

Pakistan's Imports Dependency and Regional Integration

Nasir Iqbal, Ejaz Ghani, Musleh ud Din

LSE Tenth Annual Conference on
Pakistan in the Global Economy – Opportunities
and Challenges
26 – 27 March, 2014

Structure of the presentation

- Background
- Stylized facts
- Import Trend & Regional Integration
- Quantitative Analysis
- Concluding remarks and way forward

Background

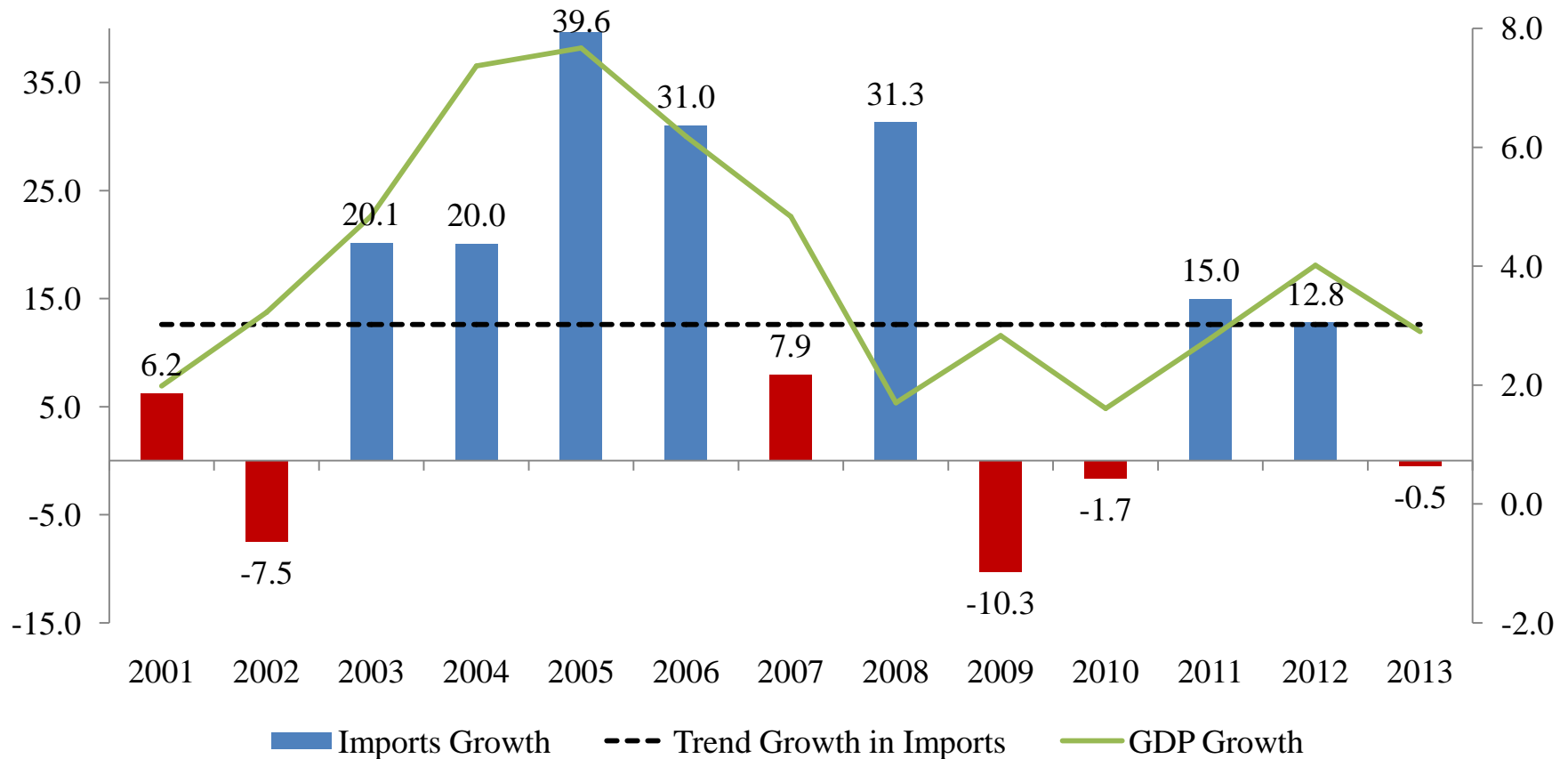
- Recent decades have witnessed a growing trend towards Regional Economic Integration (REI).
 - As of 31 July 2013, some 575 Regional Trade Agreements (RTAs) have been notified
- In this context: Pakistan's trade regime needs to be seen in the context of REI

Background

- Pakistan's economy is characterized by a fairly open trade regime with imports accounting for a major share of total trade
- Pakistan's economy depends on a variety of imports to meet its production and consumption needs
- However, import demand in Pakistan is highly concentrated in few products and few imports markets

