

PRESS RELEASE

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PAKISTAN'S LONG TERM GROWTH DEPENDS ON THE CONTINUED IMPLEMENTATION OF THE ECONOMIC REVIVAL PROGRAMME

Pakistan's Comprehensive Economic Revival Programme, launched in 1999 after a reduction in economic performance, has been forcefully pursued and has resulted both in the successful implementation of a Stand-By Arrangement with the IMF and subsequent substantial support by the Fund under its Poverty Reduction and Growth Facility, according to a WTO report on the trade policies and practices of Pakistan. The report stresses that Pakistan's long-term economic growth depends importantly on the continued implementation of the Revival Programme, particularly in the reduction of direct state intervention in the economy and improvements in the tax base.

The WTO Secretariat report, along with the policy statement by the Government of Pakistan, will serve as a basis for the second Trade Policy Review (TPR) of Pakistan by the Trade Policy Review Body of the WTO on 23 and 25 of January 2002.

The Revival Programme, which addresses some of the imbalances in the economy of Pakistan, includes the implementation of a privatization programme and further trade liberalization, as well as steps to strengthen the tax base and improve governance. Long-term growth of the economy, says the report, is also dependent on Pakistan's success in diversifying its exports, which in turn depends on its trading partners' willingness to keep their markets open, or even open them further, to Pakistani goods and services, notwithstanding the present global economic slowdown.

The report adds that despite severe economic and political difficulties, Pakistan has, by and large, resisted protectionist pressure and opted for market-based reforms, including the adoption of a more liberal attitude to imports and foreign investment. Over the past two years, efforts in several crucial areas have intensified with the result that Pakistan is becoming a more open and secure market for its trading partners. By fostering domestic competition, the reforms undertaken by Pakistan should contribute to a more efficient allocation of domestic resources, which would enhance the economy's productivity and local firm's export competitiveness.

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There are signs that the economy may be improving, says the WTO report; including a rise in the local stock market. These developments are perhaps partly due to the perceived improvement in the prospects of Pakistan obtaining substantial debt relief from its international creditors. Such relief would reduce the cost to Pakistan of servicing its large foreign debt, thus helping to redress the current fiscal imbalance and providing more scope for the Government to tackle the country's social problems (notably in the areas of poverty, health, education, housing, and governance), and the presence of some three million refugees.

The report notes that economic growth in Pakistan has moderated relative to that in the period immediately prior to its previous Trade Policy Review in 1995. After accelerating in 1993-96, real GDP growth fell from 5.0% in 1995/96 to 1.2% in both 1996/97 and 1997/98 and has since fluctuated around 4%. Natural factors, including a severe drought, financial imbalances, particularly fiscal, and structural weaknesses have been important elements in this reduced economic performance.

Structural problems have also played a role in Pakistan's slower growth. In particular, the State retains a prominent direct role in the economy and the tax system has been used extensively as a means to provide incentives, to the possible detriment of revenue collection. Further, protectionist policies have shielded domestic producers from foreign competition and have contributed to an anti-export bias. Political instability and weak governance have also had an adverse effect on the economy. These issues are being addressed in the Revival Programme, including through the implementation of a privatization programme, steps to strengthen the tax base and improve governance, and further trade liberalization.

The tariff remains Pakistan's main trade policy instrument; its relative importance has increased as a result of the recent elimination of non-tariff barriers on several items. At the same time, it is a major, albeit declining, source of tax revenue. As a result of a major restructuring of Pakistan's customs tariff in 2001/02, the average applied tariff rate has fallen to 20.4% from 56% in 1993/94. Nevertheless, tariff protection is still relatively high, especially for a few sensitive items, and although efforts have been made to reduce tariff peaks and dispersion, tariff rates vary widely. Consequently, the tariff remains a potential restraint on domestic competition and thus an obstacle to the efficient allocation of resources, with adverse consequences for the economy's productivity and local firms' export competitiveness. However, the scope for improving efficiency through further substantial cuts in tariffs may be limited in the near future by the importance of the customs tariff to the Government as a source of revenue, and by the internal tax system's vulnerability to avoidance and evasion oil and high-speed diesel oil.

