Unilateral Liberalisation: Pakistan’s Path to Trade Revival

PRIME is a public policy think tank working for an open, free and prosperous Pakistan by creating and expanding a constituency for protective function of the state and freedom of the market.

The study titled “Unilateral Liberalisation: Pakistan’s Path to Trade Revivial” by Sara Javed focuses on significant shifts in trade policy over the last 25 years and their impact on Pakistan’s overall trade performance. This study argues that ‘Pakistan has become relatively open compared to 1990s but when compared to its neighbouring countries today, it is still much protectionist’. In this regard, this study discusses the different trade regimes of Pakistan since 1990s till 2014 and compares Pakistan’s trade performance with that of neighbouring countries.

Published by: Policy Research Institute of Market Economy (PRIME)

© PRIME Institute

Recommended Citation: Sara Javed (2015), Unilateral Liberalisation: Pakistan’s Path to Trade Revival, Islamabad: PRIME Institute.

Series Editor: Sohaib Jamali

This publication has been produced in partnership with the Friedrich- Naumann- Stiftung für die Freiheit. The contents of this publication are the responsibility of Policy Research Institute of Market Economy (PRIME).

No. of copies: 1000

Published in: November 2015

ISBN: 978-969-9824-11-1

For inquiries:
PRIME Institute
Suite No. 714, Silver Oaks Apartments
F-10 Markaz, Islamabad 44000- Pakistan
Tel: 00 92 (51) 8 31 43 37 - 38 Fax: 00 92 (51) 8 31 43 39
www.primeinstitute.org
Email: info@primeinstitue.org

Table of Contents

Acknowledgment **VII**

Foreword **VIII**

Executive Summary **XI**

Introduction **1**

Limitations of the Study **3**

Pakistan: The Experience of Trade Liberalisation **3**

1. Unilateral Trade Liberalisation Period (1990-2002) **5**

1.1. The Era of Economic Reforms 5

1.2. Pakistan Misses the Opportunity to Reform after Joining the WTO 6

1.3. Impact of Unilateral Liberalisation 9

2. Policy Neutral Period (2003-2005) **10**

3. Trade Policy Mix: From Bilateral **11**

3.1. Bilateral and Regional Trade Liberalisation 11

3.2. Impact of Free Trade Agreements 22

3.3. Restrictive Trade Policy Period 23

4. Trade Liberalisation: Pakistan vs. Rest of the world **26**

4.1. India: How the country was different from Pakistan? 26

4.2. Chile: Unilateral Liberalisation against all odds 30

4.3. China: First Unilateral Liberalisation, then WTO 31

4.4. Turkey: Liberalisation – A way- out of economic recession 35

4.5. Vietnam: Aggressively Reformed Country 37

4.6. Mexico: Unilateral liberalisation- A way out of Economic Crisis 39

5. Unilateral Liberalisation: Does One-Policy-Fits-All? **41**

6. Lessons: What Works to Improve Trade **43**

7. Way Forward: How Pakistan Can Capture International Export Market **45**

7.1. Improve Integration 45

7.2. Be part of supply chain 45

7.3. Effective Implementation of Multilateral and Regional Commitments 46

7.4. Effective FTAs 46

7.5. Re-start Unilateral Liberalisation 46

7.6. Set-up for Tariff Determination 47

Bibliography **48**

List of Figures

Figure 1: Various Regimes of Trade Reforms in Pakistan* 4

Figure 2: Tariff Rates (1995-2003) 8

Figure 3: Pakistan's Export Partners (SAFTA Countries) 13

Figure 4: Pakistan's Import Partners (SAFTA Countries) 14

Figure 5: SAFTA Countries: Trade as a percentage of GDP 15

Figure 6: Pakistan – China Trade Flows (2003-2014) 17

Figure 7: Pakistan-Sri Lanka Trade Flows (2003-2014) 18

Figure 8: Pakistan-Malaysia Trade Flows (2003-2014) 19

Figure 9: Pakistan – Iran Trade Flows (2003-2014) 20

Figure 10: Pakistan – Mauritius Trade Flows (2003-2014) 21

Figure 11: Imports of India (2001-2013) 27

Figure 12: Export Comparison: India vs. Pakistan (2000-2013) 27

Figure 13: Chile: Weighted Average Applied Tariff (1992-2012) 30

Figure 14: Chile Vs. Pakistan: Trade As a percentage of GDP (1970-2014) 31

Figure 15: China: Applied Weighted Average Tariff (1991-2010) 32

Figure 16: Turkey vs. Pakistan: Trade as A Percentage of GDP (1960-2014) 36

Figure 17: Turkey: Applied Weighted Average Tariffs (1993-2013) 37

Figure 18: Exports: Vietnam vs. Pakistan (1996-2014) 38

Figure 19: Imports: Vietnam vs. Pakistan (1996-2014) 39

Figure 20: Mexico: Industrial Average Tariff (2008-2009) 40

Figure 21: Tariff Reduction Share by Type of Liberalisation (1983-2003) 41

List of Tables

Table 1: Average Tariff on Industrial Goods 24

Table 2: Average MFN applied duties by Product Group 2014 (Comparison of South Asian Countries) 24

Table 3: Average MFN Applied Duties by Product Group (Pakistan vs. India) 29

Abbreviations

ASEAN	Association for Southeast Asian Nations
DFTP	Duty Free Tariff Preference
ECOTA	Economic Cooperation Organisation Trade Agreement
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
IMF	International Monetary Fund
LDC	Least Developed Countries
MFN	Most Favoured Nation
OECD	Organisation for Economic Cooperation and Development
OTRI	Overall Trade Restrictiveness Index
PTA	Preferential Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Agreement
SPDC	Social Policy Development Centre
SRO	Statutory Regulatory Order
TRIM	Trade Related Investment Measures
WTO	World Trade Organisation
YoY	Year-on-Year

Acknowledgment

This study required huge amount of research and dedication, which would not have been possible without the support of certain individuals and organisations. Therefore, I would like to extend my sincere gratitude to them.

First of all, I am grateful to Friedrich Naumann Foundation for Freedom (FNF) for sponsoring the research study. I am also thankful to Ali Salman, Executive Director – PRIME Institute for encouraging me to write on this subject. His continuous support, guidance and patience at every stage of the research is commendable. Above all, I am obliged to Dr. Manzoor Ahmad – Pakistan's former ambassador to WTO - for not only sharing his thoughts and experiences numerous times over almost a year, but also his structured and detailed comments on several drafts of this paper. Without him, this work would not have been possible. I assume the responsibility of any error that this study contains.

Foreword

PRIME's effort to highlight the need for tariff reforms in Pakistan and to invite attention of the policy-makers and other stakeholders to the matter is commendable indeed. Sara Javed makes a compelling case for tariff reforms and I sincerely hope that it receives the attention it deserves. Her recommendations should be accepted and implemented urgently to put Pakistan on the road to progress.

Customs tariff or customs duty on imported goods has historically played a major role in raising revenue or to protect domestic industries. Over time, however, many countries have realized that higher tariffs encourage an inefficient use of scarce resources. A few decades of experience has taught us that the sooner a country wakes up to this fact, the quicker it can chart a path to reform and economic growth.

Some developed countries followed the lead of Britain and started lowering their tariffs in the later part of the 19th century. For the remaining, tariff reduction process was boosted through the setting up of GATT in 1947. Through various rounds of tariff reduction negotiations, their average tariff got reduced from about 40 per cent to less than 5 per cent today. This boosted their trade immensely and raised their incomes.

Pakistan was amongst the original 23 founding members of GATT. Yet over the 60 year history of the GATT, Pakistan took a rather defensive position and rarely committed to any liberalization under its auspices. Thus it made no gains from its membership of the organization. It had another opportunity when in 1995 WTO came into being and replaced GATT. Although WTO has not been as successful as its predecessor in reducing tariffs, many of its agreements have served its members well, which implemented them. For example, the Agreement on Trade Related Investment Measures, which restricted the use of localization or indigenization policies, enabled many countries to make their auto and other consumer industries more competitive. Similarly the WTO Agreement on Information Technology whose membership now covers over 97 per cent of world trade enabled many countries to enter this new field. To date, Pakistan has yet to join the agreement and thus is one of the laggards in this field.

On the other hand, several forward-looking countries such as South Korea, Taiwan, Chile, Turkey, Malaysia and China realized the importance of tariff reforms through multilateral, regional and unilateral routes. As a result, one by one they started overtaking Pakistan in their growth rates and exports.

Policy makers in Pakistan often cite the example of South Korea whose exports were half of Pakistan's exports in mid-1960's but are now at least 26 times. They often wonder what made such a great difference in 50 years. If they were to look at the tariff policies of the two countries, they would see the reason. While Korea started its tariff liberalization in early 1970's and completed the process over the next 20 years, Pakistan is still following protectionist and import substitution policies.

Pakistan started lowering its tariffs at about the same time as India and continued to outpace it until 2002. However, it halted the reform process in 2002 while India and other competing countries continued on this course. In fact, Pakistan reversed some of the earlier reforms in 2008 and thus lost whatever competitive edge it had gained from its reforms of the 90's.

As a result, Pakistan's GDP growth which was growing at a fast pace since 2002 started stagnating since 2008. Our exports have not only been flat for the last 5 years but have in fact started shrinking. During the current financial year, they declined 6 per cent to $17.94 billion in July-March, 2015 compared with the same period last year.

Over the last 10 years, Pakistan has been entering into Free Trade Agreements with various countries and thus reducing bilateral tariffs, but it has not been able to implement most of its commitment or further deepen the FTA's it had already signed. Negotiations for commencing the second phase of the China-Pakistan FTA, which were to start in 2012, have not started yet. In fact, Pakistan is seeking to renegotiate its earlier commitments made during the first phase of the FTA. It has to be realized that unless the bilateral or regional trade agreements are followed by domestic reforms, they are not going to be beneficial for Pakistan's exports.

Although Pakistan has lost useful time, it can still make an effort to catch up. It has to realize that the only way to do so is through integration into the global economy. It has to start on this task immediately and complete the tariff reform process in the shortest possible time.

Dr. Manzoor Ahmad
Former Pakistan's Ambassador to WTO
Member – PRIME International Academic Council

Executive Summary

Pakistan's trade policy has generally followed the path of liberalisation since 1990, but relative to other fast developing countries, the process has been slow and significantly swung back and forth between import substitution and trade liberalisation. In early 90s, a major liberalisation programme was introduced by the then ruling party PML-N, focusing on reducing government intervention and promoting trade by bringing down tariffs and quantitative restrictions.

The process of liberalisation got interrupted in 1995 as regulatory duty of 10 percent was imposed on all imports. The reform process resumed in March 1997 as the new government reduced the maximum tariff rate to 45 percent and eliminated the 10 percent regulatory duty.

Despite some slowdown in 1998, following the sanctions due to nuclear detonations, the reform process picked up pace during 2001 and 2002. As a result of decade long reforms, overall average tariff rates were reduced from 47.1 percent in 1997-98 to 17.3 percent in 2002-03. These reforms converted Pakistan as one of the least protected market in the South Asian region, whose openness ratio rose from 25 per cent in 1999-00 to almost 30 per cent in 2004-05, and for the first time export growth rates reached double digit in 2004-06. While there was no significant liberalization between 2005 and 2007 but at least there was no reversal in policy process. In 2008, however, a number of regulatory duties were imposed and once again Pakistan leaned towards protectionism.

The impact of Pakistan's trade policy is reflected in its stagnant trade performance and slight decrease in trade-to-GDP ratio. Whereas, peer countries performed well with higher growth rates and improved trade performance in the same years. In 1998-00, Pakistan trade-to-GDP ratio was barely lower than that of China and significantly higher than India. After ten years, trade-to-GDP ratio of both China and India almost doubled while that of Pakistan remained stagnant.

In line with the changing trends in trade policies around the world, Pakistan also started entering into bilateral and regional trade agreements.

For instance, in mid-2000, Pakistan focused on enhancing regional and bilateral trade through various FTAs and PTAs. Pakistan seems to have benefited less than the counter party in almost every bilateral trade agreement. The trends indicate that for most agreements, imports to Pakistan increased significantly than exports (except for Sri Lanka). Pakistan's share in total export of trading partners is very minimal in most cases, such as Malaysia -Pakistan's share accounted for 1 percent and China- Pakistan's share is less than 1 percent.

In addition, Pakistan also entered in regional trade agreements including SAFTA and ECOTA with neighbouring countries. From SAFTA countries, Pakistan's trade as percentage of GDP is the lowest while its neighbouring countries especially India and Bangladesh have surpassed Pakistan substantially.

Similar to early 90s experience, the country's exports have been stagnating. One of the major reasons could be that since 2008, Pakistan has started to become a relatively protected economy. New import substitution policies were introduced. The aim of trade policy shifted back to providing extra protection to local industry and local producers. In 2008, maximum tariff was raised back to 35 percent from 25 percent in 2002.

