Trade

- It is the exchange of goods and services or rather is the sale / purchase of goods and services.
- It is of two types
    - Internal
        - Within a country
    - External / Foreign
        - Country to country

Foreign trade

Why?

- Stimulates economic activity
- Economies of scale are achieved
- Employment
- Allows specialization of goods
- Domestic resources are utilized
- Exports helps to earn foreign exchange
- Flow of IT
- GDP earned i.e. overall income of the country
- Value – added products
- Foreign exchange earned can be spent on imports of goods

Imports and Exports

Imports

- Goods or services purchased
- Foreign exchange spent
- Outflow of foreign exchange
- Exports
- Goods or services sold
- Foreign exchange earned
- Inflow of foreign exchange

Visible trade

- It is the export and import of goods

Invisible trade

- It is the export and import of services

Exports of Pakistan

Primary

- Rice, fish, cotton, vegetable and fruits

Processed

- Cotton yarn, dried fish

Manufactured

- Cotton textile, garments, surgical instruments, carpets, sports goods

Trend

- From more primary initially to more manufactured now
- Beneficial because manufactured items are more value added so of greater price hence greater profit
- More foreign exchange earned so improved Balance of Trade
- Boosts industrialization
- Stimulates economic activity which creates job opportunities

Problems

- Narrow exports base (a few items / not a big variety)
- Low value products
    - As they are agro – based

Imports

Capital goods

- Machinery for different industries

Raw material

- Manganese, iron ore, coke (coal), crude oil (unrefined)

Consumer goods

- Electrical appliances, sugar, wheat, fertilizer

Trend

- From more 'consumer goods' to more 'capital goods'
- Due to industrialization
- A beneficial trend to restrict imports and save foreign exchange

Problems

- Drastic increase in imports
    - This is because of high / ever increasing population
- Unfavorable exchange rate of rupees against foreign currencies like USD and Pound
- Rapid industrialization
- Green revolution
- Construction of infrastructure like roads

Trading partners of Pakistan

Imports

- USA
  - Machinery, vegetable oil and wheat
- Germany
  - Machinery and electrical appliances
- UK
  - Machinery, electrical appliances and fertilizers
- Saudi Arabia
  - Petrolium
- Malaysia
  - Edible oil
- Japan
  - Machinery, electrical appliances
- Sri Lanka
  - Tea

Exports

- USA
  - Carpets, rugs, surgical equipment
- Germany
  - Cotton cloth, carpets, rugs, surgical equipment
- UK
  - Raw cotton, carpets, rugs, surgical equipment
- Saudi Arabia + UAE
  - Spices, rice, ready-made garments
- China + Hong Kong
  - Cotton yarn
- Japan
  - Fish and fish products

Trade route

Land

- East → India → not feasible due to poor relations
- North – west → Afghanistan → Passes e.g. Bolan, Khyber, etc
- North → China → Khunjarab Pass (Karakoram Highway)
- South – west → Iran → RCD highway (not well maintained)

Problems of land routes

- Mountains / rugged / steep slopes / ravines / bad topography
- Few passes
- High passes

- Expensive due to taxes
- Longer to Europe than sea
- Slower than air
- Insecure
- Narrow roads
- Landslides / can get blocked
- Floods
- Snow

Sea routes

- Preferred route because
  - Cheaper as compared to land and air
  - Shorter as compared to land for Europe
    - Even goes to USA and Canada through Suez Canal
  - Developed ports of Pakistan promote sea trade like Bin Qasim port
  - Function throughout the year
  - Easy access to middle sea through Arabian Sea
  - Handles bulky goods and large consignments
  - Suitable for import of mineral oil through large containers from Saudi Arabia
- Disadvantages are
  - Slow / time consuming (slower than air)
    - Not suitable for urgent orders
  - Do not reach inside cities so no door to door service like roads or no access to inland areas through airports
  - Cannot go to land locked countries
  - Not suitable for perishable goods

Air transport

Advantages

- Quicker than sea / roads
  - So saves time
- Suitable for light items
  - Also for small consignments
- Good for urgent orders
- Better than seas as it goes to inland cities
- Even goes to landlocked countries where ships cannot

