



Evolving Patterns of Pakistan's Import Demand

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Evolving Patterns of Pakistan's Import Demand

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1. INTRODUCTION

The notion that positive trade gaps, or trade surpluses (with exports exceeding imports) are good for the domestic economy is a concept that has its roots in mercantilist thinking¹ of 16th century Europe. Global trading patterns have undergone a shift since then, MNCs and global production networks have come to the fore, and services now accounting for majority of developed country exports, and mercantilist view are no longer in vogue. Despite this trend, negative trade gaps, or trade deficits remain a matter of concern for developing countries such as Pakistan. However, the reasoning behind this view is related to the strain placed on the current account of the domestic economy.

Box 1. What is Mercantilism About

In a nutshell: Mercantilism is “economic nationalism for the purpose of building a wealthy and powerful state”.

What is it about?

- Mercantilism is an economic practice by which governments used their economies to augment state power at the expense of other countries.
- Governments sought to ensure that exports exceeded imports and to accumulate wealth in the form of bullion (mostly gold and silver).
- In mercantilism, wealth is viewed as finite and trade as a zero-sum game.
- Mercantilism was the prevalent economic system in the Western world from the 16th to the 18th century.

In 2020, Pakistan’s trade gap amounted to USD 23.8 billion,² having grown from USD 3.6 billion in 1995.³ Value of exports has increased from USD 8.1 billion in 1995 to USD 21.9 billion in 2020, while imports were valued at USD 11.7 billion in 1995, and USD 45.7 billion in 2020. Imports place a strain on the national economy in terms of increased demand for foreign

Author’s Note: Pakistan’s trade gap has increased substantially since the early 2000s, and the trend is continuing in recent years. This brief highlights the role of imports in fuelling this rise, and in particular, the two commodity groups accounting for the bulk of the increase.

¹Laura LaHaye, “Mercantilism,” in David R. Henderson, ed., *The Concise Encyclopedia of Economics*, Liberty Fund, 2008.

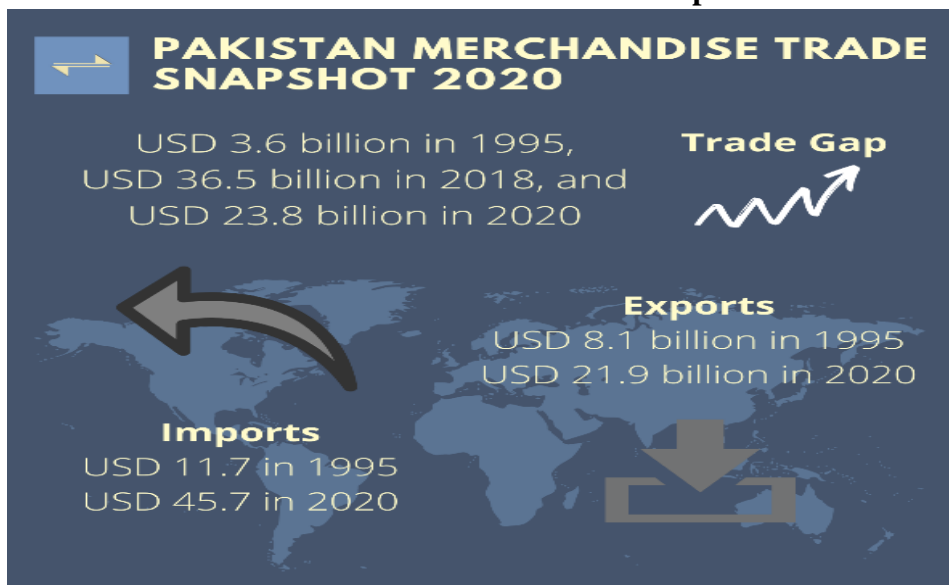
Britannica, T. Editors of Encyclopaedia (2020, May 13). Mercantilism. Encyclopedia Britannica. <https://www.britannica.com/topic/mercantilism>

²Author’s calculations based on data taken from UN COMTRADE online database

³Economic activity on account of the COVID-19 pandemic and subsequent lockdowns slowed down in 2019, reflected in the virtually static trend (for exports) and negative trend (for imports and trade balance). The overall result was an improvement in the trade gap, though exports have been negatively affected as well.

exchange required to finance them, reserves which could otherwise be utilised for enhancing productivity and competitiveness of the domestic economy.