What makes Pakistan's journey of trade liberalisation different than of others? While the policy in Pakistan was moving like a pendulum, other countries opted for stable, continued and focused trade liberalisation policies.

India embraced economic openness for two decades as a part of new economic policy. Consequently, trade reforms have produced remarkable results since then. India's trade has increased from $22.6 billion in 1990 to $312 billion to 2014. On the other hand, Pakistan exports of goods increased from $6.22 billion to $25 billion[1] only for the same period.

Similarly, Chile initiated the reform process in 1970s and committed to it despite external shocks and internal challenges. As a result, the country's exports increased from $15.6 billion in 1999 to $76.98 billion in 2014. Earnings from exports rose about 14 times between 1973 and 2000. The imports duties have reduced significantly and 97 percent of the imports are now duty free in Chile. In addition to this, in 1992, weighted average

[1] For this study, we are taking exports figures of merchandise trade only.

applied tariff for all the products was 10.95 percent, which reached to lowest 1.02 percent in 2008 – a fall of 91 percent.

Since 1980s, China also undertook unilateral trade liberalisation along with inward investment liberalisation and thereby established itself as source of cheap labour, and a key player in the assembly lines of globally expanding supply chains. The simple average tariff came down to 16.6 percent in 2001 from 42 percent in 1992. Interestingly, the country started the trade liberalisation process before joining the WTO, which is uncommon for many other countries. China's liberalisation example is one of the biggest one among the countries that adopted the liberalisation process, and it also has a huge spill over effect in Asia. In 2010, China's weighted average tariff was noted just over 4 percent, which was the lowest among large developing countries, such as Brazil, Russia, India, Indonesia and South Africa.

Vietnam initiated trade reforms in 1989, which marked a turning point for Vietnam's economic development. These reforms left a positive impact resulted as Vietnam's exports increased gradually over the years and significantly jumped after 2009. Interestingly, exports of Pakistan and Vietnam were about the same level in 1995 at about $5 billion. While Pakistan's exports have increased to about $25 billion, Vietnam's exports drastically increased to $160.89 billion in 2014.

Mexico was one of the highly protected economies till mid-80s. It started liberalising its import regime in 1985. After joining NAFTA in 1995, the pace of reform process was considerably accelerated vis-à-vis other NAFTA partners. By early 2003, Mexico eliminated duties on all industrial products and most agricultural products imported from its NAFTA partners. Mexico was one of the very few countries, which continued its trade liberalisation process with other countries even after the 2008 financial crisis.

Unilateral trade liberalisation allows a county to adjust the liberalisation process to its own economic conditions and requirements. It is not a process based on the fixed formula.

Moreover, despite the traditional approach of boosting exports through export-driven policies, liberalisation is an export enhancement policy. Tariff reduction has resulted in significant export performance in many countries since tariff act as an implicit tax on exports.

If Pakistan wants to achieve its objective of reaching $150 billion by 2025, the country needs to make serious adjustments to its trade policy strategy. It needs to become an integral part of the global supply chain and improve regional trade like neighbouring countries. Furthermore, Pakistan needs to seriously implement the Trade Facilitation and other related conventions and agreements, such as International Transport of Goods under Cover of TIR Carnets (TIR Convention), WTO agreement on Trade Related Investment Measures (TRIMs) and Information Technology Agreement (ITA).

Most importantly, Pakistan needs to re-visit the unilateral liberalisation policies of 90s. By reducing tariffs, discontinuing special concessions and restrictions culture (through SROs), diminishing import restrictions, Pakistan can achieve a much higher increase in exports and significant increase in overall trade. Pakistan needs to learn from its own history when announcing its new trade policy.

Introduction

Pakistan's trade regime has been gradually liberalised since 1990, but the process was not smooth. For long periods since then, the liberalisation process was either kept on hold or the reform process was reversed.

In early 1990s, government of Pakistan Muslim League (PML-N) initiated a major trade liberalisation programme, with significant reduction in government intervention. It included reduction in tariff level, simplification of tariff structure and abolition of almost all quantitative restrictions. All liberalization process was unilateral.[2] In 1995-96, the next government (Pakistan Peoples' Party-PPP) partially reversed the liberalisation process through imposition of regulatory duties of 10 percent on most imports and 3 percent charge for introducing the inspection companies.

The liberalisation process was restarted in 1997 by the caretaker government, which abolished the regulatory duties, reduced withholding taxes on imports from 5 to 2 percent and announced reduction of maximum duty rate from 65 to 35 percent by 1998-1999. This program was adopted by the PML-N government and except for short interruption (due to economic sanctions imposed on Pakistan because of its first nuclear detonations) the process continued till 2002 -2003. As a result, the average statutory tariff fell from 47.1 percent in 1997-98 to 17.3 percent in 2002-03.

From 2003 to 2008, there was very little unilateral liberalization but there

[2] Reis, J.G., & Taglioni, D. (2013). *Pakistan:* Reinvigorating the Trade Agenda (*Policy Paper Series on Pakistan, PK 15/12).* Retrieved June 6, 2015 from http://econ.worldbak.org, and Husain, I. (2015). *Globalisation, Governance and Growth.* Karachi, Pakistan: Institute of Business Management.

was no reversal of reforms. The liberalisation process was partially reversed in 2008 with imposition of regulatory duties on a large number of goods. The purpose was to provide extra protection to local products and producers. According to the Planning Commission of Pakistan, out of 906 manufactured products that was given the protection, 91 percent benefited a single local monopoly producer, 5 percent to two producers and small producers were excluded from the exemption benefits.[3]

The reversal of reform process in 2008 is reflected in Pakistan's stagnant trade performance and slight decrease in trade-to-GDP ratio. During this period, while Pakistan lost on average 1.45 percent yearly in export market shares, her peer countries have leapfrogged with higher growth rates. It is striking to see that Pakistan's average trade-to-GDP ratio for 2008-10 was 33 percent, which is only 2.6 percentage point higher than its trade-to-GDP ratio of 28.4 for 1998-00. In 1998-00, Pakistan trade-to-GDP was barely lower than China and significantly higher than India. After ten years, both China and India almost doubled while Pakistan remained stagnant.[4]

The objective of this study is to analyse the significant shifts in trade policy over the last 25 years and their impact on Pakistan's overall trade performance. This study argues that 'Pakistan has become relatively open compared to 1990s but when compared to its neighbouring countries today, it is still much protectionist'. In this regard, this study discusses the different trade regimes of Pakistan since 1990s till 2014 and compares Pakistan's trade performance with that of neighbouring countries specially India which was way behind Pakistan two decades ago. IMoreover, the examples of unilateral trade liberalisation are presented from other successful developing countries. In the end, the conclusions are drawn highlighting which policy regime was most effective for Pakistan and recommendations are presented on how the country can move forward to enhance not only trade but also to improve economic situation.

[3] Ministry of Planning, Developments and Reforms. (2011). *Pakistan: Framework for Economic Growth*. Pakistan. Retrieved August 11, 2015 from http://www.pc.gov.pk/hot%20links/growth_document_english_version.pdf

[4] Reis, J.G., & Taglioni, D. (2013). *Pakistan:* Reinvigorating the Trade Agenda. (*Policy Paper Series on Pakistan, PK 15/12).* Retrieved June 6, 2015 from http://econ.worldbak.org,

Limitations of the Study

There are many other factors, such as high cost of production, domestic competitiveness, energy crisis, non-tariff barriers, exchange rate, industrial policy and financial reforms that can impact trade volumes. However, due to limited scope of this study, this discussion will revolve around reforms in import tax regime, particularly custom duties, which are now the main trade policy instrument. In addition, the study only contains static analysis i.e. the impact of change in trade policy on the level of exports and imports.

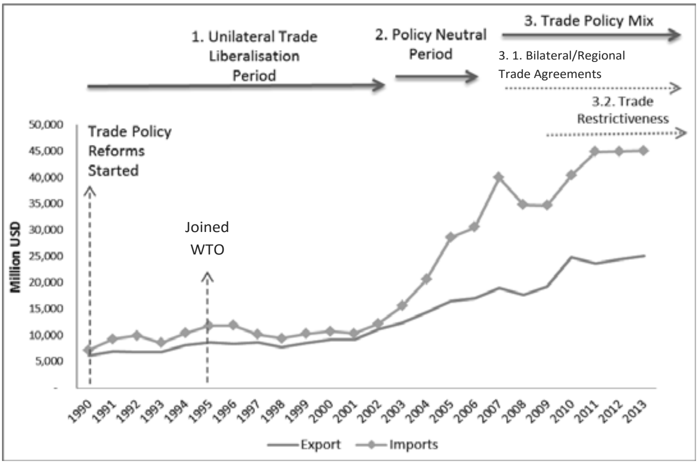
Pakistan: The Experience of Trade Liberalisation

Pakistan's trade reform process can be divided into three periods: Unilateral Trade Liberalisation Period (1990-2002), Policy Neutral Period (2003-2005), and Trade Policy Mix: From Bilateral and Regional Liberalisation to Trade Restrictions (2006 onwards). In the last period, there is a mixed trend of trade liberalisation as well as trade restrictiveness because while Pakistan entered into various trade agreements and thus agreed to liberalise its tariffs with partner countries, at the same time, it also increased MFN tariffs for other countries

In addition, there is considerable overlap in these periods, as the Unilateral Trade Liberalisation period was not a continuous process nor did the Policy Neutral period completely shut out further liberalization as most bilateral and regional agreements were signed during this period. This chapter discusses various policy directions in each period, the partial impact of different trade policy on trade volumes and compare the experience of trade liberalisation in Pakistan with other South Asian economies.

Figure 1 depicts various periods of trade reforms from 1990s onwards. It also highlights the important agreements, which Pakistan entered in the last decade. The discussion on each period is given below.

Figure 1: Various Regimes of Trade Reforms in Pakistan*



Source: State Bank of Pakistan (Trade Data) * The regimes are categorised by author

1. Unilateral Trade Liberalisation Period (1990-2002)

1.1. The Era of Economic Reforms

The government of Pakistan started a comprehensive programme of macroeconomic adjustment and structural reform in early 1990s. These included exchange and payment reforms, capital account liberalisation, and privatisation deregulation measures (Husain 2000).[5] Trade reforms were viewed as a primary instrument of structural reforms.

As a part of economic reform package, Pakistan opted for unilateral liberalisation in 1991. The political regime at that time decided to embark upon the economic reforms for the following three reasons[6]:

- The results of socialist experiment of 1970s in Pakistan and discrediting of socialistic economic model around the world influenced the thinking of the political leadership that the only way Pakistan can grow and prosper is by pursuing a policy of liberalisation, deregulation and privatisation.
- Secondly, there was academic evidence that inward looking import substitution industrialisation strategy under state control and centralised planning had failed in actual practice. A number of empirical cross country studies done by Organisation for Economic Cooperation and Development (OECD), World

[5] Structural reforms are out of the scope of this study. For literature on structural reforms see Husain (2000), Malik et. al (1994) and Khan (1998).

[6] Husain, I. (2015). Globalisation, Governance and Growth. Karachi: Institute of Business Management.

Bank and others showed that the centralised strategy done more harm than good to the economies. In the meanwhile, Pakistan was receiving Structural Adjustment Credits from the World Bank and assistance from the IMF during this period. These multilateral institutions promote pro-market and pro-private sector engagement, which also influenced the reform process of 1990s in Pakistan.

- Thirdly, there were examples of newly industrialised countries, such as Association for Southeast Asian Nations (ASEAN) countries and China, where the outward-oriented strategy appeared to have worked well. The success stories from ASEAN countries were shaped by open markets, integrated financial systems, increased mobility of labour and rapid diffusion of technology. The political regime in Pakistan was comfortable to initiate the reforms in this direction due to solid evidence from other countries that have successfully implemented these reforms.

In 1993, a Tariff Reform Committee was established to provide alternative policy options to bring down the tariffs. This committee produced a comprehensive document on trade reforms.

On the export front, export taxes were reduced and incentives were provided in the form of duty and tax concessions, export processing zones, and additional methods of financing.

Additionally, a number of steps were taken to remove non-tariff barriers as well. For instance, the office of Chief Controller Import and Export office, which used to deal with import quotas and import restriction, was abolished. Importer licence procedure was also discontinued to facilitate trade.

1.2. Pakistan Misses the Opportunity to Reform after Joining the WTO

In 1995, WTO replaced GATT and in the process many international trade rules were updated. Pakistan being a member of GATT decided to follow suit like other GATT members and joined WTO in 1995. The WTO agreements not only encompassed GATT rules and disciplines, but several new areas such as agriculture and textiles, international trade in services, the trade-related aspects of intellectual property rights (TRIPS) and trade-related investment measures (TRIMS). Rules in many other areas such as customs valuation, trade defense measures etc. were also updated and became binding.

