

Statement of Pakistan
in the Meeting of Trade Policy Review Body
on 23 and 25 January 2002

Mr. Chairman,

Let me begin by acknowledging the painstaking effort put into the preparation of Trade Policy Review by the Secretariat. It has been a laborious exercise, made that much more challenging by their inability to travel to Pakistan, and our reservations on certain aspects of their report notwithstanding, they deserve to be complimented on the thoroughness of their research – indeed, and somewhat to our dismay, they discovered sources that we did not even know existed. We are also indebted to Her Excellency Ambassador Halida Miljani for accepting to be discussant despite her several other pre-occupations. Further, we would like to record our appreciation of the Members who have shown interest in our Trade Policy Review and have posed questions, and I hasten to add, quite a few of these questions have set us thinking. These questions, however -- most of them at least -- have been received only over the last few days. We will of-course respond to these as quickly as possible and to the best of our ability.

2. Now, a comment on the Secretariat report.

3. The Secretariat report, otherwise prepared with considerable diligence and meticulous detail, is infected with certain factual errors, a few dating discrepancies, and some misinterpretations. These have combined to lend to the report a tone that is generally less charitable than Pakistan's recent liberalization efforts would warrant.

4. But the Secretariat is not to be entirely blamed. On the one hand, the exceptional circumstances prevailing in Pakistan since 9-11 prevented the Secretariat staff from interacting with the Pakistani authorities. I have no doubt such interaction would have contributed significantly to a 'debugging' of the Secretariat Report.

5. On the other hand, this also brings to fore the capacity weaknesses that Pakistan shares with some of the other developing countries. Even where we had corrected things, or rolled back trade distorting measures, our systems did not permit a prompt and an unambiguous signalling to the Secretariat of these developments.

6. However, reassured as I am with Mr. Boonekemp's remarks on the extraordinary circumstances of this review, I will desist from going into the specifics of the inconsistencies in the

Report. We will work with the Secretariat on their Report so that what we have at the end of the day is a true and fair analysis of Pakistan's Trade Policy regime.

7. May I now, Mr. Chairman, take you back to Pakistan's last TPR in 1995; to the then Chairman's concluding remarks. While commending Pakistan on its macroeconomic and structural reform programme, which had ended four decades of inward orientation, he added "participants encouraged Pakistan to continue with its programme".

8. I am glad to be able to report to you that we have paid good heed to this advice. This has not been easy, as I will explain in a moment, but pursued this advice we have. We have done so as much out of our commitment to the principles and objectives of WTO as our conviction that it is in Pakistan's own interest to reform and to liberalize and to give a more outward orientation to its economy.

9. The last six years have been very challenging ones for Pakistan's economy. The process of reform was repeatedly confronted with onerous domestic and external challenges. As if political instability, natural calamities like floods and droughts,

crippling debt burden were not enough, we also had to face economic sanctions, restrained capital inflows, deteriorating terms of trade, the Far East crisis and of late the global slow down.

10. Pakistan's economic indices are clearly disturbing : low growth rate in recent years, an unsustainable burden of debt servicing, high fiscal and current account deficits. Per capita income in dollar terms has deteriorated and the incidence of poverty has gone up. Revenue constraints are quite telling : Pakistan's tax to GDP (MP) ratio remained trapped within the 13-14 percent range, when even its current expenditure averaged 19.6 percent of GDP in the 90's.

11. And despite this daunting economic scenario, we have stayed on course. We have persevered with our trade liberalization efforts.

12. We have done so in order to reduce the deadweight losses associated with high protection, promote competition, reform the structure of taxes to shift from trade to consumption, and to lay the foundations for a more efficient economy

13. For the last two years, in particular, we have been following a rigorous reforms programme. While the economic dimensions of this programme find a mention in our report that has already been circulated (document WT/TPR/G/95) allow me, Mr. Chairman, to share with you and the other Members the work that we are doing in the social sectors. I would particularly like to cover, albeit briefly,

- Human Development aspects, and the
- Gender Issues.

14. Our Poverty Reduction and Growth Strategy strongly focuses on the Human Development aspects, the main planks being education, health, population planning and income generating opportunities. Unlike the traditional input oriented approach, we are looking for outcome or outputs. Thus, the emphasis will be on changes in literacy, participation, and drop-out rates, rather than number of school buildings constructed; instead of counting the number of beds in hospitals we would rather look at the number of children immunized.

15. Simultaneously, social safety nets have been strengthened to provide succour to the indigent and the incapacitated. An ambitious micro-finance programme has been

launched to help people, especially women and the rural populace, create self-employment opportunities.

16. We have found strong support for our Human Development efforts from several multilateral and bilateral donors. We are grateful to them.

18. Mr. Chairman, past neglect of women is something we are fast correcting. This endeavour finds reflection in education and health for the girl child, nutritional support for mothers and reproductive choices, 'women in development', and a strong role in civil society. Women have also been given a more prominent role in National politics – 33 percent of the seats in local bodies and about 20 percent in the National Assembly have been reserved for them.

19. The Government of Pakistan report speaks of the economy showing unmistakable signs of stabilization. Some of these signs are :

- Budget deficit last year was contained at 5.2%. This fiscal we expect it to come down to 5%. There was a decrease in defence spending.