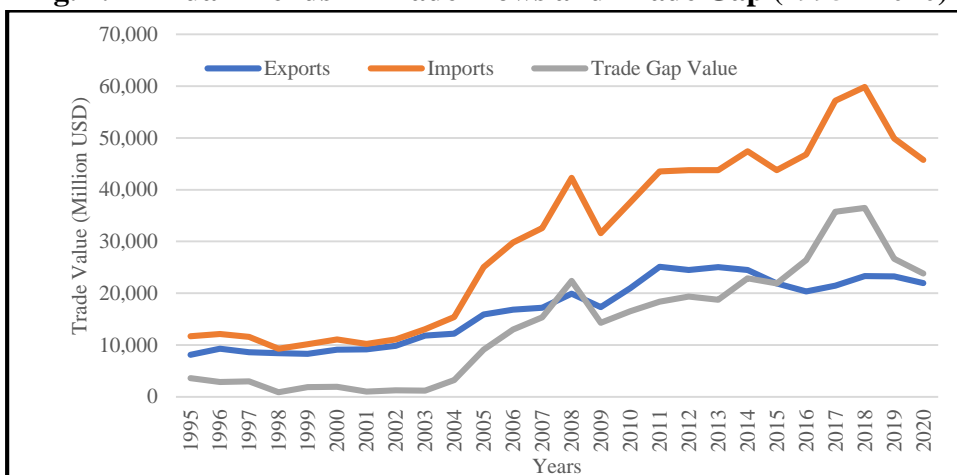
Box 2. Pakistan Merchandise Trade Snapshot 2020



Against this backdrop and given the weak macroeconomic condition of the economy, it is necessary to understand what is driving the rise in imports so appropriate policy measures can be implemented to reduce them. The rest of this research brief is organised as follows: Section 2 details trends and growth in overall exports and imports from 1995 to 2020, while Section 3 highlights the product categories driving the surge in imports. Section 4 sheds light on the key sources of imports, while section 5 concludes the discussion.

2. OVERALL TRENDS IN TRADE

Pakistan's trade gap is being driven by changes in imports rather than exports. From 2003 to 2004, the trade gap grew by **171** percent, and this was fueled by imports growing by over 18 percent, while exports increased by less than 3 percent (Table 1). Moreover, imports grew by 63 percent from 2004 to 2005, while exports increased by 31 percent; leading to growth of the trade gap by 182 percent (See **Error! Reference source not found.** for a graphical depiction of the annual growth rates of exports, imports and the trade gap for the period 1995 to 2020). This pattern is also evident in the annual estimates for exports, imports and the trade gap, as depicted in Fig.

Fig. 1. Annual Trends in Trade Flows and Trade Gap (1995 - 2020)

Source: UN COMTRADE Database, online access.

Table 1*Pakistan's Exports, Imports and Trade Gap (1995 - 2020)*

(Million USD)

Year	Exports	Imports	Trade Gap	
			Value	Annual Change (%)
1995	8,124.91	11,703.54	-3,578.63	
1996	9,265.99	12,140.61	-2,874.62	-19.67
1997	8,631.57	11,595.19	-2,963.62	3.10
1998	8,437.16	9,312.49	-875.33	-70.46
1999	8,312.71	10,159.04	-1,846.33	110.93
2000	9,129.91	11,069.71	-1,939.80	5.06
2001	9,177.95	10,198.48	-1,020.53	-47.39
2002	9,844.62	11,102.53	-1,257.91	23.26
2003	11,844.27	13,037.52	-1,193.26	-5.14
2004	12,172.96	15,406.30	-3,233.34	170.97
2005	15,933.79	25,043.39	-9,109.61	181.74
2006	16,814.49	29,817.32	-13,002.83	42.74
2007	17,223.07	32,588.90	-15,365.83	18.17
2008	19,892.54	42,298.22	-22,405.68	45.81
2009	17,315.93	31,582.64	-14,266.71	-36.33
2010	20,989.36	37,512.56	-16,523.19	15.82
2011	25,140.08	43,542.01	-18,401.92	11.37
2012	24,466.66	43,813.26	-19,346.60	5.13
2013	25,023.26	43,775.18	-18,751.92	-3.07
2014	24,508.70	47,414.32	-22,905.62	22.15
2015	21,890.76	43,793.28	-21,902.53	-4.38
2016	20,355.21	46,797.80	-26,442.59	20.73
2017	21,477.10	57,206.01	-35,728.91	35.12
2018	23,343.90	59,859.81	-36,515.91	2.20
2019	23,268.39	49,930.64	-26,662.25	-26.98
2020	21,947.24	45,741.38	-23,794.14	-10.76

