Foreign Trade

Trade

The action of buying and selling goods and services between different areas / counties is called trade.

Barter Trade

The exchange of goods with goods regarding their values called barter trade.

Types of Trade

There are **two** types of trade

1. Internal Trade

Trade within the country is called internal trade.

2. External / International Trade

Trade with different countries is called International trade. International trade has **two** types.

i. Exports

The goods we sell to abroad called exports. e.g. **Ready made goods**.

ii. Imports

The goods we buy from abroad called imports. e.g. **Tea**.

Importance of Trade / Benefits / Advantages

1. Specialization of production.
2. Promotes industrialization.
3. May lead to rise in **GNP** (Gross National Product).
4. Production of value-added goods.
5. Transfer of Information Technology.
6. Utilization of domestic resources / raw material.
7. Employment opportunities.
8. Earn Foreign exchange.
9. Increase National Income.

Exports

The goods we sell to abroad called exports. e.g. **Ready-made goods**.

Pakistan like all other countries, needs to trade in order to survive. Each year we sell millions of rupees worth of goods and services to other countries. These are **'Exports'**. An export is represented by a flow of **foreign exchange** coming into the country.

Major Exports

Pakistani exports can be classified into **three** categories these are following.

1. **Primary Goods / Commodities**
2. **Processed Goods / Semi Manufactured Goods**
3. **Manufactured Goods**

1. Primary Goods / Commodities

Things obtained directly from ground / Sea. These things consumed directly or can be used as raw material in different industries e.g. **Raw Cotton**.

2. Processed Goods / Semi Manufactured Goods

Processing of raw material (**Primary goods**) in such a way, that it becomes useful but further processing could be possible called processed goods e.g. **Cotton Yarn**.

3. Manufactured Goods

Final products are those in which further processing is not possible and they are ready to be sold commercially into the market e.g. **Ready-made Garments**.

Fig.1, shows the classification of Exports.

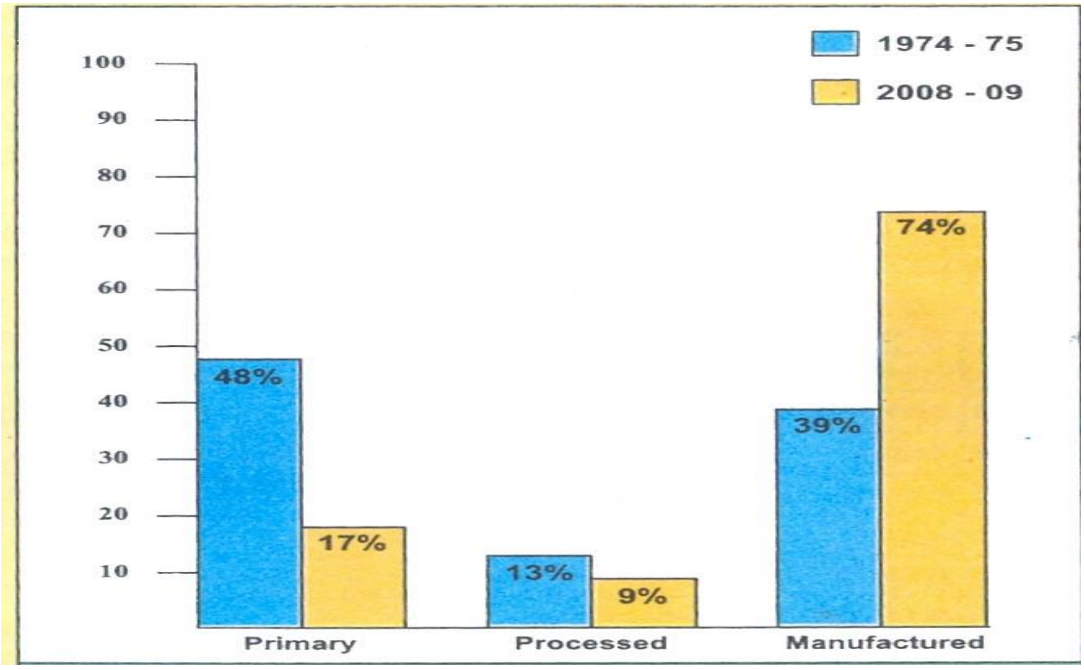

Fig.1

Direction of Exports

Pakistan trades with many countries about 106 but its exports go to six / seven countries. These are **United States of America, Germany, Japan, UK, Saudi Arabia China, Hong Kong and EU.**

Name of Country	Name of Exports
United States of America	Carpets, Rugs, Surgical instruments, Sports goods.
UK	Raw cotton, Ready made garments.
Germany	Cotton cloth.
Saudi Arabia	Spices, Rice, Ready-made garments / cotton / fish.
Japan	Fish and fish products, Cotton.
Hong Kong	Cotton yarn
China	Cotton textiles, Dried fruits and Hosiery goods.
EU	Textiles, Medical Equipments, Leather Products.

Fig.2, **shows the trading partners of Pakistan**.

