

Trade in Times of Crises-Exploring the Impact of COVID-19 on Balance of Trade in Pakistan

Shankar Lal

Email: shankar.wadhwa87@gmail.com

Abstract— This research explores the manner in which current COVID-19 pandemic has affected trade activities in Pakistan. It is assumed that trade activities are highly susceptible to such a great disturbance affecting worldwide. This article investigates this conjecture by scrutinising the real time data source of imports and exports. Finding suggests that initially, trade in Pakistan has been suppressed since the onset of COVID-19 crises, but it appears that activities have been restored as the stakeholders have taken COVID-19 as a new normal. Export was the key variable, which was a cause of concern for government as the country is export dependent, there was approximately 28% decline in the second quarter (Apr-Jun) of 2020 compared to the previous year same period. Policy makers can use these real time data sources to help and inform their strategic policy intervention to assist the affected ones.

Keywords— Covid-19, Pandemic, Policymakers, Strategic Policy, Crises.

INTRODUCTION

The Corona Virus (COVID-19) is an infectious disease and outbreaks in recent years with significant public health and economic impacts. The disease started from Hubei City of China, when a man of aged 55 years old was reported to have contacted the Novel Corona virus. COVID-19, declared a pandemic by the World Health Organization (WHO) on 11th March 2020, has reached the grim milestone worldwide as on 23.12.2020 - affecting over 78.6 million people almost in every country/region, with over 1.728 million deaths worldwide. On December 11, 2020, the U.S. Food and Drug Administration issued the first emergency use authorization (EUA) for a vaccine for the prevention of corona virus disease 2019. The emergency use authorization allows the Pfizer-Biotech COVID-19 Vaccine to be distributed in the U.S (FDA). In UK and USA vaccine administration process has been started while the rest of world is still facing supply and distribution challenge. Hence, the world including Pakistan is still witnessing its prevalence; most countries are experiencing direct and indirect impacts of the global pandemic on their economy and society to varying degrees. There is un-precedent collapse in the first half of year 2020, where GDP has contracted by 13% globally (OECD). This worrisome could go for some

period of time because virus proceeding in waves, with countries succumb and set to recover at different times and its impact may continue. In 2019, annual economic growth for Pakistan was around 3.3% but for 2020, IMF economic forum has predicted GDP would go down by below 0% due to corona virus. (Mahmood 2020) which in turn impact on decline in export and foreign remittance. (Sareen 2020).

This article investigates the impact of Covid-19 on balance of trade activity in Pakistan by exploring how the crises have affected the international market of trade. Policy makers attention inevitably, held all in all focus on mitigating the effect of pandemic on human health. Maintaining trade flow would be pivotal during the wake of covid-19 pandemic in order to access essential food and medical items and to reduce the negative impact on poverty and employment (World Bank, 2020). Disruption in flow of trade could seriously impact developing countries by increasing prices of medical and reducing demand of export due to lack of demand in developed countries (Espitia et al. 2020). It is very important to mitigate immediate aftershocks of Pandemic for short term stability of the economy but how the long term trade will have affected we will have a look at this.

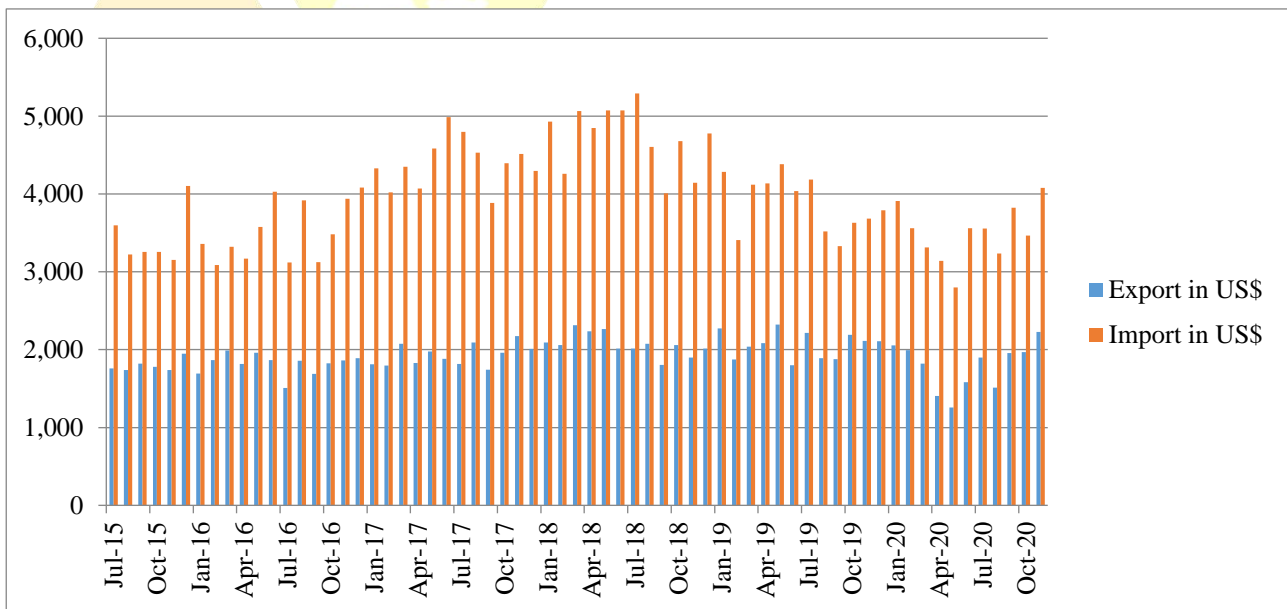
Around the world, economies are inter-connected through cross border flow (Baldwin and Tomiura 2020) viz-a-viz goods, services, people, currency exchange and international banking. Pandemic has not only raised the uncertainty among the people but also how it affects the sentiment of people is really important. How consumer, businesses and authority respond to covid-19 is associated the real activity with a lag of two to four months (Catherine 2020)