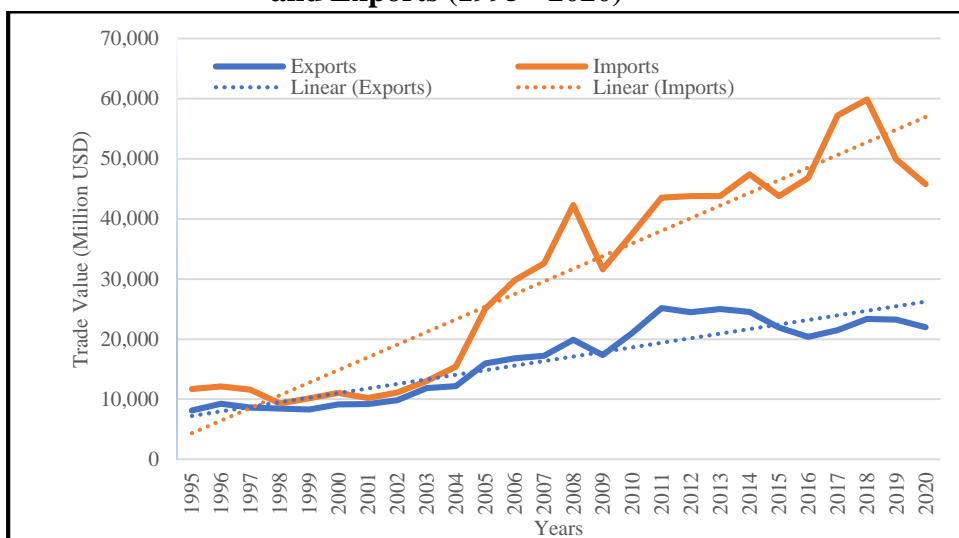
Source: UN COMTRADE database.

While trends from the late 1990s suggested that Pakistan's exports would increase and exceed imports, the reality is that the trend was reversed in the early 2000s, and imports and exports diverged even more after 2004.

3. IMPORTS ACCOUNTING FOR JUMP IN TRADE GAP

Growth of import demand fueled the trade gap in 2003 and 2004, jumping from 8.9 percent in 2002 to 17.4 percent in 2003 and peaking at 63 percent the following year.⁴ The commodity groups driving this surge can be identified by looking at the category-wise imports of Pakistan from 1995 to 2020.

Fig. 2. Diverging Trend of Pakistan's Imports and Exports (1995 - 2020)



Source: UN COMTRADE Database, online access.

3.1. Trends in Imports by Category

Breaking down imports into broad categories (SITC Rev.2 – level 1)⁵, the data shows that transportation equipment had the highest share of

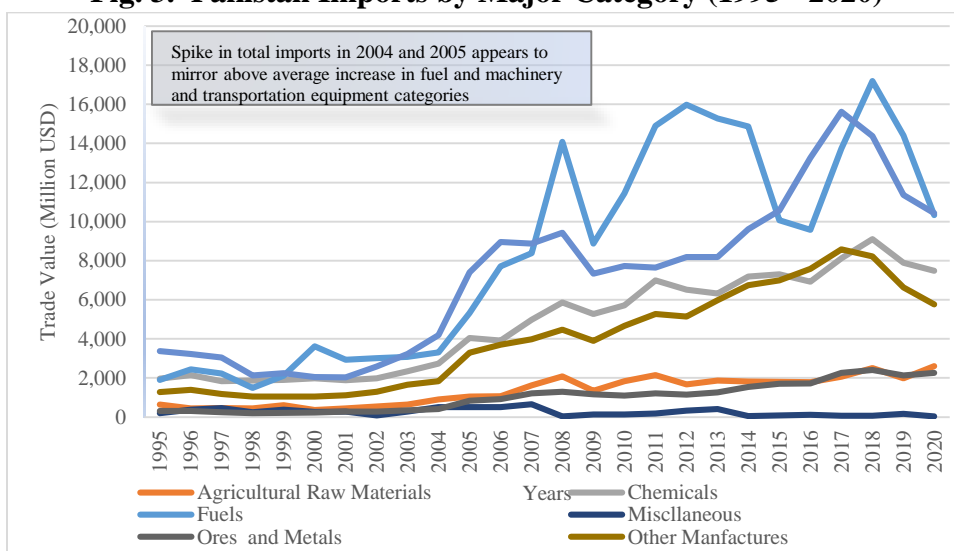
⁴ Data source is UN COMTRADE Online Database.

