

## A Review of the Trade Policy and its Role in Economy of Pakistan

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### **Abstract**

What is a trade policy? A trade policy is a policy which determines the rules and regulations for a state's imports and exports to other countries. Business Dictionary defines trade policy as, "Laws related to exchange of goods and services involved in international trade including taxes, subsidies, and import/export regulations."<sup>1</sup> There is nobody who can live in isolation. There are so many necessities of life and to fulfill these necessities people have to interact with each other. At the international level states have to interact because they also can not live in isolation, for example Afghanistan is a land locked country to get access to sea routes it has to keep smooth and bilateral relations with Pakistan. In order to meet basic necessities of the individuals, states interact with each other. In the history, the basic motive of international relations were economic relations and imports and exports.

**Keywords:** Trade, Policy, Pakistan, Industry, Government, etc.

### **Introduction**

Individuals have some needs and they articulate their interest to their governing body or government, these governments make some policies according to their national interests, in order to fulfill the needs of the people and to secure the national interests states import and export the products to other countries. Exchange of needs and necessities is called international trade. And in order to determine the international trade i.e. what should be, how much should be and from where the products should import and export, states make policies which called trade policies.

### **Instruments of International Trade Policy**

By controlling the exports and imports, a state has to use some instruments which called the instruments of international trade policy. Although Pakistan is one of the developing countries of the world and it is an agricultural country. Its scope of industry and trade is not very wide but still Pakistan's trade status plays a very important role for its economy. There are also many important issues from a trade point of view which play a significant role in improving the balance of payments and reducing the trade deficit. Domestic or international trade is also of significant importance for the country's economy. And it can be called ideal when there is a balance between imports and exports. These instruments are as follows:

**A. Tariff:** It is a certain percent amount which is levied on imports and exports of a country particularly levied on imports by governments, so that domestic production can be encouraged. To provide employments to the people is a national interest and if the imported products are more useful and cheap than the domestic products, people will go to that imported things which would destroy the domestic industries, so the governments impose

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the tax on the imported products to reduce the flow of these products.

**B. Subsidy:** It is another tool to encourage the GDP. In order to subsidize, governments provides loans, schemes, electricity and some low cost products. Sometimes governments assist people paying from its own pocket so that they could stabilize their political system. Microfinance is another example of it. The main objectives of subsidizing are to encourage local industries, to discourage the imports, to avoid import bills, to lessen unemployment, to stabilize political system, to gain export market and etc.

**C. Quotas and Voluntary Restraints:** Through consensus, governments get figures about the requirements of the people to determine the volume of imports and exports. If the trade balance is minus, state has to fix its imports because the increment of imports means the increment of import bill otherwise state would lead to inflation. Governments use many other tools to control administratively the flow of exchange of products i.e. Local content requirement, anti-dumping policy etc.

#### **Realist Perspective for International Trade Policy:**

Realism is a school of thought which is consisted of the thinkers who are state-centric. Realist thinkers say international trade must be under control of the state. According to them politics derives economics, so state can control over international trade through the instruments of trade policy to protect the national interest which is the basic objective of realists. Why they argue about the trade policy? The answer is for national security, protection of industries and jobs of the people and for consumer protection. Survival of state is the essential requirement and to survive, a state must has to secure its sovereignty internally and externally. And for this purpose a state must possess power militarily which requires wealth and for being wealthy, a state should has the control over the economic activities. They talked about the positive trade balance if trade balance is negative, state should has the control over its imports and exports and state should be conscious about its economic relations to other states. The tariff is levied on imports to promote domestic industries and to provide employment to the individuals. According to the realists, the growth of domestic industries is a motive of a state because it ensures the employment of the people of the state. State provides protection to the consumers from the monopoly of the seller sitting in abroad through the restrictions and taxes by administrative control.

#### **Liberal Perspective for International Trade Policy:**

Liberalism is the opponents and contestants to the realism, they talk about the free trade, and they do not like restrictions and states control over the international trade. Free trade means no tariff, no subsidy, no quota and no trade policy. They think that trade balance has nothing to do for states, individuals should be free to import and export the products and trade should be free from all restrictions and barriers because people are bound to promote domestic industries to earn money if they want to import so, the trade policy is not necessary for economic development. General Agreement of Tariff and Trade (GATT) and World Trade Organization (WTO) are the organizations influenced by liberal perspective which are organized for developing the free trade agreements among member states.

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### **Pakistan's International Trade Policy:**

Pakistan has an agricultural economy, because its exports are consist of cotton, wheat and rice and some fruits i.e. kinnow and mangoes as well as some sports goods etc. Its imports are petroleum, chemicals, raw material for industries, and consumer goods. The trade balance of Pakistan is negative for many years. Pakistan is a member of World Trade Organization(WTO) which is global organization dealing with the rules and regulations about international trade among the member states<sup>2</sup>, and South Asia Free Trade Agreement(SAFTA) which is an agreement of South Asian association regional cooperation<sup>3</sup>. European Union (EU) has given the GSP Plus status to Pakistan in 2013 through which Pakistani products can enter in European market free from custom duty. 20 percent of exports have zero duty and 70 percent have preference, having this Award, Prime Minister Nawaz Sharif said, "gaining access to European markets was the top most priority of the government as part of economic development agenda".<sup>4</sup> This shows the preferences of Pakistan's foreign trade.

