

# Topic: Revitalising trade in Pakistan can save its economy

## Outline:

### ① Introduction:

One of the reasons behind prolonged economic slump in Pakistan is the deepening trade deficit that needs to be addressed by introducing a realistic and optimal trade policy focused on export diversification, regional integration and trade facilitation; hence, beyond a shadow of doubt then countless advantages of trade will ensue.

### ② Evolution of Trade

### ③ Conditions for fully functional trade:

- (i) Trade without discrimination
- (ii) Free trade policy
- (iii) Predictability through binding and transparency

### ④ Advantages of fully functional trade:

- (i) Promotion of Competition
- (ii) Mobilization of Goods and Services
- (iii) Healthy foreign exchange reserves

### ⑤ Factors behind dismal trade performance by Pakistan:

- (i) Excessive protectionism
- (ii) Flawed economic policies
- (iii) Political instability
- (iv) Insecurity
- (v) Low foreign direct investment
- (vi) Regional disintegration

### ⑥ Impacts of dismal trade performance on Pakistan:

- (i) Poor <sup>state of</sup> economic activities
- (ii) Rise in unemployment
- (iii) Current Account deficit
- (iv) Dependence on foreign loans
- (v) Rise in poverty level

## ⑦ The case for new trade policy of Pakistan:

- (i) Import substitution
- (ii) Trade facilitation
- (iii) Export diversification
- (v) Connectivity

## ⑧ Conclusion

A brief glance into the history proves that trade is a great vector of peace, prosperity and development. Those who have acted proactively are steering the economic affairs of the world. Unfortunately, the resource rich Pakistan has not been able to reap the dividends of trade. Perpetual flawed policies, instability, insecurity and low foreign direct investment have exacerbated the economic meltdown of the motherland. One of the reasons behind the <sup>prolonged</sup> economic slump in Pakistan is the deepening trade deficit that needs to be addressed by introducing a realistic and optimal trade policy focused on export diversification, regional integration and trade facilitation; hence, beyond a shadow of doubt then countries advantages of trade will ensue.

Before unfolding the situation of trade in Pakistan, it is imperative to dig into the evolution of trade in the world. Before Industrial Revolution, in 1800, the world used to be appear entirely different than what it has become today. There was no such concept of roads, transportation, <sup>and</sup> telecommunication among other bounties of life. People used to travel for months in the pursuit of selling good and exchanging of goods. However, after when Industrial Revolution set in, some parts of the world, especially in Europe, experienced better transportation facilities and communication networks. This resultantly led to the exploration of new avenues for doing business. Hence, people were able to exchange goods and services with each other. This exchange of goods and services was actually a trade that people were doing. Similarly Investopedia offers a simple yet comprehensive definition of the term 'trade'. It says, "Any activity carried out for the production of income from selling goods or performing services is trade."

4

However, doing trade is not that simple as it seems, in the first place. This means for the fully functional trading activities, one will have to implement better economic conditions for trading which will not only accelerate economic activity, but also put the country on the track of trade and development. According to World Trade Organisation (WTO) "Leading principles of the trading system include trading trade without discrimination, free trade policy, predictability through binding and transparency, promotion of fair competition, and encouragement of development and economic reforms." Thus, <sup>every</sup> ~~any~~ country will have to implement these conditions for providing a level playing field to all the stakeholders irrespective of their country, race, caste, creed or religion.

Discrimination in any matter of life mars the prospects of innovation and development. Those countries which are struggling with their exports and imports are possibly doing discriminatory trading activities. Discrimination in trade means that some traders or companies are given tough time by the host country may be in the form of placing irrelevant stipulations or not providing that particular group conducive environment owing to their religion or ~~rel.~~ them being citizens of adversaries. For instance, when Pakistanis go outside, or they want to export goods, some of the countries especially European countries becomes suspicious of such persons, according to a research. when such scenarios exist, this ~~it~~ affects the flow of goods or services and currency. Thus, countries in this age of dependency needs to overhaul their policies to overcome discriminatory practices.