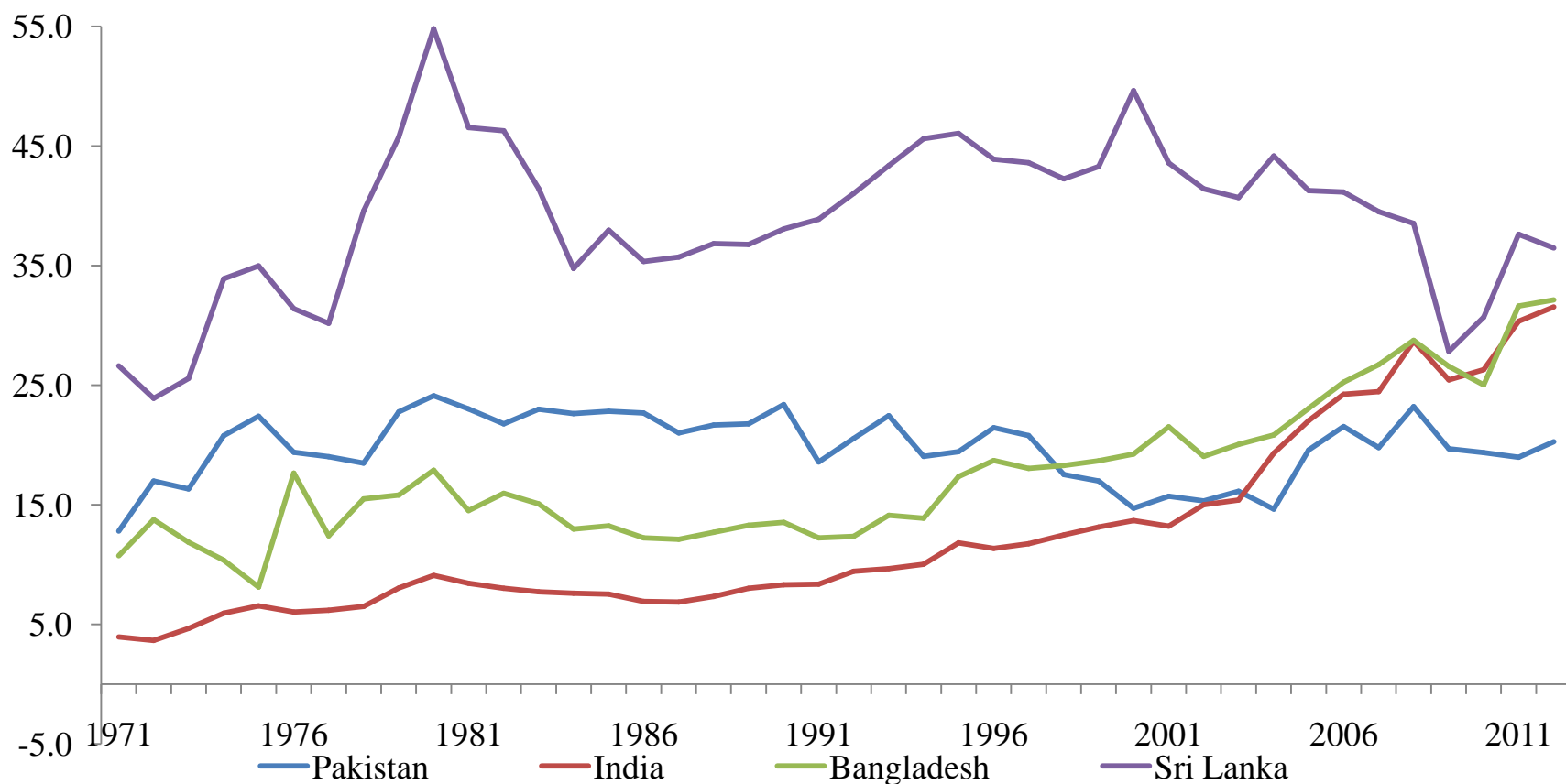
Stylized facts

- Relations between Imports Growth Rates and GDP Growth Rates



Stylized facts

- Imports as Percent of GDP in South Asian Countries



Stylized facts

Composition of Imports in Pakistan (Percentage share of Total Imports)

Year	Capital Goods	Raw Material for		Consumer Goods
		Capital Goods	Consumer Goods	
1975	29	9	40	23
1980	36	6	42	16
1985	32	6	46	16
1990	33	7	41	19
1995	35	5	46	14
2000	26	6	54	14
2001	25	6	55	14
2002	28	6	55	11
2003	31	6	53	10
2004	35	6	49	9
2005	36	8	46	10
2006	37	7	45	11
2007	36	7	47	10
2008	29	8	53	10
2009	29	9	49	13
2010	28	7	52	13
2011	24	7	53	16
2012	24	6	56	14

Stylized facts

Origin of Imports (Percentage share of Total Imports)

