

Empirical Assessment of Trade Potentials of Pakistan with SAARC Countries Using Revealed Comparative Advantage

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Abstract: Trade plays an important role to boost economic growth and strengthens relationship among trading partners. For the purpose of better performance, many Governments are more concerned regarding regional coordination through their policies. This paper focuses on exploring trade potentials of Pakistan with SAARC countries that are essential ingredients for making strong diplomatic and economic relations through coordination. For this purpose data related to imports and exports of concerned countries for the year 2019 are utilized and Revealed Comparative advantage technique is applied to identify the commodities of comparative advantage and having potentials that need to be explored in order to increase nation's overall level of satisfaction. The paper concluded that food and live animals, manufactured goods classified chiefly by material and miscellaneous manufactured articles are the commodities of comparative advantage for the prospects of trade potentials. The paper also suggested some policy recommendations with the conclusion of this paper.

Keywords: RCA index, Pakistan, SAARC, Trade Potentials

1. Introduction

Achieving sustainable development is the primary objective of every country and it is reflected in their policies. Sustainable development helps to overcome economic problems such as multidimensional poverty, unemployment, inflation and less productivity. Among many engines that move countries towards the

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achievements of these goals, International trade (IT) is gaining more attention among economic managers because of its multidimensional effects on the economy.

Economy of Pakistan is also struggling to move towards sustainable development. Economic managers are adopting different ways but the policies related to trade are more important and this debate is still concerned more for everyone for their individual as well as collective decisions. Therefore, there is a need to study and examine the ways and options to enhance Pakistan's trade with other countries by exploring commodities of comparative advantage for Pakistan.

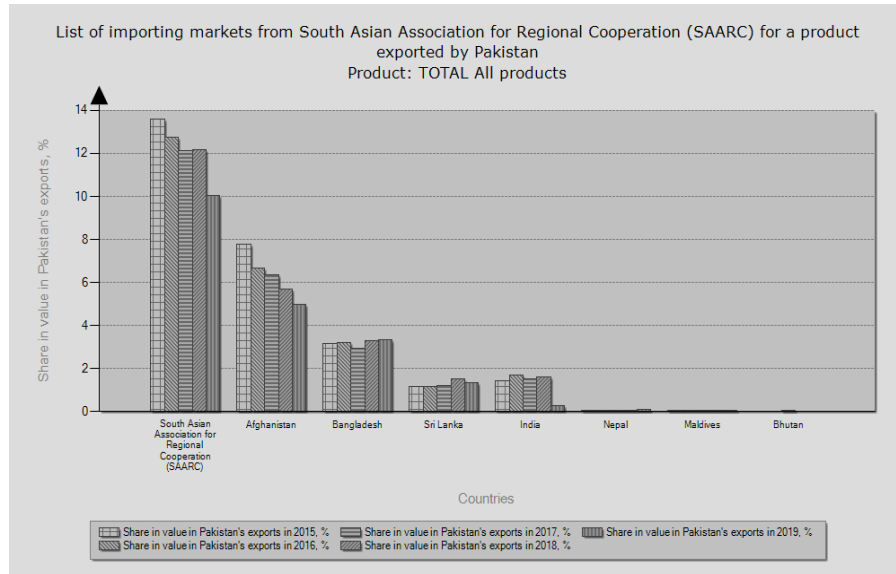
It is a fact that if county reduces trade barriers, regional and non-regional trade help to generate more diversified jobs and can list the country in prosperous group. The table 1 and graph identified that Pakistan's export to SAARC countries is not sustainable and decline. This identification highlighted the importance of Regional Cooperation needed to be reestablished and giving highest priority in policy making. By comparing values in different time period of Pakistan's export to Afghanistan decreases from 7.8 percent in 2015 to 5 percent in 2019. Export share to India decreases from 1.4 percent in 2015 to 0.3 percent in 2019. Similarly, Export share to Bangladesh and Sri Lanka slightly increases but not to potential level to 3.3 percent and 1.4 percent in 2019 respectively.