⁵ Source: Eurostat Statistics Explained website, Glossary: Standard International trade classification (SITC), [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Standard_international_trade_classification_\(SITC\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Standard_international_trade_classification_(SITC)) #Eurostat

imports in 1995, with agriculture products second, and fuel and chemicals next. By 2020, the pattern has undergone a change, with fuels second after transportation equipment.

The Standard international trade classification, abbreviated as SITC, is a product classification of the United Nations (UN) used for external trade statistics (export and import values and volumes of goods), allowing for international comparisons of commodities and manufactured goods.

Fig. 3. Pakistan Imports by Major Category (1995 - 2020)



Source: UN COMTRADE Database, online access.

Fig. 4. Distribution of Major Import Categories (1995-2020)

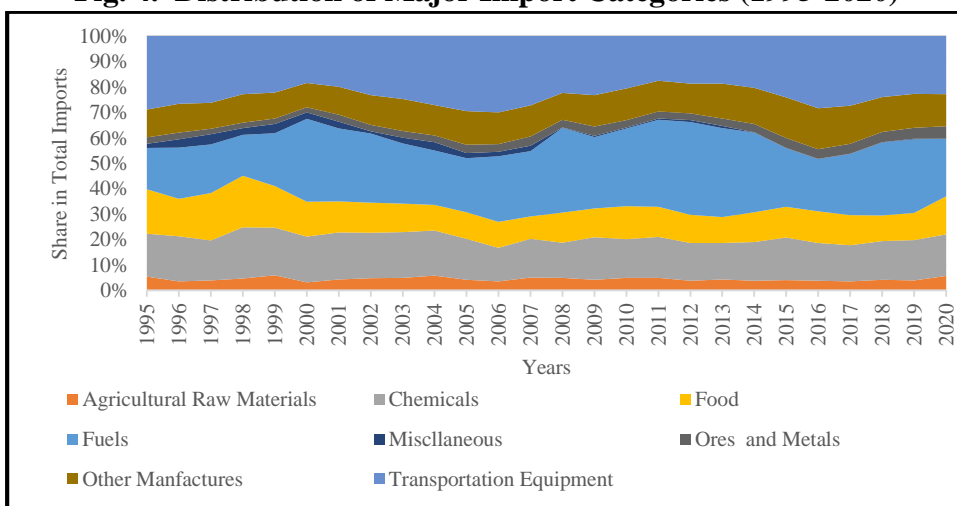
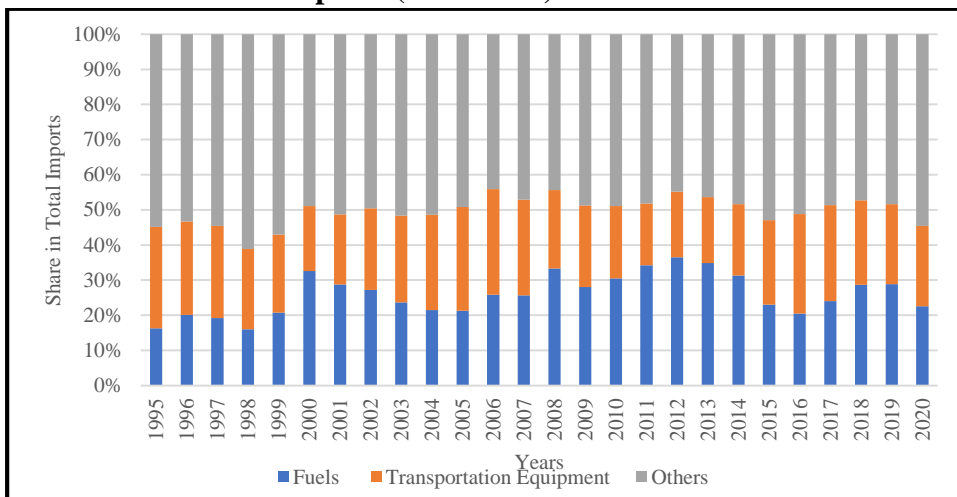


