Pakistan Trade Brief

Trade Policy

Pakistan began liberalizing its trade regime as part of the Comprehensive Economic Revival Program launched in 1999 and its tariff rates have fallen dramatically since then. However, with an MFN Tariff Trade Restrictiveness Index (TTRI)[1] for overall trade of 12.2 percent, Pakistan's trade regime remains slightly more restrictive than the average South Asian nation, (which has a TTRI of 11.3 percent), and considerably more restrictive than the average lower-middle-income country (which has a TTRI of 8.6 percent). It ranks as the 103rd least restrictive regime of a sample of 125 countries. Pakistan, which is dependent on food imports, has established much lower import barriers for agricultural than non-agricultural goods, which have TTRIs of 7.9 and 12.5 percent, respectively. The simple average of the MFN applied tariff rate has decreased significantly in the past several years to 13.5 percent, less than one-third of its value a decade ago. It is now very close to the average for both the South Asia region and lower-middle-income countries, which are 13.5 and 11.4, respectively. Pakistan's maximum tariff on all goods (excluding alcohol and tobacco) was 90 percent in 2008. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), was 46.4 percent. The country has liberalized its banking and telecommunication sectors. However, the low overall GATS commitment index score suggests ample room for greater future multilateral commitments to services liberalization.

In response to rising food prices, in April 2008 the Pakistani government applied price floors to exports of rice, and decreased import tariffs and banned exports of wheat.[2] Most of these measures have since been removed. In an attempt to increase the quality of domestic electrical products, the government instituted a 35 percent tariff to discourage the use of copper and aluminum waste, often used to make sub-standard products.[3] In July 2008 the government removed tariffs on gas imports for some industrial units.[4] In June 2009, the government placed a tariff on vegetable imports from India.[5] In July 2009 the government announced a new three-year Strategic Trade Policy Framework that aims to increase economic growth through exports. The plan highlighted government proposals to diversify exports and enhance competitiveness in existing products.[6]

External Environment

Regarding its access to international markets, Pakistan's Market Access TTRI[7] (including preferences) for 2007 stands at 7.3 percent for all goods, with no significant difference found between agricultural and non-agricultural goods. This is very similar to the average faced by the South Asia region, which was 7.6, but considerably higher than the average faced by lower-middle-income countries, which was 2.4. The simple average of the rest of the world tariff faced by Pakistani exports is 9.9 percent. When taking into account the level of exports it is 7.5 percent, with only a slight difference between agricultural and non-agricultural goods. Over the course of 2008, the real effective exchange rate of the Pakistani rupee depreciated by 2.6 percent, making exports relatively more competitive.

Pakistan is party to the South Asian Free Trade Agreement (SAFTA). A comprehensive free trade agreement (FTA) with Malaysia that includes goods, services, and investment came into effect in 2008. The goods FTA with China, signed in 2006, was extended to cover services in 2008, but its official signing was delayed in July when the Pakistani government decided to further review the agreement before implementation.[8] Fulfilling commitments under a FTA with Sri Lanka, which came into effect in 2005, Pakistan eliminated tariffs on a wider range of products of Sri Lankan origin in March 2009. Pakistan is negotiating a FTA with the Gulf Cooperation

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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Council, which includes the United Arab Emirates, one of its largest trading partners.[9]

Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, Pakistan was ranked 85th of 183 in the Ease of Doing Business index for 2009, being the best performer in South Asia. The Logistics Performance Index, a measure of the ease of trade facilitation, rates Pakistan at 2.62 on a scale from 1 to 5 with 5 being the highest performance. This is compared with 2.3 for the South Asia region and 2.47 for countries in the lower-middle-income group. It ranked 68th in the world and 2nd in the South Asia region (with India leading the regional group). The area in which it performed the best was the timeliness of shipments in reaching their destination and it needs most improvement in the quality of transport and IT infrastructure. As the global economy faltered in late 2008, the Central Bank began providing assistance to banks that were supplying financing to exporting firms.[10]

Trade Outcomes

Pakistan's growth rate of total trade in goods and services grew at 14.2 percent in 2006 (calendar year), but since then has fallen in real (constant 2000 dollars) terms for two straight years, declining by 5.5 percent in 2008. Real exports fell by 8.9 percent in 2008, while imports fell by 2.1 percent. Expectations are that exports and imports will fall in 2009 by 5.8 and 10 percent, respectively.

In nominal terms, total trade grew by an estimated 12.7 percent in calendar year 2008, which was double the rate of 2007. Total exports increased by an estimated 2.2 percent, driven mostly by increases in goods exports, which grew by an estimated 5.6 percent. Pakistan's largest export industry is that of textiles, which accounted for 57 percent of total exports.[11] Demand for textiles weakened in 2008 due to the worldwide economic downturn.[12] Exports in services fell by an estimated 2 percent and are expected to fall further in 2009, contributing to an anticipated fall in total exports of an estimated 9.3 percent. According to provisional data,[13] exports decreased by 17.9 percent in nominal U.S. dollars during the first quarter and by 20 percent in the second quarter 2009 over the same quarters in 2008. However, exports picked up somewhat in June 2009 when they grew 20.4 percent over the previous month.[14] National statistics (reported by fiscal year ending in June) for 2008–09 show a 5.8 percent drop in goods exports compared to the 2007–08.[15] These data show that some of the most important exports, namely readymade garments, cotton yarn, and bed linen faced significant decreases over the previous fiscal year (21.7 percent, 15 percent, and 10.2 percent respectively). Textiles as a whole fell by 9.5 percent.[16]

Total imports grew by an estimated 19.3 percent in nominal terms in calendar year 2008, largely driven by the increases in food and fuel prices, which is reflected in the increase in imports of goods of an estimated 21.4 percent, while services increased by an estimated 5.3 percent. In 2009, imports are expected to fall by 23.5 percent, which is mostly driven by a fall in goods imports. High fuel prices in the first half of 2008 brought rising inflation but prices have since decreased, easing the burden for importers.[17] National statistics registered a 13 percent drop in FY2009–10 imports compared to the previous fiscal year. Foreign direct investment as a share of GDP dropped from 3.7 percent of GDP in 2007 to 3.2 percent in 2008, while total remittances stayed steady at 4.2 percent of GDP.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. FAO, 2009.
3. ESCAP, June 2008, p. 4.
4. ESCAP, August 2008, p. 3.
5. WTO, 2009, p. 72.
6. Government of Pakistan, 2009.
7. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
8. Ghumman, 2009; Pakistan Defense, 2009.
9. Bilaterals.org, 2009a,b.
10. World Bank PREM Trade Group, 2009, p. 13.
11. Commerce Division, 2008.
12. IMF, 2009, p. 8.
13. International Financial Statistics, 2009.
14. State Bank of Pakistan, August 2009.
15. Government of Pakistan, 2009
16. Government of Pakistan Ministry of Commerce, 2009.
17. Asian Development Bank, 2009, pp. 211.

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