Pakistan could have taken this opportunity to reform its trade policy regime, but it mostly concerned itself with opportunities and challenges arising from the phasing out of quotas on textiles. Some other WTO rules were implemented but only partially. Thus while the import substitution policies were removed in 2001 for consumer goods (e.g., air-conditioning, washing machines, and kitchen appliances) to meet Pakistan's commitment under TRIMs, they continued to be applied for the auto-industry. Those areas where the TRIMS rules were applied, the relevant industries made good progress. However, local car assemblers were kept immune from any changes. While implementing the WTO rules, many developing countries such as India, Indonesia, Turkey and Thailand, took the opportunity to move from import-substitution to export-led growth. As a result, they became efficient producers of autos leaving behind the auto-industry in Pakistan. Similarly Pakistan applied the WTO code of valuation for customs purpose but over the time it has moved back to import trade prices. This is essentially in contrast to the WTO valuation code, as it allows customs to fix the value of imported goods, rather than take the transaction value, which gives more certainty to the traders.

Therefore, except for some increase in export of textile and clothing, Pakistan's exports did not make much progress.

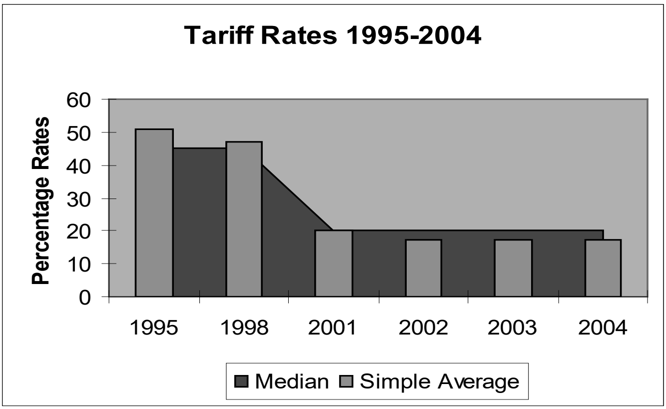
In addition to the binding multilateral agreements, the WTO members concluded a number of plurilateral agreements. These were not binding but came into force when a significant number of countries joined them. One such agreement is the plurilateral Information Technology Agreement (ITA) that requires its signatories to eliminate tariffs on a specific list of information technology (IT) and telecommunications products. When the ITA entered into force in 1997, it had only 29 signatories, but since then the number has been growing rapidly. In fact, the ITA has been one of the most successful plurilateral trade agreements ever undertaken. Now it has 82 members including a large number of Asian countries, such as China, India, Indonesia, Philippines, Malaysia, Thailand, Turkey, South Korea, Vietnam, Egypt, Jordan, Morocco, Saudi Arabia, UAE, Tajikistan, Kazakhstan and Kirghizstan. Afghanistan is also currently negotiating its accession to ITA as a part of its WTO accession.

Pakistan has been deliberating on acceding to this agreement for the last 15 years. In preparation for joining the agreement, Pakistan eliminated tariffs on IT products in 2001. However, before it could formally do so, tariffs were re-imposed and the decision to join the ITA has been on hold since then.

One important thing to note here is that the WTO was not the driving force to implement reforms in Pakistan. The reform period of 2000-2002 was witnessed due to commitments with the IMF under the poverty reduction programme.

Overall many steps were taken to liberalise trade during the 90s but the process of reforms remained uneven. It was only in 1997 when significant trade liberalisation took place and continued till 2002. The maximum level of tariff reduced to 45 percent in 1997-98. This process was further expedited under the IMF's Structural Adjustment Program when it was agreed to reduce the tariff rates to 25 percent by 2002. Moreover, the numbers of slabs in custom duties were reduced (with some exception) from 13 to 5 with rates of 0, 5, 10, 15 and 25 percent.

Figure 2: Tariff Rates (1995-2003)



Source: WTO regime and its impact on Pakistan

1.3. Impact of Unilateral Trade Liberalisation

Starting in the 1990s, the process of trade liberalisation continued, albeit at a varying pace, despite the change in political leadership. Trade reforms were part of the more comprehensive structural reforms such as exchange and payment reforms, policies to promote private sector participation, liberalisation of capital account, privation etc.[7]

As a result of prior reforms, Pakistan's export started increasing during this period (Figure 1 on page 4). In 1990, the exports were $6.13 billion, which increased to $11.16 billion in 2002. Similarly, imports increased from $7.62 billion to $12.22 billion over the same periods. The highest YoY export growth (of 22 percent) was recorded in 2002 when exports increased to $11.16 billion in 2002 from $9.13 billion in 2001, and continued to grow at an average growth of 16 percent per annum till 2007.

[7] For more information on structural reforms see Husain (2000), Malik et. al (1994) and Khan (1998).

2. Policy Neutral Period (2003-2005)

The second trade regime lasted from 2003 till 2005 in which no reforms were undertaken. This study refers that period as a Policy Neutral Period since no significant policy shifts were witnessed during this time.

The important observation in this period is the lagged impact of favourable trade policies of the 90s. The reforms of that period made Pakistan one of the least protected markets in the South Asian region. Pakistan's openness ratio rose from 25 percent in 1999-00 to almost 30 percent in 2004-05, and for the first time export growth rates reached double digit in 2004-06. The World Bank estimated that within the group of structural reforms during the period 2001–05, trade openness was third among the most important factors contributing to growth, following improvements in infrastructure quality and economic governance.[8]

However, since the country did not continue the reform process, it was unable to sustain the positive impact of previous years and remained unsuccessful in introducing new wave of reforms.

[8] Husain, I. (2015). Globalisation, Governance and Growth. Karachi: Institute of Business Management.

3. Trade Policy Mix: From Bilateral/Regional Liberalisation to Trade Restrictiveness (2006 onwards)

From 2006 onwards, Pakistan re-started the trade liberalisation process through bilateral free trade agreements (FTA) and regional trading agreements (RTAs).

Yet, during the same period, the country also introduced various protectionist trade policies in the name of safeguarding local producers and industries. This is most evident after the financial crisis of 2008.

The irony is that the Pakistan followed the world trend of trade agreements with number of countries and at the same time moving away from liberal policies by imposing higher custom duties and introducing unfavourable SROs.

3.1. Bilateral and Regional Trade Liberalisation

3.1.1. Regional Trade Agreements

Pakistan became a signatory to two regional trade agreements: the South Asia Free Trade Agreement (SAFTA) and the Economic Cooperation Organization Trade Agreement (ECOTA).

3.1.1.1. South Asian Free Trade Area (SAFTA)

South Asian Free Trade Area (SAFTA) came into force in January 2006. The member countries of the Agreement are Afghanistan, Bangladesh, Bhutan, Maldives, India, Pakistan, Nepal and Sri Lanka.

The objectives of SAFTA are to promote and enhance mutual trade and economic cooperation among members, which would be achieved by:

a) Eliminating barriers to trade, and facilitating the cross-border movement of goods;

b) Promoting conditions of fair competition and ensuring equitable benefits, taking into account their respective levels and pattern of economic development;

c) Creating effective mechanism for the implementation and application of the agreement, for its joint administration and the resolution of disputes; and

d) Establishing a framework for further regional cooperation to expand and enhance the mutual benefits.

Under SAFTA, tariff reduction started in July 2006 and is scheduled to be completed by 2016. The tariff reduction for Pakistan (along with India and Sri Lanka) was to occur in two phases[9]:

a) Phase-I (2006-2008): Tariff rates above 20 percent were reduced to 20 percent within two years, tariff rates below 20 percent were reduced on margin of preference basis of 10 percent per year

b) Phase -II (2008-2016): Pakistan's list of sensitive goods comprises 938 tariff lines at the HS 6-digit level or 22.6 percent of the total. Services are excluded.

In 2014, it was announced by the Ministry of Commerce that Pakistan may reduce its sensitive list for the Least Developed Countries (LDCs) including Bhutan, Maldives, Nepal and Afghanistan to near zero item. Currently, the number of items on the sensitive list has been reduced from 1,169 to 936. However, sensitive list for individual country were not entertained for reduction in custom tariffs. Compared to other countries, including Pakistan, India showed more

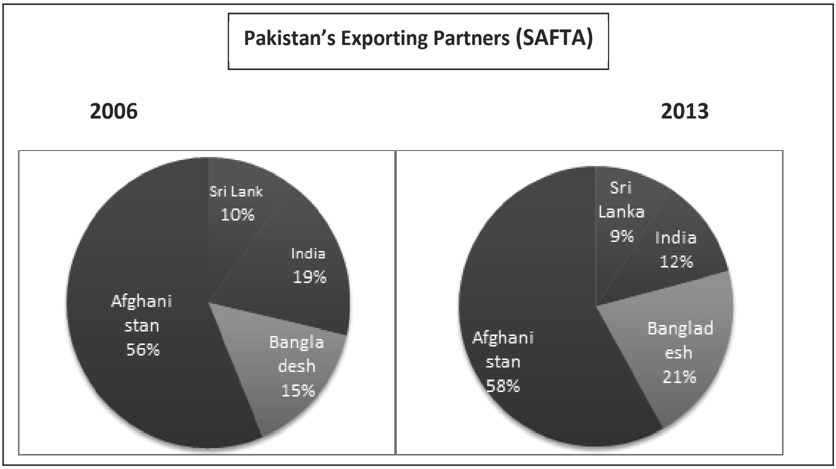
One important thing to note here is that the WTO was not the driving force to implement reforms in Pakistan. The reform period of 1999-2002 was witnessed due to commitments with IMF under the poverty reduction programme.

[9] The tariff reduction by Pakistan, India and Sri Lanka to l takes 3 years for LDCs (Bangladesh, Nepal, Bhutan and Maldives). The same tariff reduction by LDCs to take 10 years.

progress by reducing the list for LDCs to 25 items. India has provided duty free market access to LDCs in all products (except the products retained in their sensitive list) since 2008. In addition, India also offered Duty Free Tariff Preferences (DFTP) scheme for all 50 LDCs.

If we see the trend in major exports and imports trading partner of Pakistan with reference to SAFTA countries, it can be seen that the largest trading partner in SAFTA countries remained Afghanistan with 56 percent share in 2006 and 58 percent share in 2013. However, a shift can be seen in the export share of India and Bangladesh. Bangladesh's export share increased from 15 percent in 2006 to 21 percent in 2013 whereas India witnessed a decline in export share from 19 percent in 2006 to 12 percent in 2013 (See Figure 3). This is again in contrast to results of an empirical study on Pakistan-India trade potential, which stated that Pakistan will gain from Pakistan-India trade under SAFTA in terms of net exports of the country.[10]

Figure 3: Pakistan's Export Partners (SAFTA Countries)

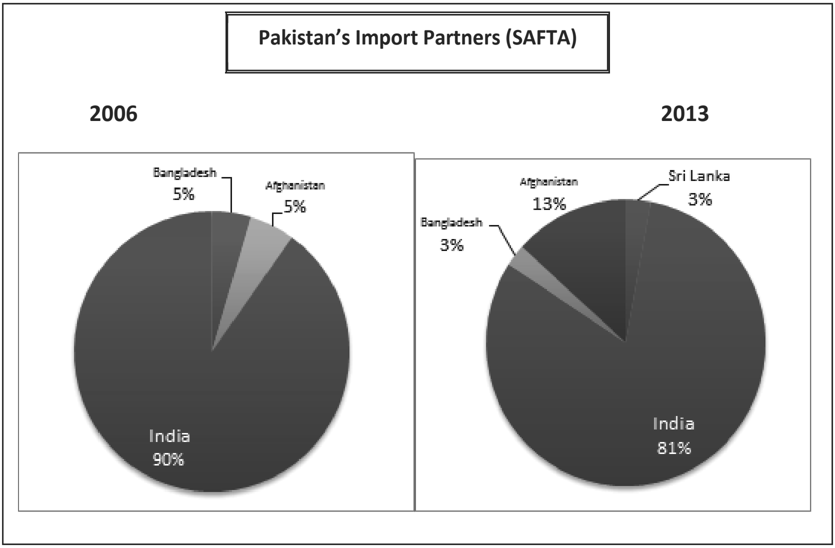


Source: UNCOMTRADE

[10] Ramay, S.A., & Abbas, M.H. (2013). *South Asian Free Trade Agreement (SAFTA) and Implications for Pakistan (PIDE Working Paper 138).* Islamabad, Pakistan: Sustainable Development Policy Institute. Retrieved July 9, 2015, from http://www.sdpi.org/publications/files/SOUTH_ASIAN_FREE_TRADE_AGREEMENT_%28SAFTA%29_AND_IMPLICATIONS_FOR_PAKISTAN_%28W%20-%20138%29.pdf

On the other hand, India remained the largest importing partners (compared with other SAFTA countries) with its share remained more than 80 percent in 2006 and 2013. (See Figure 4).