Fig. 5. Importance of Fuels and Transport Equipment in Total Imports (1995-2020)



A detailed breakdown of trends in the imports of products by the two key categories of SITC 3 and SITC 7 is discussed here.

3.1.1. *SITC 3—Fuel Imports*

Fuel imports are being driven by petroleum and related products. Gas, coal and electricity imports are marginal in comparison.

Fig. 6. Imports of Fuels (1995 – 2020)

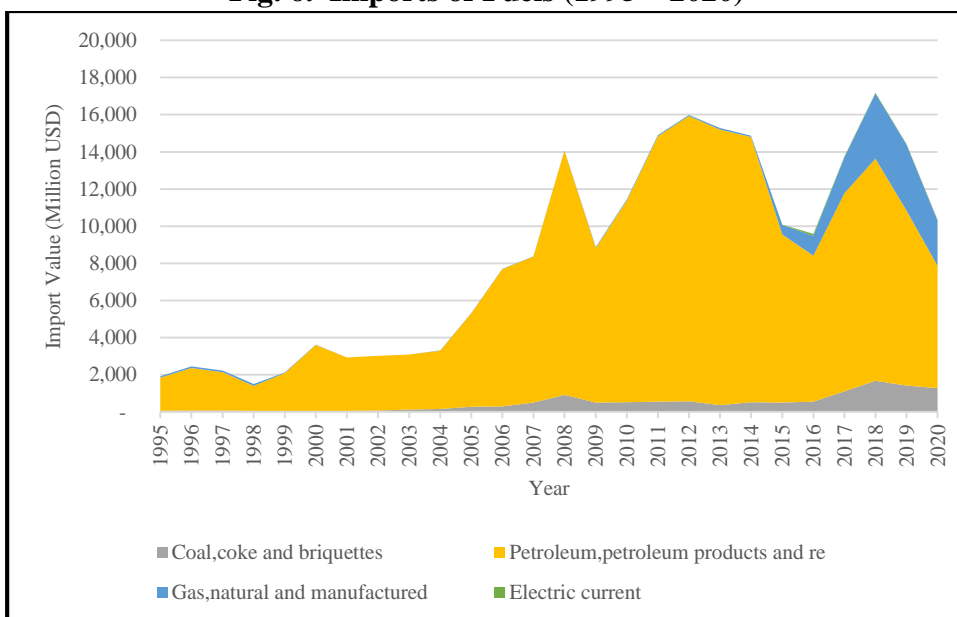
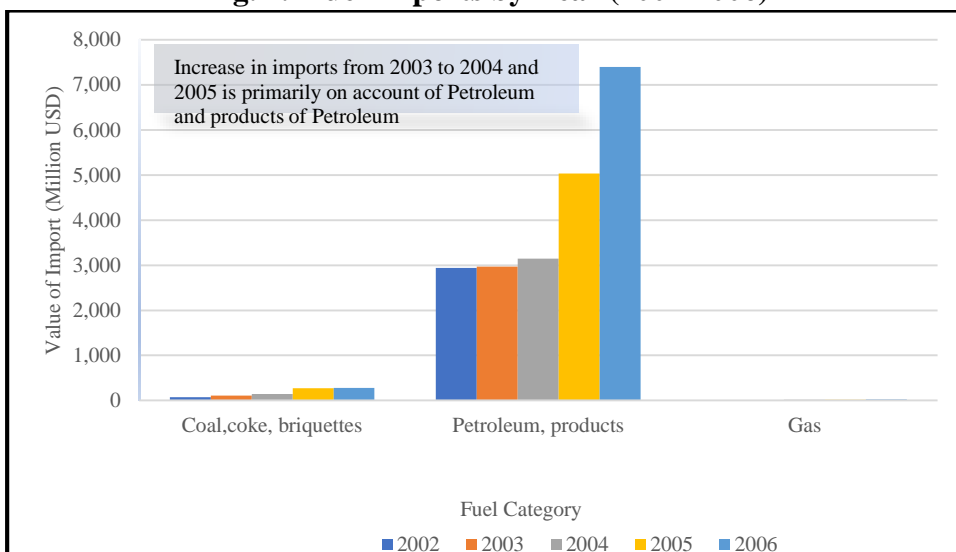