Table:1 List of importing markets from South Asian Association for Regional Cooperation (SAARC) for a product exported by Pakistan

Product: TOTAL All products

Importers	Share in Pak's exports, % 2015	Share in Pak's exports, % 2016	Share in Pak's exports, % 2017	Share in Pak's exports, % 2018	Share in Pak's exports, % 2019
Afghanistan	7.8	6.7	6.4	5.7	5
Bangladesh	3.2	3.2	3	3.3	3.3
Sri Lanka	1.2	1.2	1.2	1.5	1.4
India	1.4	1.7	1.5	1.6	0.3
Nepal	0	0	0	0	0.1
Maldives	0	0	0	0	0
Bhutan	0	0	0	0	0

Source: tabulated by authors



Source: tabulated by author

2. Review of Literature

Rahman (2005) utilized gravity model for the analysis of Bangladesh trade with its trading partners. The study concluded that there are three important factors GNP per capital which shows size of the economy, distance and trade openness are responsible for improvement in trade.

Blomqvist (2004) identified that gravity model is better to explain Singapore trade situation with other countries. The paper concluded that distance and size of the economy are important ingredients for improvement in the trade flows.

Kaur and Nanda (2010) applied gravity model for their study. The study also concluded that distance and size of the economy are important variables for India's trade flows. The study further identified potential countries for India to boost trade such as Pakistan, Nepal, Bhutan and Maldives.

Jacob Viner (1950) applied and introduced the concept related to trade creation and trade diversion for the first time in his study in order to investigate the relation between nations' welfare with regional groupings with assumptions of zero elasticities of demand and supply.

Meade (1955) redesigns the model of Jacob Viner by removing restrictive assumptions of zero price elasticity of demand. Lipsey (1957) in his paper made an attempt to relax the assumptions related to zero elasticity of supply. The primary outcome of the investigations mention above is that if trade diversion is less than trade creation and trade expansion, regional coordination would be welfare promoting nature and vice-versa.

Vamvakidis (1998) made an attempt to answer the question of the relationship between regional trades and economic growth. The paper based on empirical work argued that if small country initiated such agreements with large economies it will cause smaller country to benefit more than large country.

Pinder (1968) suggested explaining economic coordination as both the abandon any type of discrimination among economic agents of the coordinated economies, and by construction and applying integrated and mutually agreed policies on a sufficient scale to guarantee that primary economic objectives are contented.

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3. Objective of the study:

The paper's main objective is to identify the commodities which have comparative advantage and having potential benefits that need to be realized. In addition to this, another intention is to identify the problems and barriers that are responsible for this trade deficiency among SAARC countries. Similarly, with the objective define above, the paper is also intended to identify potential destinations for Pakistan's trade prospects.

4. Research Methodology

In order to measure and identify commodities of comparative advantage that the nation can export to other nations, a well-known technique in international economics called Revealed Comparative Advantage Index (RCA) is a classical work of Bela Balassa (1965). The RCA defines a nation with its comparative advantage commodities is trying to stimulate the process of unleashing trade potentials. This index has also an important function to identify new trading partners that have potential trade prospects. The value of RCA index shows that if the value is greater than 1, the country has comparative advantage in that commodity. Similarly a value less than 1 show the country has comparative disadvantage in that commodity for trade potentials. The formula of calculating RCA index is as follows:

$$RCA_{cg} = (x_{cg}/X_{cx}) / (x_{wg}/X_{wx})$$

Where,

RCA_{cg} = Revealed Comparative Advantage of product 'g' of county 'c'

X_{cg} = Export of product 'g' of Country 'c'

X_{cx} = Country 'c' total export

X_{wg} = world export of product 'g'

