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# The Effects of Trade Liberalization on Economic Performance and Income Inequality

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Trade policy, economic performance, and income inequality have a complex relationship. There are many ways to understand and explain the relationship each of which contributing a new perspective. The primary purpose of this **discussion paper** is to encourage debate and promote dialogue around current development issues from different perspectives. Special efforts have been made to keep it accessible to a common reader of economics and students of development studies.

# Discussion Paper

## The Effects of Trade Liberalization on

## Economic Performance and Income Inequality

**Zubair Faisal Abbasi**

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**Introduction**

'*For well over a century scholars .... have debated the merits of free trade .... this debate has traditionally revolved around two questions: (i) Does freer trade result in faster economic growth? And (ii) how does freer trade affect .... income distribution*? (Edwards, 1997)

The above mentioned remarks provide a broader context for this essay which tries to explain the effect of trade liberalization on economic performance and income inequality. With the rise of neo-liberalism in the early 1980s, the drive for liberalization of trade regimes under the auspices of the WTO, the World Bank and the IMF has been strengthened. As a result, the world trade has grown '*nearly five times faster than world output*' and economic growth of many countries has been an improvement over the growth trajectory of the past (Santos-Paulino and Thirlwal, 2004; Chang, 2005).

While trade liberalization has potential to significantly and permanently enhance economic growth (SPDC, 2006), the main goals of trade liberalisation in IMF-supported programmes tend to be: *to improve the economic efficiency by creating a transparent and neutral system of incentives that eliminates anti-export bias, direct impediments to trade, and economic distortions caused by the trade regime* (IMF, 1998, p. 4).

Under the WTO arrangement, tariffs are being bound and downwardly revised in an irreversible way and the debate around liberalization and its relationship with economic growth and income distribution is still in question (Chang, 2005). At the same time, the analysis on inequality has recently started taking into account the '*possible connections between global trade and rising inequality of wages and incomes*' (Richardson, 1995).

Interestingly, the evidence on direction of causality between trade policy and economic growth is still ambiguous and there are difficulties in measuring diverse dimensions of trade policy in terms of their effectiveness. For openness to work, it should accompany other flanking policies such as creating investment climate, building human capital, establishing mechanisms of conflict resolution along with improved macro-economic policy making processes, and efforts to tackle inequality (Winter, 2004; UNDP, 2005; Ulku, 2008).

Notwithstanding, increased trade, at least provides vent for surplus commodities, apart from generating potential for new, which brings otherwise unemployed resource into employment and hence effects economic performance (Thirlwal 2003 p. 626).

Therefore, in developing countries '*simplification of import procedures, the reduction or elimination of quotas, and the rationalisation of the tariff structures are the most widespread reforms*' (Santos-Paulino 2005, p. 783).

After this introduction, the discussion paper presents a survey of theoretical and empirical literature on trade in relation to economic performance and income inequality. In section 2, description of data and methodology used for analysis of data for Pakistan is presented which is followed by a detailed report on the country in section 3. Conclusion is provided in the end.

## 1. Survey of Theoretical and Empirical Literature

### *1.1. Theoretical Literature: Economic Performance*

*The neoclassical model* assert that trade influences economic growth with its contribution to total factor productivity growth and to factor accumulation (Ulku, 2008). According to the theory of comparative advantage, *static* and *dynamic* gains from trade creation occur for economies. The theory explains that *static gains from trade* come in the shape of savings on relative opportunity costs of factor employment. However, *the dynamic gains* occur because export markets widen the trade horizon while making accumulation easier due to increasing returns to scale. In addition, trade increases competition, new idea and dissemination of knowledge, possibility of FDI, changes in attitudes and perceptions (Thirwal, 2003).

However, diminishing returns[1] on primary commodities and increasing returns on industrial investments create inequalities (Thirwal, 2003). The new trade theory, allegedly called neo-marcantalist theory, explains this increasing returns to scale in relation to production possibilities and non-comparative advantage trade.

It means that countries specialize not only in their relative advantages but due to increasing returns. While '*the convexity in traditional production possibility frontier is due to different factor intensities, when increasing returns are introduced, they push against the convexity and if they are strong enough the curve bends the other way'* argues Krugman (1992).

This is the mobility of factor intensity and increasingly returns to scale which led to the possibility of rapid industrialization (i.e., making production capital intensive) and also trade restrictions for import substitution industrialization (ISI) (Colman and Nixson, 1994).

### *1.2. Empirical Literature: Economic performance*

The period between the late 1980s and the 1990s has witnessed a number of studies trying to explain the linkages and effects of liberalization and economic growth. Notable amongst these have been Dollar (1992), Sachs and Warner (1995), Edwards (1998) and Frankel and Romer (1999). However, such studied were criticized on many grounds specially the methodology. '*The current regression analyses, though sophisticated do not fully account for 'omitted variables' and 'simultaneity issue',* argues Ulku (2008) and these concerns are also voiced in Rodriguez and Rodrik (2001) who claim that direction of causality is difficult to establish.

Frankel and Romer (1990) insist that trade influences growth through human capital accumulation and induces increasing returns. Srinivasan and Bhagwati (1999, p. 6) argue that '*[i]n-depth analyses of country experiences .... during the 1960s and 1970s have shown .... that trade does seem to create, even sustain, higher growth*'. Lewer and Berg (2003, p. 363), also produce evidence of a positive correlation between trade and growth using time series regression models, and claim '*one percentage growth in exports is associated with one-fifth percentage point increase in economic growth*'.