Fig. 7. Fuel Imports by Year (2002-2006)



3.1.2. SITC 7: Machinery and Transport Equipment

Imports of machinery and transport equipment are being driven by all major categories, but the spike in imports in 2004 and later was driven by telecommunication and sound recording equipment. Machinery for specialised uses also accounted for a portion of the increase.

Fig. 8. Import of Machinery and Transportation Equipment (1995 – 2020)

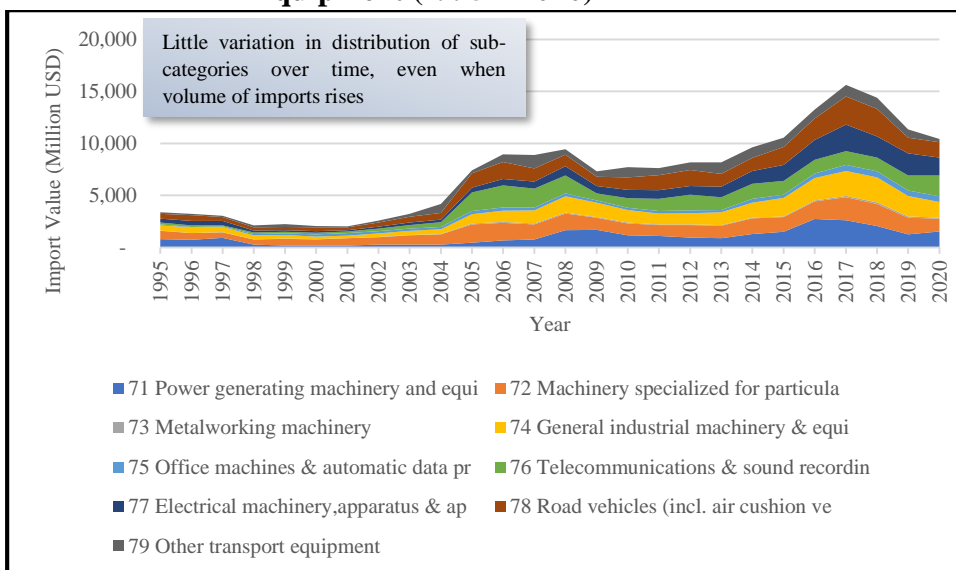
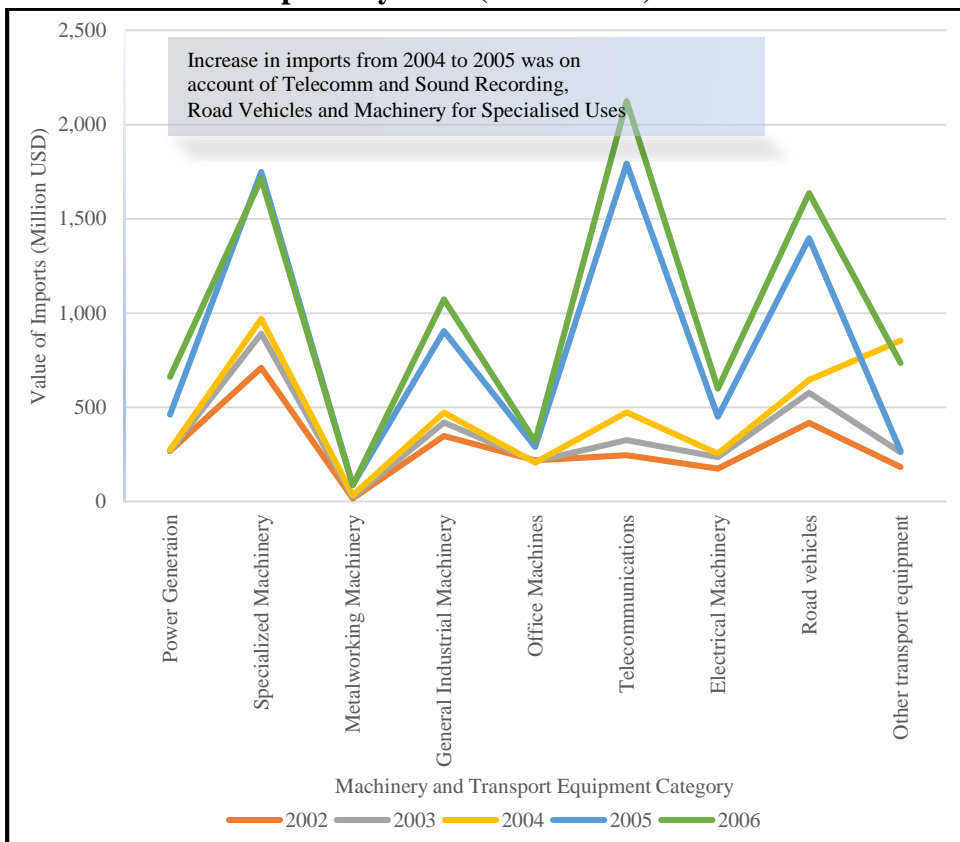