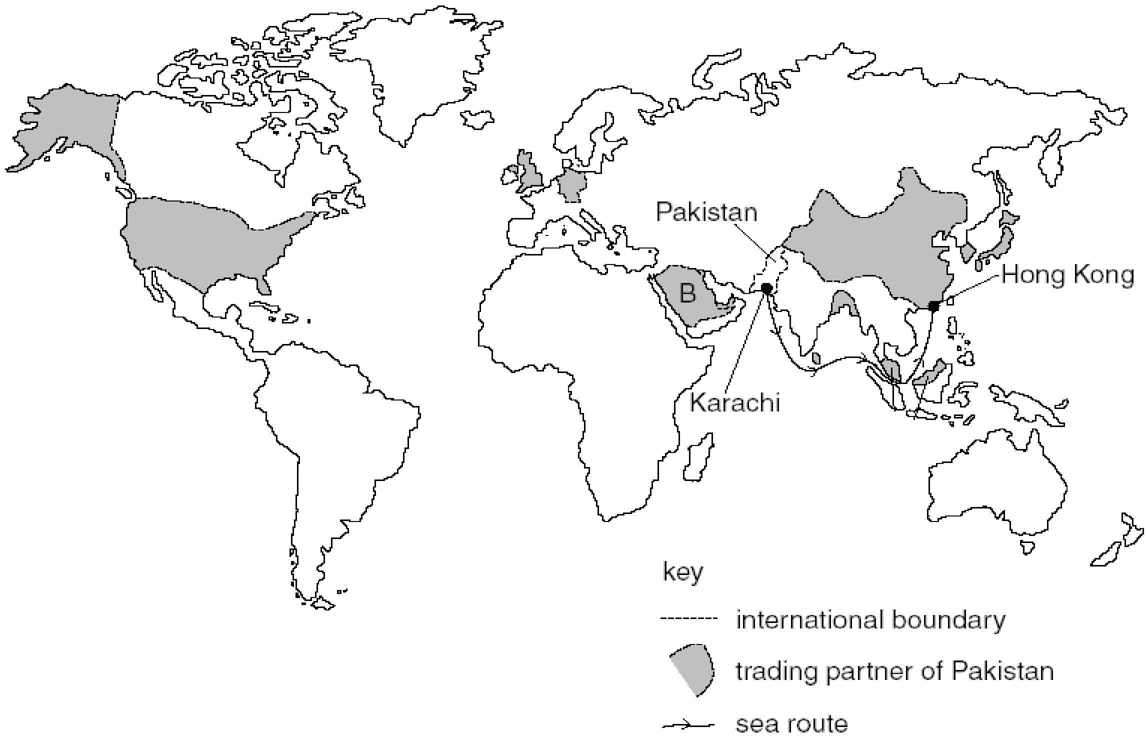

Fig.2

Measures to increase the Exports

1. Reducing imports specially capital and consumer goods.
2. Maintain the standard and quality of the goods.
3. Export of value-added goods.
4. Establishment of small scale industries.
5. Incentives to the investors.
6. Establishment of EPZ and industrial estates.
7. Establishment of Air ports.

8. Stop the export of raw material.
9. Competitive prices.

Q.1. **State one different item that Pakistan exports to Saudi Arabia.**
Ans. Carpets.
Fish.
Garments.
Leather goods.
Rice.
Sports Goods.
Surgical Instruments.

Q.2. **Japan and Saudi Arabia are important Asian trading partners for Pakistan. State one important item that Pakistan exports to Japan and the method of transport used.**

Ans.

Raw Cotton / cotton yarn	By Ship.
Shrimps	By Ship.
Sports Goods	By Air.
Leather Goods	By Air.
Surgical Instruments	By Air

Q.3. **State one important item imported by Pakistan from each of Japan and Saudi Arabia and how each is transported.**

Ans.

Japan

Electrical goods	By Air / Sea.
Iron / Steel	By Sea.
Machinery	By Sea.
Cars / Lorries / Transport Equipment	By Sea.

Saudi Arabia

Petroleum	By Sea / Ship.

Q.4. **Why is the United Kingdom still an important trading partner for Pakistan but not as important as it used to be?**

Ans.

Continuing Trade

Colonial link / trade established at partition / commonwealth links.
UK still provides machinery / fertilizers.
UK imports cotton goods / leather goods / sports goods.

Changing Pattern

Pakistan has developed more trade with Asian countries e.g. Japan.
Pakistan makes some of its own garments / machinery.
Increasing competition in items of price / quality.
Unfavorable rate of exchange of rupee against pound.
Less friendly relations / sanctions.

Q.5. **Name three of Pakistan's main exports which are either agricultural products or based on agricultural products.**

Ans. Raw Cotton.
Cotton cloth and yarn.
Rice.
Wheat.
Carpets / rugs.
Leather / leather goods.
Sports goods.
Cigarettes.

Q.6. **In 1994-5 exports were valued at Rs. 252,260 million and imports were valued at Rs 320,892 million. Why is it important for Pakistan to increase exports and decrease imports?**

Ans. Earn foreign exchange / increase income.
Decrease debt.
Correct the balance of payment.
Earn money to buy essentials for development.

Imports

The goods we buy from abroad called imports. e.g. **Tea**.
An import is represented by the flow of foreign exchange leaving Pakistan. Without exports and imports, consumers would have fewer goods and services to choose from and many workers would be unemployed and many producers would go out of business.

Imports of Pakistan

Pakistan import large number of items from other countries. The items can be grouped as follows.
Food items.
Machinery.
Petroleum and petroleum products.
Fertilizers and other chemicals.
Metals.

The above items can be classified into **three** types of goods. These are following.

1. **Capital Goods.**
2. **Raw material for capital goods and consumer goods.**
3. **Consumer goods.**

1. Capital Goods

The goods that are used in producing other goods. e.g. **Machinery.**

2. Raw Material

Things obtained directly from ground / Sea. e.g. **Minerals**.

3. Consumer Goods

The goods bought and used by consumers. OR Goods which are produced to satisfied the daily necessities of life. e.g. **Soap**.

Direction of Imports

Pakistan is importing from more than hundred countries, but **40** % of the imports come from six / seven countries like, **Saudi Arabia, Kuwait, United States of America, Japan, Malaysia, Germany, UK, China and EU.**

Name of Country	Name of Imports
United States of America	Machinery, Vegetable oil, Wheat.
UK	Machinery, Electrical Appliances.
Germany	Machinery, Electrical Appliances
Saudi Arabia	Mineral oil.
Japan	Machinery, Electrical Appliances.
Sri Lanka	Tea.
Malaysia	Edible oil.
EU	Mechanical and electrical equipments.
China	Electrical equipments, Medical herbs, Chinese fabrics, Decorative items and toys.

Measures to reduce Imports

1. Increase the standard and quality of goods.
2. Imposed heavy taxes on the imported goods.
3. Apply quota system.
4. Stop the import of tertiary sector.
5. Reduce taxes on Pakistani goods.
6. Stop the import of luxury items.
7. Use local raw material instead of imported.