Figure 4: Pakistan's Import Partners (SAFTA Countries)



Source: UNCOMTRADE

It is important to note that although Pakistan's largest exporting partners in SAFTA region are India (2006) and Bangladesh (2013), the value of trade volume with these countries as a percentage of Pakistan's total trade is negligible. The share of India in Pakistan's total exports remained less than one percent from 1994 to 2004[11]. It only increased to approximately 2 percent after the signing of SAFTA.[12]

However, all the prediction have failed due to the fact the Pakistan never implemented SAFTA to the fullest and still has a substantial negative list of imports especially from India

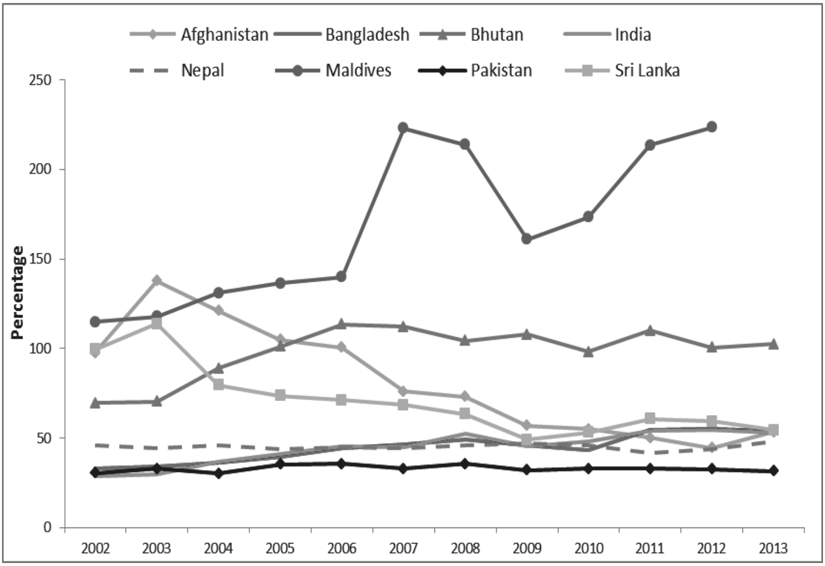
Thus, the impact on trade data can be seen as in 2002, Pakistan's trade as a percentage of GDP was recorded at 30.54 per cent, which reached to

[11] State Bank of Pakistan. (n.d.). *Implications of Liberalising Trade and Investment with India*. Retrieved June 19, 2015 from http://www.sbp.org.pk/publications/pak-india-trade/.

[12] Based on the data from World Bank

only 31.57 percent in 2013. Pakistan has the lowest trade as a percentage of GDP with respect to other SAFTA member countries. Interestingly, Pakistan, India and Bangladesh were almost at a similar level in 2002 with trade as a percentage of GDP at 30.54 percent, 29 percent and 33.32 percent respectively. By 2013, however, trade as percentage of GDP in both India and Bangladesh increased significantly whereas it remained stagnant for Pakistan (See Figure 5).

Figure 5: SAFTA Countries: Trade as a percentage of GDP



Source: World Bank National Accounts Data

3.1.1.2. Economic Cooperation Organization Trade Agreement

In July 2003, Afghanistan, Azerbaijan, Iran, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan signed the ECO Trade Agreement (ECOTA) with the objective of promoting intra and inter-regional trade. The objective of the agreement was the removal of trade barriers and establishment of free trade area in the region by 2015. The agreement has been pending due to reluctance of non-ratification of three member countries. Despite its non-implementation, most of the countries included in this agreement have been integrating their economies though easier movement of goods through TIR convention. Pakistan has signed bilateral transit facilities with some of the members of this agreement, but due to non-ratification of TIR convention and not facilitating transit facilities, it has remained an outlier.

3.1.2. Bilateral Free Trade Agreements (FTAs)

Pakistan has signed six FTAs. The more significant ones are with China, Sri Lanka and Malaysia. The remaining FTAs called Preferential Trade Agreements (PTAs) and are with Iran Indonesia and Mauritius but their scope is rather limited. The details of each are given below. In addition, Pakistan has started FTA negotiations with Bangladesh, Morocco, and Turkey, Korea and Thailand.

3.1.2.1. Pakistan-China FTA

Pakistan and China signed FTA in 2006 which came into effect in 2007. The agreement was divided into two phases with Phase-I ended in December 2012 and Phase-II negotiation began in July 2013.

Figure 6 indicates that imports from China started to increase after 2003 and continued to increase after the FTA in 2007. It surged from $4.2 billion in 2007 to $9.6 billion in 2014 (See Figure 6). Since the implementation of FTA, China has seen a significant increase in its share to Pakistan's overall imports. For example, its share in electronics import increased from 18 percent to 63 percent; in iron and steel it grew from 18 percent to 44 percent; and in manmade staple fibre rose from 7 percent to 45 percent. China has become the second largest source of Pakistan's imports contributing approximately 25 percent of total imports, excluding petroleum products.[13]

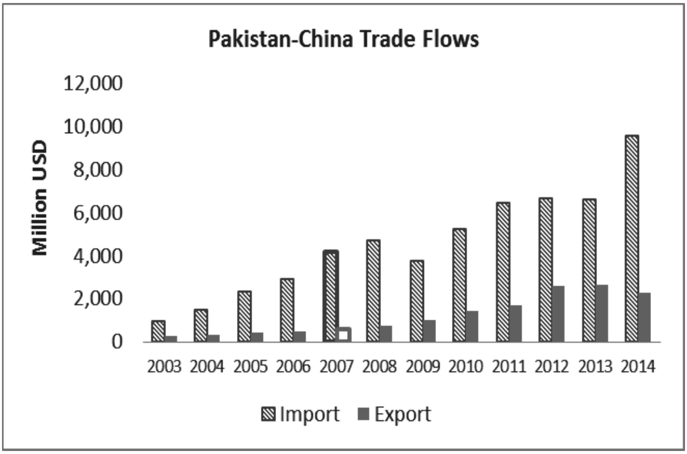
Some improvement was also witnessed in the exports from Pakistan, which increased from $613 million in 2007 to $2.2 billion in 2014 but China's share in Pakistan's exports to the world remains below 10 percent.

The increase in exports growth to China is encouraging but it is worth noting that 12 percent is in the products that are out of the scope of Pakistan-China FTA. Even though, many of these items are Pakistan's top exports to the world and include jewellery, items of knitted clothing, ar-

[13] The Pakistan Business Council. (2013). *Preliminary Study on Pakistan and China Trade Partnership Post FTA*. Pakistan.

ticles of leather, vegetable fat, etc. But under the FTA, Pakistan's exports of these products to China are less than 1 percent.

Figure 6: Pakistan – China Trade Flows (2003-2014)



Source: UNCOMTRADE

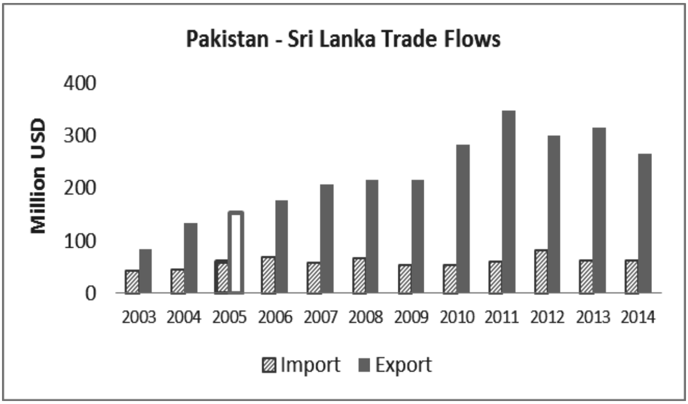
A study by Pakistan Business Council concluded that Pakistan appeared to have failed to maximise the benefit from this FTA. Concessions offered by Pakistan to China are more beneficial in terms of both the coverage (number of product lines utilised) and variety of products (type of product utilised). It is further stated that the tariff concessions offered to Pakistan are impressive but almost all top performing products, including in which Pakistan has comparative advantage, China provided equal or higher tariff reduction to ASEAN countries[14].

3.1.2.2. Pakistan-Sri Lanka FTA

The Pakistan-Sri Lanka FTA was signed in 2002 and came into operation in June 2005. Under FTA, both countries have offered preferential market access to each other. Pakistan offered 206 items duty free compared to 102 items by Sri Lanka. Sri Lanka was given a 5-year period to phase out tariff compared to 3 years given to Pakistan.

[14] The Pakistan Business Council. (2013). *Preliminary Study on Pakistan and China Trade Partnership Post FTA*. Pakistan.

Figure 7: Pakistan-Sri Lanka Trade Flows (2003-2014)



Source: UNCOMTRADE

At the time of FTA, Pakistan was not the major trading partner of Sri Lanka. However, for specific products, the countries were crucial partners. Taking for instance, Pakistan was an important export market for tea followed by copra, rubber, betel leaves and tamarind. For Pakistan, Sri Lanka was a significant destination for textiles, pharmaceutical, machinery and agriculture items[15].

The graph indicates a substantial increase in Pakistan's exports to Sri Lanka. According to a study by Abeyrantne (2012), Pakistan was an important source of Sri Lanka's total imports in 1990 accounting for 27.6 percent share. The share of import declined to 5.8 percent at the beginning of 2005 and then slightly improved to 9.8 percent in 2010.

Similarly, Sri Lanka has a trade deficit with Pakistan, which improved after the FTA (See Figure 7). However, it is too early to suggest that Sri Lanka maintained a trade deficit with Pakistan due to the FTA (Abeyrantne 2012).

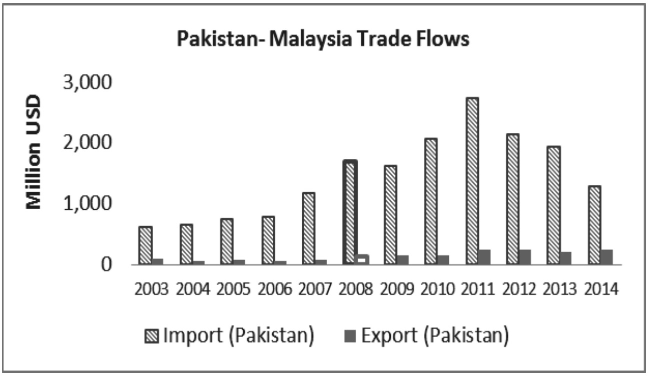
[15] Kelegama, S. (2006, January 1). Sri Lanka's Free Trade Agreement with Pakistan, *Daily News*. Retrieve from http://archives.dailynews.lk/2006/01/23/fea01.htm

3.1.2.3. Pakistan-Malaysia FTA

In 2008, Pakistan and Malaysia entered into comprehensive FTA incorporating trade in goods and services, investment and economic cooperation[16].

Pakistan offered 125 tariff lines on products like machinery, mechanical equipment & appliances, plastic products, chemical products, rubber & rubber products, and timber products. While Malaysia offered to Pakistan 114 tariff lines, which includes textile & clothing, agriculture products, and gems & jewellery.[17]

Figure 8: Pakistan-Malaysia Trade Flows (2003-2014)



Source: UNCOMTRADE

The trade data between two countries indicates that imports from Malaysia have always been more than the exports from Pakistan. After the FTA, the trend remained the same with imports sharply increasing from $1.7 billion in 2008 to $2.7 billion in 2011 (61% increase) and then coming down again to $1.3 billion in 2014. On the other hand, exports from Pakistan slightly improved from $13.8 million in 2008 to $23.3 million in 2014. (See Figure 8)

[16] World Trade Organisation. (2015). *Trade Policy Review: Pakistan (WTO Publication No. WT/TPR/G/311)*. Retrieved June 17, 2015 from https://www.wto.org/english/tratop_e/tpr_e/tp411_e.htm.

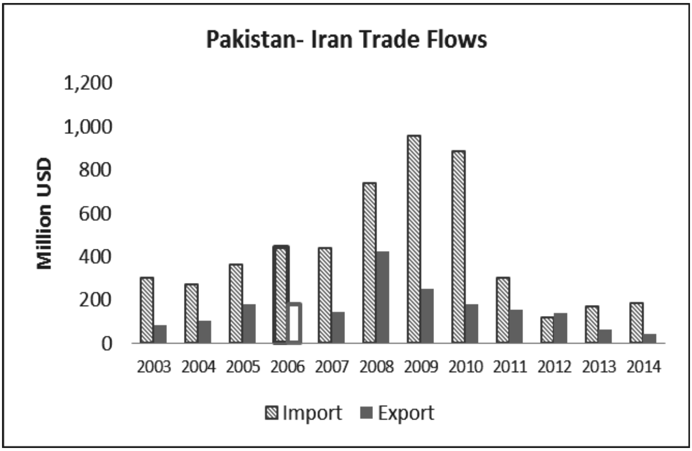
[17] Paracha, S. A., & Manzoor, M. R. (n.d). *Economic Evaluation of Pak-Malaysia Free Trade Agreement. Pakistan*:Pakistan Institute of Trade and Development. Retrieved June 6, 2015 from http://www.pitad.org.pk/Publications/3-Evaluation%20of%20Pak-Malaysia%20FTA.pdf.

