

**TRADE POLICY OF PAKISTAN**  
**PAKISTAN'S STATEMENT ON THEMATIC ISSUES**  
**25.01.2002**

Mr. Chairman,

Let me begin by thanking you for helping us fix the parameters of our response to the very pertinent and, if I may say so, thought provoking comments and questions of the distinguished delegates. The themes proposed by you are comprehensive and facilitate an orderly response. I shall try to conform to the coverage as well as the order suggested by you.

**Fiscal Regime**

2. We have already highlighted the revenue imperatives of Pakistan. We are acutely conscious of the narrow tax base as also the temptation of ease of collection rather than a more fair and equitable taxation system. We are trying to correct it. The specific measures being taken by us are :

- Wider application of the general sales tax (GST). Its share in tax collection has gone up from 18% in Fiscal Year 1991 to 38% in Fiscal Year 2001. Our reliance on this form of taxation is expected to grow in the coming years as we shift to a genuine value added taxation (VAT) system.

- Continuous reduction in the rates of custom duties, coupled with a fast track elimination of the exemptions regime.
- The Income Tax Ordinance 2001 provides for a greater transparency and predictability, does away with exemptions, and checks evasion and avoidance. With the introduction of this new tax law, we hope to be able to reduce the existing high tax rates, and the multiplicity of taxes. All this ought to contribute to greater revenue collection, and a stronger shift away from taxes on trade.

### **Export Diversification**

3. The main constituents of our strategy for greater export diversification and enhanced competitiveness are :

- Going up the value chain through proper supply-chain management and on-shore capacity development of the exporting enterprises.
- A focused programme for the development of small and medium enterprises.
- A large scale revamp of the physical and social infrastructure through comprehensive human development measures and greater private sector role.

4. It is our expectation that a sound macro-economic framework, market based policies, and curtailment of the role of the state will yield positive results for our export diversification and competitiveness.

5. Regarding terms of trade, quite frankly, we see little chances of their improving in the present global economic scenario.

### **Debt Rescheduling**

6. The recently concluded Paris Club deliberations are expected to provide the desperately needed relief on debt servicing. Pakistan's total outstanding external debt as of September 2001 was \$ 38 billion, of which \$ 12.0 billion was owed to Paris Club creditors. In December 2001, the Paris Club rescheduled/reprofiled the \$ 12.0 billion external debt. Two-thirds of the Paris Club debt was concessional in nature (ODA), which was rescheduled for 38 years including 15 years grace period. The non-ODA debt was scheduled for 23 years, including 5 years grace period.

7. With this debt rescheduling the Net Present Value of our external debt is expected to decline by about 30 percent.

8. Paris Club debt rescheduling has provided substantial fiscal space and the Government will be utilizing this space to enhance Government expenditure on social sectors, poverty alleviation programmes, and on physical infrastructure. We believe that

improvement in physical infrastructure and human capital will go a long way in raising the country's economic growth on a sustainable basis.

### **Role of State in Economic Activity**

9. Like several other friends we too have found the temptation to dabble in one strain or another of socialism hard to resist; though it is not sure if we did it out of commitment or compulsion, given the private sector deficit in entrepreneurial skills, capital and management. In the recent past we have made valiant efforts to drastically curtail the role of the state in economic activity. This is evident in divesture, closure or privatisation efforts in the services and manufacturing sectors. In agriculture, too, our recently introduced reforms are aimed at minimising the role of the State, whether it is the irrigation system, or fixation of support prices, or subsidised credit, or procurement and storage of grains. We also continue to encourage the private sector in provision of physical infrastructure. We are trying to dismantle the last remaining bastion of state monopoly in the Railways sector. Concurrently, we are setting up regulatory authorities in sectors such as petroleum and gas, power generation, insurance etc. Price controls have been virtually done away with – even in sensitive areas like motor gasoline etc. it is the Oil Marketing Companies that fix the prices and not the Government.

10. Our economic revival programme will help trade enhancement by putting it on a more competitive basis. Tariff reduction, and the consequent correction of anti-export bias, withdrawal of subsidies, stable exchange rate, and an effective elimination of rent

seeking opportunities ought to put the fundamentals of our trade endeavours on a more firm and sustainable footing. We also hope that the macroeconomic and structural reforms will induce greater foreign direct investment, particularly in export-oriented enterprises.

## **Investment & Privatisation**

11. We have a favourable investment regime – indeed the Secretariat report describes it as one of the most open in the region. With stability ensuing from reforms, we have high hopes of strong investor confidence in Pakistan.