In the period under review, steps have been taken to reduce state involvement in the services sector and encourage private investment in several activities. Financial services have been dominated by domestic and nationalized institutions, while the progressive introduction of the Islamic (interest-free) banking principles may discourage foreign banks. Interest rates have been deregulated and the gap between non-subsidized and subsidized lending rates for priority sectors has been gradually reduced. The autonomy of the State (central) Bank of Pakistan (SBP) has been reinforced and prudential regulations are being strengthened. New legislation was passed to deregulate and strengthen the insurance market minimum solvency margin requirements; moreover, efforts are being made to reduce impediments to the operation of foreign insurance firms. Private sector involvement in telecommunications has increased in activities other than the fixed line services, although the state monopoly here is to be abolished by the end of 2002; tariff re-balancing by increasing line rental and local call charges is under consideration. Despite the exclusive rights of state entities in broadcasting and audiovisual, audiovisual services have been opened to joint ventures with foreign investors; cable television service became legal and subject to licensing. Declining use of foreign shipment has led to increased handling of cargo by the sole state-owned company; a domestic shipbuilding subsidy has been made available under certain conditions to local shipowners. In air transportation the state-

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owned national carrier has been faced with private-sector competition on domestic routes. Software development and exports have been a priority and are being encouraged in several ways (mainly through tax incentives).

Note to Editors

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals. Significant developments which may have an impact on the global trading system are also monitored. For each review, two documents are prepared: a policy statement by the government of the member under review, and a detailed report written independently by the WTO Secretariat. These two documents are then discussed by the WTO's full membership in the Trade Policy Review Body (TPRB). These documents and the proceedings of the TPRB's meetings are published shortly afterwards. Since 1995, when the WTO came into force, services and trade-related aspects of intellectual property rights have also been covered.

For this review, the WTO's Secretariat report, together with a policy statement prepared by the Government of Pakistan, will be discussed by the Trade Policy Review Body on 23 and 25 January 2002. The Secretariat report covers the development of all aspects of Pakistan trade policies since the previous review, including domestic laws and regulations, the institutional framework, trade policies by measure, and developments in selected sectors.

Attached to this press release are the Summary Observations of the Secretariat report and parts of the government policy statement. The Secretariat and the government reports are available under the country name in the full list of trade policy reviews at http://www.wto.org/english/tratop_e/tp_r_e/tp_rep_e.htm. These two documents and the minutes of the TPRB's discussion and the Chairman's summing up, will be published in hardback in due course and will be available from the Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

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Since December 1989, the following reports have been completed: Argentina (1992 and 1999), Australia (1989, 1994 and 1998), Austria (1992), Bahrain (2000) Bangladesh (1992 and 2000), Benin (1997), Bolivia (1993 and 1999), Botswana (1998), Brazil (1992, 1996 and 2000), Brunei Darussalam (2001), Burkina Faso (1998), Cameroon (1995 and 2001), Canada (1990, 1992, 1994, 1996, 1998 and 2000), Chile (1991 and 1997), Colombia (1990 and 1996), Costa Rica (1995 and 2001), Côte d'Ivoire (1995), Cyprus (1997), the Czech Republic (1996 and 2001), the Dominican Republic (1996), Egypt (1992 and 1999), El Salvador (1996), the European Communities (1991, 1993, 1995, 1997 and 2000), Fiji (1997), Finland (1992), Gabon (2001), Ghana (1992 and 2001), Guatemala (2002), Guinea (1999), Hong Kong (1990, 1994 and 1998), Hungary (1991 and 1998), Iceland (1994 and 2000), India (1993 and 1998), Indonesia (1991, 1994 and 1998), Israel (1994 and 1999), Jamaica (1998), Japan (1990, 1992, 1995, 1998 and 2000), Kenya (1993 and 2000), Korea, Rep. of (1992, 1996 and 2001), Lesotho (1998), Macao (1994 and 2001), Madagascar (2001), Malaysia (1993, 1997 and 2001), Mali (1998), Mauritius (1995 and 2001), Mexico (1993 and 1997), Morocco (1989 and 1996), Mozambique (2001), New Zealand (1990 and 1996), Namibia (1998), Nicaragua (1999), Nigeria (1991 and 1998), Norway (1991, 1996 and 2000), OECS (2001), Pakistan (1995 and 2002), Papua New Guinea (1999), Paraguay (1997), Peru (1994 and 2000), the Philippines (1993 and 1999), Poland (1993 and 2000), Romania (1992 and 1999), Senegal (1994), Singapore (1992, 1996 and 2000), Slovak Republic (1995 and 2001), the Solomon Islands (1998), South Africa (1993 and 1998), Sri Lanka (1995), Swaziland (1998), Sweden (1990 and 1994), Switzerland (1991, 1996 and 2000 (jointly with Liechtenstein)), Tanzania (2000), Thailand (1991, 1995 and 1999), Togo (1999), Trinidad and Tobago (1998), Tunisia (1994), Turkey (1994 and 1998), the United States (1989, 1992, 1994, 1996, 1999 and 2001), Uganda (1995 and 2001), Uruguay (1992 and 1998), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

