

Research Article



The Implementation of WTO and its Impact on Pakistan External Trade

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Abstract | This study aims at analyzing the status of implementation of WTO and its impact on Pakistan external trade (Imports + Exports). To achieve the stated purpose, study adopted methodology which required testing of hypothesis which states “Pakistan’s foreign trade is expected to be largely better off once WTO’s regime is fully implemented in Pakistan and rest of the world”. The statistical results show that, the coefficient of variation of Pakistan exports trade estimates at 0.1657 during 1985-90 and 0.0936 during 1990-95 pre-WTO periods, which with the exception of sub-period 2000-05 decreased throughout post-WTO period, which suggests Pakistan exports got smoothened after WTO’s implementation in the world arena, perhaps due to less restrictions on trade after WTO’s arrival, relative to pre-WTO period. Compared to exports, Pakistan imports’ coefficient of variation does not show significant declines; rather it appears largely static, suggesting Pakistan imports trade could not be benefited much by reductions in trade restrictions associated with the implementation of WTO in Pakistan domestic market. This stated analysis thus supports partial acceptance of hypothesis, which states that “Pakistan’s foreign trade is expected to be largely better off once WTO’s regime is fully implemented in Pakistan and rest of the world”. When econometric analysis was carried out for pre and post WTO periods, it has been concluded that the external trade of Pakistan has been increased but not up to the expectations that is the main aim of WTO’s unfinished agenda. The rate of increase in imports is greater the rate of increase in exports and that is why Pakistan still faces the problem of trade deficit even after the implementation of WTO.

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Introduction

The World Trade Organization (WTO) is an international organization that aims at providing open trade opportunity for all. The ultimate goal behind this organization is to help exporters, importers and producers of goods to conduct their business. The General Agreement on Trade and Tariffs (GATT) established in 1948 is called the predecessor of WTO. WTO is originated on 1st January 1995, though among all the international organization

WTO is the youngest still its multilateral trading system is fifty years old. It is the only organization which deals the rules of trade between the nations. WTO is called a rules based organization and it fulfils its objectives through a number of multilateral agreements which are negotiated, accepted and signed by all the WTO members and approved by their parliaments. The main agreements of WTO are GATT, General Agreement on Trade in Services (GATS) and Trade Related Intellectual Property Rights (TRIPs). Goods and services are generally covered under GATT and

GATS respectively while the intellectual property rights are addressed by TRIPs. The Agreement on Agriculture and Textile come under the umbrella of GATT (WTO, 2007).

A good number of WTO agreements aim at improving import and export trade; these agreements include GATT-1994, market access clause of AoA (Agreement on Agriculture), Agreements on Anti-Dumping, Agreement on Countervailing Duties, Agreement on Safeguards and Agreement on Rules of Origin, besides trade facilitation and other provisions. Under the direct and indirect effects of the stated WTO agreements, Pakistan's foreign trade is expected to be largely better off. Since most of these agreements improve competitiveness, both components of foreign trade, that is, exports and imports, must face relatively less restrictions over time, and especially when compared with pre-WTO periods.

Being a member of the WTO, Pakistan has bilateral and multilateral agreements with many other WTO's members and international trade organizations. It has a signatory of the South Asian Free Trade Agreement as well as part of the Pakistan-China Free Trade Agreement (Khan and Latif, 2009).

Fluctuating exports demand, internal disorders and political uncertainty, and the impact of occasional drought on its agricultural sector have all caused variability in trade balance. The trade deficit estimated for the fiscal year 2013-14 is \$7.743 billion. Exports is \$10.367 billion (July-November 2013) and imports is \$18.110 billion (World Bank, 2014).

The ratio of Pakistan's exports to GDP was calculated as round about 12 percent during the 1980s and hovered around 17 percent in the first half of the 1990s. After this a downward trend has been noticed for more than 15 years. Exports ratio was less than 15 percent of GDP in 2004-09 as compared to other

competitors whose export ratios rose continuously, in some cases, sharply (Haque, 2014).

Pakistan's exports are continuously dominated by cotton textiles and apparel, while the imports are mainly consist of capital goods, industrial raw materials, petroleum and petroleum products, fertilizers, chemicals, edible oil and consumer products. Table 1 shows the list of Pakistan's main trading partners.

