The Analysis of Important Issues Related to Trade Balance of Pakistan (2000-2023)

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This study will discuss about the important issues related to balance of trade of Pakistan by covering the time period 2000 to 2023. It is analyzed that there is positive impact of market size and infrastructure on balance of trade of Pakistan in such a way that if market size which is used as proxy for Gross Domestic Product (GDP) will improve that will increase the production of goods and services and ultimately it will impact positively on balance of trade of Pakistan. In the same line if infrastructure will be improved then it will also support to balance of trade of Pakistan positively, whereas, the exchange rate is impacting negatively for balance of trade of Pakistan because it is analyzed to be under estimated or overestimated for the economy of Pakistan. The data is analyzed through error correction mechanism and co-integration after testing the stationarity of data. Few important policy directions are given on the basis of available data that described about core variables of economy that may impact in right direction for economic analysis of Pakistan. In addition to this the annual data is utilized for policy making in this research for the analysis.
1. Introduction

The analysis of different variables is made for the economy of Pakistan including international trade, capital stock, human capital and imports by considering it to be an important parameter for analysis (Shafiq & Shaikh, 2024). It was determined that the analysis of economic growth on the basis of different indicators is perceived for different economies of the world which may indicate the basic parameters of exports and imports, where basic materials of trade are under observation (Gonzalez, 2023). If we consider the different values of exports and imports on the basis of goods and services it is very clear that the countries can benefit more from globalization and international trade (Wu & Ku 2022). Some of the researchers are of the opinion that the growth of trade and expansion of awareness for quality of goods for the economy of Pakistan is need of hour to discuss because it is very stable and instrumental to incorporate the policy making for better results (Sarwar, 2021). Different base of policy making is done for exports and imports of oil as way for economic growth and openness of trade. In this analysis it was incorporated that the openness of trade is giving fruitful results for better policy making (Majumder, 2020). The openness of trade and economic growth while taking results from business activities it was told that there is proper check and balance for different economies of the world which may impact for better results by learning from industrial countries (Malefane, 2019). An overview is given that nation's GDP is increased, employment opportunities are created, economic development is stimulated, and poverty is decreased as a result of international commerce (Okenna & Adesanya, 2020).

The accumulation of factors as land, labor, capital and organization are the basic instruments for exchange of goods and services. From these factors two are considered as active factors and two of them are passive factors for the production of goods and services (Munir & Arshad, 2018). Pakistan's economy is highly reliant on export revenue since it is utilized to fund imports, secure funds for debt servicing, and close the country's balance of payments (Khan & Khan, 2021). Pakistan's trade performance is appalling; the country's current account deficit is constantly growing as a result of a sharp decline in imports relative to exports (Hanif, 2018). Both sides of the border always gain from trade since it is simpler to move commodities across land, and Pakistan has a lot of potential to increase trade to east-west frontiers (Choudhri, Marasco, & Nabi, 2017). There are a number of factors contributing to the decline in exports, including weak external demand, falling global commodity prices, rising domestic production costs, fierce rivalry, and a small market base (Gul & Ahmad, 2018).

In this analysis the balance of trade is analyzed on the bases of J-curve where it is applied that how trade is determined on the basis of exchange rate. There are different categories of exchange rate one is floating exchange rate and other is flexible exchange rate. As well as floating exchange rate is concerned it is studied when the price of currency is considered on the basis of demand and supply of currency and in fixed exchange rate there is a quota which is fixed for each and every country (Aamir, 2019). Landlocked nations Tajikistan, Uzbekistan, Kazakhstan,
Kyrgyzstan, and Turkmenistan make up the Central Asian Republics (CARs), which are regarded as the center of the Asian continent. Through the Silk Road, these governments served as a hub for numerous ancient civilizations that connected Europe, East, West, and South Asia (Javaid & Rashid, 2016). The CARs have a large population, developing markets, and a plenty of energy resources, making them a wonderful place to do business. Even though Pakistan and the CARs have regular political relations and comparable religions and cultures, trade between the two countries is minimal (Hanif, 2018).