Study **Fig.3**, which shows imports of goods to Pakistan in 2007.

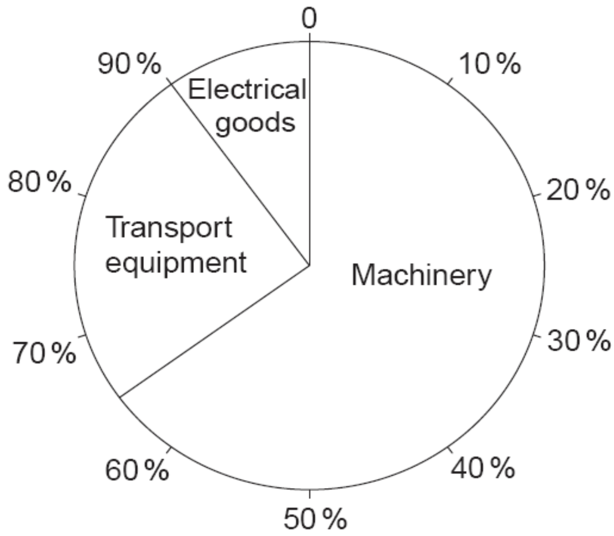

Fig.3

State the percentage of :

A Machinery. **65** % **B** Electrical goods. **10** %

Q.1. **Name two of Pakistan's main imports which are for the purpose of helping to improve agriculture.**

Ans. Machinery (Tractor).
Chemical fertilizers.
Pesticides / herbicides / insecticides.
Improved seeds.

Q.2. **Name one major import which is the result of the agricultural sector of Pakistan failing to produce sufficient for the country's needs.**

Ans. Tea.
Edible / vegetable oils.
Milk / milk foods.
Wheat / rice.
Sugar.

Balance of Payment

Balance of Payment = Value of exports – Value of imports. **OR**
It refers to the balance of exports and imports on visible and invisible items.

Visible Items

It refers to the exchange of imports and exports of goods such as food items.

Invisible Items

It refers to the movement of finance.

Positive Balance of Payment

When the value of exports exceeds than the imports called **positive balance of payment**.

Negative balance of payment

The value of imports exceeds that of its exports.

Balance of Trade

It refers to the trade balance in visible goods i.e. exports and imports.

Causes (Negative Balance of Payment)

1. Import of capital goods.
2. Import of consumer goods.
3. Import of mineral oil.
4. Import of food items.
5. Import of raw material for steel industry.
6. Less exports due to poor standard and quality.

Effects **(Negative Balance of Payment)**

1. Developmental projects have to be curtailed.
2. Reliance on foreign assistance increases.
3. The imbalance of trade has to be filled by taking loans, which increases debt.
4. In case of non-payment of loans, an economic or trade embargo may be imposed.
5. In order to repay the loans, the assets of the country may have to be sold to foreign companies.
6. Higher taxes imposed, which limits the purchasing power of the consumer, resulting in lower demand and less production.
7. Business and commercial activities slows down.

Measures **(To correct the Balance of Payment)**

1. Increase exports specially value-added.
2. Reduce import specially consumer goods.
3. Stop the import of service industry.
4. Improve the standard and quality of goods.
5. Ban the export of raw material (raw cotton).
6. Increase the export of manufactured goods related to cotton textile industry.
7. Searching new International markets for export.
8. Heavy taxes imposed on imported material.
9. Ban the import of luxury items.
10. Trade barriers.

Trade Barrier

Trade barriers exist when the Government imposes **a set of restrictions** that make it difficult for countries to trade their goods and services effectively and easily. The trade barriers may exist in the form if tariffs (taxes on imports), trade embargoes (a ban on certain imported products) and quotas (these impose restrictions on the physical quantity of goods imported) etc. Such measures are designed to restrict the inflow of imports into the country. An inflow of cheap imported goods (e.g. from China) threatens domestic industries. It often result in high levels of unemployment when uncompetitive domestic industries are forced to shut down. Therefore, in order to **protect domestic** industry, the government may impose trade barriers e.g. on Chinese goods.

Advantages

1. Give rise to greater self-sufficiency.
2. Reduce foreign dependency.
3. Protect local industries.
4. Create employment opportunities.
5. Exploitation of local resources.

Disadvantages

1. Corruption may rise.
2. Poor quality and standard due to less competition at International level.
3. No control on prices.
4. May lead to monopoly.
5. Limited good variety.

Industrial Estates

It is an area planned for the purpose of industrial development. The government allowed investors (local and foreign) to set up any kind of industry in this zone. The industries established in this zone they are free from all kind of taxes and duties. Many kinds of incentives are given by the government, following Industrial Estates have been developed in different areas their names are:

Sundar Industrial Estates	**Lahore**
Gwadar Industrial Estate	**Gwadar**
Hub Industrial Estates	**Hub**
Sialkot Industrial Estate	**Sialkot**
Uthal Industrial Estate	**Lasbela**
Faisalabad Industrial Estate	**Faisalabad**
Quaid-e-Azam Industrial Estate	**Lahore**
Multan Industrial Estate	**Multan**
Hyderabad Industrial Estate.	**Hyderabad.**

Facilities **(Provided by the Government)**.

Infrastructure facilities (Power, water, gas).
Cheap land and Labor.
Technical and vocational institutions for the provision of skilled labor.
Better communication system (road and railway).
Incentives to the industrialist i.e. loans, Tax holidays, less duty.
Residential areas for labor.
Banking facilities and Training facilities.
Dry port facilities.
Encouragement of local and foreign investors.

Q.1 Explain why industrial estates have been developed at many locations in Pakistan.

Ans. Land is given at the cheaper rates.
Certain incentives like loans, tax holidays.
Infrastructure facilities.
Employment opportunities.
Underdeveloped areas can also be developed.
Better communication system i.e. roads and railway.
Encourage to developed industry. Better use of local raw material.

Q.2 Describe the factors which are usually taken into consideration in deciding the location of an industrial estates.