Table 1: List of trading partners for the year 2012

Country	Percentage of imports	Percentage of exports	Percentage of total trade
China	19.7	11.1	16.9
EU	10.4	18.2	13
UAE	12.1	8.5	10.9
Saudi Arabia	12.2	8.5	9
United States	3.2	13.6	6.7
Kuwait	6.3	0.07	4.4
India	3.7	2.1	3.2
Malaysia	3.9	0.9	2.9
Japan	3.6	1.6	2.9
Iran	3.4	1.8	2.9
Afghanistan	0.3	7.6	2.8
Singapore	4.1	0.3	2.8

Source: Pakistan Board of Investment

According to international statistics Pakistan's export regarding textiles and clothing has shown some recovery after the 2009 when global financial crises melt down. According to statistical record this increased has been estimated as 17% that is US\$ 602.2 billion in 2010 to US\$ 706.0 billion in 2011. China and European Unions are the major exporters of textile and clothing. In 2010 china has been listed as the top exporter of textile and clothing pushing the EU to second position on the list of exporters. EU and United States have the major markets for textile and clothing of world imports comprising 45% and 21% respectively. Table 2 shows the comparison of textile and clothing exports from Pakistan and whole world.

Table 2: Export of textile and clothing (Billions US\$)

	2000	2004	2005	2006	2007	2008	2009	2010	2011
World textile	157.3	195.5	202.7	220.4	240.4	250.2	209.9	250.7	294.0
World clothing	197.7	260.6	276.8	309.1	345.8	361.9	315.1	351.5	412.0
Total	355.0	456.1	479.5	529.5	586.2	612.1	525.0	602.2	706.0
Pakistan textile	4.5	6.1	7.0	7.5	7.4	7.2	6.5	7.8	9.1
Pakistan clothing	2.1	3.0	3.6	3.9	3.9	3.9	3.4	3.9	4.6
Total	6.6	9.1	10.6	11.4	11.3	11.1	9.9	11.7	13.7
%Average of world trade	1.86	1.99	2.22	2.15	1.93	1.81	1.88	1.94	1.9

Source: World Trade Organization (WTO)

As for as imports in the industrial sector are concerned, the major products are petroleum products, machinery, edible oil and fertilizers, chemicals and transport equipment. If we put a glance at the imports of Pakistan, then most of the imports are raw materials that are used for further production. The demand for these raw materials has been estimated as inelastic (GoP, 2012-13).

Like the other South Asian countries, Pakistan also believes that developing countries must be provided with free market access. Similarly the tariff peaks should be removed and the tariff escalation must also be minimized as the tariff rate of the developing countries is several times that of the developed countries which is creating a problem for market access (Khan and Latif, 2009). It is also believed that tariff is only applied on the goods of developing countries and there is hardly any tariff implication to goods of developed countries which is again a big discrimination in case of developing countries (Khan and Latif, 2009).

The current study is about the analysis of Pakistan's external trade to see how much Pakistan has gained after the implementation of WTO. For this purpose, the following objectives have been set:

- To evaluate implications of the implementations of WTO for Pakistan's external trade
- To analyse the change in trade bulk before and after the WTO
- To recommend policy prescriptions based on findings of the study

Methodology

The analysis for achieving the stated objectives has been divided into three parts. In the first part of the study, a graphical representation of the data on exports and imports has been given for the period 1985-2013, to evaluate the change in trade. In the second part, a statistical analysis was carried out to see whether Pakistan's exports and imports trades have been smoothened over the post-WTO period. For this purpose, coefficients of variation (CV) has been computed, using the following formula:

$$CV = \frac{\text{Standard deviation}}{\text{Mean or Average}} \dots \dots \dots (1)$$

An econometric analysis has been carried out in the third part of the study. The main theme behind this analysis is to estimate how the total trade bulk (exports + imports) of Pakistan is related to the industrial sector (value added as percent of GDP), agricultural sector (value added as percent of GDP), world income and Gross Domestic Product of Pakistan before and after the WTO. The data for this purpose covers the period 1985-2013 that has been taken from the World Bank (World Bank, 2014). As the WTO has been originated on 1st January 1995, so the analysis has been divided into two groups, the eleven years before and the eighteen years after the WTO orientation. The model specifications (This is a general econometric model and will be used two times *i.e.* for pre and post-WTO periods. The stated model has also been used by Khan and Latif (2009)) are given as:

$$TRG = \beta_0 + \beta_1IND + \beta_2AGR + \beta_3WIN + \beta_4GDP \dots \dots \dots (2)$$

Where;

TRG: Trade Bulk (exports + imports) as percent of GDP; IND: Value added by industrial sector as percent of GDP; AGR: Value added by agricultural sector as percent of GDP; WIN: World Income (in US \$ billions); GDP: Gross Domestic Product of Pakistan (in US\$ Million).