Fig. 9. Machinery and Transportation Equipment Imports by Year (2002 - 2006)



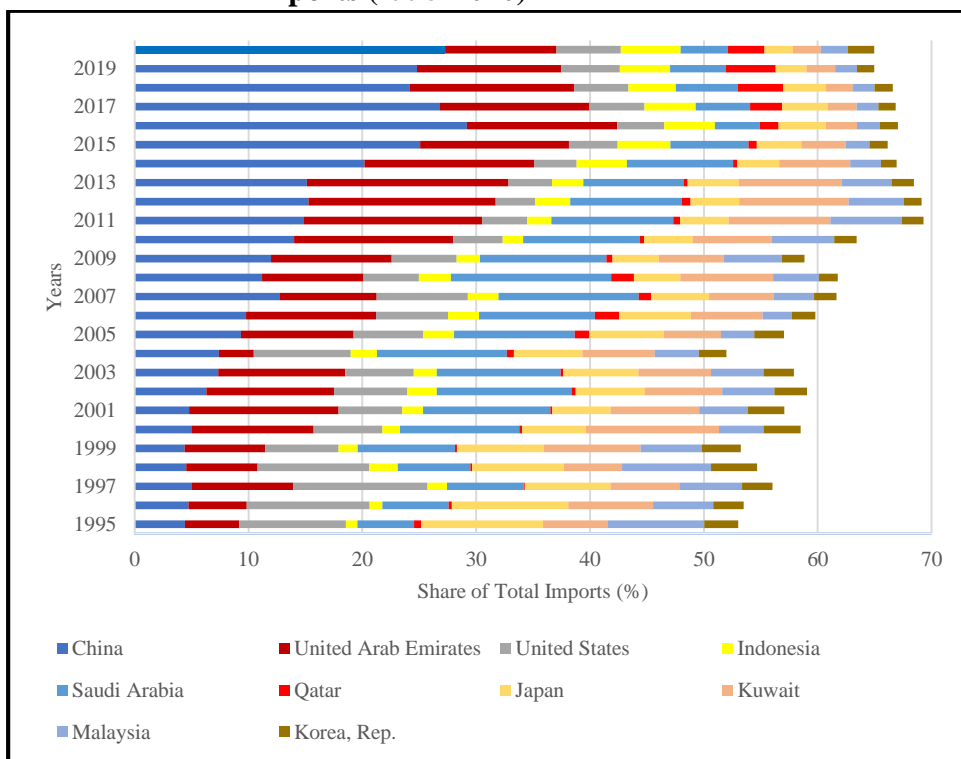
4. MAJOR IMPORT SOURCES

Given that the share of fuels and transport equipment is the highest in Pakistan's import basket since the early 2000s, it needs to be seen, what is the origin of those imports. A total of 10 countries used to account for more than 50 percent of all imports into Pakistan in 1995. The share of these 10 countries has increased to 65 percent in 2000⁶. The share of these countries has also undergone some change in 25 years.