Malaysia's trade with Pakistan accounted about 1 percent of its total trade. The trade balance has always been in favour of Malaysia with trade deficit of $507.29 million in 2003 rising to $1.04 billion in 2014. Major items of export from Pakistan include rice and textile, while palm oil is the major export from Malaysia (Paracha & Manzoor, n.d.).

3.1.2.4. Pakistan-Iran PTA

Pakistan signed a PTA with Iran in 2004 which became operational in 2006. Under PTA, Pakistan offered concession to Iran on 338 tariff lines, whereas Iran gave concession on 309 tariff lines. Thus the scope of the PTA is rather limited.

Figure 9: Pakistan – Iran Trade Flows (2003-2014)



Source: UNCOMTRADE

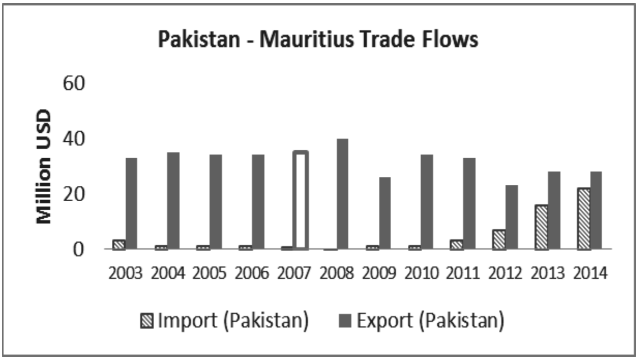
The graph shows that imports after PTA increased significantly for few years from $433 million in 2006 to $883 million in 2010 (51% increased) but then declined to $185 million in 2014. The major commodities imported by Iran include organic chemicals, plastic, minerals, oil, iron and steel.

The exports on the other hand slightly improved from $178 million in 2006 to $426 million in 2008 and decline to $185 million in 2014. At present, the major commodities exported to Iran include rice, meat, paper, paperboard, textiles, fruits, chicken, bean and surgical goods.

3.1.2.5. Pakistan-Mauritius PTA

Pakistan entered into Preferential Trade Agreement (PTA) with Mauritius in July 2007. Under the agreement, Pakistan gave concessions on 130 items, while Mauritius gave concessions on 102 items.[18] Again, the coverage is very limited.

Figure 10: Pakistan – Mauritius Trade Flows (2003-2014)



Source: UNCOMTRADE

Bilateral trade between the countries improved significantly, albeit from a low base. The increase mostly related to imports from Mauritius to Pakistan, which rose from approximately $0.54 million in 2007 to $22.54 million in 2014. On the other hand, exports to Mauritius declined after 2007 by 20 percent (Figure 10). The change in the exports and import volumes between the two countries can be due to PTA but it may also attributed to other factors.

[18] Imaduddin (2013, December 21). Mauritius keen to develop trade relations with Pak, sign FTA: Deputy PM. *Business Recorder.* Retrieve from http://www.brecorder.com/top-news/108-pakistan-top-news/149841-mauritius-keen-to-develop-trade-relations-with-pak-sign-fta-deputy-pm.html

3.2. Impact of Free Trade Agreements

It is clear from the above discussion that while FTAs and RTAs have resulted in some tariff liberalisation, their overall impact in expanding Pakistan's exports has been very limited. In case of SAFTA, Pakistan's trade as percentage of GDP is the lowest while neighbouring countries especially India, Bangladesh and Sri Lanka have surpassed Pakistan substantially.

Moving to FTAs and PTAs, Pakistan seems to have benefited less in terms of increasing its exports than the counter party in almost every bilateral trade agreement The trends indicate that for most agreements, the imports to Pakistan increased significantly than exports (except for Sri Lanka). Pakistan's share in total export of trading partners is insignificant in most cases. For examples, in case of FTA with Malaysia and China, Pakistan's share accounts for 1 percent.

For Sri Lanka, Pakistan was an important market in 1990s contributing over 25 percent to total imports of Sri Lanka, which has now declined to only 9.8 percent in 2010. On the other hand, India's share increased significantly and it now accounts for about 90 percent of Sri Lanka's import from SAARC countries. In addition, exports from Pakistan was higher than India in 1990s, but after the FTA signed between India and Sri Lanka in 2000, the exports from India reached to 80 percent of total exports of Sri Lanka.

One of the reasons why Pakistan failed to gain export markets is that the countries with whom Pakistan entered into agreements have given similar tariff concessions to other countries as well. For instance, under the FTA with China, tariff under the 100 percent category which constitute more than 35 percent of the total product parts of the FTA were reduced to 0 percent for Pakistan. But, the average tariff along these products for ASEAN countries is also 0 percent.[19] Thus, the tariff reduction under the FTA was not Pakistan specific.

[19] The Pakistan Business Council. (2013). *Preliminary Study on Pakistan and China Trade Partnership Post FTA*. Pakistan.

3.2. Restrictive Trade Policy Period

Whilst Pakistan was entering into regional and bilateral trade agreement with various countries, the financial crisis of 2008 resulted in reversal of overall trade liberalisation policies.

Pakistan is the only country that imposes withholding and income tax on imports.

In 2008 several regulatory duties were imposed. Maximum tariff was raised back to 35 percent from 25 percent in 2002. The aim of trade policy shifted back to providing extra protection to local industry and local producers (Reis & Taglioni, 2013). .

In these last few years, Pakistan's trade policy has been characterised with major reversals from the previous trade liberalisation and regulatory simplification programs. With a limited, but effective return to more protectionist policies and indigenisation programs, Pakistan's trade policy has become increasingly complex (World Bank 2013).

A number of new SROs were introduced, which have continued even after the balance-of-payment crisis ended.[20]

The reversal in trade policy resulted in Pakistan becoming the sixth most protected economy in the world. The Overall Trade Restrictiveness Index (OTRI) indicated that Pakistan's overall restrictiveness has increased over time. In 2004, Pakistan reached a value of 9.0, which increased to 9.9 in 2010 and remained at that level in in 2014.[21]

According to a World Bank study 'Pakistan: Reinvigorating the Trade Agenda', there is no country other than Pakistan which has concessionary structure such as SROs.

In the meanwhile, neighbouring countries continued to reduced tariff lines and this left Pakistan being the only country with average tariff in double digits in 2006-2009 (See Table. 1).

[20] Reis, J.G., & Taglioni, D. (2013). Pakistan: Reinvigorating the Trade Agenda. Policy Paper Series on Pakistan, PK 15/12. Retrieved July 6, 2015 from http://econ.worldbak.org.
[21] Reis, J.G., & Taglioni, D. (2013). Pakistan: Reinvigorating the Trade Agenda. Policy Paper Series on Pakistan, PK 15/12. Retrieved July 6, 2015 from http://econ.worldbak.org.

Table 1: Average Tariff on Industrial Goods

Country	2000-2004	2006-2009
Indonesia	7.1	6.6
Malaysia	9.1	8.0
China	12.6	8.7
Sri Lanka	7.9	8.9
India	29.5	9.1
Pakistan	17.4	13.2

Source: USAID Trade Project report based on WTO data

Similarly, a comparison of 2014 tariffs with neighbouring countries, it can be seen that Pakistan still has the highest tariff for most of the industrial goods.

Table 2: Average MFN applied duties by Product Group 2014 (Comparison of South Asian Countries)

	Afghanistan	Bangladesh	Nepal	Sri Lanka	Pakistan
Chemicals	5.0	9.9	11.4	3.4	9.5
Textile	4.8	19.4	12.7	3.5	16.6
Transport Equipment	7.0	11.6	19.6	8.8	24.4
Electrical Machinery	6.1	12.7	10.4	7.5	14.7
Manufactures, n.e.s	7.7	12.6	11.6	10.6	13.0

Source: WTO- World Trade Profile 2015

In 2014-15, once again the reduction in maximum tariff and reduction in number of total slabs was announced in the federal budget. The maximum tariff was reduced from 30 percent to 25 percent and the number of slabs were reduced from 7 to 6 and then further to 5 in the recent budget of 2015-16. But for 131 items for which maximum tariff level was reduced, regulatory duty was imposed. Thus practically there was no reduction. In addition, 0 percent slab in tariff was replaced by 2 percent except for petroleum products, fertilisers and food items.

In last few years, although the steps were taken to reduce tariff slabs and maximum tariff rate, the problem lies in the complex structure of duties that comes from SROs and regulatory duties.

From 2006-07 onwards, the dispersion and complexity of customs duties enhanced and in August 2008, various ‘regulatory duties’ were implemented on the top of custom duties. In 2002-03, there were only four standard normal rates ranging from 5 percent to 25 percent, which increased to at least nine standard ‘normal’ tariffs ranging from zero to 50 percent in 2008. By 2010-11, approximately 54 percent of the total number of tariff lines was subjected to at least one special condition announced in SRO. Most of such exemptions were, for a specific firm or group of firms, given on inputs. Administration of this SRO culture is de facto import licensing system[22].

The trade restrictiveness policies continue to hamper Pakistan’s trade performance. In the Pakistan’s Trade Policy Review 2015, Chairperson of the Trade Policy Review Body said that;[23]

“While welcoming a small reduction in the applied MFN tariff since 2008, several Members voiced concerns with respect to the large difference between applied and bound rates. Similar reservations were also stated regarding the abolition of duty-free tariff lines. A number of Members raised the issue of what they considered to be a high degree of overall tariff protection which favoured import substitution. They also referred to the continued use of ad-hoc trade policy instruments, such as special regulatory orders, which undermined the predictability of the trade regime.”

According to a recent study ‘Pakistan: Reinvigorating the Trade Agenda’ by World Bank, there is no country other than Pakistan which has concessionary structure such as SROs. The study also highlighted the adverse impact of SROs on Pakistan’s trade performance. The SRO culture of special concession is resulting in a significant loss of revenue (40% of collected duties), creating more complex import regime, the ambiguity and discretion of SROs are resulting in misuse of exemptions and it is distorting the level playing field.

[22] Pursell, G., Khan, A., & Gulzar, S. (2011). Pakistan’s Trade Policies: Future Direction. Working Paper. International Growth Centre. Retrieved October 22, 2015 from http://www.theigc.org/wp-content/uploads/2014/09/Pursell-Et-Al-2011-Working-Paper.pdf

[23] Concluding remarks by the chairperson of the Trade Policy Review body, H.E. Mr. Atanas Atanassov Paparizov at the trade policy review of Pakistan, 24th – 26th March, 2015 in Islamabad.

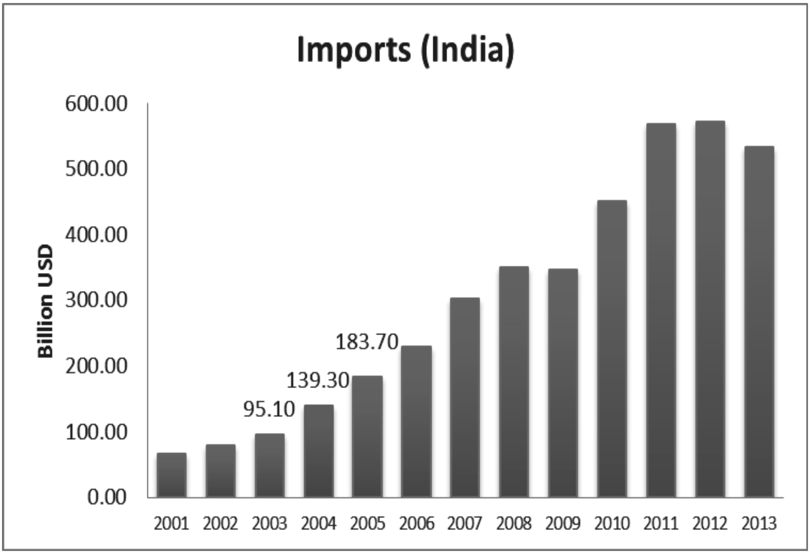
4. Trade Liberalisation: Pakistan vs. Rest of the world

4.1. India: How the country was different from Pakistan?

In 1990s, India's trade as a percentage of GDP was only 15 percent. Its imports were regulated by a narrow positive list of freely importable items. Items not in the positive list were either prohibited for imports or could be imported subject to compliance with requirement of a complex licensing system (UNCTAD 2012). India was isolated from the world markets and its policies promoted self-reliance and import substitution. Foreign Direct Investment (FDI) was restricted by upper-limit equity participation and averaged only around $200 million annually between 1985 and 1991.

However, a clear shift in India's trade policy was witnessed from 1991 onwards. The reform process further expanded in 2004-05 by removing all restrictions on imports and continuing to lower custom tariffs.

Figure 11: Imports of India (2001-2013)



Source: UNCOMTRADE

Figure 12: Export Comparison: India vs. Pakistan (2000-2013)

Source: UNCOMTRADE

India's continued trade liberalisation for two decades resulted in major expansion of its trade, which increased from $43 billion in 2000 to $336 billion to 2013 (See Figure. 12).