There are several ways in which trade liberalization impacts economic performance. It encourages investment, generates larger volumes, causes specialization, induces learning by doing and technological upgrading (Thirwal, 2003, Richardson, 1995). Levine and Renelt (1992, p. 959) find a positive correlation between '*average growth rates and the average share of investment'.* Hausmann, et al. (2005), claim that competition to produce high quality competitive goods is generated by liberalization.

1 'Adding successive units of any input ... increases the output ... but less and less' (Stiglitz, 1993, p.39)

Literature analysing relationship between liberalization, exports and GDP growth, shows that '*exports have tended to grow fastest in countries with more liberal trade regimes, and these countries have experienced the fastest growth of GDP*' (Thirlwal, 2003, p. 637-638). Bernard and Jenson (1999), argue that empirical evidence suggests that exporting provides larger market access advantages to productive firms[2]. Growth in such firms influences economic development, high paid and stable jobs.

Trade integration is said to be a strong stimulus to growth. Brahmbhatt and Dadush (1996), developed speed of integration index[3] which indicates that East Asians were integrationist economies as compared to Sub-Saharan Africa so grew quickly.

However, UNDP (2005) claims that the successful globalizers invest in human development and sequentially integrate into global economy. It claims that Vietnam by balancing growth and human development considerations with trade: income poverty fell from 58% to 28% during 1990s; life expectancy at birth increased six years; child mortality cut in half (from 40 to 20/1000 live births).

The Table 1 illustrates the UNDP (2005) claim while juxtaposing it with Mexico which is another globalizer.

**Table 1**

**A Tale of Two Globalizers: Vietnam and Mexico**

| **Indicators** | **Vietnam** | **Mexico** |
|---|---|---|
| Average annual growth rate of exports, 1990-2003 (%) | 20.2 | 11.4 |
| Average annual growth rate of income, 1990-2003 (%) | 5.9 | 1.4 |
| Extreme Poverty Rate (%) (national poverty line)<br>1990<br>2002 | <br>30<br>15 | <br>22.5<br>20.3 |
| Income share of the poorest 20% (2002) | 7.5 | 3.1 |

Source: UNDP (2005)

World Bank (1987), compared trade performance of 41 countries on trade orientation summarized as outward and inward oriented concluded, '*economic performance of the outward oriented economies has been broadly superior to that of inward oriented economies in all respects*'. However, on World Bank's classification, Chang (2003, p. 258) argues that '*a smaller country is more likely to be classified as outward-oriented than a large country, even when there is there is no difference in their policies as typically small countries have high share of export growth*'.

Winter (2004, p. F-4), argues that though methodological challenges on how to draw conclusions from evidence are '*the most plausible conclusion is that liberalisation generally induces a temporary (but possibly long-lived) increase in growth'.* Edwards (1992; 1998), also claims that open economies

2 At any given time, exporter are at least 12-19% more productive than non-exporters (Bernard and Jenson, 1999, p. 23)

3 The index divides countries into four categories: fast, moderate, weak, slow integrator (Brahmbhatt and Dadush, 1996)

attract and absorb exogenous technology more efficiently, grow faster, and there appears '*a positive relation between openness and productivity growth*'.

*1.3. Theoretical Literature: Inequality*

Other things remaining same, price elasticity of demand is a major indicator which helps in making product choice. The choice of product ultimately creates difference in capital accumulation and thus inequality.

However, there are other reasons as well. Thirlwal (2003, p. 622), argues that firstly, the pattern of demand has shifted to goods with least primary-commodity component. Secondly, technological shift towards synthetic substitutes of raw materials, and thirdly, protectionist policies of developed countries. Owing to this situation, '*trade does not seem to work to the equal advantage of both sets of countries'* (*ibid,* p. 623).

Discussing inequality, Krugman and Obstfeld (2003, p. 38), explain that Ricardian model assumes free mobility of labour in international specialization. The model further assumes that every individual gains due to trade with no issues of income distribution. However, in real world inequality is a reality with at least two important reasons behind this phenomena. One is time lag and cost associated with resource reallocation and the others induced differentiation in factor intensity in industrial production. So, *'Trade may benefit a nation as a whole, it often hurts significant groups within the country at least in the short run*.' Krugman and Obstfeld (2003)

*1.4. Empirical Literature: Inequality and Liberalisation*

Edwards (1997, p. 209), concludes that '*there is no evidence linking openness or trade liberalization to increases in inequality'*. Richardson (1995), however, claims that '*trade is a moderate contributing source of income inequality trends'* while it affects only in the short run.

Employment and wages is a possible channel of inequality under liberalization. Arbache et al (2004), claim that under trade liberalization wages fall in the traded sector due to greater competition. They also claim that trade liberalization generate '*reductions in rents ..... and hence wage reductions'.*

While liberalization induces technological upgrading (Richardson, 1995), on the opposite side, low capacity of developing countries to absorb foreign technology can be a cause behind trade benefiting developed countries[4] more and creating inequality (Coe et al, 1997; Ulku, 2008).