Another important condition for the optimal functioning trading activities is the promulgation

of free trade policy. Free trade policy means that host country impose minimum tariffs and custom duties, and avoid unnecessary criterias for the export and import of goods. Some of the rising economies like India, China, Japan are following free trade policies, according to The Economist. China, for instance, is a vital example for the rest of the world. According to Forbes, China is doing 23 per cent manufacturing all over the world. It has free cheap labour available for the foreign companies; It offers best working conditions for the businesses. Hence, it has become one of gigantic economies of the world. Thus, countries need to nullify old trade policies for the good of their economies.

Transparency and trust through binding principles largely influence the economic activity of any country. This means that it is incumbent that countries must establish a <sup>special</sup> milieu so that domestic and foreign traders could do trading easily and swiftly. Those countries which have signed the World Trade Organisation Charter pledges that they will ensure international standards and would bound to the criteria laid down by the WTO. According to the director of Asia Internet Coalition (AIC), <sup>Jeff Paine</sup> Pakistan's new Cyber-policy Act 2023 is not complementing the international standards, as it imposes extra conditions for the digital activities in Pakistan. He further added that this affect the ease of doing business for against the foreign investors and digital economy. Therefore, ~~any~~ countries needs to continuously upgrade their policies to entact the level of trust and transparency, for the fully functional trade.

Those countries which have been providing better trading conditions reap the fruits in the form of following advantages. First, trading promotes competition.

among different sellers. The availability of national and international goods and services provide several options to the buyers of those goods and services according to their needs and affordability. Furthermore, when competition exists this leads to lower price and better quality of such goods and services. This means, not only will the buyer purchase better quality things but also will improve the economic picture of the country due to enhanced economic activity and productivity. Hence, trading ends monopoly of the few sellers in the form of creating competitive markets.

Second, trade ensuring mobilization of goods and services. For instance, if one country produces sufficient of one good, it can export the extra quantity to those countries where that product is in high demand but less in supply. Similarly, the exporting country can import goods or services which are not available, or can not be produced due to weather complexities. Resultantly, goods and services are not perished in one place, but utilized by different countries and keep the supply and demand balanced. Thus, trade is vital for overcoming the scarce food supplies and help in overcoming food insecurity and poverty of a country.

Third, Trade helps in minimizing the current account deficit. Unlike the barter system in the past, trade is done through exchanging goods with currency. For exports, country gets foreign reserves, and for imports it gives foreign reserves to avail the scarce goods and services. It means that countries now can't survive if they don't own currency required for purchasing goods and services. For this purpose, countries export their specialities and accumulate foreign reserves. OPEC, countries, Oil Producing and Exporting Countries, China, India, and other

Other countries are emerging strong economies due to the presence of foreign currency in their ex-chequerbooks. This has been possible due to the extensive trading activities. Hence, trade revitalise trade economies by competing in the global market.

Keeping in view the above discussion one can enumerate dozens of benefits of trade. However, one might wonder as well that despite being a resource rich country, Pakistan trading activities show a dismal performance. Therefore, following ~~parad~~ ~~parad~~ will illuminate the factors responsible for the dismal trade performance by Pakistan.

The first factor responsible for dysfunctional trade in Pakistan is the protectionism policy lingering on for few decades. Protectionism is defined as when the parent country raise high safeguards in the form of excessive tariffs and non-tariff barriers, making it extremely difficult for the foreign business to operate in the local market. This same scenario, unfortunately, is in practice in Pakistan for quite a long time. Although ban on imports ~~is~~ have been removed at the moment. However, for around one year the incumbent government had placed complete ban on the imports of goods excluding essential items like food items, drugs and fossil fuel, according to the Economic Survey of Pakistan 2022-2023. Thus, items like spare parts for car manufacturing, raw materials for production of cotton, leather, garments were completely ~~ban~~. This <sup>has</sup> drastically affected the exports of the country. Therefore, Pakistan has been unable to produce for exporting, which resultantly exacerbating the economic meltdown of the country due to protectionism policy.