On the other hand, Pakistan's trade liberalisation process, which started in 1991 continued for a little over a decade. Except for some bilateral liberalisation under FTA commitments, it did not carry out any reforms after 2002. On the contrary, it reversed some of the earlier reforms in 2008. As a result, its exports started stagnating after 2007. Its exports of goods and services could only grow from $6 billion to $30 billion during this period.

For India, the consistent process of economic openness is also reflected in the continuous decline in tariffs for number of products. Instead, Pakistan's direction on reducing tariff was inconsistent with fluctuations in many tariff lines and reversal in others. Very few products depicted a decreasing trend.

Table 3: Average MFN Applied Duties by Product Group (Pakistan vs. India)

Average MFN Applied Duties by Product Group	India						Pakistan					
	2006	2008	2010	2012	2014	Direction	2006	2008	2010	2012	2014	Direction
Coffee, tea	56.3	55.9	56.3	56.1	56.3	Unchanged	12.1	10.9	12.8	12.8	12.8	Fluctuate
Cereals & preparations	37.3	31.1	32.2	30.7	31.3	Decreasing	15.8	15.7	18.8	18.8	15.7	Fluctuate
Oilseeds, fats & oils	52.5	48.8	18.2	18.8	37.3	Fluctuate	14.8	14.2	10.1	8.8	7.7	Decreasing
Sugars and confectionery	48.4	34.4	34.4	34.4	35.9	Decreasing	13.3	13.3	16.9	17.2	17.1	Increasing
Beverages & tobacco	68.9	63.3	70.8	70.8	69.1	Fluctuate	50.3	46.8	52.5	52.5	48.9	Fluctuate
Cotton	17	17	12	12	6	Decreasing	8	8	7	7	7	Decreasing
Chemicals	15	8	7.9	7.8	7.8	Decreasing	9.8	9.4	9.5	9.6	9.5	Unchanged
Wood, paper, etc	13.5	9.1	9.1	9.1	9	Decreasing	17.3	17.3	15.5	15.5	14.9	Decreasing
Textiles	20.2	20.9	13.6	13.3	12.2	Decreasing	16.4	17	16.7	16.7	16.6	Fluctuate
Clothing	22.4	22.2	16.1	15.1	13	Decreasing	24.8	24.8	24.8	24.8	24.8	Unchanged
Leather, footwear, etc	15.4	10.1	10.2	10.1	10.2	Decreasing	16.3	16.5	14.9	14.9	14.9	Decreasing
Non-electrical machinery	14.3	7	7.3	7.2	7.1	Decreasing	9.7	9.1	9.3	9.3	9	Unchanged
Electrical machinery	12.3	6.6	7.2	6.9	7.3	Decreasing	15.2	14.5	14.6	14.8	14.7	Decreasing
Transport equipment	24.8	20.8	20.7	15.5	21.7	Fluctuate	28	25.5	25	24.7	24.4	Decreasing
Manufactures, n.e.s.	13.9	8.7	8.9	8.7	8.8	Decreasing	12.8	13	13.1	13.1	13	Increasing

Source: WTO – Various editions of World Tariff Profiles

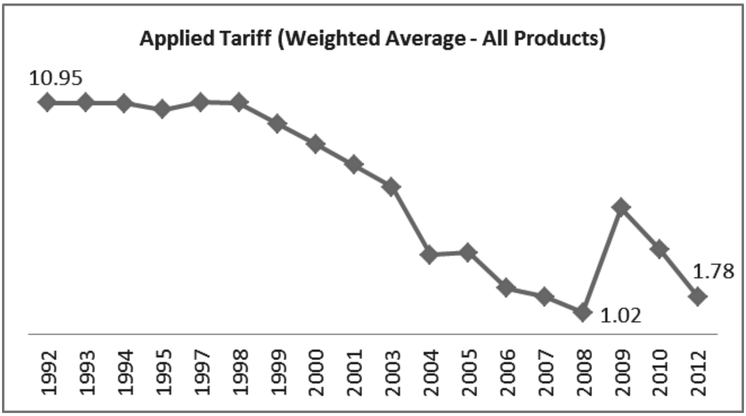
Decreasing *Increasing* *Fluctuate* *Unchanged*

4.2. Chile: Unilateral Liberalisation against all odds

Traditionally, Chile was a highly protected country. However, in the second half of the 1970s and throughout 1980s, the liberalisation policies were introduced. These included export promotion and diversification policies, favourable conditions for foreign direct investment and a gradual reduction in tariffs[24]. The growth of in Chile's export sectors between 1973 and 2000 is remarkable. Earnings from exports rose about 14 times between 1973 and 2000. (Banco Central, 2001). In the same time period, a diversification of exports was achieved. The relative dependence on copper (80% in 1973) was reduced by one half in 2000.[25]

Chile continued to reduce tariff across the border. In 1992, weighted average of applied tariff for all the products was 10.95 percent, which reached to lowest 1.02 percent in 2008. It increased slightly in 2009 but then again reduced to 1.78 percent in 2012 (See Figure 13).

Figure 13: Chile: Weighted Average Applied Tariff (1992-2012)



Source: World Development Indicators (World Bank)

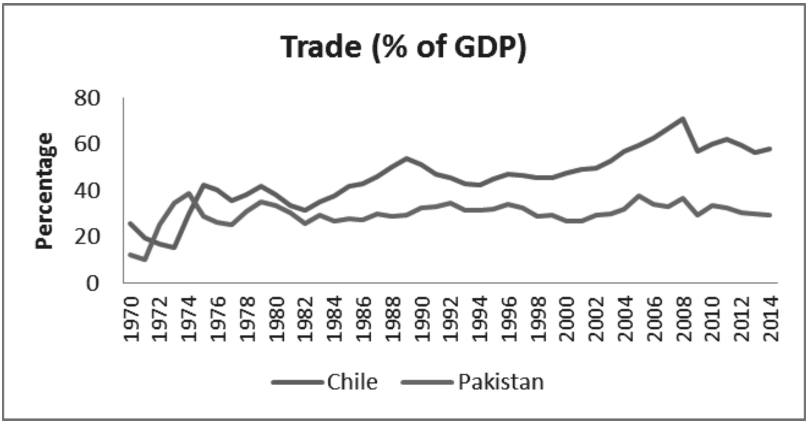
[24] Borregaard, N. (2004). *Trade Liberalisation in Chile: What is evidence of its effects and how can sustainable development be safeguard?*. (The Working Group on Development and Environment in the Americas Discussion Paper No. 5). Brazil. Retrieved September, 15, 2015 from http://ase.tufts.edu/gdae/pubs/rp/dp05borregaardjuly04.pdf.

[25] Borregaard, N. (2004). *Trade Liberalisation in Chile: What is evidence of its effects and how can sustainable development be safeguard?*. (The Working Group on Development and Environment in the Americas Discussion Paper No. 5). Brazil. Retrieved September 15, 2015 from http://ase.tufts.edu/gdae/pubs/rp/dp05borregaardjuly04.pdf.

Chile's trade volume increased significantly since the reform process. The trade-to-GDP ratio was 25 percent in 1970, which increased continuously at a gradual pace over the years and reached to 57.7 percent in 2014.

To date, Chile has signed trade pacts with most of Latin American countries, Canada, and with the European Union. Moreover, Chile is a member of the Asia Pacific Economic Cooperation (APEC) since 1994, and associated member of Mercosur – a sub-regional Latin American economic bloc - since 1996.

Figure 14: Chile Vs. Pakistan: Trade As a percentage of GDP (1970-2014)



Source: World Development Indicators (World Bank)

In addition, United States – Chile FTA was entered into force in 2004. Chile is the 29th largest good trading partner of US with $27.9 billion in total (two ways) trading of goods in 2013. Since January 2015, , 100 percent of US exports can now enter Chile duty-free, as a result of tariff reduction under FTA.

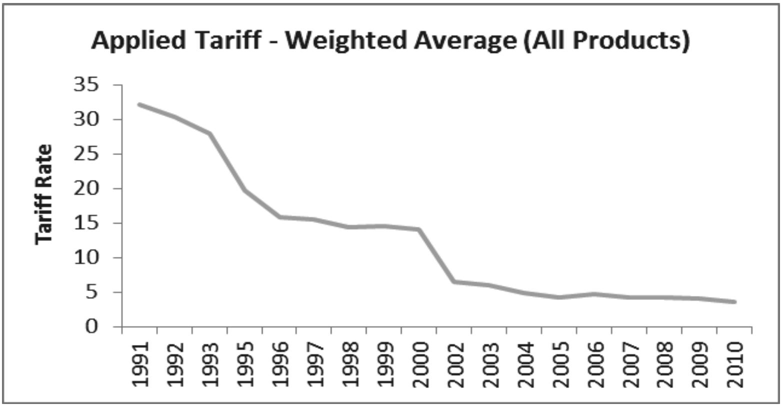
4.3. China: First Unilateral Liberalisation, then WTO

Since 1980s, China also undertook unilateral liberalisation along with inward investment liberalisation and thereby established itself as a source of cheap labour, and a key player in the assembly lines of globally expanding supply chains. The country's simple average tariff came down to 16.6 percent in 2001 from 42 percent in 1992.[26]

To join WTO, China undertook various steps including trade and FDI liberalisation as well as industrial and agriculture restricting[27]. China's liberalisation example is one of the biggest one among the countries which adopt the liberalisation process, and it also has the huge spill over effect in Asia[28].

As a result of China's liberalisation, additional unilateral liberalisation was triggered in other South-East Asian countries. More openness and FDI allowed advance ASEAN countries to move up the higher value production of parts and components while more labour intensive production migrated to China. These activities were not spurred by GATT/ WTO, ASEAN Free Trade Area or other FTAs. These were the unilateral response to market conditions, resulting in market-led regional and global integration.[29]

Figure 15: China: Applied Weighted Average Tariff (1991-2010)



Source: World Development Indicators (World Bank)

[26] Sally, R. (2008). *Trade Policy, New Century: The WTO, FTAs and Asia Rising.* London: The Institute of Economic Affairs.

[27] It took China approximately 14 years of negotiations to join WTO. It had to meet many conditions which included liberalization of its import regime.

[28] Sally, R. (2008). *Trade Policy, New Century: The WTO, FTAs and Asia Rising.* London: The Institute of Economic Affairs.

[29] Ibid.

After joining WTO in 2001, unilateral liberalisation was reinforced in China under strong WTO commitment. China withdrew most of the quotas, licenses, specific tendering arrangements, price controls and subsidies. Import quotas were eliminated by its WTO commitments. Tariffs accounted for only 2.5 percent of total tax revenue in 2009. In 2010, its average applied tariff was noted at 3.57 percent (28.6 percentage points lower since 1991) as shown in the figure 15. China's weighted average tariff is just over 4 percent, which is the lowest among large developing countries such as Brazil, Russia, India, Indonesia and South Africa.[30]

4.4. Turkey: Liberalisation – A way- out of economic recession[31]

Like many countries, Turkey was also an inward-oriented country for many years. During 1960s and 1970s, all the imports used to be regulated by annual import programmes and published in its official gazette.

However, the country has been switching to outward-oriented policies since 1980s. The increase in oil prices and other imported commodities along with the overall world recession hit the Turkish economy hard. Thus, the government introduced a comprehensive policy package to address its worsening economic situation.

Liberalisation combined with macroeconomic stability left a noticeable positive impact on Turkish economy. Its exports increased from $2.9 billion in 1980 to $157 billion in 2014, with automotive products exports constituting $22.2 billion. Turkey's trade (as percentage of GDP) increased significantly from 8.2 percent in 1978 to 49.31 percent in 2014 (See Figure 16).