Despite competing claims about trade and economic growth and trade and inequality linkage, Dollar and Kraay (2004), argue that '*over half the developing world lives in globalising ....*[and]*... catching up the rich countries while the rest of the developing world is falling farther behind'*. In addition, they also argue that when economic growth happens in a country the poor also gain because global integration '*leads to faster growth and poverty reduction in poor countries*'. However, White and Anderson (2001) while categorising growth into 'pro' and 'anti' poor claim that distributional systems offset the growth effects in one fourth of the cases.

The below given tables 2 and 3, show that growth rates during 1980s and 1990s have not picked up for many regions as compared to 1960-80 (Chang, 2005). However, about Sub-Saharan Africa, Dollar and Kraay (2004) assertion that some developing countries falling behind is vindicated.

4 In 1991, 92% of world R&D was concentrated in seven OECD countries. R&D is supposed to have linkages with productivity and average long-run rate of return on R & D investment was around 120% (Coe et al, 1997, p. 134)

**Table 2**

**Per Capita GNP Growth Performance of the Developing Countries, 1960-80**

| | 1960-70 (%) | 1970-80 (%) | 1960-80 (%) |
|---|---|---|---|
| **Low-income countries** | **1.8** | **1.7** | **1.8** |
| Sub-Saharan Africa | 1.7 | 0.2 | 1.0 |
| Asia | 1.8 | 2.0 | 1.9 |
| **All developing countries** | **3.1** | **2.8** | **3.0** |
| **Industrialized Countries** | **3.9** | **2.4** | **3.2** |

*Source: Chang (2005)*

**Table 3**

**Per capita GDP Growth Rates of the Developing Countries, 1980-2000**

| | 1980-90 (%) | 1990-2000 (%) | 1980-2000 (%) |
|---|---|---|---|
| **Developing Countries** | **1.4** | **2.0** | **1.7** |
| Sub-Saharan Africa | -1.2 | -0.2 | -0.7 |
| East Asia and Pacific | 6.4 | 6.0 | 6.2 |
| **Developed Countries** | **2.5** | **1.7** | **2.1** |

*Source: Chang, (2005)*

In a nutshell, empirical evidences do not unambiguously show causal linkage between trade liberalisation and economic growth as well as impact on income inequality. However, it appears that trade liberalization impacts economic performance in a complex way. The next section presents the country report of Pakistan.

**2. Description of Data and Methodology**

For this essay, secondary data from different sources was used. These sources included economic survey from Pakistan's Ministry of Finance, World Development Indicators from the World Bank, World Trade Organization, research papers and academic works produced by scholars and research institutions.

An attempt was made to collect data and information from different sources so that, though in a limited sense, triangulation is assured. Therefore, the government such as Ministry of Finance (2007), research institutions such as SPDC (2006), independent economists such as Zaidi (2005), Kemal (1999), and Nabi (1999) were identified. International sources of data and information such as the World Bank and the World Trade Organization were also used where appropriate.

For analysis of data and information to draw inferences, literature study method (Barrientos, 1998) was used. To provide evidence-based inferences this method was jointly administered with interpreting trends in economic growth and income distribution.

The next section using this methodology, attempts to explain Pakistan's experience with liberalization and its impact on economic performance and inequality.

**3. Pakistan: Effects of Trade Liberalization on Economic Performance and Inequality**

Beginning as a primary-commodity producer and exporter in 1947, Pakistan has tried to manage its industrial development and modernization process through tariff and trade policy regimes (Kemal, 1999). Now it mainly exports, manufactured and semi-manufactured goods (Zaidi, 2005; Ministry of Finance, 2007). Table 4, given below explains the percentage share of primary, semi, and manufactured exports[5].

In essence, the import substitution strategy followed during 1950s and 1960s was managed by tariff protection, exchange rate manipulations, quotas, import licences, and other instruments of commercial policy (Ahmed and Amjad, 1984; Zaidi, 2005; SPDC, 2006).

However, during 1960s, Pakistan started export-orientation and schemes like Export Bonus was introduced to incentivize exports (Zaidi, 2005). During 1970s, trade controls were further liberalized specially on imports which culminated into serious efforts for liberalisation during the late 1980s. During 1970-80s, export rebates, tax and credit facilities were also offered to boost exports (SPDC, 2006).