The second factor responsible for dying trade in Pakistan is the flawed economic policies. Such policies are badly affecting the business environment required

for efficient running of businesses. Let alone foreign investors, local investors are unable to take out loan from the local banks. This is because the interest rate is hovering over 20 per cent, according to Pakistan Bureau of Statistic 2023. Hence, this had led to lowered production and manufacturing in different sectors. When there is low ~~of~~ manufacturing, then there is low economic activity. That's why the country is facing constant current account deficit, as it has least available for exporting as compared to importing. It is due to flawed economic policies <sup>which are</sup> not offering conducive environment to the businesses affecting trade, and resultant poor economy of the country.

Another important factor vital for smooth running of businesses and trade activities is political stability. However, Pakistan is one of those unfortunate countries where political instability ~~is~~ has entrenched in its roots ever since it has come into existence. Three times prolonged Martial laws; and subsequent failed democratic governments in between have expansively damaged the trust level of not only local investors but also foreign investors. Despite, after signing several Memorandum of Associations (MOUs) with foreign companies the copy country has failed to materialize those <sup>owing to</sup> ~~amidst~~ its own disordered house. Those parties that fail in the elections or get ousted from the premiership create obstacles for the ruling party affecting the political stability of the country. This unstable political milieu has led to the closure of several companies especially Shell Petroleum Ltd. according to Dawn.com. Moreover, according to Economic Survey 2022-23, there is 56pc slump in car sales in Pakistan as compared to FY22 in FY23. Resultantly, lack of conducive environment is harshly impacting the trade in Pakistan,



First thing which foreign companies <sup>always</sup> want to know is the security apparatus of any country. Pakistan has been home to a tumultuous history of insecurity. After the incident of 9/11, and Pakistan agreement against the war on terror has paid in blood of thousands of Pakistanis. However, after 2014 the country experiences relatively peaceful environment after the grand operations conducted by the national security forces. ~~This~~ This peace <sup>process</sup> seems to be short-lived as the country is experiencing a fresh layer of terrorism all-across the country after the overtaking of Kabul by the Afghanistan's Taliban. In addition, this year the country terrorist attacks the gas power plant in Mardan, <sup>is</sup> proving the ill picture of security situation. CPEC, in its first decade, has seen several <sup>terrorist</sup> attempts on its workers and foreign nationals. Thus, businesses have largely been affected by insecure business environment. This fear, and lack of security guarantee by the government is affecting businesses, therefore ~~the~~ the country is unable to experience optimal trading and growing economy.

For a developing country like Pakistan foreign direct investment (FDI) holds significant importance. However, FDI depends on ease of doing business and political stability along with secure business environment. Unfortunately, the country has not changed itself in the changed environment. For instance, in the second half of the last fiscal year foreign investors were not allowed to repatriate their exports revenues, owing to Pakistan's dollar-strapped exchequer. Similarly, when companies required raw material or other supporting ingredients for the manufacturing or production purposes, the incumbent government blocked the import of raw materials. In addition to tough business environment, political tumult and uncertainty regarding the changing export and import - trade - policies mars the confidence of foreign investors to invest in the resource

Trich South Asian state. These scenarios in the form of political instability and non-conducive environment have failed the foreigners to directly invest in ventures.

Last but not least regional integration and connectivity plays a huge role in optimal trade with regional countries. However, Pakistan has been quite unfortunate in materializing the benefits in this age of globalization. For example, the bilateral territorial dispute between Pakistan and India has led to the complete block in trading activities between them. Similarly, new regime in Afghanistan and the revised threat of terrorist activities emanating from Afghan soil is largely affecting the trust level between the neighbours, and hence affected trade. The belt and Road Initiative (BRI) in the form of flagship project of CPEC is facing constant hurdles due to uncertain government in Pakistan and terrorist attacks on the Chinese engineers and workers. CPEC These scenarios is postponing the goal of Pakistan being connected to central Asian states and Europe via BRI. Resultantly, regional disintegration is harshly damaging the trade by Pakistan with its immediate and far-away countries.