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TRADE POLICY REVIEW BODY

PAKISTAN

Report by the Secretariat – Summary Observations

Economic growth in Pakistan has moderated relative to that in the period immediately prior to its previous Trade Policy Review in 1995. After accelerating in 1993-96, real GDP growth fell from 5.0% in 1995/96 to 1.2% in both 1996/97 and 1997/98 and has since fluctuated around 4%. Natural factors, including a severe drought, financial imbalances, particularly fiscal, and structural weaknesses have been important elements in this reduced economic performance. In consequence, Pakistan launched a Comprehensive Economic Revival Programme in 1999, including liberalization of its trade and investment regimes. This programme has been forcefully pursued resulting both in the successful implementation of a Stand-By Arrangement with the IMF and subsequent substantial support by the Fund under its Poverty Reduction and Growth Facility.

The economic slowdown has had social consequences. With population growing at a steady rate, Pakistan's real GDP per capita has dropped gradually below its early 1990s level and there has been a rise in the incidence of poverty: nearly one third of the population, particularly in rural areas, now fall below the poverty line, compared with one fifth a decade ago.

The fiscal imbalance is reflected in a high level of total net public debt, which reached an estimated 92.6% of GDP in 2000/01, more than half involving external liabilities. The fiscal deficit widened from 5.6% of GDP in 1994/95 to 7.7% in 1997/98 before declining to 5.3% in 2000/01, close to the target under the Revival Programme of 5.2%. Support for loss-making state-owned enterprises and a weak domestic tax base are critical elements in the recurring fiscal deficits. These, in turn, impair the Government's capacity to undertake essential expenditures (including on poverty alleviation, health, education, and infrastructure), thus hampering economic growth and development.

Pakistan has also had a persistent current account deficit, although this has been reduced considerably, from 7.2% of GDP in 1995/96 to 1.9% in 2000/01, largely owing to a substantial fall in the trade deficit. Nevertheless, total external liabilities have risen from 41.5% of GDP (1994/95) to 50.4% (1999/00), equal to four times export earnings, and making debt rescheduling a priority. As part of its adjustment strategy, Pakistan has successfully shifted to a floating-exchange rate regime (as from July 2000), with the rupee subsequently depreciating sharply. Pakistan has also periodically consulted with the WTO Committee on Balance-of-Payments Restrictions; indicative of its reform strategy and its implementation, Pakistan has phased-out its import restrictions that were being maintained for balance-of-payments reasons (the phase-out was to have been completed by end-June 2002).

Structural problems have played a role in Pakistan's slower growth. In particular, the State retains a prominent direct role in the economy and the tax system has been used extensively as a means to provide incentives, to the possible detriment of revenue collection. Further, protectionist policies have shielded domestic producers from foreign competition and have contributed to an anti-export bias. Political instability and weak governance have also had an adverse effect on the economy. These issues are being addressed in the Revival Programme, including through the implementation of a privatization programme, steps to strengthen the tax base and improve governance, and further trade liberalization.

Pakistan has a narrow export base, concentrated in low-value-added products and a few markets. Minor changes in the composition and direction of imports have been due largely to the recent rise in oil prices; the EU, the United States, and Japan have maintained their positions as

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Pakistan's main trading partners. Despite the 1997 opening of most sectors of the economy to foreign direct investment (FDI), inflows have dropped, reflecting, inter alia, a decline in investors' confidence. However, the continued successful implementation of the Revival Programme could well serve to improve confidence.