Table 4

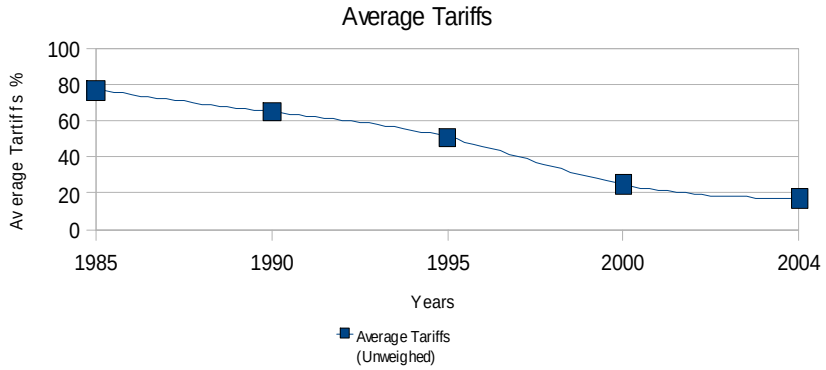
| Table 9.6: Composition of Exports | | | | (% Share) |
|---|---|---|---|---|
| Year | Primary Commodities | Semi-Manufactures | Manufactured Goods | Total |
| | 19 | 24 | 57 | 100.0 |
| 1992-93 | 15 | 21 | 64 | 100.0 |
| 1994-95 | 11 | 25 | 64 | 100.0 |
| 1996-97 | 11 | 21 | 68 | 100.0 |
| 1998-99 | 12 | 18 | 70 | 100.0 |
| 99-2000 | 12 | 15 | 73 | 100.0 |
| 2000-01 | 13 | 15 | 72 | 100.0 |
| 2001-02 | 11 | 14 | 75 | 100.0 |
| 2002-03 | 11 | 11 | 78 | 100.0 |
| 2003-04 | 10 | 12 | 78 | 100.0 |
| 2004-05 | 11 | 10 | 79 | 100.0 |
| 2005-06 | 11 | 11 | 78 | 100.0 |
| July-March | | | | |
| 2005-06 | 11 | 11 | 78 | 100.0 |
| 2006-07 * | 11 | 10 | 79 | 100.0 |
| * Provisional | | | Source: Federal Bureau of Statistics | |

*Source: Ministry of Finance (2007)*

It is argues that with neo-liberal ascendency since 1980s and initiation of structural adjustment programmes in 1988 (Zaidi, 2005), '*there has been a clear effort to reduce trade barriers and liberalize the economy*' (SPDC, 2006). The Figure 1 illustrates tariff reduction since mid 1980s.

5 For key economic indicator please see Table A in appendix A.

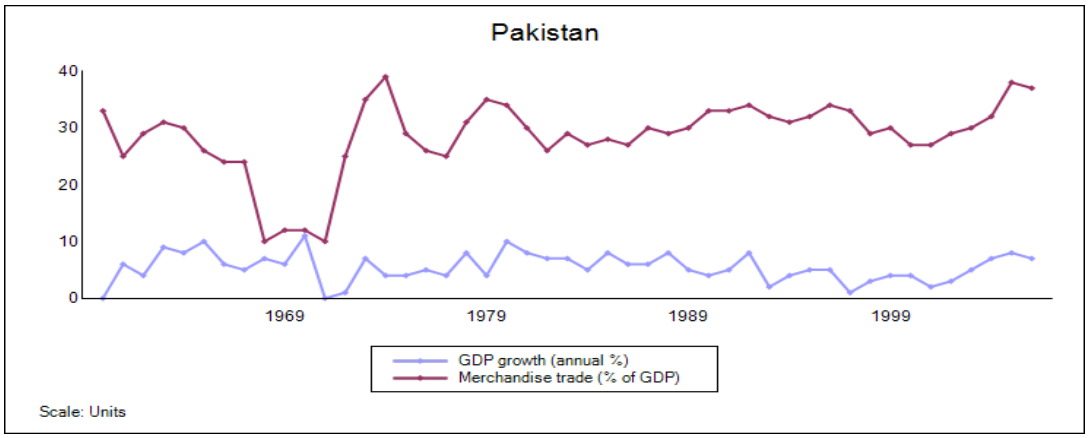
**Figure 1**




Source: SPDC (2006), Chart 1.3 in the source.

Under liberalization programmes, real imports have increased 5.5% in the period of liberalization i.e, 1990-2005 as compared to 3.8% in 1976-90 where as real exports declined from 11.4% to 10.9% between 1990-2005 (SPDC, 2006). Notwithstanding, the ideal of export-oriented growth spurt which happened in East Asia is still awaited. Nabi (1999, p. 175-6) claims that Pakistan's exports constitute barely 0.2 (see table 5 below for details) per cent of total world trade and trade to GDP ratio hover at around 30% leaving Pakistan less outward oriented as compared to rest of the East Asia though better than India. The below given figure 2 shows that merchandise trade and GDP growth does not show abnormal peak since the early 1970s apart from a spurt except in mid 1970s when Pakistan currency was devalued against dollar and trade controls were further relaxed (Zaidi, 2005; SPDC, 2006). The dip in the early 1970s is due to political economic upheavals dismemberment of East and West Pakistan in 1971.

**Figure 2**




*Source: World Bank*. http://devdata.worldbank.org/data-query/

On export side, since 2002 to 2005-06 Pakistan exports have been growing at average of 16%. This strategy has been called export-led growth (Ministry of Finance, 2007, p. 131).

Along with reduction in tariff, Pakistan has also reduced export taxes and duties on imports for raw materials used in manufacture. In some cases such as cotton yarn, it has been brought to zero (SPDC, 2006). However, Pakistan's percentage in global exports has been consistently low. The below given table 5 illustrates this point.