12. While there has been considerable progress, I have to admit our privatisation programme has fallen short of our expectations. Narrow domestic capital and entrepreneurial base coupled with external factors such as sanctions etc, sheer enormity and complexity of the task, and want of sufficient expertise combined to slow down the privatisation process. The important thing is that we are pursuing it with a renewed vigour. It is without doubt one of the important pillars of our economic revival programme.

## **Multilateral Trading System**

13. I have had the opportunity to reiterate Pakistan's unequivocal commitment to the multilateral trading system. We have tried to honour our WTO commitments in letter and spirit, and if at all there have been lapses, these have been due to capacity weaknesses

rather than any intent to by-pass the WTO process. In our statements, and in our written answers to the questions, we have tried to demonstrate how closely we have followed the spirit of the WTO. The Secretariat report recognises this at several places, particularly where we have complied ahead of schedule.

14. Despite the measures we have taken – WTO Council, WTO Cell in the Ministry of Commerce, WTO focal points in each Ministry , collateral organizations in the Universities and the Chambers – we are more than conscious of our capacity limits. We are glad the capacity issue figured prominently at the Doha Ministerial and we look forward to working closely with the Secretariat in the matter of capacity building and technical assistance.

15. Our concerns at any measures to undermine the multilateral system have been repeatedly articulated.

### **Trade Facilitation**

16. Pakistan has been pursuing trade facilitation in earnest. The new Import Policy and Procedure Order is a step in this direction. Simultaneously, there has been an extensive demystifying and debugging of the banking, customs and port procedures. Documentation requirements are being minimised. Pakistan is currently working on a World Bank funded trade facilitation project for which UNCTAD is the consultant.

17. Pakistan, ofcourse, adheres to the MFN principle with such exceptions as GATT permits. We would like to clarify that the duty concessions agreed to with the European Union are applicable on an MFN basis and our tariff bindings have already been notified to the WTO.

18. Questions have been raised about the registration of importers. Although it is a routine measure where registration is almost automatic, we would like to respond to Members' concerns in a positive manner. As soon as I get back home, we will see if we can do away with this requirement.

19. On Customs Valuation we have made a request for relaxation in respect of a few items which are subject to repeated malpractices. In the meanwhile, we continue to adhere to the systems as embodied in the Agreement on Customs Valuation.

## **Tariffs**

20. A number of Member countries, as indeed the Secretariat, have brought out the anomaly in respect of 91 items (8 digit HS code) where our applied rates exceed the bound rates. At least part of the explanation is in our determination to control tariff dispersion and the annually diminishing bound rates did not coincide with our four slabs. In any event we have already notified to WTO our rates, on about 80 of these items, that will become effective 1<sup>st</sup> July 2002. In other words, on most of these items our applied rates will reach the bound rates three

years ahead of schedule. For the remaining items, we propose to take corrective measures at the time of the budget.

21. Regarding regulatory duties I must confess we have, in the past, used these as surrogate anti-dumping levies as we did not have a working anti-dumping law. However, now the Customs Act has been amended to take away the powers from the CBR to impose regulatory duties. These duties can now be applied only on the recommendations of the National Tariff Commission that under its Act is obliged to follow the prescribed procedures and have open hearings where all interested parties are present.

22. We have already submitted that we are rapidly dismantling the entire exemptions regime and the remnants are expected to disappear sooner rather than later. As already announced, our maximum tariff rate (barring certain exceptions like automobiles and alcoholic beverages) is to be capped at 25%. This would necessitate an adjustment in the current four duty rate slabs (5, 10, 20 and 30 percent). The four new slabs shall be announced in the forthcoming budget, when we will see the desirability or otherwise of having zero as one of the four duty slabs.

23. The National Tariff Commission Act is being amended. Legislation has been drafted. Its principal function now will be to handle the trade remedy laws. The laws that we are introducing on safeguards, anti-dumping and countervailing are in conformity with provisions of WTO.

24. We are a little disturbed on the issue, allegation if you will, of import licensing. This is one of the subjects that we propose to discuss in detail with the Secretariat. There is no import licensing requirement in Pakistan and it appears to us that it is being confused with compliance of certain health, safety and other requirements. We think we can clarify the position. The same applies equally to standards, technical requirements and SPS. Almost all of our standards are identical or similar to the international ones and are certainly non discriminatory and in our view reasonably transparent.

### **Government Procurement**

25. Pakistan is not a signatory to the Agreement on Government procurement but by no stretch of imagination does it mean that we do not subscribe to the principle of fair competition and transparency. The procedures are well known and documented in the Government procurement manuals. There are stringent tendering requirements and there are proper committees for bid evaluation and contract awards. Recently, we have done away with price preferences that the public sector agencies could provide for domestically produced goods.

