

Pak-India Trade liberalization

How will Pakistan's Manufacturing Sector Fare? A Comparative Advantage Analysis

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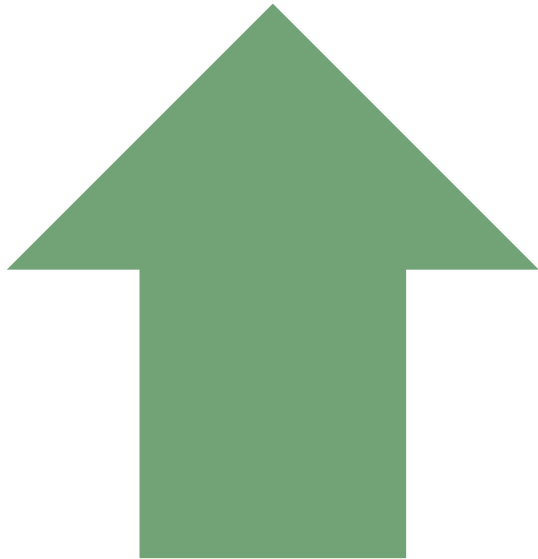
Naheed Memon



Liberalization Process Landmarks but liberalization ...?

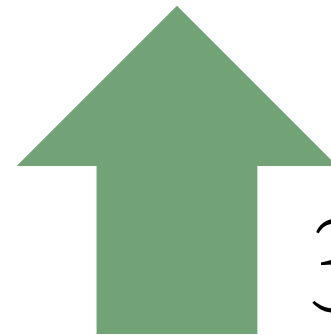
<u>Years</u>	<u>Policy Changes</u>
2004	Positive List comprising 757 items allowed to be traded
2006	Positive list expanded to 1075 items
2009	Positive increased to 1934 items
Feb 2012	Positive list was abolished
March 2012	Negative list comprising of 1209 items was introduced 137 items were allowed to be traded via land
December 2012	<hr/>

Since 2006



China

255%



India

33%

Why Insignificant Trade with India

- Motivations other than economic gains
- Multiple tariff and non tariff barriers restrict Pak-India trade (potential trade is estimate to be \$10 billion as compare to current trade of \$1.5 billion)
- Pakistan is reluctant to reciprocate the MFN status to India

The Study

- The study constructs the Revealed Comparative Advantage index for all the manufacturing products at HS 2 digit level code for Pakistan, India and China for the years 2003 to 2012
- The data is extracted from United National Trade Statistics database(UN Comtrade)

Revealed Comparative Advantage

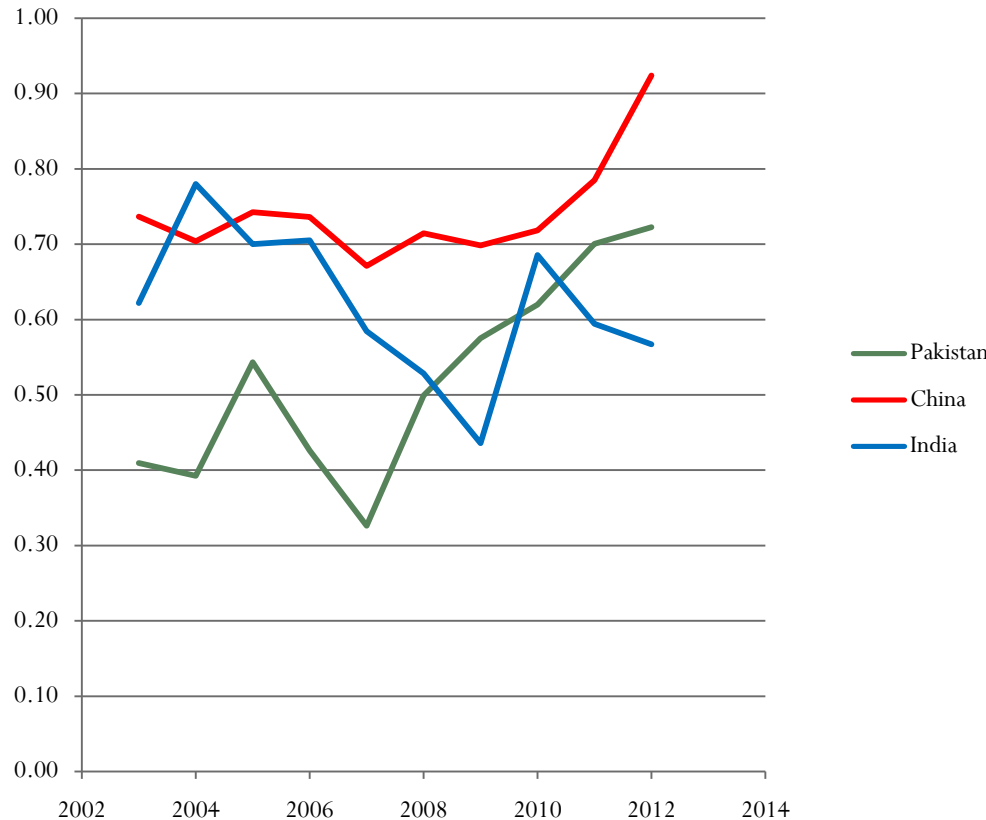
Revealed comparative advantage (RCA) is an empirical measure of the extent to which a given country specializes in the export of a particular product or range of products, compared with a reference set of countries. It is usually computed from trade data.