Results and Discussion

Exports and Imports of Pakistan

Graphical Analysis: Table 3 provides data on export and import trade of Pakistan for 1985 to 2013. An examination of exports and imports trends for the period 1985-2013 suggests that Pakistan's exports increased continuously over the past three decades, but the change in trade deficit was, by and large, driven by imports (Figure 1).

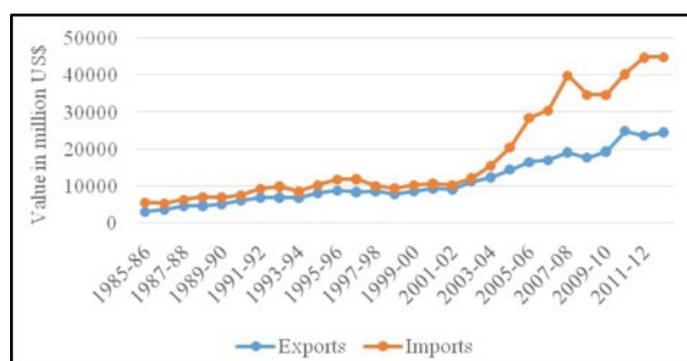


Figure 1: Exports and Imports of Pakistan for the period 1985-2013

Table 3: Exports and imports of Pakistan (Value in Million US\$)

Years	Exports	Imports
1985-86	3070	5634
1986-87	3686	5380
1987-88	4455	6391
1988-89	4661	7034
1989-90	4954	6935
1990-91	6131	7619
1991-92	6904	9252
1992-93	6813	9941
1993-94	6803	8564
1994-95	8137	10394
1995-96	8707	11805
1996-97	8320	11894
1997-98	8628	10118
1998-99	7779	9432
1999-00	8569	10309
2000-01	9202	10729
2001-02	9135	10340
2002-03	11160	12220
2003-04	12313	15592
2004-05	14391	20598
2005-06	16451	28581
2006-07	16976	30540
2007-08	19052	39966
2008-09	17688	34822
2009-10	19290	34710
2010-11	24810	40414
2011-12	23624	44912
2012-13	24460	44950

Source: Pakistan Bureau of Statistics

Statistical Analysis: A 5-year mean, standard deviation and coefficient of variation, computed for 1985-2013 are provided in Table 4.

The coefficient of variation (CV) of exports trade estimates at 0.1657 during 1985-90 and 0.0936 during 1990-95 pre-WTO periods, which with the exception of sub-period 2000-05 decreased throughout post-WTO period; this suggests Pakistan exports got smoothed after WTO's implementation in the world arena, perhaps due to less restrictions on trade after WTO arrival relative to pre-WTO period. Compared to exports, Pakistan imports' coefficient of variation does not show significant declines; rather it appears largely static, suggesting Pakistan imports

trade could not be benefited and facilitated much by reductions in trade restrictions associated with the implementation of WTO.

Table 4: Exports and imports of Pakistan (Value in Million US\$)

Period	Particulars	Exports	Imports
1985-90	Average	4165.2	6274.8
	St. Deviation	690.0874	668.8861
	Coefficient of Variation	0.165679	0.106599
1990-95	Average	6957.6	9154
	St. Deviation	651.45	987.0054
	Coefficient of Variation	0.093631	0.107822
1995-00	Average	8400.6	10711.6
	St. Deviation	336.6996	974.2091
	Coefficient of Variation	0.04008	0.090949
2000-05	Average	11240.2	13895.8
	St. Deviation	1983.482	3828.243
	Coefficient of Variation	0.176463	0.275496
2005-10	Average	17891.4	33723.8
	St. Deviation	1118.674	3942.808
	Coefficient of Variation	0.062526	0.116915
2010-13	Average	24298	43425.33
	St. Deviation	609.3702	2607.96
	Coefficient of Variation	0.025079	0.060056

Econometric Analysis: For the sake of Pre and Post WTO periods' comparison, the trade bulk (imports + exports) has been taken as dependent variable in relation with GDP of Pakistan, world Income, agricultural sector (Value added as percent of GDP), and industry (value added as percent of GDP) as independent variables.