In the time of crises, international trade co-operation is required in order to make trade easier (Gonzalez 2020) freeze the ban on export, ease restrictions and slash tariff especially medical and pharmaceutical products. Impact of epidemic is vast, it damages the local demand and stretch internationally, which in turn makes the trade flow susceptible to demand and supply shock i.e purchase and production falls (Baldwin and Tomiura 2020).

According to the research made by (Jumaeva 2020) Covid-19 pandemic has hit hard to the global supply chains resultantly economies of developed and developing countries have been slow downed. This is evident from decline in foreign trade and balance of payment of respective countries. He further explored that decline in export earnings could lead to depletion of foreign reserves. Simultaneously, more reserves are required to deal with external debt, liquidity and solvency. It is not enough that balance of payment of any country can only be regulated through monetary policy and exchange rate mechanism (Bekmurodov and Jumaev 2019). Policy makers need to think out of box such as expansion of high value added products, and implementation of such a good ambience and climate in order to attract foreign direct investment. While research, it suggested empathetically that covid-19 hit hard to the countries which are mainly rely on export for reserves. (Sareen 2020)

At the time of crises, it is usual to expect a sharp rise in import restrictions as trade demand declines, and unemployment surge results trade negotiations slowdowns. (Hart and Dymond 2010). In January, 2020, Government of Pakistan reduced/ withdrew taxes for textile sector on import of raw cotton which in turn put positive effect on textile export, a major source for country's foreign reserves. Despite the onset of covid-19, Pakistan was getting export orders especially textile sector which was operating at full capacity because china was shut down and fighting against pandemic. (Mahmood 2020).

The aim of research is to investigate the impact of trade on import and export (balance of trade) in Pakistan by exploring how the pandemic covid-19 has affected the trade.



*Developed by the author on the basis of the monthly data of State Bank of Pakistan (Figure-A)

When we look for shock particularly exogenous, it is necessary to contextualize these events within their prevailing conditions and trends so we can also examine the wider trends affecting import and export more generally. The remainder of this article is structured as follows. We outline some exploratory empirical evidence examining the impact of the crisis on the trade in Pakistan then offer brief conclusions and unzip issues to help guide further research.

EMPIRICAL FINDINGS

We now outline some of the indicative empirical findings from the research. What we can immediately observe is the trend of trade (export and import) in

Pakistan from July-2015 to Nov-2020(see Figure 1). The export remained flat for almost two years from 2015 to 2017, however there was sharp rise in import, month on month basis. Between Jan-2018 and Jul-2018, there has been some increase in export (2,315 US million dollars) which peaked in Mar-2018 and import's (5,290 US million dollars) rising trend continued and peaked in Jul-2018. In terms of dollar value, in the same period, we have seen substantial growth, export by 11% and import by 10%. Since then there has been significant decline in import due to policies of government to cut it drastically and imposition of more duty and taxes in order to ease the balance of payment crises (Mahmood 2020). However, due to depreciation of rupee currency, export

in dollar terms could not be increased. This may be due to the imposition of 17% sales tax on five major export oriented sectors- textile, leather, surgical goods, carpet and sports goods in last budget 2019-20 with a view to collect sales tax on domestic sales on which created financial burden for the export industry. The exporters condemned not to penalize exporters for shortcoming of

FBR revenue targets and to collect sales tax from local sales. Then, some worrisome started for incumbent government because export was not increased as much as wanted to rise. However, exporters regained some confidence and net exports were recorded above 2,000 million US dollar per month from Oct-2019 to Jan-2020.