**Table 5**

| Pakistan's Share in World Exports (%) | |
|---|---|
| 1990 | 0.16 |
| 1995 | 0.16 |
| 2000 | 0.14 |
| 2004 | 0.15 |

*Source: World Trade Organization* www.wto.org

On the import side, there has been an import surge average rate of 29.0 percent per annum) during the last four years. Ministry of Finance (2007) claims that:

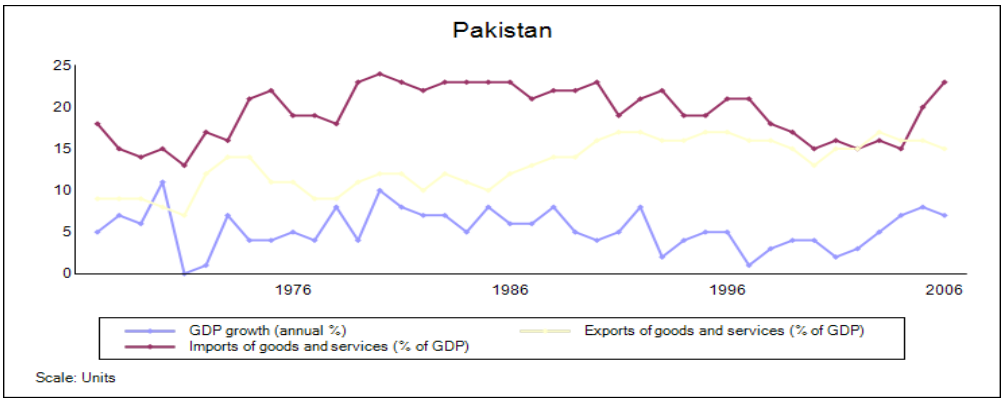
'*Four years of strong economic growth strengthened domestic demand which triggered a consequential pick up in investment. The rise in investment demand led to a massive surge in imports*'.

*3.1. GDP Growth and Trade*

The bellow given figure 3 shows the annual growth rate of Pakistan along with export and import. It shows that the period during 1990s, imports started increasing while there was decrease in exports as well as in GDP. After 2002, imports exports and GPD all start picking up. SPDC (2006) claims that '*real GDP growth performance showed a general downward trend over much of the liberalization period, until financial year 2001. Since then, however, economic growth has steadily increased, reaching 8.4 percent in 2005*'.

It is argued that during 1990s, due to changes in geo-strategic realities and inefficiencies of 1980s (Sayyed, 1995), trade policy reforms of 1990s took time to show results. Therefore, 2000s is the period when flanking policies of investment coordination and further privatization, liberalization, and deregulation has generated potential for economic growth.

**Figure -3**



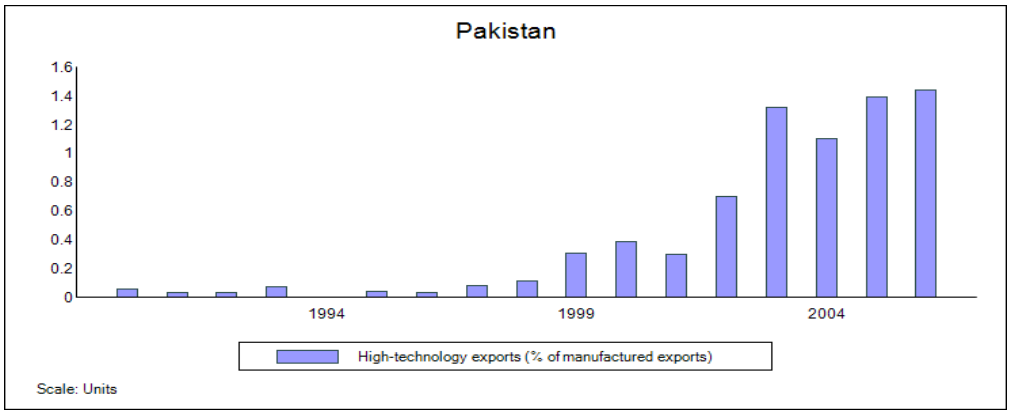

*Source: World Bank*. http://devdata.worldbank.org/data-query/

*3.2. Exporting High-Technology and Products Differentiation*

The below given figure 4 shows that Pakistan after the mid 1990s, started exporting more high technology exports. This can be interpreted as a reflection of growth in manufacturing sector which was around 15% in 2005-06 (Ministry of Finance, 2007).

This can be interpreted that liberalization causes competition and performance improvement to gain competitiveness in export markets which is consistent with Thirlwal (2003) and Edwards (1997) observations.

**Figure -4**

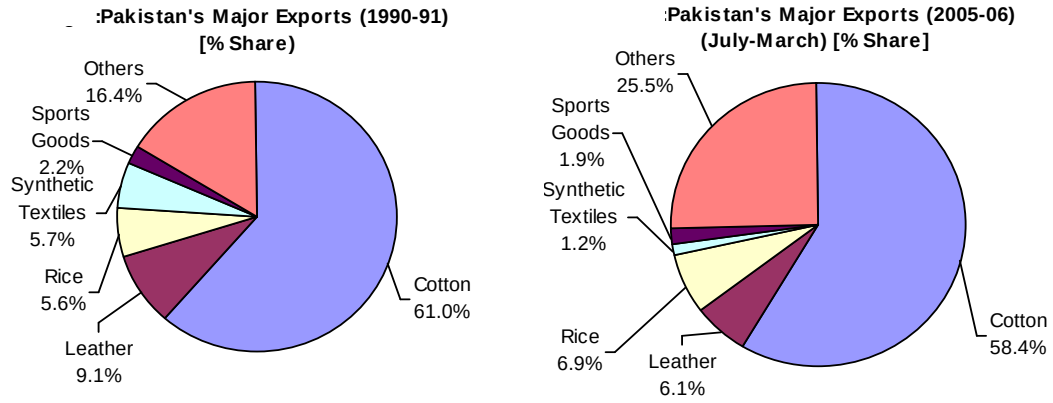



*Source: World Bank*. http://devdata.worldbank.org/data-query/

Moreover, a possible impact of trade liberalization occurs on diversification of markets and products. The figure 5, given below shows no drastic change in the composition of exports.