Ans. Flat and cheap land.
Provision of infrastructure facilities.
Road and railway connection.
Closeness to the market.
Availability of labor.
Banking facility.
Dry port facility.

Fig.4, is a plan of **Quaid-e-Azam** Industrial Estate in Lahore**.**

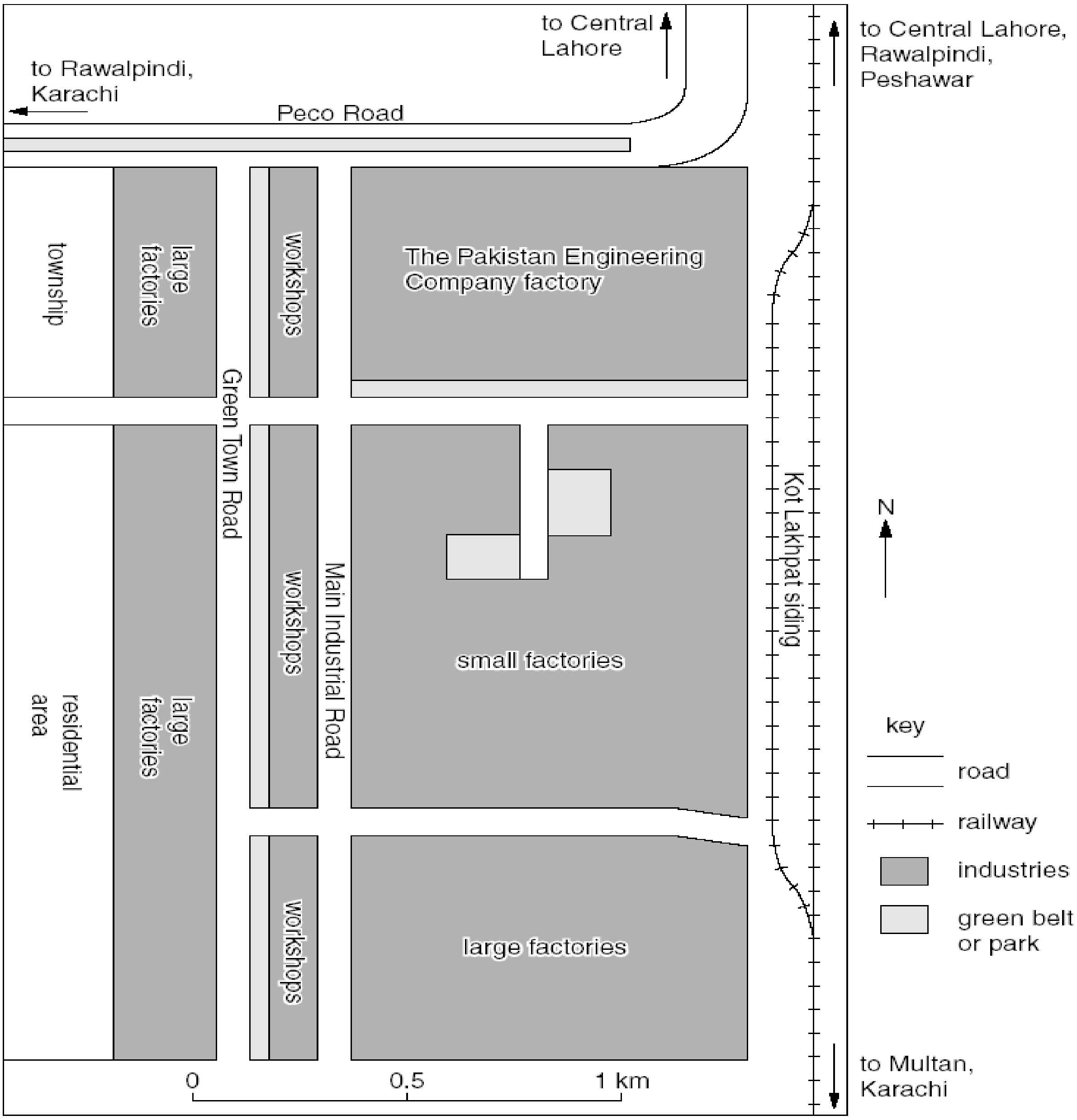

Fig.4

Q.3 **What are the advantages for the industries on the Quaid-e-Azam industrial estates of being situated in a major city like Lahore**?

Ans. Provision of cheap land.
Provision of all necessary infrastructure (water, gas, and power).
Communication facilities. (roads and railway).
Nearby residential area for labor.
Nearness to big city (Lahore) for the manufactured goods.
Facility of dry port.
Industrial linkage. Establishment of research centers. Training facilities.

Q.4 How have the national and provincial governments of Pakistan encouraged the development of industrial estates?

Ans. Government provide land.
Provide necessary infrastructure facilities.
Provide skilled labor through vocational and technical institutions.
Provide incentive i.e. loans, tax holidays and less duties.
Government announces the industrial policy to encourage the industrial development.
Training facilities.
Facility of research centers.
Communication system.

Q.5. What are the benefits and problems of developing new industrial estates?

Ans. **<u>Benefits</u>**:

Employment opportunities
Goods for local needs
Goods for export / more trade
Increase GNP / GDP
Reduce imports
Attract more investors
Development of infrastructure e.g. roads, power
Reduces emigration
More competition improves quality.

<u>Problems</u>:

Lack of skilled labour
Loss of agricultural land
Lack of infrastructure facilities
Lack of government support
Pollution
Increases rural-urban migration.

Study **Photograph A**, showing Landhi Export Processing Zone, Karachi.

Photograph A

Q.6. **What features show that this is a modern, developed industrial estate?**

Ans. Metalled road.
Street lighting.
Electricity supplying.
Trees.
Good quality building / modern.
Planned / straight roads.

Q.7. **Explain how the building of industrial estates could help to increase industrial production in Pakistan.**

Ans. Increase quality of goods.
Reliable supply / telecom supply.
Water supply.
Roads, railways to and from the estate.
Government incentives.
Opportunities for more technology.
Development in rural areas.
Potential industrial linkage.