Monthly trade data in million US\$			
Period	Export	Import	Balance of Trade
Jul-15	1,759	3,596	-1,837
Aug-15	1,738	3,222	-1,484
Sep-15	1,821	3,257	-1,436
Oct-15	1,778	3,254	-1,476
Nov-15	1,740	3,152	-1,412
Dec-15	1,947	4,101	-2,154
Jan-16	1,692	3,357	-1,665
Feb-16	1,864	3,086	-1,222
Mar-16	1,989	3,321	-1,332
Apr-16	1,818	3,168	-1,350
May-16	1,959	3,577	-1,618
Jun-16	1,867	4,027	-2,160
Jul-16	1,508	3,119	-1,611
Aug-16	1,857	3,916	-2,059
Sep-16	1,689	3,125	-1,436
Oct-16	1,826	3,482	-1,656
Nov-16	1,860	3,940	-2,080
Dec-16	1,891	4,082	-2,191
Jan-17	1,811	4,327	-2,516
Feb-17	1,797	4,021	-2,224
Mar-17	2,075	4,348	-2,273
Apr-17	1,827	4,072	-2,245
May-17	1,978	4,583	-2,605
Jun-17	1,884	4,986	-3,102
Jul-17	1,817	4,799	-2,982
Aug-17	2,090	4,530	-2,440
Sep-17	1,743	3,884	-2,141
Oct-17	1,960	4,395	-2,435
Nov-17	2,173	4,515	-2,342

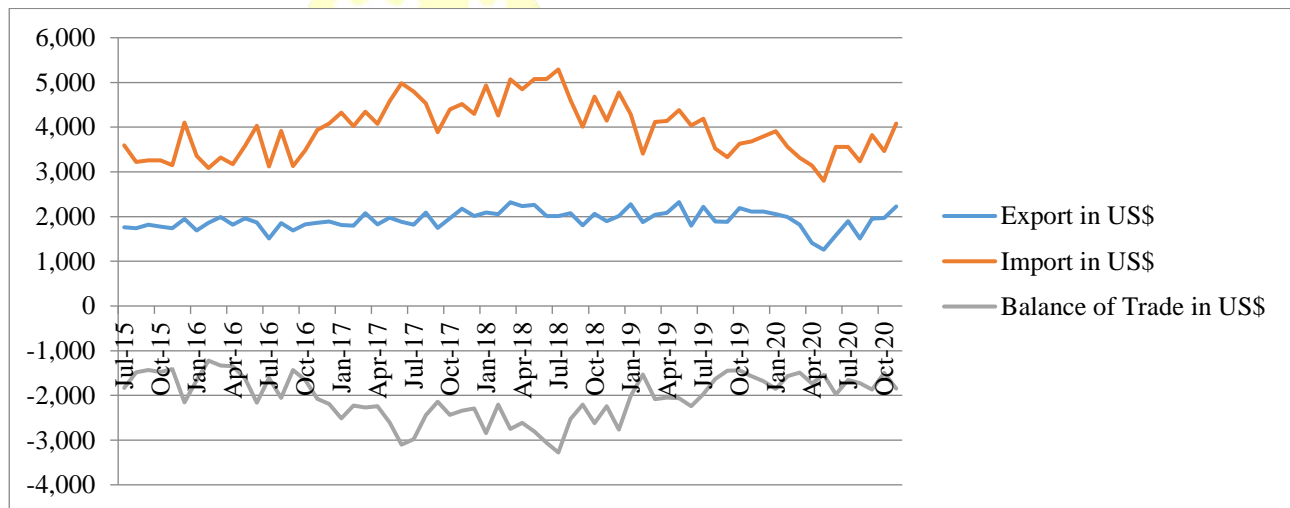
Dec-17	2,008	4,297	-2,289
Jan-18	2,090	4,930	-2,840
Feb-18	2,057	4,260	-2,203
Mar-18	2,316	5,066	-2,750
Apr-18	2,235	4,846	-2,611
May-18	2,265	5,075	-2,810
Jun-18	2,014	5,074	-3,060
Jul-18	2,013	5,290	-3,277
Aug-18	2,075	4,606	-2,531
Sep-18	1,805	4,008	-2,203
Oct-18	2,061	4,680	-2,619
Nov-18	1,898	4,142	-2,244
Dec-18	2,013	4,776	-2,763
Jan-19	2,274	4,285	-2,011
Feb-19	1,875	3,407	-1,532
Mar-19	2,037	4,118	-2,081
Apr-19	2,084	4,135	-2,051
May-19	2,323	4,384	-2,061
Jun-19	1,799	4,038	-2,239
Jul-19	2,217	4,185	-1,968
Aug-19	1,889	3,519	-1,630
Sep-19	1,879	3,329	-1,450
Oct-19	2,189	3,630	-1,441
Nov-19	2,111	3,682	-1,571
Dec-19	2,108	3,791	-1,683
Jan-20	2,053	3,908	-1,855
Feb-20	1,993	3,561	-1,568
Mar-20	1,820	3,313	-1,493
Apr-20	1,407	3,140	-1,733
May-20	1,259	2,800	-1,541
Jun-20	1,582	3,559	-1,977
Jul-20	1,897	3,555	-1,658
Aug-20	1,510	3,237	-1,727
Sep-20	1,956	3,822	-1,866
Oct-20	1,969	3,466	-1,497
20-Nov	2,227	4,077	-1,850