There is a larger effect of exchange rate on the balance of trade of Pakistan because if it is impacted through different fluctuations of exchange rate it will be better choice for policy makers to understand the better values of balance of trade (Arshadullah, 2019). When the role of major export and import economies is concerned then the economy of Pakistan is counted in agriculture sector mainly, which can be the base of economic growth and economic development but it is suggested that Pakistan’s major share for agriculture industrial and services development can be considered as a main part of economy (Hussain, 2016). When there is a proper analysis of exports of different economies then the impact of power consumption and production on the basis of investment and economic growth is considered as good choice for different environmental and pollution related issues. It is also important to point out that whenever we consider the choice of consumption and investment decisions it is also the major share which will be better opportunity for economy to sale goods and services for neighborhood countries (Hassan, 2022). If we want to analyze the options and opportunities for different economies of the world then Pakistan is considered at high extent for trade with China and other neighbored countries and it is considered that if any developing country can avail benefits from international trade than it will be better option for different economists to guide them to get this opportunity for growth and development and it can be the proper formula towards the rational exchange rate on the basis of choices and options for appreciation of currency to get better choice for proper decision making in right directions (Hayat, 2016).

If any country wants economic development, then it should focus on the international trade because economic development is provision of basic needs, expansion of living standard and easiness of life so it is very important that when we consider about the economic growth and economic development then we cannot deny the trade because trade is the best for different options which may be considered as best for reputation and credibility in the world (Smith, 2017). It is also considered that when we estimate on the basis of Marshal-learner conditions in the economy of Pakistan. It also describes about the potential of country to contribute in the race of international Trade which may impact positively for the economic decision making (Syeda, 2016). It is considered on the basis of forecasting of exchange rate for the economy of Pakistan by using time series analysis and it is perceived that on the basis of forecasting, if exchange rate is overvalued or undervalued than it cannot get benefit from other countries which are making proper decisions for the management of exchange rate (Sohail, 2022).
1.1 Research Questions

i) What is the relationship of Exchange rate and Balance of Trade?

ii) What is the impact of market size on Balance of Trade?

iii) What is the policy impact on different issues of Balance of Trade?

2. Review of Literature

Pakistan has been experiencing a growing trade deficit due to a slower rate of increase in imports than exports. With a heavy reliance on a few numbers of customers, primarily in industrialized nations, the outlook for growing exports remains bleak. This justifies the necessity to investigate potential new opportunities in order to diversify the exportable market. One such opportunity is the thriving potential market for Pakistani goods in the Central Asian Republics. However, these relationships have been impacted by the unstable geopolitical environment in the area, especially in Afghanistan, which has made it more difficult to establish deeper trade connections with these nations. The Pakistani government must work hard to increase trade connections with the Central Asian Republics in light of this complex situation. Pakistan has been struggling with the increase in exports and is searching for import substitution (Hanif, 2018). The exchange of goods and services when it is considered as the international trade which is important for any country it is better opportunity for any economy like Pakistan which may be considered as the important best for development the economy of Pakistan can perform greatly if it can focus on agriculture and industrial sector (Javed, 2023). In his analysis of Pakistan's trading potential with Central Asian nations, Samad (2006) discovered that the country has export potential because its export intensity index since 2000 is less than one. According to the analysis, Pakistan might not benefit from a free trade agreement with the Central Asian nations. However, in order to expand and diversify its export market, the report suggests that Pakistan should tap into the economies of Central Asia. Because Pakistan provides quick access to the sea, this might be advantageous for the economies of both Pakistan and Central Asia. Using panel data from 1990 to 2010, Khan et al. (2013) examined Pakistan's bilateral trade with its principal trading partners.

The findings show that the GDP, distance, and GDP—the classic gravity model variables were key variables from the listed analysis. The analysis of different variables is done for economy of Pakistan including international trade capital stock human capital imports by considering it very important parameter (Shafiq & Shaikh, 2024). It was decided that analysis of economic growth on the basis of different indicators is done for different economy of the world which may indicate the basic parameters of exports and imports which materials of trade (Gonzalez, 2023). The focus of many economies of the world is on digital economy which is responsible for change in it is very relatively easy for exports and imports for an economy like Pakistan it having potential that should not be not for betterment of any country which is a strong focus (Ahmed, 2022). When any economy is getting rid from the traditional businesses to digital financial businesses than it can get the best opportunities of change for policy options which is discussed from time but these challenges should be converted into a percentage for betterment of better results is compared to
other countries (Manzoor et al., 2021). If we consider the different values of exports and imports on the basis of goods and services it is very clear that the we countries can benefit more from globalization and international trade (Wu & Ku 2022). Some researchers are of view that the growth of trade and expansion of awareness for economy of Pakistan is need of hour to discuss because it is very stable and instrumental to incorporate the policy making for better results (Sarwar, 2021).