Despite its economic and political difficulties, Pakistan has taken steps since its previous Review to liberalize its trade and investment regimes, either unilaterally or in the context of commitments made in the WTO, IMF, and the World Bank. Over the past two years, efforts in several crucial areas have seemingly intensified, with the result that Pakistan is becoming a more open and secure market for its trading partners.

Pakistan's trade policies have been based on the principles of multilateralism and non-discrimination. Consequently, its involvement in preferential and regional trade arrangements has been limited. Indeed, it has expressed concern about the proliferation of regional trade agreements and initiatives. The scope of Pakistan's own commitments under the seven-member South Asian Association for Regional Cooperation (SAARC) Preferential Trading Arrangements (SAPTA), and the additional Protocol on Preferential Tariff of Economic Cooperation Organization (ECO) have remained limited.

In line with its multilateral trade commitments and other obligations, including those with international financial institutions, and with domestic political developments, Pakistan has undertaken changes in its legislative and institutional framework. The Ministry of Commerce was strengthened with the establishment of a WTO-cell and, as from October 2000, a "WTO Council" has looked into the effects of WTO-related policies on trade and production. Pakistan has participated actively in numerous aspects of the WTO's work. New legislation was or is to be enacted on safeguards, anti-dumping and countervailing measures, and intellectual property rights as well as in several other areas.

Pakistan has acted to significantly improve the external transparency of its trade and investment regimes. It has largely met its regular GATT/WTO notification requirements and responded to most questions raised by WTO Members in a number of areas (e.g. state-trading, and domestic support in agriculture); tariff information has been submitted to the WTO Integrated Data Base, but there is still scope for improving notification in a number of fields. In addition to regulatory reforms aimed at simplifying and reducing trade-related regulations, and the presence of Internet websites at several public sector agencies, Pakistan has made efforts to make legislation pertaining to trade (including the customs tariff) and investment publicly available in English through a web-based computer network.

The tariff remains Pakistan's main trade policy instrument; its relative importance has increased as a result of the recent elimination of non-tariff barriers on several items. At the same time, it is a major, albeit declining, source of tax revenue. As a result of a major restructuring of Pakistan's customs tariff in 2001/02, the average applied tariff rate has fallen to 20.4% from 56% in 1993/94. Nevertheless, tariff protection is still relatively high, especially for a few sensitive items, and although efforts have been made to reduce tariff peaks and dispersion, tariff rates vary widely. Consequently, the tariff remains a potential restraint on domestic competition and thus an obstacle to the efficient allocation of resources, with adverse consequences for the economy's productivity and local firms' export competitiveness. However, the scope for improving efficiency through further substantial cuts in tariffs may be limited in the near future by the importance of the customs tariff to the Government as a source of revenue, and by the internal tax system's vulnerability to avoidance and evasion (see below).

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Roughly one third of tariff lines (including all agricultural items) are currently bound. Given the reduction in applied rates, there is a widening gap between bound and applied rates; the average bound rate considerably exceeds the average applied rate. This imparts an element of uncertainty to the tariff, with the Government retaining freedom to raise applied rates within bindings.

During the period under review, Pakistan's tariff has been considerably simplified and rates significantly reduced. Almost all rates now fall into four tiers, although some peaks, e.g. 250% on automobiles, and specific and compound rates, raises the number of distinct rates to 26, still considerably down from the 49 in 2000/01. Nevertheless, widely different tariff rates can provide considerable scope for misclassification of imports by customs officials. The new-found transparency of the tariff is somewhat clouded by concessions (for goods not manufactured locally), but their scope has seemingly been reduced recently. A by-product of the tariff simplification has been the apparent breaching of WTO-bound rates on some 90 lines. The authorities are fully aware of this difficulty and have already taken steps to address it in the next Budget, when there will be a further lowering of rates, including a reduction in the maximum rate from 30% to 25%.