However, to achieve competitiveness for economic growth and resultant impact on poverty and inequality, a policy for product diversification is needed (Nabi, 1999). The Table B, C, D, and E at appendix A, further elaborate the concentration of international trade.

**Figure - 5**




*Source: Ministry of Finance 2006*

*3.3. Employment, Poverty, and Inequality*

The below given table 5, provides data about employment, poverty, and inequality. SPDC (2006) argues that before between 1991-95, consumer price (inflation) was high (11.1%) and employment growth was low. However, employment rate picked up during the second half of 1990s with fall in inflation though income inequality has consistently increased in Pakistan (see Gini coefficient in table 5). SPDC (2006) argues that with liberalization of economy, employment has increased though it is not clear whether the employment was generated for unskilled or was biased towards highly skilled urban area workers.

**Table 5**

| Years | Average Annual Growth % of Employment | Average Level of Poverty % (Headcount) | Income inequality (Gini) |
|---|---|---|---|
| 76-80 | 3.5 | 33.8 | 0.3288 |
| 81-85 | 2.2 | 25.6 | 0.3495 |
| 86-90 | 2.6 | 21.4 | 0.3687 |
| 91-95 | 1.1 | 21.3 | 0.3863 |
| 96-00 | 2.9 | 25.1 | 0.4023 |
| 01-05 | 3 | 31 | 0.4140* |

*Source: SPDC 2006, table 2.1 in source*

- *data refers to year 01-03.*

*3.4. Sectoral Employment*

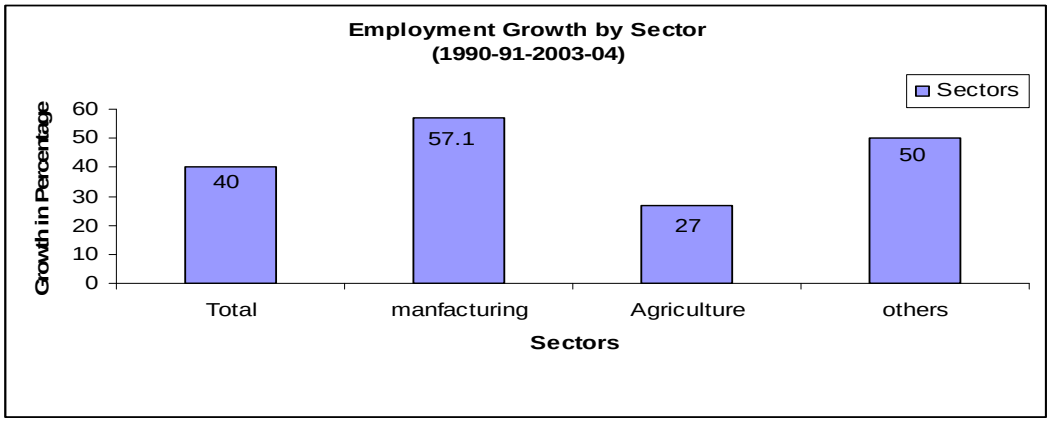
According to the Labour Forces Survey (1990-2004), which is undertaken by the Government of Pakistan (shown in Figure -6) total employment grew by 40% while manufacturing sector showed 57% and agriculture sector around 27%. It appears that employment in agriculture sector has shrunken while in the industrial sector it has increased.

It can be inferred that the rural areas which accommodate around 65% of the population of Pakistan might have lagged behind and inequality further entrenched. According to SPDC (2006), evidence suggests that people in rural areas have got less employment opportunities as compared to the urban areas while migration of labour force does not reveal the whole story.

It appears that though the economy of Pakistan has created jobs but it has missed the rural poor. Interestingly, Zaidi (2005) argues that Gini Coefficient between 1963-99 has decreased in urban areas of Pakistan i.e., from 0.368 to 0.330 but in rural areas it has deteriorated from 0.355 to 0.410 for the corresponding period. It is interesting to note how growth, poverty and income distribution have been witnessed during last fifty years of Pakistan.

Zaidi (2005, p. 439) argues that during 1950s, growth was stagnated and poverty persisted while data for income distribution is not available. During 1960s, growth was robust, poverty increased but income distribution improved. During 1970s, growth stagnated, poverty declined, but income distribution worsened. 1980s brought growth back, poverty declined, but income distribution first deteriorated and then improved. During the period of structural adjustment and liberalization i.e., 1990s, growth declined substantially, poverty increased considerably, and income distribution worsened.

**Figure -6**




*Source: Labour Force Survey, cited in SPDC 2006 in Box. 2.2*

In the literature review, it was argued that macro-economic stability (Winter, 2004) is necessary for openness to deliver. SPDC argues that 1990s was the period in which economic fundamental were in real bad shape. '*Despite a commitment to trade liberalization and other policy reforms in the areas of deregulation, privatization and greater reliance on market forces, an adequate degree of macroeconomic stability eluded the economy*', the report argues (SPDC, 2006).