Table 5: OLS model results for Pakistan (Pre WTO)

Model	Unstandardized		T-ratios	Sig. (p-values)
	B	Std. Error		
Constant	-46.953	324.355	-0.145	0.973
IND	3.565	1.493	2.387**	0.002
AGR	2.330	1.350	1.726*	0.061
WIN	5.023E-04	0.000	0.173	0.875
GDP	-.239	0.278	-0.861	0.353

No. of observations: 11; R²: 0.85; **: Significance at 5% level of significance; *: Significance at 10% level of significance; Dependent variable (TRG) = Total Trade Volume (as percent of GDP)

OLS Model (Pre WTO)

The estimated results for pre WTO and post WTO periods are shown in Table 5 and 6, respectively.

Table 6: OLS model results for Pakistan (Post WTO)

Model	Unstandardized		T-ratios	Sig. (p-values)
	B	Std. Error		
Constant	-1942.971	648.280	2.997**	0.012
IND	3.545	1.311	2.710**	0.020
AGR	5.765	2.991	1.927*	0.013
WIN	-5.91E-05	.000	-3.210**	0.034
GDP	3.211	1.665	1.923*	0.104

No. of observations: 18; **R²:** 0.85; ****:** Significance at 5% level of significance; *****: Significance at 10% level of significance; **Dependent variable (TRG) = Total Trade Volume (as percent of GDP)**

As is reflected from the model only two independent variables show the significant effects on trade bulk before the WTO. They are the percentage share of industrial sector in GDP and the ratio of production of agricultural in GDP of Pakistan (OLS model Pre-WTO). When the same analysis was carried out for the data set after the WTO all the explanatory variables show significant results (OLS model Post-WTO).

The estimated regression analyses clearly explain that the industrial sector has contributed positively towards external trade before and after the WTO implementation and an increasing trend has been noticed after the WTO. However, as the role of agricultural sector is concerned, its contribution has been decreased after the WTO. As compared to the Pre-WTO period, the other independent variables like world income and GDP (significant at 10% level of significance) of the country (which were insignificant in the pre WTO period) affecting the trade volume, after the WTO.

An overview of Pakistan’s economy for the period 2008-09, by Ministry of Finance has reported that the macroeconomic environment of the country is affected by intensification of war on terror that cost billions of rupees to Pakistan economy, deepening of the political instability, law and order to hit the economy, the tight security environment, the global financial crises that dented foreign investors’ confidence, a massive earthquake in 2008, and unexpected floods in 2010. All these are the factors that penetrated into domestic economy causing a decreased rate in GDP growth during 2006-2010. As the data for the discussed factors are not available therefore these cannot be modelled to measure their effect quantitative terms.

Conclusions

In the light of different types of analyses carried out in

the previous sections conclude that:

- Pakistan’s exports have always been exceeded imports throughout the pre and post WTO periods except the 2000-04, which are the years after the WTO, but the change in trade deficit was, by and large, driven by imports.
- The rate of increase in imports of Pakistan is greater than the rate of increase in exports even after the WTO, which shows that Pakistan still faces the deficits in its balance of trade.
- Pakistan exports got smoothened after WTO’s implementation in the world arena, perhaps due to less restrictions on trade after WTO arrival relative to pre-WTO period.
- The econometric analysis explains that industrial sector has contributed positively towards external trade before and after the WTO, and an increasing trend has been noticed after the WTO. As the role of agricultural sector is concerned, its contribution has been decreased. The other independent variables like world income and GDP of the country affecting the trade volume after the WTO.

Recommendations

- Compared to exports, Pakistan imports’ coefficient of variation does not show significant declines; rather it appears largely static, suggesting Pakistan’s imports trade could not be benefited and facilitated much by reductions in trade restrictions associated with the implementation of WTO.
- Pakistan should take some credible measures by further liberalizing economy and by modifying its laws based on the principles of fair competition which should be clear, unambiguous and compatible with WTO’s agenda.
- The study suggests there needs further research on the topic, why Pakistan has not benefited from WTO up to the expectations while the major speculated beneficiaries of WTO were developing countries.

Authors’ Contribution

This research article is based on the PhD research study of Mrs. Robina Karim. Dr. Dawood Jan had supervised the study being major supervisor of Mrs. Robina Karim for her PhD research.

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