Protection from imports is also provided by several other border taxes and charges. So-called "regulatory" duties appear to have been reinstated (for imports of edible oil and oil seeds for crushing). Moreover, withholding taxes are levied on imports (and exports); these taxes, which may be deductible from income taxes, are apparently intended to combat income-tax evasion. In addition, a capital-value tax is levied on imported motor vehicles, while locally manufactured television sets and air conditioners have been exempt from excise tax since 1997, with the stated objective of discouraging smuggling.

Efforts have been made to streamline customs clearance procedures by, inter alia, introducing an Express Lane Facility and an Electronic Assessment System. In the context of the implementation of the WTO Agreement on Customs Valuation, Pakistan has discontinued the use of the Brussels Definition of Value but maintained provisions for reference prices; a Customs Valuation Information System containing a database on assessed import values of each individual consignment may be accessed by the general public through the Internet.

Import prohibitions and restrictions have been maintained on a number of grounds, although they appear to affect fewer items than at the time of the previous Review; their implementation continues to depend largely upon the status of the importer (e.g. public sector or industrial consumers), origin (e.g. Israel, India), prior approval or other conditions. Restrictions on balance-of-payments grounds have been phased out ahead of schedule while those affecting numerous textiles and clothing articles and chassis were eliminated in 2000/01. No contingency measures have been applied.

Government procurement has continued to be used as an instrument to support local industry. Price preferences of up to 25% may be accorded to domestic suppliers, particularly in engineering goods contracts, and 10% of the annual procurement budget of public sector agencies may be allocated to domestic purchases. Pakistan has a local-content scheme (Indigenization/Deletion Programme) for which it has secured an extension for its elimination under the WTO Agreement on Trade-Related Investment Measures.

The scope of export prohibitions seems to have been reduced by, inter alia, putting greater emphasis on compliance with international commitments (including those aimed at protecting intellectual property rights). Exports of certain textiles and clothing items have remained subject to access-related restraints in several major markets (e.g. the European Union, Canada and the United States). Preshipment registration of export contracts is required for certain sensitive items (cotton, rice, urea) and preshipment inspection requirements have applied to rice; potato exports have

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been temporarily subject to quantitative restrictions. Regulatory duties now affect exports of a few items (crushed/uncrushed bones, raw/wet blue hides, and skins). State involvement in rice and cotton exports was recently reduced and is being curtailed for wheat exports; the public sector's exclusive export rights have been limited to furnace oil and high-speed diesel oil.

Export subsidies, largely linked to export-performance requirements, have been provided in different forms, including direct financial support, concessionary export finance (now being reduced), and tax breaks in export-processing zones. Drawback amounts, now reportedly based on input-output coefficients, correspond to duties and other charges actually paid on imported raw materials used for the manufacture of export products.

Several forms of support to production and trade have been strengthened; such measures include a variety of tax and non-tax incentives. Priority has been given to science and technology (e.g. hi-tech industries) and small and medium-sized enterprises. State participation in production and trade remains mainly in chemicals, transport equipment, fuels, machine tools, mining and energy, and in engineering, financial, telecommunication, transport, and tourism services. Other forms of support have included preferential electricity pricing for farmers and manufacturers.

Pakistan relies heavily on indirect taxes (including customs tariffs), which account for 71% of total tax revenues. The tax system involves a multiplicity of taxes, often narrowly based as a result of numerous concessions, if not exemptions, and some involving high tax rates. It can thus distort domestic prices, thereby constituting a potentially important obstacle to the efficient allocation of resources, and is unduly complex (and therefore opaque). Moreover, tax administration tends to be weak and tax evasion endemic owing to the large size of the "informal" economy (reportedly, less than 1% of the population paid any income taxes in 1999). In order to address these deficiencies, steps have been taken to reform the tax system. They include: significant changes to the General Sales Tax (GST), which has replaced taxes on international trade as the main indirect tax since the previous Review; a Self-Assessment Scheme intended to broaden the income tax base; reduced personal contact between taxpayers and tax collectors; a clampdown on tax evasion; and the imposition of an agriculture income tax on farmers with high incomes at the provincial level, thereby placing agriculture and non-agricultural activities on a more equal footing. In addition, the wealth tax and two local taxes (Octroi, Zilla) were abolished.