Export Processing Zone

A free zone for developing country to promote exports. The government allowed investors (local and foreign) to set up any kind of industry in this zone. The industries established in this zone they are free from all kind of taxes and duties. Many kinds of incentives are given by the government, following Export Processing Zones have been developed in different areas their names are:

Karachi Export Processing Zone	**Karachi**
Risalpur Export Processing Zone	**Risalpur**
Sialkot Export Processing Zone	**Sialkot**
Gujranwala Export Processing Zone	**Gujranwala**
Saindak Export Processing Zone	**Sandak**
Gwadar Export Processing Zone.	**Gwadar**

Facilities **(Provided by the Government)**.

Infrastructure facilities (Power, water, gas).
Cheap land and Labor.
Technical and vocational institutions for the provision of skilled labor.
Better communication system (road and railway).
Incentives to the industrialist i.e. loans, Tax holidays, less duty.
Residential areas for labor.
Banking facilities. Training facilities.
Dry port facilities etc.
Encouragement of local and foreign investors.
Employment opportunities for local people.

Incentives **(For investors to set up a unit in EPZs of Pakistan)**

1. 100 % ownership rights.
2. Duty free imports of machinery, equipment and material.
3. No minimum or maximum limit for investment.
4. No sales tax on input goods and services including electricity and gas bills.
5. Exemption from import duties and freedom from national import restrictions.
6. The domestic market of Pakistan to be available on the same conditions as for imports from other countries.

Q.1. What is an export processing zone (EPZ).
Ans. An industrial estate.
Producing products for export.
Export quality goods.

Q.2. **Explain the importance of Export Processing Zones.**

Ans. Good quality goods / export quality / to international standard.
Can increase economy / income / foreign exchange.
Better infrastructure / power / water supply.
Good working conditions.
Modern buildings.
Incentives e.g. tax breaks, cheap loans.
Attract investors.
Employment.
Government helps with marketing events / trade fairs.

Foreign Exchange

Obtaining money (in the form of **U.S Dollars** or **UK Pound**) from abroad through **export, tourism or remittance.**

Sources **(To get foreign exchange)**

By exports
By tourists
By remittance

Advantages of Foreign Exchange

1. Return loans.
2. To reduce the debt.
3. Improve balance of payment.
4. Stability in currency.
5. Decrease of inflation rates.

Uses of Foreign Exchange

1. Loans to industrialists and landlords.
2. Improvement in Communication.
3. Improvement in infrastructure.
4. Establishment of Industrial Estates and EPZ.
5. Establishment of Air ports.
6. Establishment of Dry ports.

Q.1. **How can Pakistan increases foreign exchange?**

Ans. Value-added goods / processed goods.
Good quality.
Competitive prices.
Reliable supply.
Stable Government.
Good telecommunication.
Political agreements.
Better port facilities.

Q.2. **Why does Pakistan need to increase foreign exchange?**

Ans. Correct the balance of payment.
Reduce foreign debt.
Investment in agriculture.
Industrialization.
Improvement in infrastructure.

Study **Fig.5**, which shows the exports of Pakistan in **1997** and **2007** by percentage. Each dash on the circumference represents 10 %.

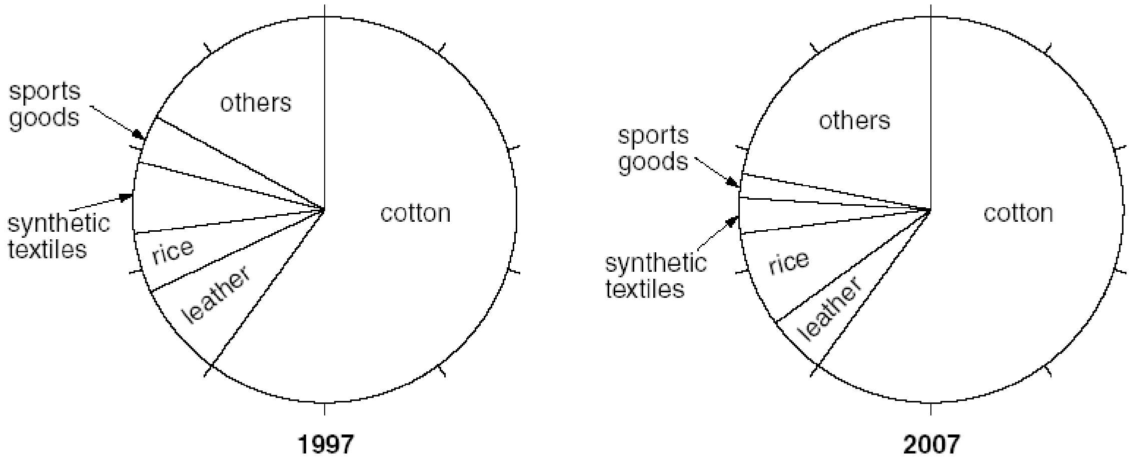

Fig.5

Q.1. **What percentage of the exports was cotton?**

Ans. 60 %.

Q.2. **Suggest reasons why cotton makes up a large percentage of Pakistan's exports.**

Ans. Produces a surplus of raw cotton / large production.
Large International demand / cannot be grown in other countries / demand.
Cheap labor / competitive price.
Can be a variety of products.
Many textiles mills / factories.

Q.3. **From Fig.5, state**

A. one item that has increased in its percentage.

B. two items that have decreased in their percentage.

Ans. **A**. Rice.
B. Leather, Synthetic textiles, sports goods.

Q.4. **What is the main raw material used in the production of**

A. Football?

B. Cricket bats?

Ans. **A**. Leather / plastic.
B. Wood.

Q.5. Which city in the Northern Punjab is a centre of sports goods manufacturing?

Ans. Sialkot / Lahore.

Study **Fig.6**, a graph showing the value of **sports goods** exports.