### **Strategic Trade Policy Framework (2012-2015)**

The Ministry of Commerce has been framed a three years Strategic Trade Policy Framework (2012-2015) which provides the rule and regulations to imports and export preferences, and it determined what, how much, and from where Pakistan should import and export products. It is second framework, before this there was Strategic Trade Policy Framework (2009-2012) and the next is expected for the years (2015-2018), the main objectives of the STPF (2012-2015) are as follows:

- i. Make export sector as an engine of growth
- ii. Enhance Pakistan's export competitiveness in short as well as long term
- iii. Increase Pakistan's cumulative exports to \$ 95 billion during 2012-15

#### **Principal Elements of STPF 2012-2015**

- i. Focus on Regional Trade
- ii. Create Regulatory Efficiencies
- iii. Promote Agro-processed exports
- iv. Increase Exports from less developed Regions of Pakistan
- v. Promote exports of Services Sector
- vi. Enhance access to export financing and credit guarantees
- vii. Revamp Export Promotion Agencies
- viii. Mobilize new investment in export oriented industries
- ix. Facilitate Exporting industry overcome energy crisis
- x. Enhance Product and Market Development and Diversification
- xi. Undertake effective Trade Diplomacy
- xii. Increasing Green Exports
- xiii. Rationalize the Tariff Protection Policy
- xiv. Enhance Role of Women in Exports
- xv. Reform and Develop Domestic Commerce

#### **TRADE POLICY INITIATIVE 2012-15**

- a. Institutional Strengthening and Governance
  - Measures to enhance Export competitiveness
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Regulatory amendments in the trade regulations

Payment of Outstanding EDF dues and streamlining EDF releases in future

### **Free Trade Agreements of Pakistan:**

Pakistan has signed many free trade agreements to many states analyzing the circumstances and needs, as well as following the strategic approach to stabilize the growth of economy. There are some free trade agreements mentioned below:

#### **a. Malaysia-Pakistan Closer Economic Partnership Agreement:**

The Government of Pakistan and the government of Malaysia have signed a free trade agreement aiming to promote market opportunities and investment between both states, to improve the competitiveness and efficiency of trade, and to enhance a closer cooperation and mutual interests of both states<sup>5</sup>

#### **b. Pak-China Free Trade Agreement:**

The free trade agreement between Pakistan and China has been signed on 24<sup>th</sup> Dec, 2006 at Islamabad<sup>6</sup> with the objectives to strengthen the mutual friendship, to expand and diversify the trade, to remove the barriers, and to expand the benefits of this agreement<sup>7</sup>. Both states have friendly relations with each other, and Pakistan and China have given the Most Favored Nation (MFN) status to each other, and in the whole South Asia Pakistan is the first state which signed free trade agreements with China.<sup>8</sup>

#### **c. Pak-Sri Lanka Free Trade Agreement:**

The free trade agreement between Pakistan and Sri Lanka has been signed on 1<sup>st</sup> August, 2002 and it is operational from 12<sup>th</sup> June, 2005.<sup>9</sup> The relations between both states are good and bilateral since the independence of Pakistan in 1947. This agreement was signed with the objectives those were- to grant tariff concessions and to provide preferential market access. Sri Lanka could enjoy duty free access on 206 products in Pakistan's markets.<sup>10</sup>

#### **d. Pak-Indonesia Free Trade Agreement:**

As Pakistan is the bigger buyer of palm oil of Indonesia, Pakistan has signed a preferential trade agreement with Indonesia and now willing to expand this to the free trade agreement.<sup>11</sup> There are some other free trade agreements which have been signed by Pakistan at global level as well as regional level.

### **Trade Barriers of Pakistan:**

There are several types of barriers for imports which could be tariff and non-tariff barriers. Tariffs are the taxes to make imported products more expensive than the local product so that the local industries could be protected from the competition with foreign companies and non-tariff barriers are other administrative control tools which are not in the form of taxes. There are some examples of tariffs i.e. custom duty, Licenses, local content requirement, and import quotas etc. and the non-tariff barriers are: fixation of prices, quality conditions, import bans etc. Pakistan's Government uses all types of the barriers so that it could provide security and employment to industries and individuals respectively.