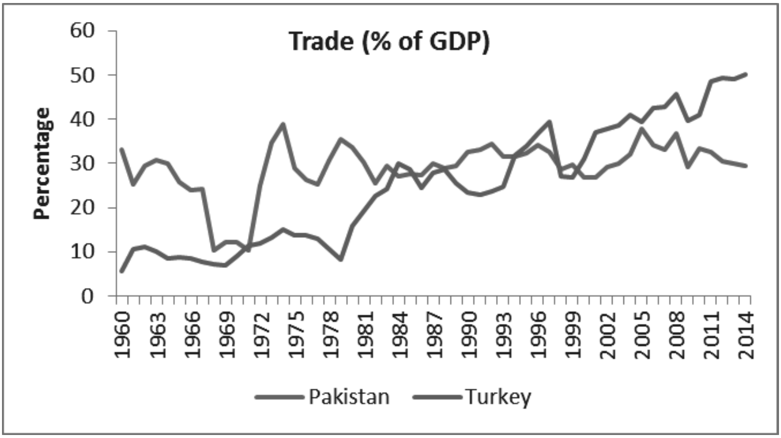
In addition, it can be seen that Turkey's average tariff for all products has been decreasing significantly and reached a low of 1.93 percent in 2003

[30] Sally, R. (2011). Chinese Trade Policy after (Almost) Ten Years in the WTO: A Post-Crisis Stocktake. *ECPIE Occasional Paper, 2/2011.*Retrieved August 8, 2015 from http://www.ecipe.org/app/uploads/2014/12/chinese-trade-policy-after-almost-ten-years-in-the-wto-a-post-crisis-stocktake.pdf

[31] Togan, S. (2010). *Economic Liberalisation and Turkey.* Retrieved September 19, 2015 from https://books.google.com.pk/books?id=nZ1dBwAAQBAJ&pg=PA317&lpg=PA317&dq=Togan,+S.+%282010%29.+Economic+Liberalisation+and+Turkey&source=bl&ots=x4--e_WlRN&sig=L8NC7EpiQBPFj_Z4tzlp5HgiEOs&hl=en&sa=X&ved=0CB0Q6AEwAGoVChMIibXC8NybyAIVTFYUCh0ZEQoQ#v=onepage&q=Togan%2C%20S.%20%282010%29.%20Economic%20Liberalisation%20and%20Turkey&f=false.

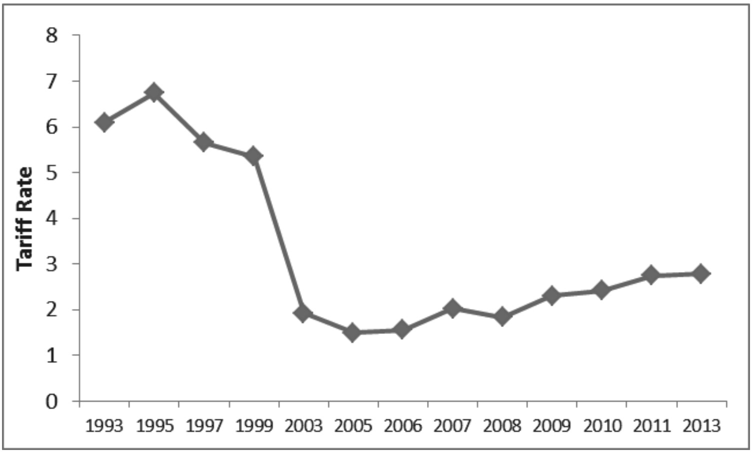
and remained under 3 percent ever since.

Figure 16: Turkey vs. Pakistan: Trade as A Percentage of GDP (1960-2014)



Source: World Development Indicators (World Bank)

Figure 17: Turkey: Applied Weighted Average Tariffs (1993-2013)



Source: World Development Indicators (World Bank)

Currently, Turkey is the 7th largest import partner of EU and 5th biggest export partner. It is also one of the attractive destinations for international investment with FDI reaching to $12.5 billion in 2014 from $9 billion in 2010.

Turkey's example gives a major lesson for Pakistan. In 1980 exports of both countries were about $3 billion. Now after 35 years, Turkey's exports have increased to over $170 billion while Pakistan's exports have not yet crossed $25 billion.

4.5. Vietnam: Aggressively Reformed Country

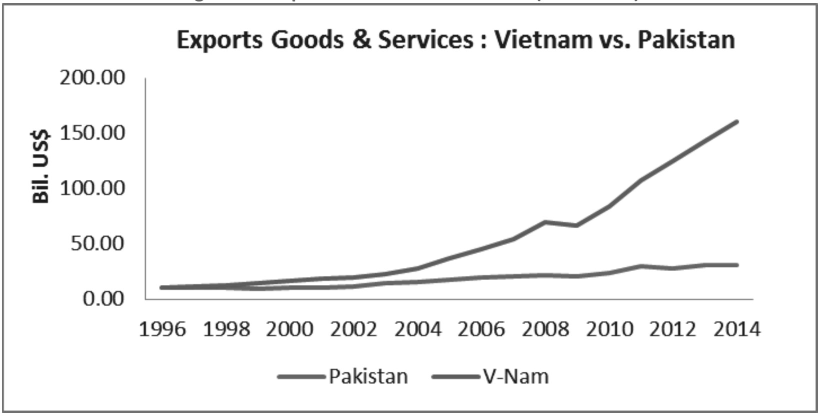
The year of 1989 marked a turning point for Vietnam's economic development due to initiation of market-oriented reforms. These reforms positively resulted in GDP growth, macroeconomic stabilisation, export expansion and foreign direct investment[32].

A simplified and rationalised tariff system was introduced in late 1980s, in which average weighted tariff rate dropped from 20 percent in early 1990s to around 15 percent in early 2000s, prior to Vietnam's accession to the WTO.

Vietnam's exports increased gradually over the years and jumped significantly after 2009, as shown in figure 18. Interestingly, Pakistan and Vietnam had about the same level of exports of about $5 billion in 1995. While Pakistan's exports have increased to about $25 billion, Vietnam's exports drastically increased to $160.89 billion in 2014.

[32] Thanh, V.T. (2005). Vietnam's trade liberalization and international economic integration: Evolutions, problems and Challenges. *China Institute for Reforms and Development Reports*. Retrieved October 21st,2015 from http://www.chinareform.org/publications/reports/200504/t20050416_111302.htm.

Figure 18: Exports: Vietnam vs. Pakistan (1996-2014)

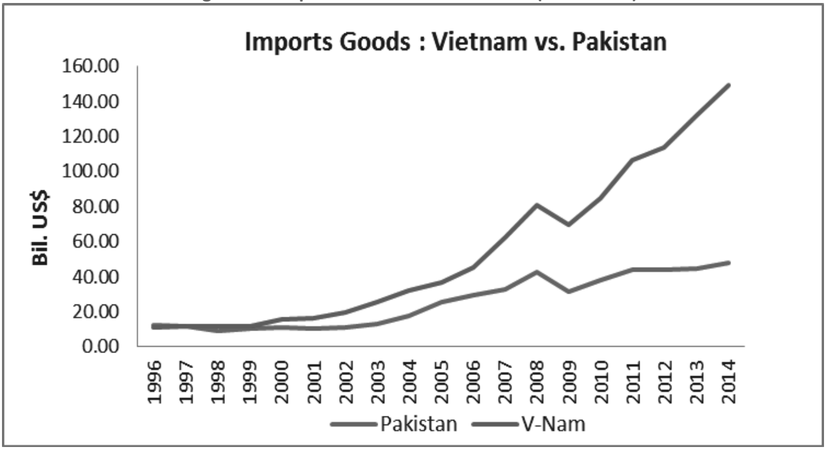


Source: World Development Indicators (World Bank)

Similarly, the imports of Vietnam also increase significantly from 1996 onwards and showed a significant increase from $11.59 billion in 1996 to $149. 26 billion in 2014 – approximately 66 percent increase per annum. On the other hand, Pakistan's import increased only by approximately 17.17 percent per annum, ($11.65 billion in 1996 to $47.64 billion in 2014).

In addition to economic reforms, Vietnam also emphasized on improving international economic integration and became part of various trade blocks such as EU in 1992, ASEAN in 1995, APEC in 1998, and WTO in 2007. The country also signed various bilateral trade agreements.

Figure 19: Imports: Vietnam vs. Pakistan (1996-2014)



Source: World Development Indicators (World Bank)

Currently, of the ten ASEAN countries, Vietnam is the fifth most important trading partner of EU and 27th largest goods trading partner of US with $29.7 billion total (two way) goods trade in 2013.

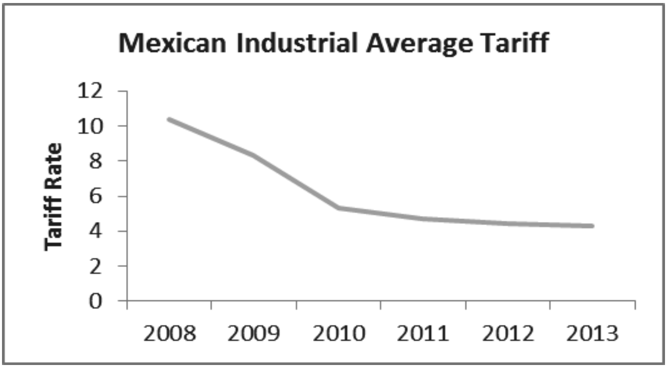
4.6. Mexico: Unilateral liberalisation- A way out of Economic Crisis[33]

Mexico changed its trade policy in the mid-80s to trade liberalisation (both unilateral and multilateral) from import substitution. Started in 1980s, the unilateral liberalisation was implemented in various phases at different speeds.

As a result of trade liberalisation, Mexico's exports increase from $21 billion in 1982 to $291 billion in 2008 – average growth of 49.47 percent annually. Similarly, imports showed an annual average increase of 75.39 percent from $15 billion in 1982 to $309 billion in 2008. The foreign trade flow was multiplied by 16.7 times.

[33] For more information, see Cordova, E. L. (n.d.). Mexican Unilateral Trade Liberalisation in the Middle of the Economic Crisis. *GTA Analytical Paper No.2*. Retrieved August 11, 2015 from http://www.globaltradealert.org/sites/default/files/GTA-AP2%20Cordova.pdf

Figure 20: Mexico: Industrial Average Tariff (2008-2009)



Source: WTO: Trade Policy Review – Mexico

Interestingly, Mexico was one of the few countries to carry out unilateral liberalisation after the 2008 global financial crisis, which hit the Mexican economy relatively hard. By 2010, Mexico eliminated tariff on 3,852 lines and simplified tariff structure by reducing the number of tariff levels from 88 to 28. In addition, its average tariff for manufactured goods fell from 9.9 percent in 2007 to 4.6 percent in 2012.[34]

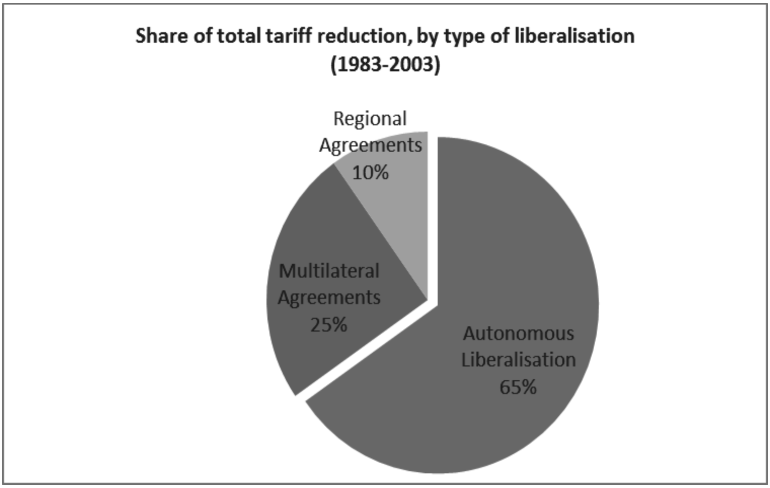
Currently, Mexico is the third largest trade partner of the U.S. Its exports stood at $240 billion and imports at $294 billion in 2014, from $13.63 billion and $19.13 billion respectively in 1985 - the year when Mexico's liberalisation started.

[34] World Trade Organisation. (n.d.), *Trade Policy Review: Mexico*. *(WTO Publication No. WT/TPR/S/279).* Retrieve August 11, 2013 from https://www.wto.org/english/tratop_e/tpr_e/s279_sum_e.pdf.

5. Unilateral Liberalisation: Does One-Policy-Fits-All?

According to World Bank estimates, between 1983 and 2003, about 65 percent of developing country tariff liberalisation (a 21 percent cut in average weighted tariffs) has come about unilaterally, with 25 percent coming from the Uruguay Round agreement and only 10 percent from PTAs[35].

Figure 21: Tariff Reduction Share by Type of Liberalisation (1983-2003)



Source: Sally (2008)

[35] Sally, R. (2008). *Trade Policy, New Century: The WTO, FTAs and Asia Rising.* London: The Institute of Economic Affairs.

Why do several countries opted for unilateral liberalisation? Can one policy fits all?

The process of unilateral liberalisation is 'liberalism from below'[36], which provides governments' a sense of flexibility to adopt a policy based on local conditions.

On the contrary, 'liberalism from above'[37] constitutes the liberalisation through bilateral and multilateral negotiations. This overlooks fundamental lessons from theory, history and existing conditions around a country. Compelling political and economic arguments favour unilateral liberalisation, with governments freeing up international trade and flows of capital and labour independently, not as a result of international negotiations.

There are both theoretical and empirical evidences that support the idea of unilateral liberalisation. Sally (2008) argued that, *"Welfare gains result directly from import liberalisation, which replaces comparatively costly domestic production and reallocates resources more efficiently, and spurs capital accumulation and economic of scale as well as longer-run dynamic gains such as the transfer of technological and skills. Among its many benefits, import liberalisation provides cheaper inputs and reallocates resources to promising export sectors. Such gains come more quickly through unconditional liberalisation than through protected, politicised and bureaucratically cumbersome international negotiations. Liberalism from below can make political sense too. Rather than relying on one-size-fits-all international blueprints, governments have the flexibility to initiate policies and emulate better practice abroad in experimental, trial-and-error-fashion, tailored to specific local conditions."*

That is why, many countries adopted this trade liberalisation process and showed successful experiences as discussed in the previous section.