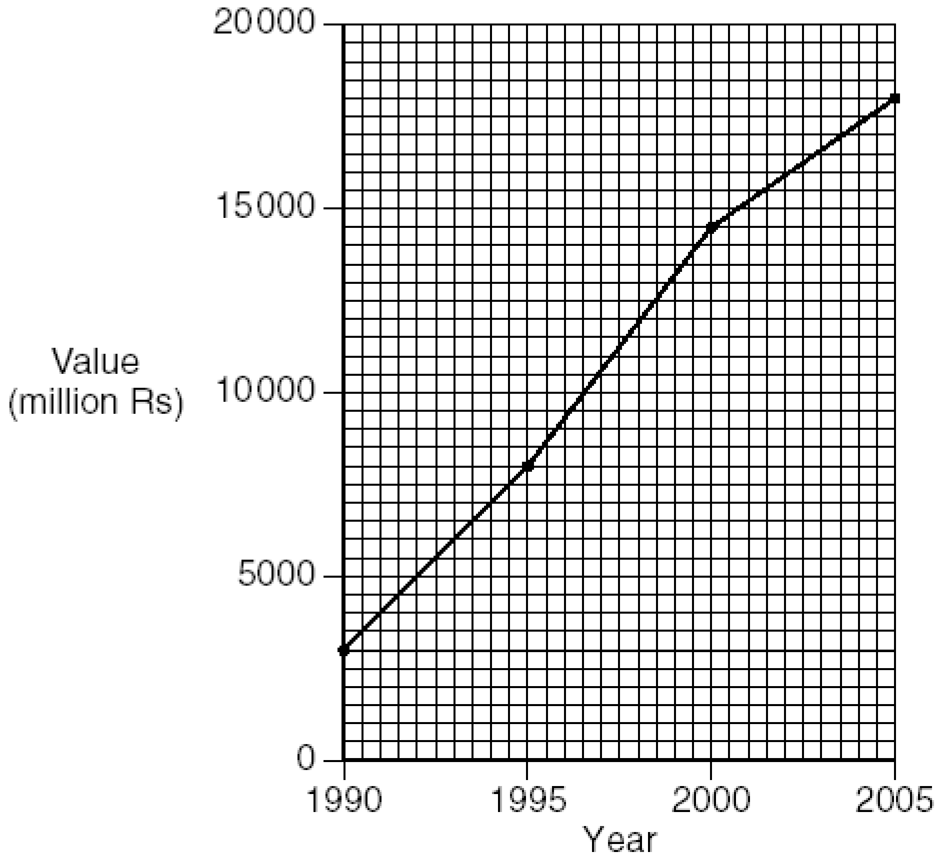

Fig.6

Q.6. What was the value of sports goods exports in 2005?

Ans. 18000 million rupees.

Q.7. By how much did the value of sports goods exports increase from 1995 to 2005?

Ans. 10,000 / 8000 – 18000 million rupees.

Q.8. Name three methods of transport uses for the export of sports goods from Pakistan. For each method, explain its advantages and disadvantages.

Ans. **Advantages** **(Sea Transport)**

Cheap.
Good for bulky goods.
For long distance.

Disadvantages

Slow.
Problem of getting goods to and from coast.
Damage.
Delivery may be delayed.

<u>Advantages</u> (Air Transport)

Fast and safer.
Preferred by managers.
Long distance.

<u>Disadvantages</u>

Expensive.
Few airports.
Have to get goods to airports. Only light or high value goods.

<u>Advantages</u> (Road Transport)

Goes every where.
Lorries easily available.

<u>Disadvantages</u>

Only within Pakistan mostly.
Accidents.
Damage.
Theft.

Q.9. How can Pakistan maintain and increase its exports of sports goods?

Ans. Improve quality.
More export processing zones. More Dry Ports.
Modernization / machines to replace hand work.
Training / skills.
New products.
Ban child labor.
Regular / reliable supply.
More factories. Large factories.
Better communications.
Advertising.
Do deals with companies, e.g. Adidas.

Q.10. Why is a large proportion of the production of sports goods exported?

Ans. Improve trade balance / rise GDP / to make capital.
To earn foreign exchange.
Demand from abroad.
Popularity of sports in the world.
Competitive price.
Good reputation of Pakistan.
Less need in Pakistan / greater need abroad.

-Study **Fig.7**, which shows the imports and exports of Pakistan.

