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Statement by the Discussant

Trade Policy Review of Pakistan

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Economic Environment

Since the last review, Pakistan has only managed to achieve moderate economic performance. Pakistan's Real GDP growth rate fell from 5.0% in 1995/1996 to a low of 1.2% between 1996 and 1998. Whilst the low growths has improved a little in 1999, where GDP growth rose to around 4% and have hovered ever since, it is however not the case for the country per capita income.

Pakistan's combination of a low economic growth with a steady population growth of 2.5% per annum as well as depreciating national currency has had a negative effect on the country's per capita income. Pakistan's GDP per capita in 2000 of US$450,- is considerably lower when compared to the periods prior to the last review. Furthermore the country has also seen a marked rise in the incidence of poverty, where nearly one-third of the population, particularly in rural areas, now fall below the poverty line.

Pakistan persistently high current account deficit, which peak in 1995/96 at 7.2% of GDP, has substantially decreased during the period under review. This decrease was largely due to a substantial fall in the trade deficit, which was mainly the result of the economic sanctions imposed by the international community in 1998.

It should be noted however that the weak economic performance of Pakistan is not only attributed to structural, economic and political difficulties that the country faced, but also the result of natural factors, including the most severe drought in the history of the country as well as a general slowdown in the world economy.

In response to the economic difficulties, Pakistan launched a Comprehensive Economic Revival Programme in 1999. The programme, which includes liberalization of Pakistan trade and investment regimes, has been forcefully pursued. Early results from the programme have been promising, where there are now visible signs of stabilization in Pakistan's economy as well as greater support from international financial institutions such as the IMF.

Like in many developing countries, the Government's traditional support for loss making state-owned enterprises combined with low economic growth and a weak tax base which is often used as a tool to provide incentives, have resulted in a high level of total net public debt, which reached an estimated 92.6% of GDP in 2000/2001. While this has no doubt raised some concerns, it is however expected to improve with the continuing implementation of the Revival Programme. Indication of such improvement can be seen from the Government's success in strengthening its fiscal position by significantly increasing tax revenue and containing expenditure. As consequence, the fiscal deficit fell from 7.5% of GDP in Fiscal Year (FY) 1996 to 5.3% in FY 2001.

In paragraphs 11-13 of its Report, the Government of Pakistan states that with fiscal deficit continuing to exceed the GDP growth rate there has been a significant increase in domestic and external debt, which constitutes 49% and 64% of GDP, respectively. Pakistan reasonably high level of public debt raises the issue the heavy burden of debt servicing and its immediate effect in hampering the Government's efforts to undertake essential social expenditures, such as poverty eradication, health, education and infrastructure as well as coping with the spill over effect of refugee from the war in Afghanistan. However, it is expected that the debt-servicing burden will be ease with the ongoing negotiations with multilateral and bilateral donors.

At this point, ***it is appreciated if delegation of Pakistan would indicate how they envisage improving further the fiscal situation and what progress has been made in negotiations to obtain debt relief.***

As part of the stabilization programme, Pakistan has successfully shifted to free floating-exchange rate regime, where the Rupee's band that had been in place during FY 2000 was dismantled. This, coupled with the emphasis on accumulating foreign exchange reserves, shifted the State Bank of Pakistan (SBP) policy emphasis, from direct intervention to the use monetary policy with market-based instruments. Whilst this had depreciated the rupee in relation to the US dollar by 18.6 percent during FY 2001, it is however a positive step forward which will not just help raise the country's foreign exchange reserve but also in obtaining the confidence of the market.

Trade and Trade-Related Policies

Pakistan has taken major steps to liberalize its trade and investment regimes, where greater emphasis is now being put on market driven measures. Trade policies have been based on the principles of multilateralism and non-discrimination. Although Pakistan is a member of *South Asian Association for Regional Cooperation (SAARC) Preferential Trading Arrangement (SAPTA)* its involvement in preferential and regional trade arrangements has been limited.
In light of Pakistan's position with regard to SAPTA, how does the Pakistan delegation view the future development of SAARC as a regional economic cooperation?

During the period under review the Government has strived to simplify and improve significantly the transparency of complex trade-related framework. Pakistan has met most of its GATT/WTO notification requirements, responded to most of the questions raised by members in a number of areas, and have used website at several public sector agencies to make publicly available information pertaining to trade. Furthermore Pakistan has also undertaken institutional changes to improve policy coordination on WTO matters as well as governance. The strengthening of the Ministry of Commerce with the establishment of a WTO-cell as well as the establishment of a WTO Council to look into the effect of WTO-related policies on trade and production can be seen as another example of Pakistan strong commitment to the WTO process and the multilateral trading system.

There has been considerable progress made by Pakistan in liberalising its trade regime. Tariff remains Pakistan's main trade policy instrument, and where its important has further increased in recent years with the elimination of non-tariff barriers on several products. Pakistan has conducted reduction and simplification of its tariff schedules, which have resulted in the average applied MFN tariff rate falling from 56% in 1993/94 to 20.4% in 2001/02. However, being the Government's major source of tax revenues tariff protection is relatively still high in particular on a few sensitive items, with the existence of some tariff peaks.