- Current account to GDP ratio improved to 0.6% from a negative of 0.4% in Fiscal Year 2000. Trade deficit was reduced to US \$ 1.27 billion.
- For the first time tax collection crossed the Rs. 400 billion mark and exports the US \$ 9 billion mark.
- The exchange rate has largely stabilized and foreign exchange reserves are sufficient to cover more than three months imports.
- The recent bullish trend in the stock market is symptomatic of renewed investor confidence.
- Inflation rates have remained low.

20. Pakistan's standby arrangement with the IMF stayed completely on track, leading to approval of a three year Poverty Reduction and Growth Fund (PRGF) and the Paris Club rescheduling of debt.

21. We are encouraged by these indicators but have no illusions as to the task ahead. The events of 9-11, developments in the region and the global slowdown add to our challenges.

22. Our Government Report has highlighted the trade liberalization measures that we have recently undertaken, the fragility of our economic indicators notwithstanding. Allow me, Mr. Chairman, to reiterate here some of the major features.

23. On non-tariff barriers, Quantitative Restrictions and trade facilitation we like to think we have made enormous progress, particularly for a country at our level and stage of development. Even though we think we have done all that was possible, Mr. Chairman, we would be happy to work with the Secretariat and the Members, in such areas as they may wish to identify.

24. On tariffs, there has been a large scale reduction. Barring certain exceptions, that are quite explainable, we have reduced the tariff heights and their dispersion – the maximum tariff of 30% is to be reduced further (by 5%) next year. The number of tariff rates (or slabs) has been reduced to 4, and the average rate (on the basis of collected duty) has come down to 11%. In this year's budget alone duty was reduced on about 80% of the items (8 digit HS code). The number of 'exemptions', that have a distortionary effect, has been drastically curtailed. In the textile and clothing sector, our applied rates are generally at par

or close to our bound rates. The Central Board of Revenue is now no longer competent to impose any regulatory duties. The Customs Valuation system has been revamped. Cash margin requirements for imports have been done away with.

25. In our tariff reduction exercise, we have largely followed the concertina method in preference to the equiproportional reduction or equal absolute reduction in the height of tariffs methods. This concertina was chosen because of its greater positive welfare implications.

26. We have tested our trade restrictiveness index against the various measurement indices available in contemporary literature and are quite encouraged by the results. On the IMF index (the Robert Sharer index), for example, Pakistan comes out to be following a 'Moderate' tariff policy and an 'Open' policy on the basis of Quantitative Restrictions.

27. Pakistan's high tariff rates have traditionally been motivated by Revenue considerations. Although a direct co-relationship between higher tariff rates and greater revenue yields is highly arguable (Pritchett and Sethi : *World Bank Economic Review Vol 8. No. 1*), we continue to strive for a lower dependence on Customs Duties as a source of Revenue –

already these have come down to 16% of total tax collection from 33% in Fiscal Year 1996. Besides a strong shift to consumption taxes, we undertook an ambitious drive to widen the tax net by identifying short and non-filers; the income tax law has been rewritten to provide for more effective compliance; the Central Board of Revenue is being reorganized with a view to minimize evasion and avoidance, enhance transparency, and improve its efficiency; and finally, the multiplicity of taxes, as well as their rates, is being reduced.

28. We intend to continue our efforts to make our tariff policy more open and to reduce the anti-export bias.

29. Our export regime, too, has witnessed some fundamental reforms. These include roll back of subsidies on merchandise exports, including rebates; ISO 9000, export finance and freight subsidies; intra-trade in agricultural products, regardless of whether or not there is a domestic shortage; and increase in export tax from 25 to 50%.

30. Mr. Chairman, may I take this opportunity to bring to this Forum's notice some of the reforms, that are of relevance to us all, that we are undertaking in the agriculture sector. This, Sir, was one area marked by inordinate Government domination. Under an

Agriculture Sector Programme loan that we have negotiated with the Asian Development Bank, Government's role in procurement, sale, import and export, where it still exists, is to be completely done away with. For wheat the Government will merely maintain a strategic reserve and substitute untargeted subsidies with pro-poor targeted programmes. Further, there will be a fundamental change in the whole concept of Support Prices. 'Support Prices' will only act as market reference prices and not as public procurement prices. It has also been decided to close and divest the Fertilizer Import Department.

Mr. Chairman,

31. Pakistan, being one of the founding Members of the GATT stands committed to the Multilateral Trading System and is conscious of its obligations. The transformation of Pakistan's trade and economic policies, since the establishment of the World Trade Organization, has been intended to prepare Pakistan for its obligations under the Multilateral Trading System. Pakistan has made major strides towards the integration of its economy into the global system. To sustain the policy changes, Pakistan would need a supportive approach of her trading partners.

32. Mr. Chairman, It is our hope that the Review Body would come out with a collective message that Pakistan deserves a supportive approach by its Members so as to enable it not only to sustain these reforms but also to contribute towards consolidating and strengthening the Multilateral Trading System.

33. Mr. Chairman, the simple message we bring to this Body is that as a responsible member of WTO, Pakistan is doing all it can to follow and promote the objectives of WTO. Clearly, its resolve will be strengthened if it has before it a level playing field and its major trading partners take the lead in providing greater market access.