- Japan had highest share, followed by US; now it is China, followed by UAE.
- European countries are no longer a major source of imports.
- Share of top 10 import sources has grown from 64.41 percent to 64.96 percent in 25 years.

⁶ Author's calculations based on data from UN COMTRADE online database.

Fig. 10. Shares of Key Trading Partners in Pakistan Imports (1995-2020)



Where the United States accounted for almost 10 percent of imports in 1995, its share in 2020 has shrunk in half, and imports from Japan have seen an even sharper decline, from almost 11 percent down to 2.5 percent. The country that is squeezing these traditional import sources out of the picture is China whose share has jumped from 4.4 percent to 27.3 percent.

Trends of Imports from Rest of the World in 2020

- Countries account for remaining 35.04 percent of total imports: 198
- Countries with shares between 2.5 percent and 1 percent of total imports: 14
- Countries with shares less than 1 percent of total imports: 184
- Countries with no share in imports: 29

5. CONCLUSION

The rapid rise in imports in the early half of the 2000 decade was on account of 2 main categories of products: **petroleum and fuel products** and **machinery and transport equipment**. Those products continued to account for the bulk of Pakistan's imports in 2020. Given the structure of the economy, and limited structural transformation taking place in it, it is expected that the import profile is unlikely to change substantially in the coming years. So we should expect the pressure on the negative trade deficit to persist till the economy is able to increase output and productivity, and decrease its dependence on petroleum and fuel products.

Within the petroleum and fuel products group, imports of petroleum and products of petroleum are responsible for the increased demand. With the recent decrease in taxes on automobiles, demand for vehicles is expected to increase and provide a boost to local industry. However, increased demand for vehicles will also be reflected in higher demand for fuel imports. This will create further pressure on our limited foreign reserves and impact the trade gap as well. Either the expectation is that the revenue generated from increased sale of automobiles will offset the losses generated, or the impact on fuel imports has not been considered.

On the flip side, demand for automobiles and fossil fuel-based energy is continuing to rise despite increases in prices, it suggests that the demand for this product category is inelastic. Given this fact, the government would be well advised to explore alternate means of securing the necessary imports, perhaps barter agreements can be arranged. Measures to restrict imports, of the type implemented by the government recently through SRO 598(I)/2022 are likely to have only limited benefit, as suggested by Shaaf (2022). The focus of the government and stakeholders must shift towards boosting output of the economy and raising the productivity level of our factors of production. Once the economy is producing more, it will be able to export more, as well as move up the ladder of value addition.

Further analysis based on estimation of import demand functions and associated elasticities would yield further insight into policy interventions to influence future import of these products.

APPENDIX

SITC Rev 02 Chapter Classifications and Codes

SITC Revision 2	Selected Classification
Agricultural Materials	0+1+2-27-28+4
Agricultural Raw Materials	2-22-27-28
Chemicals	5
Food	0+1+22+4
Fuels	3
Manufactures	All Manufactures
Miscellaneous Goods	9
Non-Oil	Non-oil Trade
Ores & Metals	27+28+68
Other Manufactures	6+8-68
Petroleum Products	332
Textiles	26+65+84
Total less arms	Total - 95
Machinery & Transport Equipment	7
Total	Total Trade

SITC Rev 02 Category 03 Classification and Codes

SITC Revision 2	Description
32	Coal, coke and briquettes
33	Petroleum, petroleum products and related materials
34	Gas, natural and manufactured
35	Electric current

SITC Rev 02 Category 07 Classification and Codes

SITC Revision 2	Description
71	Power generating machinery and equipment
72	Machinery specialised for particular industries
73	Metalworking machinery
74	General industrial machinery & equipment and parts
75	Office machines & automatic data processing equip.
76	Telecommunications & sound recording apparatus
77	Electrical machinery, apparatus & appliances, n.e.s.
78	Road vehicles (incl. air cushion vehicles)
79	Other transport equipment

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