Different polish making is done export and import of oil economic growth and upends of trade. In this analysis it was incorporated that the openness of trade is giving fruitful results for better policy making (Majumder, 2020). The openness of trade and economic growth while taking results from business activities it was told that there is proper check and balance for different economy of the world which may impact on better results by learning from industrial countries (Malefane, 2019). Using data from 1995 to 2017, Khan et al. (2019) looked at the volume, direction, and intensity of trade between Pakistan and the Central Asian Republics, which include Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, and Kazakhstan. Throughout the study, the trade complementarity and export and import intensity indicators were developed. The study's conclusions show that Pakistan is more specialized than the CARs and has a higher export intensity in overall commerce compared to a low import intensity. It also emphasizes how Pakistan can sign more trade agreements with nations in the region, thereby increasing commerce with the CARs and diversifying its exports. According to Rauf's analysis of Pakistan's and the CARs' expanding economic corridors and regional connectivity, these developing infrastructures assist connect previously unreachable areas, which could lead to better values (Rauf, 2021).

It is considered on the basis of forecasting of exchange rate for the economy of Pakistan by using time series analysis and it is perceived that on the basis of forecasting if exchange rate is overvalued or undervalued than it cannot get benefit is other countries who are making proper decisions for the management of exchange rate (Sohail, 2022). when the scope of any information is considered for betterment in it is important for any economy for the formation of results and technology in order to communicate good services for the betterment of results but it is a traditional way which may not be considered as good sign for different economy of the world (Javed, 2020). There is a larger effect of exchange rate on the balance of trade of Pakistan because if it is impacted through different fluctuations of exchange rate it will be better choice for policy makers to understand the better values of balance of trade (Arshadullah, 2019). When the role of major export and import economies is concerned then the economy of Pakistan is counted in agriculture which can be the base of economic growth and economic development but it is suggested that Pakistan's major share for agriculture industrial and services development can be considered as a main part of economy (Hussain, 2016). When there is a proper part of export of different economies the impact of power consumption and production on the basis of investment and economic growth is considered as good best for different environmental and pollution issues. It is also important to point out that whenever we consider the choice of consumption and investment decisions it is also
the major share which will be better opportunity for economy to sale goods and services for
neighbor countries (Hassan, 2022). The governments of any country is considered to be the better
opportunity for economy of the world but it is also depending on the conditions of current
economic decisions and future economization which may lead to the economy for betterment of
results (Nizamani, 2019). There are three main sectors in the world is agriculture sector industrial
sector and services sector but the man focus of different economy is our answers sectors which are
managed for the promotion of goods and services because these are considered to be better for
digital economy of the world (Piryankara, 2018).

There is an analysis of different investments which is considered for the working of trade
and investment in the world in it is a good way of partnership which is considered on the basis of
trade in arial relations for economic growth in social growth but it is not a political decision only
but it is a rational and technical decision which can be ring the wonderful results for individual
and collective ways of development and on the basis of internal and external cooperation (De
Bovere, 2017). There are a lot of options and opportunities which are considered for betterment of
data and it is impact on exports imports and exchange rates for the possible current economic
conditions which are published by different publications in the world it is also suggested that there
should be comparison of countries for regional and international base (Irfan, 2022). if we want to
analyzed the options and opportunities for different economy of the world then Pakistan is
considered at high extent for trade with China and other neighbor countries but it is considered
that if any developing country can available from international trade than it will be better option
for different economist to get this opportunity for growth and development is it may proper formula
to the exchange rate on the basis of good options and appreciates to get better choice for proper
decision making for different directions (Hayat, 2012).

If any country wants economic development, then he should focus on the international
trend because economic development is provision of basic needs expansion of living standard and
easiness of life it is very important that when we consider about the economic growth and
economic development then we cannot deny the trade because trade is the best for different options
which may be considered as best for reputation in the world (Smith, 2015). In its report titled
"Pakistan Development Update: Reviving Exports," the World Bank (2021) examined the key
factors contributing to Pakistan's export drop and identified competitiveness as a primary factor
behind the country's ongoing trade imbalance. The paper claims that exports' percentage of GDP
decreased from 16% in 1999 to 10% in 2020, with greater implications for foreign exchange, job
creation, and productivity growth. The export basket does not become more sophisticated or
diversified in the absence of a consistent, robust increase in exports. The main obstacles to
Pakistan's exports include high tariffs, a lack of market intelligence and services for exporters, and
low productivity. The report suggests that in order to revive exports, coordinated efforts at the
federal and provincial levels as well as assistance from all stake holders is required (Abbas, 2022).