Some of the factors as discussed above, thus, largely affect the trade in Pakistan. As factors and their impacts go vis-a-vis. Therefore, the upcoming discussion will shed some light on the impacts of the poor trading scenarios on the country.

Doing business, then trade and its impact on the economic well-being of an individual is exactly could be replicated <sup>on the</sup> for national level. As it is a fact, that economic activity is a tangible process, where one can see the procurement, processing, and manufacturing of the raw materials into products and then conversion of those products into sales. The lack of exchange of goods or services leads to economic stalemate.

The country is owing to <sup>its</sup> poor performance in trade is facing <sup>its</sup> ill economic picture. Businesses are closing down, which is impeding the already slow exports of the country. On the other hand import duties are causing a kind of obstruction in the manufacturing industry. Due to these scenarios businesses are left with nothing to offer on national or international level. This resultantly is creating supply and demand gap. The populace is increasingly finding it difficult to make both ends meet. Hence, poor businesses leads to meagre trade and resultantly poor state of economic activities.

This lack of economic activity is translating into rising level of unemployment. Tight fiscal and monetary policies are making it difficult for the business community to further invest by taking loans from the commercial banks, policy rate is currently 22pc according to SBP.

Due to these strict policies industries <sup>ies are</sup> are closing down. According to Dawn.com Shell Petroleum Ltd has decided to close down its operations. Similarly, curbs on imports would soon close the cotton, textile and garment industries. This would translate into the massive downsizing, lay offs and the closure of businesses. According to Pakistan Bureau of Statistics the unemployment rate in Pakistan is at 7%. However, the ~~is~~ constantly challenging situation would add new numbers into this rate. Therefore, due to sub-optimal trade performance the country citizenry is facing finding it difficult to ensure new jobs.

Another impact of minimal trade by Pakistan is it ~~is~~ have been impacting and shall impact the current account of the country. Lack of trade means currently would be unable to offer its goods or services to the rest of the world. Pakistan's exports are half of its imports. Furthermore, in the FY22 the country was able to reduce <sup>as per</sup> Economic Survey 2022-23

to \$2.86 billion, in comparison to FY21's \$17.48 billion. However, this reduction occurred at the cost of complete ban on imports of goods or raw materials, excluding essential items. Under According to World Bank, Bangladesh is the largest exporter of textile related goods, this among other products, however, at lower rate being exported. Similarly, India, our archrival, has become an economy of \$3 trillion, while Pakistan stands at \$376 billion, according to the Economist. The only reason behind them being emerging economies is learning the rules of the game. They manufacture heavily and export constantly. On the other hand, Pakistan, stranded in its internal pity issues, have been unable to revitalize trade, and resultantly current account deficit.

Current account deficit means, less exports and more imports. However, for importing foreign goods or raw materials the country has to make available dollars to the businessmen. In most of the cases countries have enough foreign reserves so that to facilitate the multilateral operating businesses. However, in Pakistan's case, which is facing trade deficit and budget deficit — Revenues are lower than expenditures — have to look <sup>the</sup> other ways. The lack of economic activity, in the form of production and manufacturing leads the country to import more, while exporting disappointing export figures to the budget deficit. Thus, Pakistan, in order for it to run the apparatus of the country have to knock the doors of foreign, bilateral and multilateral, lenders. Recently, Pakistan averted an impending default after receiving a hard earned IMF's \$3 billion Stand-by Agreement (SBA). Due to lack of trading activity, or slower rate leads the countries especially Pakistan to depend on foreign loans.