[36] The term was first used in Sally, R. (2008). *Trade Policy, New Century: The WTO, FTAs and Asia Rising.* London: The Institute of Economic Affairs.
[37] Ibid

6. Lessons: What Works to Improve Trade

Trade policy is Pakistan has seen major policy shifts in the last two and half decades; from protectionist policies to unilateral liberalisation to regional/bilateral trade agreements as well as a return to protectionist policies. Of all these shifts, evidence suggests that the experience of unilateral trade liberalisation especially between 1999-2002 has been the most effective.

> *Despite the popular beliefs, the process of trade liberalisation does not have appeared to have a negative impact on poverty and income inequality.*

There are number of lessons Pakistan can learn from its own history and the examples of other countries that carried out liberalisation.

A study by Social Policy Development Centre (SPDC) to understand the impact of trade liberalisation concludes that, despite popular beliefs, the process of trade liberalisation does not appear to have a negative impact on poverty and income inequality. The results indicate that trade liberalisation, on the contrary, reduced poverty and income inequality slightly through growth, productivity, investment and price stability.[38]

According to the results, there are few industries that suffered from trade liberalisation but such restructuring are the natural consequence of trade liberalisation.

Ishrat Husain comments that:

'*An interesting and highly unique insight gained from the study was that the trade*

[38] Husain, I. (2015). *Globalisation, Governance and Growth.* Karachi, Pakistan: Institute of Business Management.

liberalisation has had some adjustment cost associated with it, in particular costs related to fiscal adjustment. Had the lower government revenue collection arising from a reduction in import tariffs been fully neutralised by other modes of direct and indirect taxation and development expenditures not fallen the impact of trade liberalisation on poverty and income inequality would have been larger.' [39]

There is a dire need for trade policy managers to understand that tariff reduction boost exports since tariff act as an implicit tax on exports. Some of the lessons we can draw from the examples of other countries discussed above as well as Pakistan's history of trade liberalisation are:

First Lesson: Liberalisation is the surest way for boosting exports and achieving economic development

Traditionally, in many countries including Pakistan, trade policy managers have relied upon inward looking import substitution and protectionist polices to enhance the level of exports. However, this study shows that liberalisation should be viewed as an export enhancement strategy and restrictions on imports have led to export curtailment. Thus, to achieve the target of higher exports, a country needs to adopt outward looking and liberalised policies, which will also result in better performing economic indicators.

Second Lesson: Unilateral liberalisation is a flexible process

Unlike WTO and various trade agreements, that require a country to fulfil criterion before initiating the process of liberalisation and also assumes one-size-fits-all formula, unilateral liberalisation is a flexible process. It allows countries to adjust the liberalisation process, according to its own policy and economic circumstances as evident from the examples of various countries discussed above.

Third Lesson: Domestic reforms are essential

In all the cases discussed above, it can be seen that every country adopted trade reforms as a part of comprehensive domestic or structural reforms. Pakistan also did the same in 90s. So, unilateral liberalisation is a necessary, but insufficient condition and must be accompanied by domestic reforms such as exchange rate reforms, capital account liberalisation, financial reforms, privatisation and deregulation measures and others.

[39] Ibid.

7. Way Forward: How Pakistan Can Capture International Export Market

7.1. Improve Integration

Pakistan is one of the least regionally integrated countries. Its regional trade is less than 5 percent of its total, whereas the world average is 40 percent. Its integration with the South Asian countries is not fully operational as it does not allow MFN treatment to India. Similarly, a regional agreement Economic Cooperation Organization Trade Agreement (ECOTA) was signed in 2003, but has not become operation till now.

However, in order to improve regional trade many countries in the region allowed movement of goods under Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), which works under an international guarantee system and facilitate the movements of trucks and containers. Pakistan has recently joined the TIR convention which will enter into force on 21st January, 2016[40]. Pakistan needs to carry out necessary preparatory work such implementing a new trucking policy and training of stakeholders to ensure its smooth implementation.

7.2. Be part of supply chain

The country should turn its attention to improving regional trade by developing its current supply chains and production networks. Since the

[40] UNCECE. (n.d.). Accession of Pakistan to the TIR Convention, 1975. Retrieved September 7, 2015 from http://www.unece.org/tir/news/240715.html

present global world is linked with integrated supply chains, the production process is broken into different stages and located in countries that have the greatest comparative advantage. Pakistan should shift its focus from living in the silos to being a part of this supply chain. For that, tariff dispersion, tariff peaks and tariff escalation have to be rationalised to part of the supply chain based on Pakistan's comparative advantage.

7.3. Effective Implementation of Multilateral and Regional Commitments

Pakistan has not eliminated its WTO commitments in several areas. For example, it still maintains import substitution policies despite the implementation of the WTO agreement on trade-related investment measures (TRIMs) in 2000. Similarly, its customs valuation system is not based on the WTO valuation agreement. Also, Pakistan is yet to implement several trade-related commitments it has undertaken under various regional and bilateral agreements.

7.4. Effective FTAs

Even though, Pakistan has signed several preferential or free trade agreements, many of agreements cover less than 5 percent of tariff lines. Under Article XXIV of the GATT, FTAs should cover substantial trade (over 90%) and should become fully operational within a reasonable time frame. Almost none of Pakistan's FTAs meet these requirements. Pakistan is unable to make further progress in making its FTAs effective as it has failed to carry out essential domestic reforms. As a result, it is renegotiating some FTAs, such as with China and is unable to move on the second phase, which was to begin in 2012.

7.5. Re-start Unilateral Liberalisation

Pakistan should have a 5 year program for restructuring its customs tariff. It should reduce peak tariff to a similar level as other competing developing countries. It still need to do a lot in terms of decreasing its tariff barriers, which can be done by bringing maximum tariff to the same level as neighbouring and competing countries. However, decreasing tariffs would not benefit trade until the special concessions and restrictions through SROs are also abolished. Pakistan can achieve more from liberalisation. Based on the study by Stephen Tokanick, Pakistan could achieve a 16 percent increase in exports by removing its import tariffs whereas the increase would be only 11 percent if developed countries removed all their tariffs on imports from Pakistan. Unilateral liberalisation is a flexible but a continuous process. And to reap the benefits like other countries, Pakistan need to adopt concrete and consistent trade policy.

7.6. Set-up for Tariff Determination

Currently, the process of determining tariffs rates and other taxes on imports is neither transparent nor based on any economic criteria. Tariff rates should be bench marked with respect to other successful developing countries and particularly those with which Pakistan has FTAs or other preferential agreement. A Tariff Reform Committee that includes representatives from the government as well as private sector should review the existing tariff structure. The committee could be coordinated by the Ministry of Commerce and should include representatives of relevant ministries and departments such as the FBR, Planning Commission, Ministry of Industries, Ministry of Textile and National Tariff Commission. Representatives of private sector, such as chambers of commerce and industry, specialized business association, consumer associations should also be involved. It may also be helpful to conduct this exercise in collaboration with a well-reputed academic institution. The committee should determine what the peak tariff should be over the next 5 years, how tariff dispersions could be reduced to avoid giving preference to one industry over another and reduce the number of slabs to make the tariff simple and transparent.

Bibliography

Borregaard, N. (2004). *Trade Liberalisation in Chile: What is evidence of its effects and how can sustainable development be safeguard?* (The Working Group on Development and Environment in the Americas Discussion Paper No. 5). Brazil. Retrieved September, 15, 2015 from http://ase.tufts.edu/gdae/pubs/rp/dp05borregaardjuly04.pdf.

Civil Service Academy (n.d.). WTO Regime and Its Impact on Pakistan. (Civil Service Academy Syndicate No.1). Pakistan, Lahore. Retrieved June 9, 2015 from http://www.wtopunjab.gov.pk/survey_report/WTO%20Regime%20and%20its%20impact%20on%20Pakistan.doc.

Cordova, E. L. (n.d.). Mexican Unilateral Trade Liberalisation in the Middle of the Economic Crisis. *GTA Analytical Paper No.2*. Retrieved August 11, 2015 from http://www.globaltradealert.org/sites/default/files/GTA-AP2%20Cordova.pdf

Husain, I. (2000). *Pakistan: The Economy of an Elitist State*. Pakistan: Oxford University Press.

Husain, I. (2015). *Globalisation, Governance and Growth.* Karachi, Pakistan: Institute of Business Management.

Imaduddin (2013, December 21). Mauritius keen to develop trade relations with Pak, sign FTA: Deputy PM. *Business Recorder*. Retrieve from http://www.brecorder.com/top-news/108-pakistan-top-news/149841-mauritius-keen-to-develop-trade-relations-with-pak-sign-fta-deputy-pm.html

Klau, A. & Khilji, A.U. (2015). Trade Policy Review: Pakistan. Presented in Trade Policy Review: Follow-up Seminar. Islamabad. World Trade Organisation (2015)

Kelegama, S. (2006, January 1). Sri Lanka's Free Trade Agreement with Pakistan, *Daily News*. Retrieve from http://archives.dailynews.lk/2006/01/23/fea01.htm

Khan, A.H. (1998). The Experience of Trade Liberalisation in Pakistan. *The Pakistan Development Review, 37(4)*, 661- 685.

Ministry of Planning, Developments and Reforms. (2011). *Pakistan: Framework for Economic Growth*. Pakistan. Retrieved August 11, 2015 from http://www.pc.gov.pk/hot%20links/growth_document_english_version.pdf.

Paracha, S. A., & Manzoor, M. R. (n.d). *Economic Evaluation of Pak-Malaysia Free Trade Agreement. Pakistan*: Pakistan Institute of Trade and Development. Retrieved June 6, 2015 from http://www.pitad.org.pk/Publications/3-Evaluation%20of%20Pak-Malaysia%20FTA.pdf

Pursell, G., Khan, A., & Gulzar, S. (2011). Pakistan's Trade Policies: Future Direction. Working Paper. International Growth Centre. Retrieved October 22, 2015 from http://www.theigc.org/wp-content/uploads/2014/09/Pursell-Et-Al-2011-Working-Paper.pdf

Ramay, S.A., & Abbas, M.H. (2013). *South Asian Free Trade Agreement (SAFTA) and Implications for Pakistan (PIDE Working Paper 138).* Islamabad, Pakistan: Sustainable Development Policy Institute. Retrieved July 9, 2015, from http://www.sdpi.org/publications/files/SOUTH_ASIAN_FREE_TRADE_AGREEMENT_%28SAFTA%29_AND_IMPLICATIONS_FOR_PAKISTAN_%28W%20-%20138%29.pdf

Reis, J.G., & Taglioni, D. (2013). *Pakistan:* Reinvigorating the Trade Agenda (*Policy Paper Series on Pakistan, PK 15/12).* Retrieved June 6, 2015 from http://econ.worldbank.org.

Sally, R. (2008). *Trade Policy, New Century: The WTO, FTAs and Asia Rising.* London: The Institute of Economic Affairs.

Sally, R. (2011). Chinese Trade Policy after (Almost) Ten Years in the WTO: A Post-Crisis Stocktake. *ECPIE Occasional Paper, 2/2011.*Retrieved August 8, 2015 from http://www.ecipe.org/app/uploads/2014/12/chinese-trade-policy-after-almost-ten-years-in-the-wto-a-post-crisis-stocktake.pdf.

State Bank of Pakistan. (n.d.). *Implications of Liberalising Trade and Investment with India*. Retrieved June 19, 2015 from http://www.sbp.org.pk/publications/pak-india-trade/.

The Pakistan Business Council. (2013). *Preliminary Study on Pakistan and China Trade Partnership Post FTA*. Pakistan.

Togan, S. (2010). *Economic Liberalisation and Turkey.* Retrieved September 19, 2015 from https://books.google.com.pk/books?id=nZ1dBwAAQBAJ&pg=PA317&lpg=PA317&dq=Togan,+S.+%282010%29.+Economic+Liberalisation+and+Turkey&source=bl&ots=x4--e_WlRN&sig=L8NC7EpiQBPFj About the Author

About the Author

Sara Javed is an Associate Director at Policy Research Institute of Market Economy (PRIME). Sara specialises in trade policy, business policy and strategic analysis. She has deep interests in entrepreneurship, risk analysis and leadership. She is well conversant in quantitative skills, planning and forecasting. Sara has authored studies on 'Export Development Fund' and 'Low Cost Private Schools Sector in Khyber Pakhtunkhwa'. She has undergone professional training for think tank management. Sara holds masters in Economics & International Economics from University of Nottingham and in Business Administration (Finance & Risk Management) from Institute of Business Management, Pakistan.