$$RAC = (\sum X_{ij} / \sum X_{Tj}) / (\sum X_{iw} / \sum X_{TW})$$

Where **i** and **j** show goods and country respectively

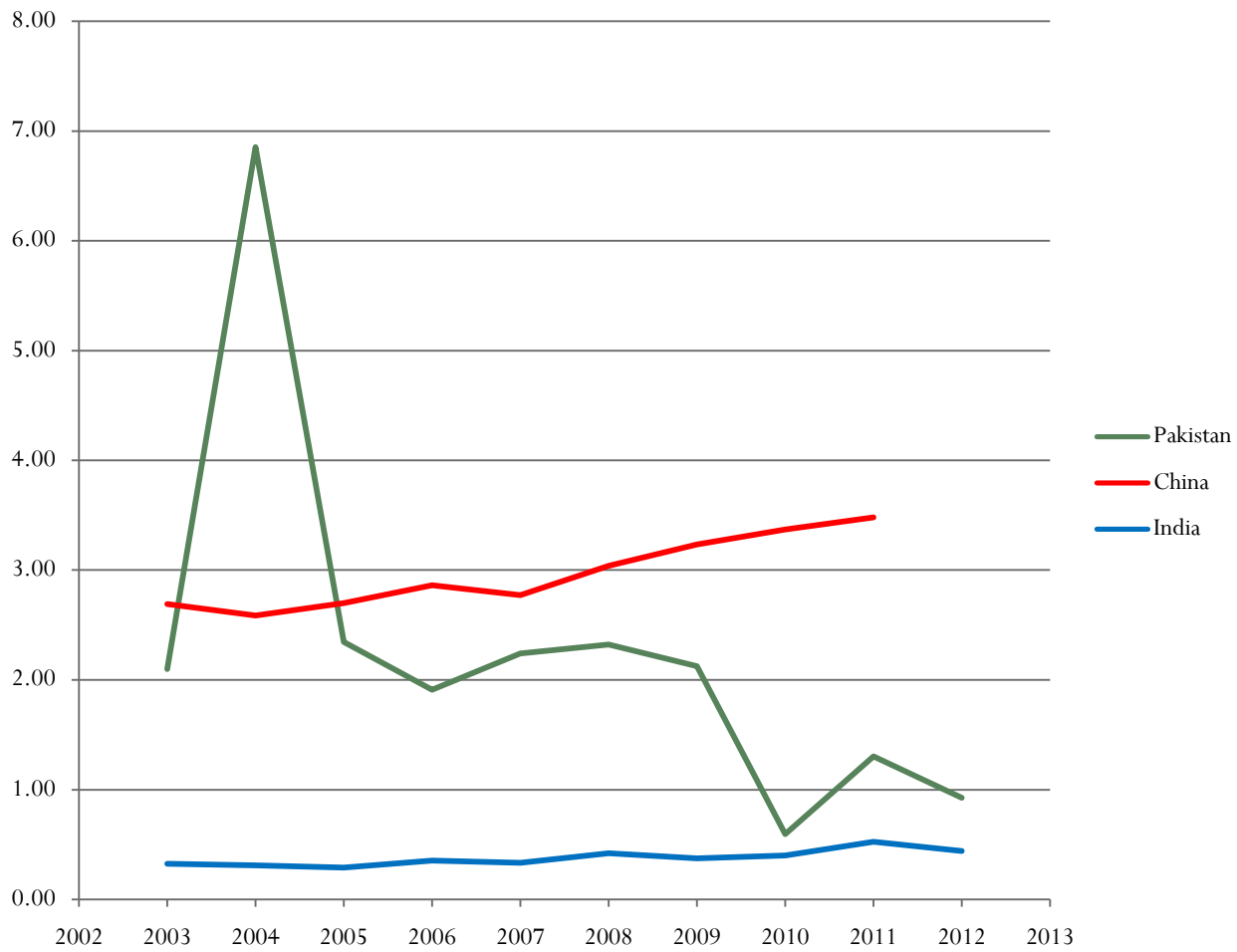
- $\sum X_{ij}$ Export of particular good *i* of country *j*
- $\sum X_{Tj}$ Total exports of country *j*
- $\sum X_{iw}$ World export of particular good *I*
- $\sum X_{TW}$ Total world export