Lastly, ill trading performance by Pakistan has exacerbated the poverty level <sup>in</sup> the whole country. The country is utilizing money given by others, in response

is imposing their stipulations. Record, high policy rate, <sup>and</sup> the difficult situation for the operation of businesses owing to ~~the~~ lack of ease in doing business, and the resultant skyrocketed inflation have made it almost impossible for a common person to live. People's purchasing power is diminishing. The country is facing record level of migrations of the highly-skilled youth. Due to lack of trading activities graduates have to go abroad ~~for~~ in the pursuit of green pastures. The only reason for the pity above discussed scenario is the people are not getting what they ought to receive. Hence, this zero exchange of goods and services is rising the poverty level of the country of low purchasing power and migration.

The disappointing trade activities in Pakistan is harshly affecting the individual and economy of the country at large. This scenario warrants a permission to look into the possible solutions which could revitalize the trade and hence <sup>save</sup> ~~the~~ the economy of Pakistan.

First of all the country needs to reduce its dependence on foreign goods. Unfortunately, Pakistan is importing everything from fossil fuels to raw materials to the essential food items. Therefore, the country needs to come up with local alternatives instead of importing heavily. For instance, the country can install green energy power plants. Instead of generating electricity through petrol, it can use options like hydro energy, solar energy. Similarly, the country needs to invest in local made electric cars. This will reduce the need for petrol. Moreover, Pakistan is a heavy importer of wheat, edible oil, grains etc. Therefore,

It needs to build the capacity of its the local farmers to harvest these things locally. It can also invite foreign investors to manufacture things in Pakistan. This will resultantly, lead to reduced dependence on imports and hence reduction in the current account deficit.

Unfortunately, since the day one Pakistan has neither fully privatize its industry, nor given facilitated the trade activities. Trade would be possible when the country would be able to exchange goods and services. For this purpose, it needs not to protect the local manufacturers by imposing heavy custom duties on foreign investors and unnecessary trade regulations. Moreover, it needs to offer a fully secured business environment to the foreign businesses by guaranteeing their life's and property's security. When there would be local manufacturing the country would be to go for regional and global trade.

Another setback <sup>which</sup> emanates from <sup>the</sup> protectionist policies is the least diversification of exports. Pakistan has a fertile land, and own a natural resources. Due to its temperate weather it can export several things. Currently, the ~~curr.~~ country is re-exporting few products including rice, mangoes, tobacco etc. However, the country can also export the untapped minerals like copper, gold, gypsum, metal which is in high demand in the rest of the world. For this purpose, the country needs advance technology and experts to mine these resources. Lately, Saudi Arabia according to Al-Jazeera News, Saudi Arabia is ab investing in the mining industry of Pakistan. It will explore natural resources in the resource rich Balochistan. Pakistan needs

these sort of investments to revitalize its trade and so to save its economy.

Lastly, the country needs to diversify its trade partnerships. In this age of globalisation, countries have become more dependent on one another, than they used to <sup>be</sup> in the past. Similarly, for Pakistan to extract benefits in the form of cheaper imports and exorbitant exports it needs to put aside its political rivalries, so that its economy could boost. For instance, Pakistan has completely stopped trading with India. Resultantly, it has to import products at a cost from other countries, which it could have purchased from its bordered archrival at cheaper prices, due to lower transportation costs. Similarly, the country needs to overhaul its foreign policy <sup>to</sup> transactional one, if it wants its reach to far-off continents. Therefore, the country would have enough options to choose for trading.

By concluding the whole discussion, the country needs to change its traditional mindset towards the demands of the current dynamic environment in order to revive its ailing trade and resultant faltering economy. Some of the conditions for the fully functional trade is ensuring free trade policy, trade without discrimination and transparency. This will in result translate into a competitive environment and mobilization of goods and services. If Pakistan don't implement the need of the low policies it will have long-standing implications, leading to <sup>perpetual</sup> economic turmoil. Therefore, it is essential for the strategically important, Pakistani state to overhaul

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Its current trading policies. ~~by putting it~~ This will  
in result put the country's economy on a path of  
growth, prosperity, and <sup>its</sup> social-well-being of the  
populace.