To ensure compliance with the WTO Agreement on Trade-Related Intellectual Property Rights (TRIPS) commitments, Pakistan amended its patent legislation in 1997 to implement "patent mailbox" TRIPS obligations, and in 2000/01 passed new legislation on patents, trade marks, layout designs of integrated circuits, and copyrights. Efforts are being made to increase its limited adherence to international treaties in this area, and border enforcement rules are under preparation.

Although progress on privatization (divestment) appears to have been rather slow, judging from privatization receipts, efforts in this regard have been reinforced with, inter alia, the establishment of short, medium, and long-term divestment plans affecting the restructuring and divestment of numerous entities.

On competition policy, the elimination of business entry restrictions seems to have reduced industrial concentration. State entities are not subject to competition rules.

Reflecting a policy largely focused on a few major crops (e.g. wheat, cotton, rice, and sugarcane) and sensitive essential items, overall the agriculture, livestock, fisheries, and forestry sector has received little government support. Pakistan remains a net food importing country as production had been unable to keep pace with the rapidly expanding food requirements. Over the review period average tariff protection has been reduced, from 38.8% to 14.9%. A few sensitive

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items continue to be subject to specific, compound, or regulatory duties. An import prohibition for a certain type of raw sugar was introduced as of September 2000, although appears to be no longer in force. Technical or religious requirements are maintained for other items (e.g. meat). Exports of several strategic items have been subject to prohibition (edible oil, wood, and timber), temporary quantitative restriction (potatoes), preshipment registration (rice, cotton, potatoes) or minimum export prices. At the same time, export subsidies covering freight costs (for fresh fruit, vegetables, flowers, and fish products) and direct financial support (for sugar) have been provided. State involvement in foreign trade of essential commodities is now limited to one entity, the Trading Corporation of Pakistan. As of 2000/01, trade in wheat and its milling products is being liberalized. Domestic support has, by and large, remained untouched and within the bounds set by WTO reduction commitments; it has involved almost exclusively "Green Box" measures, including the provision of infrastructure and other services, procurement prices, subsidies for the purchase of locally made tractors (1999/00), electricity and water charges below cost, and tax incentives.

New policies have contributed to the setting up of joint ventures with foreign firms in mining and energy activities. State involvement has remained largely intact, although efforts have been made to privatize some state-owned enterprises. Cross-subsidization has persisted, through complex concessionary electricity tariffs (depending on the user). A price adjustment mechanism for petroleum products has allowed changes in world oil prices to be reflected in the domestic prices of petroleum products; trade in furnace oil was liberalized.

Manufacturing accounts for a large share of merchandise exports (mainly textiles and clothing). Border protection, which is now largely confined to tariffs, has been reduced drastically through unilateral cuts; average tariff protection has declined from 42.1% to 20.9% more as a consequence of unilateral reductions than of implementation of the limited Uruguay Round binding commitments in this sector. Following the dismantlement of import prohibitions on textiles and clothing, protection is now largely focused on the automotive sector, which registered effective rates of protection exceeding 5,000%. Protection has taken the form of high tariffs (motor vehicles), import duty/sales tax concessions applied to foreign-made machinery/equipment, or temporarily subsidized sales (tractors). State involvement has persisted, although disinvestment in certain activities is now scheduled for the year 2002.

In the period under review, steps have been taken to reduce state involvement in the services sector and encourage private investment in several activities. Financial services have been dominated by domestic and nationalized institutions, while the progressive introduction of the Islamic (interest-free) banking principles may discourage foreign banks. Interest rates have been deregulated and the gap between non-subsidized and subsidized lending rates for priority sectors has been gradually reduced. The autonomy of the State (central) Bank of Pakistan (SBP) has been reinforced and prudential regulations are being strengthened. New legislation was passed to deregulate and strengthen the insurance market minimum solvency margin requirements; moreover, efforts are being made to reduce impediments to the operation of foreign insurance firms. Private sector involvement in telecommunications has increased in activities other than the fixed line services, although the state monopoly here is to be abolished by the end of 2002; tariff re-balancing by increasing line rental and local call charges is under consideration. Despite the exclusive rights of state entities in broadcasting and audiovisual, audiovisual services have been opened to joint ventures with foreign investors; cable television service became legal and subject to licensing. Declining use of foreign shipment has led to increased handling of cargo by the sole state-owned company; a domestic shipbuilding subsidy has been made available under certain conditions to local shipowners. In air transportation the state-owned national carrier has been faced with private-sector competition on domestic routes. Software development and exports have been a priority and are being encouraged in several ways (mainly through tax incentives).