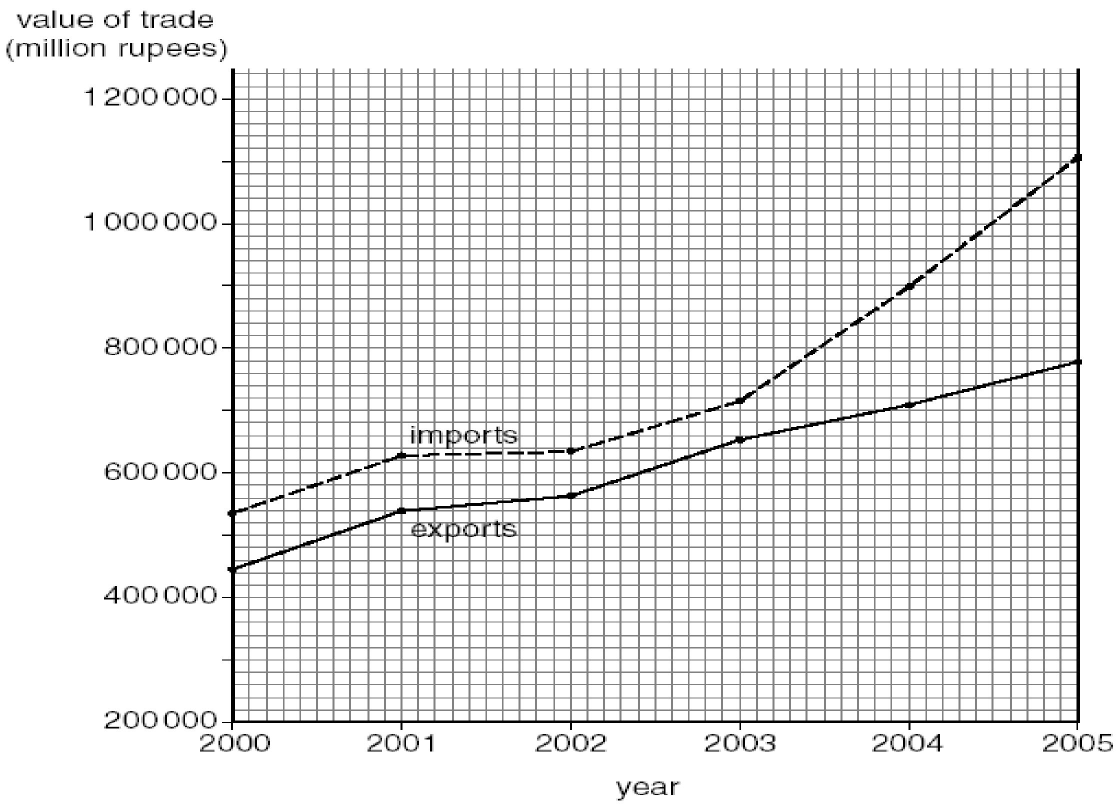

Fig.7

Q.11. **State the increase in the value of imports from 2000 to 2005.**
Ans. 560,000 – 589,000 million rupees.
540,000 – 1,100,000 / 530,000 – 1,110,000 million rupees.

Q.12. **How has the value of exports changed compared with imports?**
Ans. Both have increased.
Imports have increased more than export / increased faster after 2003.
Smaller trends 2000 – 2003.

Q.13. **How will this affect the balance of trade?**
Ans. It has increased (negatively).
It has got worse.
There is a bigger deficit.

Study **Fig.8**, which shows the types of goods exported from Pakistan in **1975** and **2000**.

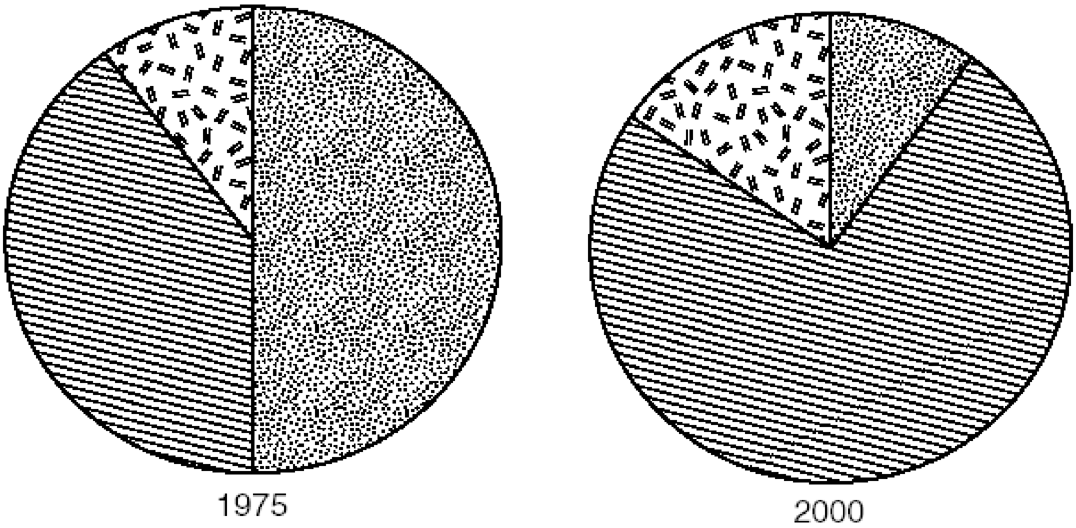

Fig.8

Q.14. How have the proportions of Primary and Manufactured goods changed from 1975 to 2000?

Ans. Primary goods are a lower proportion of exports.
Manufactured goods are higher proportion of exports.

Q.15. How have these changes affected earnings from exports?

Ans. Manufactured goods sell for higher prices.
Earnings will increase.
Manufactured goods are value-added.

Q.16. Explain how cotton can be exported as a Primary, A processed and a manufactured product.

Ans.

Primary	Raw Cotton
Processed	Yarn, Thread, Cloth.
Manufactured	Ready-made garments, Cloth.

Q.17. Name one country with which Pakistan normally has a favorable trade balance.

Ans. Afghanistan. Bangladesh. Germany.
Hong Kong. Saudi Arabia. UK. USA.

Q.18. Name one country with which Pakistan normally has an unfavorable trade balance.

Ans. China.
France.
Germany.
Italy.
Japan.
Kuwait.
USA.
UK.
KSA.
Sri Lanka.

Trading Blocs

Trading blocs refers to regional groupings of international economies to allow for
greater economic cooperation and facilitation of free trade. Trading blocs involve lower or zero trade restrictions between members and strong trade barriers against non-members. Pakistan is a member of the following organizations:

a. SAARC: South Asian Association for Regional Cooperation

SAARC was founded in Dhaka in 1985. Its secretariat is in Kathmandu. The organization promotes development economics and regional integration. Its member states include **Afghanistan, Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan** and **Sri Lanka.**

b. ECO: Economic Cooperation Organization

It was founded in 1985 in Tehran by the leaders of **Iran**, **Pakistan** and **Turkey**. It provides a platform to discuss ways to improve development and promote trade and investment opportunities. The main objective is to establish a single market for goods and services.

c. ASEAN: Association of Southeast Asian Nations

It was founded on 8 August 1967. Southeast Asia is composed of ten countries of impressive diversity in religion, culture and history. **Brunei, (Myanmar), Cambodia, East Timor, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.** Its main aim is to accelerate economic growth, social progress and cultural development among its members and to promote regional peace.

European Union Countries

The European Union (EU) is an economic and political group and a trading bloc of 27 member states that are located primarily in Europe. The European Union was formally established in 1993 to enhance political, economic and social cooperation within member states. The EU has evolved as a single market that allows the free circulation of goods, capital, people and services within the EU. Inside the EU goods and services are not subject to custom duties and import quotas. However such restriction do exist when EU countries trade outside the European Union.