The challenges of macro-economic situation were enormous. For example, during 1980s Pakistan did massive over-spending and budget deficit to GDP was 5.6% in 1988 which was progressively brought under control to 3.8% in 2005 (SPDC, 2006).

While Ulku (2008), Rodrik (2000), and Winter (2004) mention that institutions of conflict management and governance are essential to economic growth, Pakistan had the opposite during 1990s. It had extreme political uncertainty and corruption along with a massive exogenous shock in the aftermath of nuclear test in 1998 (SDPC, 2006).

In a nutshell, the liberalization period 1990s witnessed many economic and non-economic stresses which influenced economic performance and income distribution mechanisms. It becomes difficult to unambiguously determine the effects liberalization on economic performance and income inequality specially when urban rural and sectoral distribution is also taken into account.

**Conclusion**

Pakistan has gone through different phases in its trade policy reforms. It had been protectionist and control based during 1950s and since then tried to liberalize the import export regimes. During 1960s and 1970s, export-orientation was emphasized. The real liberalisation started in 1988 with structural adjustment programmes sponsored by the World Bank and the IMF. The period when trade policy reforms were taking place i.e., 1990s, the country had many political as well as economic stresses. These stresses impacted Pakistan's economic performance under liberalization. Resultantly, poverty increased along with worsening income distribution.

Pakistan appears to be a good candidate for policy reforms as institutional reforms which Rodrick (2000) alludes to. In fact, institutional reforms can ensure that export-led growth is evenly distributed and inequality tackled through broad-based employment creation and other flanking policies.

So far, it appears, that the country has tried to manage reforms as stand alone trade reforms whereas it had a more comprehensive and complex liberalization agenda to pursue during 1990s. However, during 2000s, as geo-strategic[6] situation started changing, it has started getting investment and economy has shown a turn around. However, it still awaits diversification in products and destinations to achieve international competitiveness which East Asian economies have.

It appears that the linkages between trade liberalization, economic performance, and inequality are complex which often involve non-economic intervening variables such as geo-strategic environment and institutional arrangements of political and economic governance.

6 With special reference to US led war on terror in Afghanistan and elsewhere since September 9, 2001.

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**Appendix A**

**Table - A**

**Key Economic Indicators**

| | |
|---|---|
| Gross domestic product (2006) | US $ 128,830 million |
| Average annual growth rate (2000-06) | 5.4% |
| Value added as per cent of GDP (2006)<br>Agriculture<br>Industry<br>Services | <br>20<br>27<br>53 |
| External balance of goods and services (2006) | -9 |
| Export<br>Imports | US $ 16,917 million<br>US $ 29,825 million |
| High technology exports (% of manufactured exports 2005) | 2 % |
| Current account balance | US $ -3608 million |
| Foreign direct investment (2005) | US $ 2183 million |
| External debt (2005) | US $ 33,675 million |
| Domestic credit provided by banking sector | 42% |

*Source: World Bank (2008)*

**Table -B**

Major Exports Markets (Percentage Share)

| Country | 96-97 | 98-99 | 99-00 | 00-01 | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 | 06-07* |
|---|---|---|---|---|---|---|---|---|---|---|
| USA | | 21.8 | 24.8 | 24.4 | 24.7 | 23.5 | 23.9 | 23.9 | 25.5 | 28.4 |
| Germany | 7.5 | 6.6 | 6.0 | 5.3 | 4.9 | 5.2 | 4.9 | 4.8 | 4.2 | 4.1 |
| Japan | 5.7 | 3.5 | 3.1 | 2.1 | 1.8 | 1.3 | 1.1 | 1.1 | 0.8 | 0.8 |
| UK | 7.2 | 6.6 | 6.8 | 6.3 | 7.2 | 7.1 | 7.6 | 6.2 | 5.4 | 5.8 |
| Hong Kong | 9.4 | 7.1 | 6.1 | 5.5 | 4.8 | 4.6 | 4.7 | 3.9 | 4.1 | 4.0 |
| Dubai | 4.6 | 5.4 | 5.7 | 5.3 | 7.9 | 9.0 | 7.3 | 3.3 | 5.6 | 4.0 |
| Saudi Arabia | 2.6 | 2.4 | 2.5 | 2.9 | 3.6 | 4.3 | 2.8 | 2.5 | 2.0 | 1.8 |
| **Sub-Total** | **54.7** | **53.4** | **55.0** | **51.8** | **54.9** | **55.0** | **52.3** | **45.7** | **47.6** | **48.9** |
| Other Countries | 45.3 | 46.6 | 45.0 | 48.2 | 45.1 | 45.0 | 47.7 | 54.3 | 52.4 | 51.1 |
| *Total* | *100.0* | *100.0* | *100.0* | *100.0* | *100.0* | *100.0* | *100.0* | *100.0* | *100.0* | *100.0* |

*July - November Source: Ministry of Commerce.