Source: State Bank of Pakistan (Table-1)

So what has happened to the balance of trade amidst the COVID-19 pandemic? Overall, we can see in Table 1 that there has been a significant decrease in the levels of export for period of 7 months of 2020 from Mar-20 to Sep-20 especially in second quarter (Apr to Jun) compared with the same period of 2019, overall decline for quarter remained (31%). During the last 5 years we have not seen such a decline (see Table 1).

Given the real-time nature of the data and close look, we can observe that the figure for the three months of the second quarter in 2020 (i.e. April and June) has witnessed a significant drop compared to the previous years. This includes the period covering the lockdown enforced by the Pakistani government which suspended trading in sizeable parts of the economy. However,

onward to second quarter, export started to climb again as lock down and 1st wave of Corona virus eased off. We saw similar effect in import of goods because of lack of demand of goods in pandemic, import bill was also lesser as compared to same period last year. It is pertinent to mention that during that period countering Covid-19, various measures and steps were taken by State Bank of Pakistan in the form of incentives to boost the economy such as but not limited to- temporary economic refinance facility (TERF), loan extension and restructuring package, to support the health sector – refinancing facility for combating Covid-19 (RFCC) and reduced discount rate by cumulative 625 basis points from 13.25 percent to 7 percent in a short span of time from mid-March to June 2020.



Developed by the author on the basis of the monthly data of State Bank of Pakistan (Figure-B)

Likewise, balance of a trade of a country was peaked in Jun and Jul, 2018, where it was mainly financed by remittance from abroad. During the time of pandemic similar result was seen, there was massive drop in April to Jun 2020 because of suspended trading activity. However, staggering drop was continued because of the government policies to combat balance of payment crises which was subject to IMF conditionality.

CONCLUSION AND FUTURE RESEARCH

The COVID-19 pandemic has created a significant economic shock around the world especially to the countries which are mainly relying on export and remittances for reserves (Sareen 2020). Given its manifest importance to the economy, How consumer, businesses and authority respond to covid-19 is associated the real activity with a lag of two to four months (Catherine 2020). This article has provides important timely insights into the uncertainty caused by

the pandemic by using a source of real-time data to explore this topic. From our analysis, the Pakistan seems to be significantly affected but the order of magnitude is considerably lower because china was shut down and fighting against pandemic. (Mahmood 2020). The trade activities were lower in second quarter of 2020 as compares to previous year but as the time passes the trade is showing significantly positive improvements. However, looking at the upward trend of export from the third quarter of this year, this trend seems to be continued amidst pandemic.

Overwhelmingly, the category of trade most adversely affected is exports which decreased by almost 28% in the second quarter of 2020 compared to that of 2019 whereas the decline in import is already in favor of country in order to ease the balance of payment crises. It could be, because pandemic do not only damages the local demand but also stretch internationally, which in

turn makes the trade flow susceptible to demand and supply shock i.e purchase and production falls (Baldwin and Tomiura 2020)

In terms of policy responses to support export during the crisis, the overwhelming emphasis in Pakistan in the form of much cheaper electricity and refund of duty drawbacks, the Pakistan government may wish to incentivize exporters during the crisis.

In order to come up with more refined research and to increase the reliability of result, scholars help the world to better understand the long term implication of this shock, or comparative analysis may be made with other countries.

FUNDING

The author received no financial support for the research, authorship and/or publication of this article.

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