RCA trend analysis over the years



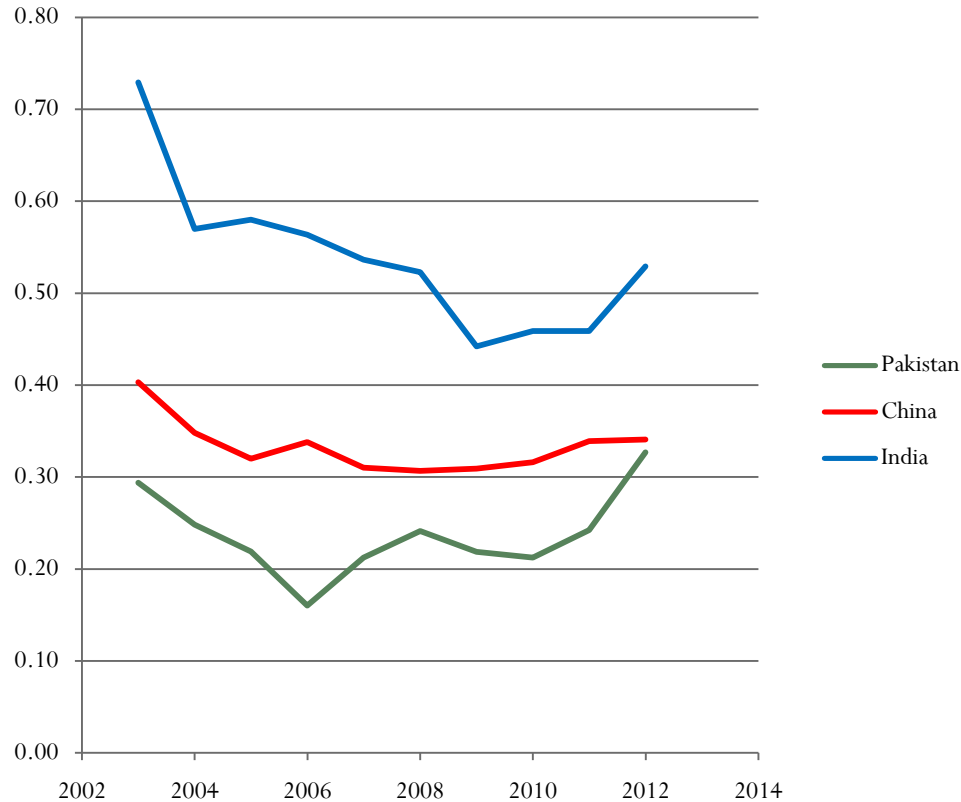
- 18 Pakistani Industries are Vulnerable.
- These include Footwear, Cutlery, Plastics, Paper, Pharmaceuticals, Knitted or crocheted fabric, Tobacco etc.

Plastics and articles (Code:39)



Knitted and Crotched Fabric (Code 60)

RCA Trend Analysis Across Countries



- RCA profiles are compared of the three countries.
- Inefficient Trade in 17 products (Small scale manufacturing products)

Miscellaneous edible preparations
(Code21)

Why compare with China

- First round of Free Trade Agreement (2006) completed with China recently
- Imports from China has increased tremendously even in No Concession category
- Transportation cost with China is higher than that of with India

Policy Implications

- Adequate protection and/or facilitation to 18 Vulnerable Industries
- Disaggregate level investigation
- Trade liberalization with India to avoid inefficient trade