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Pakistan has commitments under the General Agreement on Trade in Services (GATS) in 47 activities, in financial (banking and insurance), business, communications, construction/engineering, health, and tourism/travel services; those concerning financial and basic telecoms services improved, inter alia, conditions for foreign presence, and were ratified. Pakistan's GATS MFN exemptions cover financial services, with a view to preserving reciprocity requirements, Islamic financing transactions, and joint ventures among ECO countries, as well as accounting rates agreed bilaterally.

Despite severe economic and political difficulties, Pakistan has, by and large, resisted protectionist pressure and opted for market-based reforms, including the adoption of a more liberal attitude to imports and foreign investment. By fostering domestic competition, these reforms should contribute to a more efficient allocation of domestic resources, which would enhance the economy's productivity and local firms' export competitiveness.

There are signs that the economy may be improving; they include the recent appreciation of Pakistan's currency and rise in the local stock market. These developments are perhaps partly due to the perceived improvement in the prospects of Pakistan obtaining substantial debt relief from its international creditors. Such relief would reduce the cost to Pakistan of servicing its large foreign debt, thus helping to redress the current fiscal imbalance and providing more scope for the Government to tackle the country's social problems (notably in the areas of poverty, health, education, housing, and governance), and the presence of some three million refugees.

Pakistan's long-term economic growth, however, depends importantly on the continued implementation of the Revival Programme, particularly in the reduction of direct state intervention in the economy and improvements in the tax base. Long-term growth of the economy is also dependent on Pakistan's success in diversifying its exports, which in turn depends on its trading partners' willingness to keep their markets open, or even open them further, to Pakistani goods and services, notwithstanding the present global economic slowdown.

TRADE POLICY REVIEW BODY

PAKISTAN

Report by the Government of Pakistan – Part III

TRADE POLICY DEVELOPMENTS

POLICY OBJECTIVES

The trade policy for the year 2000-2001 laid emphasis on market-driven measures; government intervention was limited to ensuring a level playing field, removal of structural impediments, and to guiding investments to the more productive sectors. The policy specified the following broad objectives:

- (a) Reduce anti-export bias through reduction in import duties and trade liberalization, competitive exchange rates, and improvement in the export infrastructure.
- (b) Achieve sustainable and consistent growth in export earnings through diversification of export base and greater value addition in goods and services.
- (c) Liberalize the import regime to enhance competition in the economy with a view to achieving significant quality and productivity gains.
- (d) Simplify and streamline trade procedures and practices.

The policy announced for the fiscal year 2001-2002 aims to continue the thrust of trade liberalization and promotion of exports through reduction of anti-export bias, with particular emphasis on durability, consistency and predictability of economic policies.

The monopolistic role of state enterprises in trade has been done away with. The Cotton Export Corporation and the Rice Export Corporation have been wound up. The private sector is now actively involved in the export of these products. Trading Corporation of Pakistan occasionally intervenes in the cotton market, in terms of its charter. Its role is, however, quite limited – this year, for instance, its purchase plans are for 230,000 bales, which is about 2% of the total cotton to be traded in Pakistan. Rice export is entirely in private sector hands.

IMPORT REGIME

Law governing the import regime has been completely rewritten with a view to augment trade facilitation and remove any implicit technical barriers.

There has been a radical pruning of the "negative list" i.e. items subject to import bans/QR's. As a consequence, there are now only 57 items (8-digit HS Code basis) whose import is not allowed.¹ These restrictions are strictly on grounds of public health and morality, environmental concerns or national security considerations. Similarly, there are 192 items on the "restricted list". Import of these items is allowed upon meeting the health and safety requirements. Import of certain used machinery is not allowed for safety reasons.

¹ Pakistan removed the QR's on textile goods, for which a special dispensation had been obtained on Balance of Payment grounds, considerably before the expiry of the period allowed by the Balance of Payment committee.