*Source: Ministry of Finance, 2007*

**Table C**

9.12: Pakistan's Major Imports (Percentage Share)

| Commodities | 94-95 | 96-97 | 98-99 | 99-00 | 00-01 | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 | 06-07* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Machinery * * | 22.8 | 23.1 | 17.9 | 13.9 | 19.3 | 17.1 | 18.5 | 17.8 | 22.5 | 18.0 | 22.5 |
| Petroleum & Products | 15.3 | 19.0 | 15.5 | 27.2 | 31.3 | 27.1 | 25.1 | 20.3 | 19.4 | 22.3 | 22.5 |
| Chemicals @ | 14.0 | 13.4 | 16.6 | 17.5 | 20.0 | 15.9 | 15.1 | 16.1 | 15.5 | 13.4 | 12.7 |
| Transport Equipments | 5.9 | 4.7 | 5.7 | 5.5 | 4.0 | 4.8 | 5.6 | 5.6 | 6.2 | 7.7 | 8.0 |
| Edible Oil | 9.6 | 5.1 | 8.7 | 4.0 | 3.1 | 3.8 | 4.8 | 4.2 | 3.7 | 2.7 | 2.9 |
| Iron & Steel | 3.6 | 3.9 | 3.1 | 3.0 | 2.6 | 3.3 | 3.3 | 3.3 | 4.3 | 5.1 | 5.0 |
| Fertilizer | 1.2 | 3.2 | 2.8 | 1.9 | 1.6 | 1.7 | 2.1 | 1.8 | 2.0 | 2.4 | 1.2 |
| Tea | 1.8 | 1.1 | 2.4 | 2.0 | 1.9 | 1.5 | 1.4 | 1.2 | 1.1 | 0.9 | 0.7 |
| **Sub-Total** | **74.2** | **73.5** | **72.7** | **75.0** | **83.8** | **75.2** | **75.9** | **70.3** | **74.7** | **72.5** | **75.5** |
| Others | 25.8 | 26.5 | 27.3 | 25.0 | 16.2 | 24.8 | 24.1 | 29.7 | 25.3 | 27.5 | 24.5 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

* July-March (Provisional) Source: Ministry of Commerce & FBS
** Excluding Transport Equipments, @ Excluding Fertilizer

*Source: Ministry of Finance, 2007*

**Table D**

Composition of Imports (% Share)

| Year | Capital Goods | Raw Material for | | Consumer Goods | Total |
|---|---|---|---|---|---|
| | | Capital Goods | Consumer Goods | | |
| 1990-91 | 33 | 7 | 44 | 16 | 100.0 |
| 1992-93 | 42 | 6 | 38 | 14 | 100.0 |
| 1994-95 | 35 | 5 | 46 | 14 | 100.0 |
| 1996-97 | 37 | 5 | 43 | 15 | 100.0 |
| 1998-99 | 31 | 6 | 47 | 16 | 100.0 |
| 99-2000 | 26 | 6 | 54 | 14 | 100.0 |
| 2000-01 | 25 | 6 | 55 | 14 | 100.0 |
| 2001-02 | 28 | 6 | 55 | 11 | 100.0 |
| 2002-03 | 31 | 6 | 53 | 10 | 100.0 |
| 2003-04 | 35 | 6 | 49 | 9 | 100.0 |
| 2004-05 | 36 | 8 | 46 | 10 | 100.0 |
| 2005-06 | 37 | 7 | 45 | 11 | 100.0 |
| July-March | | | | | |
| 2005-06 | 36 | 8 | 44 | 10 | 100.0 |
| 2006-07 * | 38 | 7 | 45 | 11 | 100.0 |

* Provisional Source: Federal Bureau of Statistics

*Source: Ministry of Finance, 2007*

**Table E**

| Major Sources of Imports | | | | | | | | | | (Percentage Share) |
|---|---|---|---|---|---|---|---|---|---|---|
| Country | 96-97 | 98-99 | 99-00 | 00-01 | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 | 06-07* |
| U.S.A. | 12.0 | 7.7 | 6.3 | 5.3 | 6.7 | 6.0 | 8.5 | 7.6 | 5.8 | 8.1 |
| Japan | 8.6 | 8.3 | 6.3 | 5.3 | 5.0 | 6.6 | 6.0 | 7.0 | 5.6 | 5.7 |
| Kuwait | 6.9 | 5.9 | 12.0 | 8.9 | 7.1 | 6.6 | 6.4 | 4.6 | 6.2 | 5.4 |
| Saudi Arabia | 6.0 | 6.8 | 9.0 | 11.7 | 11.6 | 10.7 | 11.4 | 12.0 | 11.2 | 11.5 |
| Germany | 5.6 | 4.1 | 4.1 | 3.5 | 4.3 | 4.6 | 3.9 | 4.4 | 4.7 | 4.1 |
| U.K. | 5.0 | 4.3 | 3.4 | 3.2 | 3.4 | 2.9 | 2.8 | 2.6 | 2.8 | 2.3 |
| Malaysia | 4.7 | 6.7 | 4.3 | 3.9 | 4.4 | 4.6 | 3.9 | 2.6 | 3.0 | 3.0 |
| **Sub-Total** | **48.8** | **43.8** | **45.4** | **41.8** | **42.5** | **42.0** | **42.9** | **40.8** | **39.3** | **40.1** |
| Other Countries | 51.2 | 56.2 | 54.6 | 58.2 | 57.5 | 58.0 | 57.1 | 59.2 | 60.7 | 59.9 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| *July-March | | | | | | | | | Source: Ministry of Commerce | |

*Source Ministry of Finance, 2007*

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