3. Methodology & Estimation
The descriptive methodology was used in the research study to examine Pakistan's current trade deficit profile with major trading partners of the world. The State Bank of Pakistan, the World Bank, the Pakistan Bureau of Statistics, and other official sources were among the secondary sources from which information on Pakistan's trade with rest of the world was gathered. After that the estimation is done through E-views software on the following listed variables for results and policy making:

\[ TB = \beta_0 - \beta_1 ER + \beta_2 INFRA + \beta_3 GDP + \mu_t \]

Where,

TB = Trade Balance  
ER = Exchange Rate  
INFRA = Infrastructure

4. Results

4.1 Stationarity of Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>ADF test statistics</th>
<th>PP test statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I(0)</td>
<td>I(1)</td>
</tr>
<tr>
<td>TB</td>
<td>C</td>
<td>C &amp; T</td>
</tr>
<tr>
<td>ER</td>
<td>-1.32</td>
<td>-2.23</td>
</tr>
<tr>
<td>GDP</td>
<td>-0.27</td>
<td>-3.72</td>
</tr>
<tr>
<td>INFRA</td>
<td>-1.98</td>
<td>-2.22</td>
</tr>
</tbody>
</table>

Source: Authors Calculations.

In above table it is shown that when the station ready of data is checked on the basis of performance of said variables and trade balance. ADF and PP tests are utilized which clearly indicated that there is no issue with the stationary duty of data and it’s suggested that one can proceed further for the estimation.

4.2 Long Run Trade Balance and Variable Impact

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t-statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.460</td>
<td>83.53</td>
<td>0.00</td>
</tr>
<tr>
<td>ER</td>
<td>-1.421</td>
<td>2.16</td>
<td>0.00</td>
</tr>
<tr>
<td>GDP</td>
<td>0.202</td>
<td>2.90</td>
<td>0.06</td>
</tr>
<tr>
<td>INFRA</td>
<td>2.10</td>
<td>0.72</td>
<td>0.48</td>
</tr>
<tr>
<td>Adj.R²</td>
<td>0.91</td>
<td>F-statistics</td>
<td>612.26</td>
</tr>
<tr>
<td>D.W</td>
<td>1.50</td>
<td>Prob.</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Authors estimations
In the table no2 model specification is checked with all issues related to health of econometric model which proved to be with goodness of fit.

5. Conclusion and Policy Recommendations

It can be concluded that the important issues related to balance of trade of Pakistan are market size exchange rate and infrastructure. If the market size increased, it means it will contribute positively towards the promotion of balance of trade of Pakistan. On other hand, the exchange rate is undervalued or over valued in the economy Pakistan that's why it impacted negatively on the balance of trade of Pakistan if it is managed properly then it can contribute properly and positively towards the balance of trade of Pakistan. Role of infrastructure if it is managed positively it can impact in the right direction towards promotion of balance of trade of Pakistan. In this data sample firstly the stationarity of data is checked then we have proceeded for the statistical and econometric tools for further processing. In nutshell, it can be said that we have witnessed key role of infrastructure exchange rate and market size on balance of trade of Pakistan.

Additionally, from the analysis it is taken that despite their comparative advantages and similar cultures, Pakistan and the Central Asian Republics (CARs) have substantially unrealized trade potential. Increased trade would benefit both regions greatly for rationalization of exchange rate, as the CARs would have access to Pakistan's markets and the Eurasian Economic Union, while Pakistan would be able to use the enormous natural resources of the CARs. Nonetheless, a number of challenges have impeded the advancement of commercial ties. The most significant of these difficulties is the unstable security environment in Afghanistan, which is also the most practical transit route to the CARs. For trade with the CARs to flourish, Afghanistan's stability is essential.

Moreover, trade links have also been hampered by a number of additional obstacles, such as difficulties with currency exchange, complicated banking and transaction processes, tariff barriers, language barriers, and a lack of direct airline connections. The building of the Gwadar deep-water port and the China-Pakistan Economic Corridor (CPEC) are two examples of projects that could help overcome these barriers and promote trade between Pakistan, Afghanistan, and the Central Asian Republic with rest of the world. In conclusion, improving trade ties between Pakistan and the CARs requires resolving security issues, removing logistical obstacles with rational policy making.

6. References