About one-third of Pakistan tariff lines, which include all agricultural products, are currently bound. With falling applied MFN to 20.4%, the gap between bound and applied rates has widened. Furthermore, a by-product of Pakistan tariff simplification has resulted in the breaching of WTO-bound rates on some 90 lines. However as Pakistan authorities are fully aware of this situation, they 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% effective 1 July 2002. The challenge for Pakistan is therefore how to bring the wide gap of applied tariff rate into line with the binding rate.
In view of the difficult fiscal situation and Pakistan's heavy reliance on tariffs for tax revenues, perhaps delegation of Pakistan would like to comment on the difficulties Pakistan face in reducing tariffs further.

Pakistan has also made great progress on dismantling non-tariff measures affecting imports. Efforts have been made to streamline customs clearance procedures, introduction of WTO Agreement on custom valuation, and the lifting of a few import prohibition and restriction regulations. Furthermore, 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.
I would also like to ask the Pakistan delegation what measures they intend to take in the coming years to maintain trade policy reform.

As regards export measures, Pakistan has also liberalized its export regime, eliminating public sector monopolies enabling full private sector participation. Pakistan has also allowed intra-trade in all agriculture products, which represent a significant departure from traditional policies. While Pakistan have stated that it is trying to do away with all types of exports subsidies, in the effort to encourage export the authorities is still providing several assistance, among others such as duty and sales tax concession on imports used in the production of export items, income tax rebate, and concessional export finance. These supports are largely linked to export-performance requirements.

In its effort to comply with the WTO Agreement on Trade Related Intellectual Property Rights (TRIPS) Pakistan has amended its legislation to implement TRIPS obligations on patents, trade marks, layout designs of integrated circuits, and copyrights. Greater efforts are also being made to improve adherence in international treaties and border enforcement.

In its Report, the Government of Pakistan states its firm commitment to privatising state-owned enterprises. A Privatisation Ordinance has been promulgated to provide comfort to investors and to ensure transparency in the sale process. Whereas the Privatisation Commission had carried out 66 privatisation transactions up until 1995, by the end of 2000 the number had risen to 106. The units privatised so far include commercial banks, automobile plants, cement manufacturing plants, chemical and fertilizer plants, power plants, and engineering units besides assorted smaller units.

Perhaps the Pakistan delegation could elaborate on Pakistan focus and scope of its privatisation plans for the near future.

It is encouraging to note that Pakistan's investment regime is amongst the most liberal in the region. All economic sectors are now open for foreign direct investment and in almost all sectors 100% foreign ownership is allowed. Except for a few specific sectors, there is no longer the need for government sanction for making investment in any sector of the economy. Pakistan has bilateral investment agreements with 40 countries and agreements of avoidance of double taxation with 51 countries.

Sectoral Policies

The agriculture sectors has maintained its position as being the backbone of Pakistan’s economy, where it accounts for a quarter of the GDP and nearly half of total employment. However, despite the significant role the agriculture sector has in the country’s economy, Pakistan remain a major food importing country, dependent on a few major crops. Similar to other developing countries, Pakistan agricultural sector suffers from poor productivity performance attributed mainly to the use of traditional method of farming, shortage of key inputs, and adverse weather conditions. With a relatively high number rural poverty, Pakistan agriculture sector is very much linked to the issue of achieving food security and rural development.

Whilst the sector has received very little government support and have tended to be exclusively on “Green Box” support, it does however have some benefit from the a wide binding tariff gap as well as some non-tariff measures. Tariff protection has however dropped and state involvement in the trading of a few sensitive items is also being reduced.

Manufacturing sector, mainly textile and clothing, accounts for a large share of Pakistan merchandise export. Since the last review, Pakistan average applied MFN tariff on imports of manufacture goods have drastically decline from 42.1% to 20%.

It is encouraging that this cuts was the result of unilateral trade liberalisation programme and not the implementation of the limited Uruguay Round binding commitments. Import prohibitions on textiles and clothing and chassis for trucks have also been dismantled during the period under review.
One of the worst sectors hit by the current slowdown in the global economy is the world textile industry. This combined with many of the Pakistan traditional markets still being very highly protected, what policies does the authorities intend to pursue in helping its textile industry.

Pakistan has taken up commitment under the GATS. Pakistan's Schedule of specific Commitment covers 47 activities within the financial, business, communications, construction/engineering, health, and tourism/travel. During the period under reviews Pakistan have taken various steps to liberalize and strengthen the services sector, including financial services and telecommunications, but several barriers remain.
Perhaps the Pakistan delegation would like to indicate any plans in liberalising the services sector in the near future.

Conclusion

Since the last review in 1995, Pakistan has had to encounter many economic and political difficulties in its development endeavours. Despite the many difficulties faced by the country, it is however encouraging to see Pakistan's continued strong commitment towards the multilateral trading system and honour its commitments under the WTO Agreements. Pakistan has resisted to protectionist policies and has opted out to undertake market reform, liberalising many sectors of its economy, in its efforts to boost economic performance. The continued full implementation of the Revival Programme, which has shown some sign of success, is expected to bring long-term economic growth. However long-term economic growth is also very much dependent on the willingness of Pakistan's trading partners to keep their market open and further opening up their markets.

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