Disadvantages

- Fog / snow / dangerous
- Expensive
- Unsuitable for perishable / heavy loads / cheap goods
- Does not go door to door / airports may be out of city
- Air and noise pollution

Balance of trade vs payment

Balance of trade

- Difference between value of exports and imports of goods.
- Formula :-
    - (Value of exports of goods) – (value of imports of goods)

Balance of payment

- Different between value of exports and imports of goods as well as services
- Formula :-
    - (Value of exports of (goods + services)) – (Value of imports of (goods + services))

Pakistan's Balance of Payment/Trade was negative

Why?

- More value of imports and less value of exports
    - Imports of capital goods e.g. machinery for industries
    - Imports of luxury goods due to improved standard of living e.g. cosmetics, vehicles
    - Imports of consumer goods e.g. fertilizers, electrical appliances
    - Import of crude oil due to insufficient oil reserves of Pakistan
        - The price of oil is constantly increasing in national market
    - Increasing population so more need of imports
    - Unfavorable exchange rate of rupee against foreign currency like USD and Pound
    - Low value exports as they are agro – based so less price
    - Restriction by foreign governments
        - Due to child labor e.g. in sports good industry
        - Due to unhygienic condition of fish markets
    - Hard competition e.g. cotton with South Korea and Thailand
    - Exports fluctuate due to weather condition as more of them are agro – based
    - Lack of skilled labor due to poor quality of education so poor quality products, not purchased by international market
    - Pakistan has very few trading partners / not a member of a main bloc like the European Union
    - Terrorism so less investment in national sector so less output
    - Load shedding of electricity / natural gas so less orders due to delay and industrial output
    - Political instability so consistently changing trade policies
    - Poor infrastructure e.g. non-metaled roads
    - Very few export processing zones

How to improve

- More exports

- Restrict imports

How to increase exports?

- Value added products
- Strict quality control
- Reliable supply
- More trading partners
- More variety
- Better infrastructure
    - More dry ports
    - More development of water ports
- Implement ban on child labor so Pakistan's sports goods can be purchased
- More export processing zones
- Stable government
- Improved telecommunication for better advertisement, marketing, etc
- Good relations / trade agreements with other countries
- Competitive prices
- More advertisements

How to restrict imports

- Improved quality of education for skilled labor
- Import of luxury items reduced by high taxation e.g. import of vehicles
- Pakistan's own resources be explored and exploited
- Patriotism (encourage people to purchase Pakistan's product)
- Reduction in consumer goods by installing more industries
- Tariffs (high taxes) on imports to discourage importers
- Awareness as to how imports affect economy negatively

Foreign exchange

- International currency like USD which is accepted in international market

Ways to earn foreign exchange

- Exports (visible + invisible exports)
- Remittances from Pakistani's abroad

Exchange rate

- An exchange rate refers to the price of one currency in terms of another
- For example, one USD is equal to 99 Pakistani Rupees
- Exchange rates are significant in determining :-
    - The cost of imports and the price of exports
    - The cost of, and returns, from overseas investment
- Depreciation

    - An exchange rate is said to depreciate when one unit of that currency buys fewer and fewer units of that currency
- Appreciation
    - When one unit of a currency can buy greater units of another currency

Trade barriers

- Trade barriers exist when the government imposes a set of restrictions that make it difficult for other countries to export their products to that country
- Its' types are :-
    - Tariffs (taxes on imports)
    - Embargoes (a ban on certain imported products)
    - Quotas (these impose restrictions on physical quantity of goods imported)
- Its' advantages are :-
    - Restricts the inflow of imports into the country
        - Which improved Balance of Payment / Trade
    - Helps to protect domestic market
    - More employment due to more economic activity within the country
    - More exploitation of local resources
- Its' disadvantages are :-
    - Consumer choice is limited to domestically produced goods only
    - Local industry become complacent due to lack of international competition and thus low efficiency
    - Consumer may have to purchase low quality local products
    - May spoil relations with other countries
    - May lead to artificial inflation