### **Export Measures**

26. In our Report we have particularly stressed the roll back of subsidies on exports. We reiterate that there is no subsidy on export finance, that duty drawback rates have been rationalized on an input-

output co-efficient basis for which a professional body has been set up, and that there are no freight subsidies or compensatory rebates. Exports are of-course 'zero rated', which is a well accepted principle and duly recognized by the relevant WTO Agreements.

## **TRIMS & TRIPS**

27. On TRIMS, we have accepted the decision of the CTG of November, 2001 and are not sure what kind of clarifications and assurances are being sought.

28. We are very conscious of our Intellectual Property Rights obligations. We have no doubt that proper enforcement of intellectual property rights is in Pakistan's own interest in view of the obvious implications for investment and creativity in Pakistan. As stated in our report, we have amended the laws on copyrights, trademarks, patents and industrial design and integrated circuits to make them WTO compliant. The plant breeders rights legislation is at an advanced stage. To provide for greatest synergy, integration and greater expertise, we propose to set up the Pakistan Intellectual Property Rights Organization that would bring under one umbrella the various agencies dealing with intellectual property rights. Our objective, quite simply, is to ensure better enforcement. We realise, of-course, our capacity weaknesses but are determined to correct these in the shortest possible time.

## **Sectoral Policies**

29. In my submission on 23<sup>rd</sup> of January I had the opportunity to dilate upon the agricultural sector reforms programme. These reforms will particularly focus on market driven policies, curtailment of role of public sector, and pro-poor targeting of subsidies. On export subsidies we will ofcourse remain within the ambit of the Agreement on Agriculture.

30. There is no state monopoly of trade in Agricultural goods. The Trading Corporation of Pakistan has an almost insignificant role in the export of rice and cotton – its involvement is largely there where the buyer wishes to deal with a public sector agency.

31. As already reported a major initiative taken by us is to allow intra-trade of agricultural products regardless of the domestic shortage or surplus position. We expect positive results as by making the trade regime more predictable private sector investments and marketing efforts will be strongly encouraged.

Mr. Chairman,

32. A number of questions have been put on the services sector, particularly in Banking, Telecommunications and Insurance. To be quite candid, the intensity and speed of reforms in these sectors has left us somewhat breathless. Creation of regulatory authorities, promulgation of new laws, privatisation activities, a veritable army of consultants ..... all

this is bringing about rapid changes that are testing our administrative and managerial capabilities to the hilt.

33. However, we have taken good note of the issues raised here and the suggestions made. We will take a fresh look at our commitments under GATS and try to be as liberal as our circumstances would warrant.

Mr. Chairman,

34. Allow me to thank, once again, all the Members who have taken the trouble to study our Trade Policy. I hope through this statement, as also our answers to the written questions, we have satisfactorily addressed their concerns and provided the necessary clarifications.

Mr. Chairman,

35. It has been a rewarding experience for our delegation to have participated in this Review. But before I part company let us pause for a moment and put two question to ourselves.

- Has Pakistan, given its present economic levels, done enough in terms of liberalisation?
- Are these liberalisation efforts sustainable?

36. While I will encourage every member here to objectively evaluate these questions, I am tempted to share with you the kind of thoughts that fail to escape us :

- First, until such time as our export diversification efforts bear fruit our comparative and competitive advantages are only in textiles and agriculture. In both these product groups we face strong barriers – quota, anti-dumping measures, tariff peaks and subsidies – in our major markets.
- Second, our trade liberalisation is beginning to erode our domestic capacities – in chemicals, in engineering and electronic goods, in the automotive sector. The situation is of-course exacerbated where some of the suppliers, and importers, resort to unfair trade practices, including export subsidies.
- Third, for a variety of political and economic factors, including the dismantling of tariff walls, there has been a decline in domestic and foreign direct investment.
- Fourth, market access is constrained by the proliferation of regional and other preferential trading arrangements.

Mr. Chairman,

37. Pakistan's economic success, in the ultimate analysis, will rely crucially on a major export expansion. Our economic revival programme will succeed only if we manage to attract sufficiently large investments, particularly in sectors where we have a comparative advantage – Textiles Agriculture and its derivatives, I.T. etc.

38. It is our sanguine hope, and I feel reassured by the encouraging remarks that I have heard in this room, that this TPR will recognise Pakistan's endeavours as well as its limitations and induce, particularly our major trading partners, to support Pakistan's trade and investment environment in a major way.