The EU countries are: **Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungry, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherland, Poland, Portugal, Romania, Slovakia, Slovenia, Span and Sweden.**

Pakistan and the EU

Pakistan exports mainly textiles, medical equipments and leather products to partners in the EU and imports mainly mechanical and electrical equipments, chemical and pharmaceutical products from these countries.

The countries of the European Union have a large demand for goods such as clothes
and sports goods. Pakistan can produce these goods cheaply.

Q.19. Explain the advantages and disadvantages of developing a trade agreement with partners in the EU.

Ans. **Advantages**:

More exports / improved trade balance / more foreign exchange
Boots economy /development of export oriented indiustries
More investment in industry by local / foreign investor
Cheaper imports
Better availability
Boots industrialization
Stable market because EU countries are politically and economically stable.

Disadvantages:

Conditions imposed / ban on child labour
Pakistan may face sanctions due to increasing terrorism
Poor standard of the products of cottage industries
Pakistan goods may not be up to standard
Pakistan production may not be reliable
Imports may compete with local production
May affects other agreements, e.g. Iran, China
Fluctuating currency rates.

Q.20. Explain the advantages and disadvantage of trade with EU and China.

Ans. <u>**European Union Countries EU**</u>

Advantages

EU countries politically and economically stable
Trade relations with European countries since independence
More exports / improved trade balance / more foreign exchange
Boots economy
Cheaper imports
Boots industrialization
Stable market.

<u>**Disadvantages**</u>

EU has trade barriers (custom duties and import quotas) with countries outside the EU
EU restrict trade due to poor law and order situation / child labour and politically instability
Products of small scale industries not up to the standard of EU countries
Imports may compete with local production
No land link with EU countries.

<u>**China**</u> **Advantages**

Good relations
Land link with china (Karakopram Highway / Khunjerab pass)
Chinese imports are low-priced and meet local demand
China faster growing economy so Pakistan can earn more foreign exchange

<u>**Disadvantages**</u>

Cheap Chinese products may threaten the domestic industries
China likely to manufacture products that Pakistan exports in greater quantities / at lower prices
In winter KKH blocked due to snowfalling and land sliding

Q.21. State one main trading partner with Pakistan for each of exports and imports.

Ans. <u>**Exports**</u>: **USA, UAE, Afghanistan, China UK, Germany and EU.**
<u>**Imports**</u>: **China, Saudia Arabia, UAE, Kuwait, USA, Japan and EU.**

Q.22. Explain the factors that hinder the trade between Pakistan and other countries.

Ans. Lack of security / internal civil and tribal unrest / terrorism.
Political instability.
Debts / trade embargo if default.
International tension e.g.no trade with India due to Kashmir issue.
Mountainous terrain to NW e.g. landslide and avalanches.
Trade barriers due to child labor, health and safety, excessive use of pesticides on cotton.

Devaluing Pakistan rupee (makes imports, which are more than exports).
Membership of regional organizations e.g. ECO / SAARC / WTO in 2004 involves removing import tariffs causing inflow of cheap imports.

Q.23. Name or describe a border crossing by road between Pakistan and a neighbouring country. Which country is linked to Pakistan by this road?

Ans.

Border Crossing	**Country**
Koh-i- Taftan / RCD Highway	Iran
Chaman / Quetta to Kandahar	Afghanistan
Khyber Pass / Grand Trunk Road	Afghanistan
Khunjerab Pass / Karakoram Highway	China
Lahore to Amritsar / Grand Trunk Road	India

Q.24. How useful is the border crossing you have named or described in above question for trade? Give reasons for your answer.

Ans. **Very useful / Great Importance**
Encourages or improves / increases trade i.e. imports and exports.
Earn foreign exchange
Cheaper transport / shorter distance to travel / saves time
Improved relations / better relations.

Limited Importance
Routes into Iran / Afghanistan are mountainous / deserts
Security issues / tensions in FATA areas
KKH blocked in winter due to snow / landslides
Poor relations with India.

Q.25. Explain the factors which help to promote the trade with other countries.
Ans. Improvements to transport infrastructure (e.g. KKh / new road Quetta to Chaman, Afghanistan, RCD highway to open a route to Iran and Turkey).
Developments of ports
Membership of regional orgaizations like ECO, SAARC and WTO.
Tax incentives for exporters
Development of Industrial Estates and EPZ
Devaluing Pakistan rupee makes exports cheaper.

Exchange Rates

An exchange rate refers to the price of one currencyin terms of another currency, e.g. one US dollar is equal to 106 Rupees. **OR**
The Exchange Rate is the rate at which one currency can be exchanged for another. Exchange rates are significant in determining the cost of imports and the price of exports.

Currency Depreciation

A decrease in the value of a currency.

Currency depreciation is the loss of value of a country’s currency with resspect to another country’s currency.

An exchange rate is said to be depreciate when one unit of that currency buys fewer and fewer units of another currency. For example, if Pakistan’s exchange rate against the US dollar was $1 = Rs 84 last month, but then changed to $1 = Rs 70, the dollar is said to have been depreciated since now it can buy a lower value of the rupee.

When a currency depreciates, imports become more expensive, while exports become cheaper. Imports should fall, exports should rise and the trade deficit should become smaller.

Impacts

Imports expensive, exports are cheaper
High inflation rate
Taxes increased
Increase debts
Trade deficit
Stop ongoing projects due to rising costs
Purchasing power of citizens reduced
Unfavourable balance of payment
Less GDP
Unemployment.

Currency Appreciation

An increase in the value of a currency.
Appreciation of the exchange rates takes place when one unit of a currency can buy a greater value of another currency. For example, the US dollar is said to appreciate against the rupee when the exchange rate changes from $1 = 79 rupees to $1 = 85 rupees.

When a currency appreciates, imports become cheaper, while exports become more expensive. Imports should rise, exports should fall and the trade deficit become larger.

Exports expensive
Imports are cheaper
Lower inflation rate
Increase of employment and per capita income in a country.
Favourable balance of payment
Incentive to businessmen from government side.