

EMPERICAL ANALYSIS ON BILATERAL TRADE POTENTIAL OF PAKISTAN WITH MAJOR PARTNERING COUNTRIES

BY

**ALI MURTAZA
Mir Fiaz Hussain**

**42026
42495**

A Project submitted to the Department of Management Sciences,
Bahria University Karachi Campus, in partial fulfillment of the
requirements
for BSAF Degree



BS (ACCOUNTING & FINANCE)

FALL, 2019

Bahria University Karachi Campus



Annexure 5

BS (A&F) Project
2nd Half Semester Progress Report
& Project Approval Statement

Name of Student	1. Mir Fiaz Hussain 2. Ali Murtaza
Registration No.	1. 42495 2. 42026
Project Title	Bilateral Trade Potential of Pakistan With Major Partner
Program	BS (A&F) 1) Spring 2) Fall ✓

Count

Supervisor – Student Meeting Record

S#	Date	Place of Meeting	Topic Discussed	Signature of Student
1	4-NOV-2019	Faculty 11	Topic Discussion	Ali Murtaza
2	18-NOV-2019	Faculty 11	Literature Review	Ali Murtaza
3	9-DEC-2019	Faculty 11	Model Selection	Ali Murtaza
4	23-DEC-2019	Faculty 11	Results AND Interpretation	Ali Murtaza

[Handwritten signature]

APPROVAL FOR EXAMINATION

Candidate's Name: Ali Murtaza
Candidate's Name Mir Fiaz Hussain

Registration No.: 42026
Registration No.: 42495

Thesis Title:

I hereby certify that the above candidate's thesis has been completed to my satisfaction and, to my belief, its standard is appropriate for submission for examination. I have also conducted plagiarism test of this thesis using HEC prescribed software and found similarity index at ___ that is within the permissible limit set by the HEC for the MBA thesis. I have also found the thesis in a format recognized by the Department of Management Sciences.

Supervisor's Signature: *[Signature]*

Date: 2-Jan-2020

Supervisor's Name: Dr Akhtiar Ali

HoD's Signature: *[Signature]*

Date: 30/1/2020

ACKNOWLEDGEMENT

“Acknowledgement is an art, one can write glib stanzas without meaning a word, on the other hand one can make a simple expression of gratitude”

I take the opportunity to express my gratitude to all of them who in some or other way helped me to accomplish this challenging project.

I am extremely thankful and pay my gratitude to our supervisor Dr. *Akhtiar Ali and* my project coordinator *MAM ATIYA* for their valuable guidance and support on completion of this project as well as our DEAN and our HOD.

I also acknowledge with a deep sense of reverence, my gratitude towards my parents and family members, who has supported us every time morally as well as economically.

Table of Contents

	Error! Bookmark not defined.
ABSTRACT	3
1. INTRODUCTION	4
1.1 CONTEXTUAL DISCUSSION	5
1.2 BACKGROUND	7
1.3 PROBLEM STATEMENT	8
1.4 RESEARCH OBJECTIVES	8
1.5 RESEARCH QUESTIONS	8
1.6 SIGNIFICANCE OF STUDY	8
1.7 SCOPE OF STUDY	9
2. LITERATURE REVIEW	9
2.1 EMPERICAL STUDY	9
2.2 MODEL SPECIFICATION AND MEASUREMENT	13
2.3 MODEL	13
2.4 CONCEPTUAL FRAMEWORK	14
3. RESEARCH METHODOLOGY	14
3.1 Research Approach & Type	14
3.2 Research Design	14
3.3 Research Purpose	15
3.4 Data Collection & Sampling	15
3.5 Dependent Variable	15
3.6 Independent Variables	15
3.7 Measurement Of Variables	15
3.8 Research Model	16
3.9 Data Analysis	16
4. RESULTS AND DATA ANALYSIS	16
4.1: PAKISTAN-USA	16
4.1.1: Stationarity Analysis	16
4.1.2 Co-integration	17
4.1.3 Error Correction Model (ECM) regression analysis	17
4.1.4 Stability Analysis	18

4.2 PAKISTAN-CHINA	19
4.2.1 Stationarity Analysis	19
4.2.2 Co-integration	19
4.2.3 AUTOREGRESSIVE DISTRIBUTED LAG MODEL (ARDL)	20
4.2.4 Stability Analysis	21
4.3 PAKISTAN-UNITED KINGDOM	22
4.3.1 Stationarity Test	22
4.3.2 Co-Integration	22
4.3.3 Error Correction Model (ECM) Regression	23
4.3.4 Stability Analysis	24
5. CONCLUSION AND RECOMMENDATION	25
5.1 Conclusion	25
5.2 Recommendation	25

ABSTRACT

The study examined the bilateral trade potential of Pakistan with its major partnering countries. Time series data was used for Pakistan's bilateral trade with USA, China, and U.K. Data prevailed from 1993 to 2018. Data was taken from World Bank and comtrade. For empirical analysis designed three models separate for each country. Mass is measured using product of GDP of partner countries and distance in terms of physical distance between two countries. Data on trade volume is taken as addition of import and export data. Analyze the data in its original essence. We used trade volume between Pakistan and USA as dependent variable, and checked impact of product of two masses, and distance between two countries on dependent variable. Results suggest that the product of two masses have positive significant impact on trade volume, whereas distance had significant negative impact on trade volume between two countries. We used trade volume between Pakistan and China as dependent variable, and checked impact of product of two masses, and distance between two countries on dependent variable. Results suggest that the product of two masses have positive significant impact on trade volume, whereas distance had significant negative impact on trade volume between two countries. We used trade volume between Pakistan and U.K as dependent variable, and checked impact of product of two masses, and distance between two countries on dependent variable. Results suggest that the product of two masses have positive significant impact on trade volume, whereas distance had significant negative impact on trade volume between two countries. The model(s) also verified the existence of long-run relationship by the help of ARDL f-bound long test, statistical values indicated the existence of long-run relationship. Short-run relationship was also found in the model(s) by the help of ECM regression analysis; results indicated strong short-run relationship in all the models used in the study. Auto regressive distributed lag model (ARDL) was used in the study as OLS cannot be performed on any of the model(s) as none of them was found stationary on level. The study recommends the enhancement of production, and re-considering trade policy with neighbors.

KEYWORDS: Trade volume, Product of two masses, distance, co-integration