### **Causes of Slow Economic Development**

Pakistan's economic development is very slow, we can analyze in the history that first decade after independence, it was stable and sustained. The 1960s was the era of private led policy

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when Ayub Khan presented Five Year Plan and provided opportunities to industrialization; it was the time of considering some cities as the economic zone areas and after him Bhutto's administration in 1970s nationalized many industries i.e. banks, and oil industries are also nationalized which caused least private investment in industries. 1980s was the time of Zia-ul-Haq's administration, it was the time of liberalization and denationalization. From independence to the end of 80s, the economic growth was quite good. But after the Zia regime, in the 1990s, the instability of governments created more critical situations for Pakistan's economy and Pakistan had the lowest GDP in the South Asia. There are so many fiscal and non-fiscal problems which caused the slow growth. Tahir Mahmood, Hafeez ur Rehman and Shahnaz A. Rauf said, "the economy of Pakistan has always remained under stress due to high fiscal and external sector imbalances, high aggregate demand, unsustainable GDP growth, high unemployment and poverty levels."<sup>12</sup> Increasing trade deficit is actually the biggest problem which continues to increase despite government policies and measures taken by the central bank and is creating more problems for Pakistan. The 100 percent increase in Pakistan's trade deficit has come at a time when the country is facing immense difficulties due to deterioration in the balance of external payments and due to which it has to depend on external sources for financing. As is Pakistan's program from the International Monetary Fund (IMF), which has already triggered a wave of inflation in the country due to its strict conditions.

### **Conclusion**

Many of the state in international society use the policy of export led growth, which means a selective liberalization of imports, subsidies, under valued exchange rate and export incentives but industrial policy is faster than the export-led growth. Pakistan needs some strategies to transform the economy from agricultural to industrial economy. Pakistan's perspective is a compound perspective because Pakistan is walking on a road which approaches to both mainstream paradigms: realism and liberalism. Because Pakistan believes in trade balance and trade barriers like realists and it also believes in free trade agreements and liberalization like liberalists simultaneously. At the one side Pakistan is a member of ASEAN, SAFTA, and WTO as well as signs many free trade agreements and promotes liberalization, on the other side Pakistan levied tariffs of many imports and exports i.e. import duty, custom duty, regulatory duty and export duty and uses the administrative controls and other barriers and Pakistan's government subsidizes the individuals and industries providing opportunities for example electricity and other schemes. Like every state in the world Pakistan want to secure its sovereignty and integrity, and for this national interest it would do anything possible.

### **Reference**

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  - <sup>4</sup> EU grants GSP Plus status to Pakistan, The Dawn,12-12-2013 available at ([www.dawn.com](http://www.dawn.com)) retrieved at 30-05-2015; 2:33 pm.
  - <sup>5</sup> Pak-Malaysia Free Trade Agreement, Government of Pakistan Ministry of Commerce, available at
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([www.commerce.gov.pk](http://www.commerce.gov.pk)), p.8, retrived on 30-05-2015; 11:14am.

<sup>6</sup> Pak-China Free Trade Agreement, Trade Development Authority of Pakistan available at ([www.tdap.gov.pk](http://www.tdap.gov.pk)), retrieved on 30-05-2015; 11:33 am.

<sup>7</sup> Ibid, p.3, Article 2 Objectives 1. The objectives of this Agreement are to: (a) strengthen the mutual friendship between the Parties; (b) encourage expansion and diversification of trade between the Parties; (c) eliminate barriers to trade in, and facilitate the cross-border movement of, goods between the Parties; (d) provide fair conditions of competition for trade between the Parties (e) establish a framework for further bilateral economic cooperation to expand and enhance the benefits of this Agreement. 2. The Parties shall interpret and apply the provisions of this Agreement in the light of its objectives set out in paragraph 1 and in accordance with customary rules of interpretation of public international law.

<sup>8</sup> Hussain, Ejaz et al, China-Pakistan Economic Corridor, Daily Times, 4<sup>th</sup> April 2015.

<sup>9</sup> Pak-Sri Lanka Free Trade Agreement, Government of Pakistan Ministry of commerce available <http://www.commerce.gov.pk> retrieved on 30-05-2015; 11:58am.

<sup>10</sup> Ibid, at 12:06pm

<sup>11</sup> Pakistan is aiming to start negotiations on a free trade agreement (FTA) with Indonesia sometime this year, to expand on the current preferential trade agreement (PTA), which began in 2013.

As a result of the PTA, which had been mooted between Pakistan and Indonesia since 2008, bilateral trade rose dramatically from around US\$1.1 billion in 2013 to \$2.2 billion in 2014. Pakistan's charge d'affaires to Indonesia Syed Zahid Raza explained that his country was aiming for a 25 percent rise in trade figures by the end of 2015.

"With a free trade agreement, Indonesia will also have easier access to Central Asian trade markets, using Pakistan as a transit point, which will benefit them as well," Syed told The Jakarta Post on Tuesday on the sidelines of the 75th Pakistan National Day celebration event at the Ritz Carlton Hotel in Kuningan, South Jakarta.

- See more at: <http://www.thejakartapost.com/news/2015/03/25/pakistan-aims-fta-with-indonesia-further-boost-trade.html#sthash.WzwaDoF3.dpuf>

<sup>12</sup> Mahmood Tahir et al, Evaluation of Macro Economic Policies of Pakistan (1950 -2008), Journal of Political Studies available at ([www.pu.edu.pk](http://www.pu.edu.pk)) retrieved at 30-05-2015; 04:49pm.

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