Region	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012
Developed Countries	49.3	36.7	38	34.2	33.3	30.2	29.1	26.3	22.2	21
OECD	48.5	36.1	34.7	32.4	31.5	27.1	27.8	25.3	21.6	19.9
Other European	0.8	0.6	3.3	1.8	1.8	3.1	1.3	1	0.6	1.1
CMEA	2.1	1.2	2.1	2.2	1.8	1.4	3.1	1.2	1.1	1.1
Developing Countries	48.6	62.1	59.9	63.6	64.9	68.4	67.8	72.5	76.7	77.9
OIC	21.3	35.2	29.2	33.7	32	33.4	33.9	37.4	38	40.8
SAARC	1.4	1.9	3.2	3.3	4.5	5	3.8	3.9	4.7	3.7
ASEAN	12.6	10.2	10	9.1	9.5	9.9	10.4	11.4	11.9	11.8
Central America	0.1	0.2	0.1	0.1	0.2	0.1	0.2	0.2	0.1	0.1
South America	1.4	1	1.1	1.4	0.8	1.8	1.2	0.6	1.1	0.6
Other Asian Countries	9.5	10.3	13.7	13.7	15.9	15.7	15.2	16.3	17.8	18.3
Other African Countries	2.2	3	2.4	2.2	1.9	2.2	3	2.5	2.9	2.6
Central Asian States	0.1	0.3	0.2	0.1	0.1	0.3	0.1	0.2	0.2	0.1

Import Trend & Regional Integration

Imports SAARC Region (Percentage share of Total Imports)

SAARC	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Afghanistan	0.22	0.28	0.30	0.19	0.17	0.25	0.23	0.27	0.40	0.03	0.03	0.11
Bangladesh	0.11	0.27	0.29	0.30	0.23	0.19	0.17	0.23	0.23	0.21	0.16	0.15
India	1.81	1.36	2.45	2.66	2.81	4.05	4.25	3.43	3.53	4.04	3.10	4.18
Sri Lanka	0.28	0.31	0.31	0.22	0.25	0.21	0.15	0.19	0.16	0.15	0.14	0.17
SAARC*	2.41	2.23	3.36	3.36	3.45	4.70	4.81	4.11	4.32	4.43	3.43	4.60

Imports ASEAN Region (Percentage share of Total Imports)

ASEAN	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Indonesia	2.34	2.11	2.29	2.79	2.65	2.77	2.95	2.42	1.85	1.17	1.67	1.74
Malaysia	4.41	4.64	3.86	3.29	2.48	3.10	3.86	4.59	5.03	4.96	5.34	4.41
Singapore	3.12	3.49	3.15	1.81	1.62	1.58	1.94	1.59	2.34	7.03	6.94	7.91
Thailand	1.72	1.86	1.73	2.01	2.28	1.95	1.48	1.68	2.06	1.42	1.44	1.38
ASEAN	11.58	12.10	11.04	9.91	9.03	9.40	10.23	10.28	11.28	14.58	15.39	15.44

Quantitative Analysis

- Import demand function

$$\ln(M_t) = \phi_0 + \phi_1 \ln(Y_t) + \phi_2 \ln(P_{mt}) + \phi_3 \ln(P_{dt}) + \phi_4 \ln(M_{t-1}) + \varepsilon_t$$

$\ln(M)$ = log of volume of imports

$\ln(Y)$ = log of real income/GDP

$\ln(P_m)$ = log of import prices

$\ln(P_d)$ = log of domestic prices

Empirical Results: Long Run and Short Run Estimates

	Long Run		
Constant	16.11	3.29	0.00
Log of GDP per capita	1.06	1.83	0.08
Log of Domestic Prices	0.09	0.65	0.52
Log of Import Prices	-0.03	-2.16	0.04
	Short Run		
Constant	0.153	3.15	0.00
D(Log of GDP per capita)	0.572	1.68	0.10
D(Log of Domestic Prices)	0.607	1.65	0.10
D(Log of Import Prices)	-0.248	-1.81	0.08
ECM(-1)	-0.649	-5.23	0.00

Concluding remarks and way forward

- In conclusion:
 - It is important to note here that despite several regional trading agreements, Pakistan has not been able to source its imports from the regional trading partners.
 - This has been due to several factors including problems in
 - trade facilitation,
 - regulatory framework and
 - physical infrastructure.

Concluding remarks and way forward

- Empirical analysis has shown that changes in income and import prices significantly affect the import demand
 - If Pakistan is to grow at 7-8% as envisaged in the development plans, Pakistan will continue to experience strong growth in imports to meet its growing industrial and consumer needs.
- Pakistan needs to develop a strategy to use the regional integration schemes as a platform for enhancing its trade ties
- This will ensure greater trade and investment ties with the regional trading partners helping to
 - lower transactions costs of trade and boosting economic growth