X_{wx} = total world export

5. Results and Discussion of the Study

Table 2: Revealed Comparative Advantage Index for Pakistan

Commodity Code	Commodity	Revealed Comparative Advantage
0	Food and live animals	3.12
1	Beverages and tobacco	0.12
2	Crude materials, inedible, except fuels	0.68
3	Mineral fuels, lubricants and related materials	0.16
4	Animal and vegetable oils, fats and waxes	0.37
5	Chemicals and related products, n.e.s.	0.37
6	Manufactured goods classified chiefly by material	3.17
7	Machinery and transport equipment	0.06
8	Miscellaneous manufactured articles	2.55
9	Commodities and transactions not classified elsewhere in the SITC	0.00

Source: author's calculation

Table no. 2 shows the RCA index calculated for the year 2019. The results identified the commodities of comparative advantage for Pakistan. The table further explains that food and live animals, manufactured

goods classified chiefly by material and miscellaneous manufactured articles are the major commodities that Pakistan can offer to SAARC countries and unleash the export potentials and creating more jobs and can increase overall welfare of the nation. The results further decompose the categories into specific commodities of each category of comparative advantage as shown in table no.3.

Table 3: Decomposition of Categories

Food and live animals
Live animals other than animals of division
Meat and meat preparations
Dairy products and birds' eggs
Fish (not marine mammals), crustaceans, molluscs and aquatic invertebrates and preparations thereof
Cereals and cereal preparations
Vegetables and fruit
Sugars, sugar preparations and honey
Coffee, tea, cocoa, spices, and manufactures thereof
Feeding stuff for animals (not including unmilled cereals)
Miscellaneous edible products and preparations
Manufactured goods classified chiefly by material
Leather, leather manufactures, n.e.s., and dressed furskins
Rubber manufactures, n.e.s.
Cork and wood manufactures (excluding furniture)
Paper, paperboard and articles of paper pulp, of paper or of paper board
Textile yarn, fabrics, made-up articles, n.e.s., related products
Non-metallic mineral manufactures, n.e.s.
Iron and steel
Non-ferrous metals
Manufactures of metals, n.e.s.
Miscellaneous manufactured articles
Prefabricated buildings, sanitary plumbing, heating and lighting fixtures and fittings, n.e.s.
Furniture and parts thereof, bedding, mattresses, mattress supports, cushions and similar stuffed furnishings
Travel goods, handbags and similar containers
Articles of apparel and clothing accessories
Footwear
Professional, scientific and controlling instruments and apparatus, n.e.s.
Photographic apparatus, equipment and supplies and optical goods, n.e.s.; watches and clocks
Miscellaneous manufactured articles, n.e.s.

6. Conclusion and Policy recommendations

The paper is an attempt to explore the trade potentials of Pakistan with reference to SAARC countries. It is concluded that Pakistan need to redesign and formulate trade policy keeping in view the trade potentials for future progress. The paper applied Revealed Comparative Advantage Index and identified three categories and further decomposes each category to more specific commodities that exhibits comparative advantage. If Pakistan focuses to rebuilt regional coordination by better understandings among other SAARC nations, that will surely benefits not only Pakistan's economy but to other nations as well. For this purpose it is suggested that government should reformulate its foreign policy with the objective to urge

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other nations in the region towards the coordinated and collective motive of a win-win model. It is also suggested that economic managers should give more attention towards the problems faced by domestic industry and provide incentives such as reducing tariff on importing raw materials, ease of doing business, reducing volatility of energy prices are some important factors that affect trade through production. It is also suggested that nations in the region should prepare legislations to reduce smuggling and give permission to trade more commodities by reducing restrictions. Results and estimation of the study also identified that Nepal, Bhutan and Maldives can be potential destinations for Pakistan. Furthermore, there is strong evidence that Pakistan can increase bilateral trade with Sri Lanka on the basis of comparative advantage prospects. Among the SAARC nations there is no doubt that Pakistan and India are bigger economies and should take the responsibility for the success of SAARC. Both countries should relax their military tensions and are required to construct long term policies for the welfare of both nations. On the basis of reviewing the literature, it is highlighted that countries that share borders have cost advantage than with non-border nations. By increasing regional trade, nations can take cost advantage and can tackle the problem of current account deficit.

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