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There is no licensing requirement or cash margin requirements or public sector monopoly in imports. With the dismantling of its apparatus of quantitative restrictions and other barriers tariffs is now Pakistan's principal trade policy instrument.

TARIFF POLICY

Reliance on Customs Duties as a source of government revenues had been one of the major factors compelling Pakistan's high tariff rates. This compulsion has been largely mitigated by tax administration reforms and a major shift to the General Sales Tax regime. The share of customs duties in tax receipts has come down from 33% in FY 96 to 16% in FY 01.

Despite its acute fiscal imbalances Pakistan has sought to substantially reduce the level and dispersion of its tariffs.

The period since the last Review has seen elimination of para-tariffs and a very significant reduction in tariffs. The maximum tariff has now been brought down to 30% (with few exceptions that relate to automobiles and alcoholic beverages) and the number of tariff slabs reduced to four. During the current year duty was reduced on 4,000 of the 5,440 items (8-digit HS Code) in the Pakistan Tariff Code.

It has already been decided to further reduce the maximum tariff to 25% effective 1 July 2002.

Reduction and rationalization of tariffs has been accompanied with simplification of procedures. Regulations having a distortionary effect (e.g. user-specific concessions) are being done away with. The number of such Statutory Regulatory Orders (SRO's) has already been halved over last year and we are committed to totally eliminate them over the next couple of years.

A major exercise to reform and restructure the Central Board of Revenue is under way. This is expected to contribute to greater transparency and trade facilitation.

Table 5
Tariff and their dispersion

Description	1997	1998	1999	2000	2001
Number of rates	13	5	5	5	4
Maximum rate (%)	65	45	35	35	30
Average rate ^a (%)	23	21	18	18	17
Average rate ^b (%)	17	16	14	12	11

a Duty collected divided by value of dutiable imports.

b Duty collected divided by value of total imports.

Customs valuation has been switched from the traditional ITP (Import Trade Price) system to the WTO complaint transaction based system. Necessary amendments to give effect to this have been made in the Customs Act.

EXPORT REGIME

Export regime has been liberalized to do away with public sector monopolies to permit full private sector participation. For reasons of environment, public health and morality, or Pakistan's commitments under multilateral conventions, export of 13 products (e.g. drugs, endangered species etc.) is not allowed.

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Food security considerations had obliged Pakistan to restrict the export of wheat and its milled products. This restriction has been removed and these products are now freely exportable.

In a significant departure from traditional policies Pakistan has taken the decision to allow intra-trade in all agricultural products, regardless of the level of domestic production.

In effective terms support price policies for agricultural produce have also been done away with. There are no Minimum Export Prices.

In sharp contrast to the long entrenched practice to announce fiscal and other benefits for exports, this year's trade policy chose to chart an altogether different course: instead of concessions, that create distortions and rent seeking opportunities, the policy concentrated on making Pakistan's export base more competitive through on shore capacity development, supply-chain management, and greater value addition.

It is our endeavour to do away with all export subsidies, explicit or otherwise. We no longer resort to freight subsidies, there are no compensatory rebates, the duty drawback rates have been rolled back and rationalized on input-output coefficient basis, and the element of subsidy in export finance completely eliminated.

New measures have been introduced to cater to genuine export needs. These consist of:

- (e) Notification of Duty and Tax Remission for Export (DTRE) rules. These provide for duty-free import of inputs required for exports.
- (f) Setting up of Input-Output Coefficient Organization (IOCO) to work out, on a professional basis, duty drawback rates for domestically procured (duty paid) goods.
- (g) Establishment (in the private sector) of Pakistan Export Finance Guarantee Agency (PEFGA), to provide bankable guarantees that may be used as collateral. This scheme is of particular interest to small and medium-sized exporters.
- (h) Creation of Foreign Currency Export Finance (FCEF) facility that will allow exporters to borrow on LIBOR PLUS basis and repay out of their export proceeds.
- (i) Setting up of Pakistan National Accreditation Council (PNAC) that will provide accreditation services to certification bodies operating for ISO 9000, ISO 14000 etc. This will contribute to better quality standards for Pakistan's exports.

END