 R-squared = 0. 9793

Adj R-squared = 0. 9780

Total 5. 4307e+10 33 1. 6457e+09 Root MSE = 6021. 2

GDP Coef. Std. Err. T P>| t| [95% Conf. Interval]

exports 4. 404964 . 6502267 6. 77 0. 000 3. 078818 5. 73111

imports – . 9480534 . 3520247 – 2. 69 0. 011 – . 2300944 – 1. 666012

_cons 4920. 563 1803. 97 2. 73 0. 010 1241. 341 8599. 784

Interpretation:

For interpretation of above results first of all we observe two main steps i. e:

Look at the sign.

(2) Look at the magnitude

Î²2 = 4. 40

Which is Positive, which represents there exists a positive relationship between X2 and Y(exports and GDP). If X2 Goes up by one unit, Y will also go up by 4. 4 units and vice versa, provided other independent variables are held constant. Hence it is conclude that exports have positive relationship with GDP. More exports will generate more GDP and there will be a strong Economy.

Î²1 = 4920. 563

it indicates the value of dependent variable in the absence of all other independent variables. Like if there is only on dependent variable which is GDP of our model and no other independent

Î²3 = -0. 9480

It representing that there exist a negative relationship between X3 and Y. If X3 goes up by one unit Y will goes down by . 99 units and vice versa provided other variables are kept constant.

R-squared = 0. 9793

R2 is always positive and tells us;

How much variation can take place in dependent variable due to independent variable. It represents that 98% of the total variations in the dependent variable (GDP) are coming from the Independent variables and remaining are due to the Error term.

F Test = 733. 48

F test shows the overall good fitness of the model. The value of F test is greater than 10 which is showing that the MODEL IS GOOD FIT and the MODEL IS VALID.

T Test

In this model imports are significant because the value of import t test= -2. 69 is less than 2. So imports do not have a significant impact in our model.

In this model exports are significant because the value of exports t test= 6. 77 greater than 2. So exports have significant impact in our model

Research Analysis

This study tells that there is a strong impact of exports on the economy of Pakistan since 1976 to 2009 and imports are very low as compare to exports. Pakistan has made effort to eradicate the non-tariff barriers to trade to stimulate the trade. Exports have increased but less as compare to imports have increased. The government has eliminated the negative list, which enlisted products that could only be imported through scheduled importers, and has upraised the licensing requirements for merchandises outside the negative list.

My analysis says that the import of raw materials and capital goods have a main role in enhancing the overall export level of the country; whereas, the country's exports are more sensitive to import of raw material rather than capital imports. Our country should exports capital goods to other countries. It will help our country's policy makers to focus on importing more of those items which are openly used into export production, for growing the export capacity of the country, increasing trade surplus and reducing the additional pressure on trade differences.

CAUSES OF LOW EXPORTS and HIGH IMPORTS IN PAKISTAN:

Lack of Finance Facility to Textile:

One main reason of low exports is lack of finance facilities to the textile sector by govt. All Pakistan Textile Mills Association (APTMA) has told that government’s actions are not matching with its words for the textile industry. Prime Minister Yusuf Raza Gilani said at the © Research Journal of InternatÄ±onal StudÄ±es – Issue 14 (May, 2010) 23 , high of the textile industry influence towards the country’s economy. Chairman APTMA Tariq Mehmood said the federal budget 2009-10 is a total negation of the acknowledgement of the role of textile industry on the part of the Prime Minister. According to him, reintroduction of minimum tax on domestic sales would invite unavoidable liquidity problematic areas, which is already reached to the alarming level. He said that textile industry has negative generation of funds because of high rate of interests and mark ups.

Increasing Cost of Production:

The cost of production of textile rises due to many reasons like increasing interest rate, double digit inflation & deteriorating value of Pakistani rupee. The above all reason increased the cost of fabrication of textile industry which construct problem for a textile industry to compete in international market.

Political instability and internal issues of Pakistan:

Pakistan has been a victim of Political instability which is also a great issue of having energy crisis and severe adverse balance of payments. Pakistan’s textile industry is going through one of the hardest period in decades. The global recession which has hit the global textile really hard is not the only reason for concern. The high cost of production subsequent from an instant increase in the energy costs. Depreciation of Pakistani rupee during last years raised the cost of imported inputs. In addition, double digit inflation and great cost of financing has extremely affected the growth in the textile industry. Pakistan’s textile exports have gone down during last three years as exporters cannot effectively sale out their products since buyers are not willing to stay in Pakistan due to adverse travel advice-giving and it is getting more and channels of distribution are becoming more harder.

Pakistan is facing energy crisis due to which volume of exports is being contracted and hence economy of Pakistan is going downward.

Energy Crisis:

Electricity Crisis:

Due to electricity crisis and load-shedding the textile production capacity of various sub-sectors has been reduced by up to 30%. The joint meeting of APTMA & other related organization was held at APTMA House to verbalize a joint strategy to address the alarming electricity crisis being faced by the textile industry. In this meeting it was decided that a joint working constitute will be formed. The joint working group will meet soon to design a detailed plan to pursue the following Achievements; immediate total freedom from Electricity load shedding for the textile industry value chain; Rationalization and reduction of electricity tariff. The load-shedding of electricity cause a rapid decrease in production which also reduced the export order. The cost of production has also risen due to instant upturn in electricity tariff. Due to load shedding some mill owner used alternative source of energy like generator which increase their cost of production further. Other health and environment problems also generated in this way. Due to such dramatic situation the capability of competitiveness of this industry in international market affected badly. Our consumption of Electricity is more than our production.

Gas Shortage

Despite an important increase in temperature, there was a continuous Gas load-shedding in Punjab and NWFP. An Analyst for the All Pakistan Textile Mills Association (APTMA) claimed that 60 to 70% of the industry had been affected and was incapable to accept export orders coming in from everywhere the world. He said the textile industry had already undergone over 45 days of gas stoppage over a long time period. Hence Pakistan has faced extra ordinary production losses. He described that supply disturbance only was causing an estimated loss of Rs1 billion per day in Punjab. He advised that government should apply planned investments regarding gas shortage and follow the remedies to overcome this issue as soon as possible.

Tight Monetary Policy:

Tight monetary policy is another cause of intensive increase in cost of production. Due to high interest rate financing cost upsurges which cause a severe result on production. The withholding tax of 1% also affect the production badly. The high cost of doing business is becaus of rigorous increase in the rate of interest which has increased the problem