

Regional Trade and Economic Development: Options for Pakistan

Topic: IO modeling: Computable General Equilibrium Modeling and Social Accounting Matrices
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Pakistan shares its northern border with the People's Republic of China, while it shares part of its northern, eastern and southern border with India: the second and seventh largest economies in the world respectively. Pakistan should therefore be ideally positioned to gain from liberalization of trade. The Pakistan-China Free Trade Agreement (FTA) signed in 2006 came with expectations of exclusive concessions and advantages towards Pakistan, but the benefits from Pakistan-China FTA are considerably less than first anticipated. Pakistan's domestic producers suffered a huge blow as they could not compete with cheaper imports, particularly from the ASEAN economies who subsequently received more concessions from China as part of the ASEAN-China FTA. More recently, the Ministry of Commerce has begun negotiations with India to sign a Non-discriminatory market access agreement (NDMA). Proponents of Pakistan granting India NDMA status maintain that both countries stand to gain increased access to one another's vibrant markets after years of restrictive policies and disproportionately low trade relative to their trade with other countries.

Given this new backdrop we analyze the impact of the Pakistan-China FTA and the possibility of trade normalization with India, and consider what changes could be made to these agreements to improve the outcome for Pakistan. A global Computable General Equilibrium model is used to include more detailed information on Pakistan, India and China's labor and household groups into the latest GTAP database using MyGTAP approach (Walmsley and Minor, 2013). This allows for a more detailed analysis of the impact of the different regional integration scenarios at the household level. The current Pakistan-China FTA shows a negative impact on Pakistan economy, however when the preferences are increased in line with the ASEAN-China FTA the overall impact on Pakistan is positive, at both the macro and micro level. Normalizing trading relations with India, through granting India NDMA status with better trade facilitation and full implementation of South-Asian Free Trade Agreement (SAFTA) simulation result show positive impact on the Pakistan economy, while also raising real GDP in India, thereby offering a win-win solution for both parties. The report concludes that the gains to Pakistan from normalizing relations with India with better trade facilitation are much larger than those from the FTA with China.