

**Ministry of Finance, Planning Affairs and Economics**

**Trade Policy Recommendations**

After extensive research it was found out that the trade policy of Pakistan is currently based on the foreign relations of Pakistan with other countries and regional organizations rather than on economic indicators and financial implications therefore is a little consistency in the policy because of the ever-changing political scenario of this region of the world. The following recommendations can be forwarded to the ministry of commerce for improving the trade policy of Pakistan.

**Improving the Trade Relations**

**WTO**

1. The biggest advantage Pakistan can avail through the WTO is the further improvement of its textile industry. Since the expiry of the Multi Fiber Arrangement agreement in 2005, the trade quotas for Pakistani textiles have been reduced in the global market and Pakistan rely heavily on WTO for new trade quotas, therefore lobbying should be done in order to achieve more quotas through WTO. Moreover the restructuring of textile industry has to be achieved and value added products should be manufactured and exported rather than raw textiles and quotas should be secured in this regard.
2. Full utilization of trade quotas should be utilized as the shortfall in quota utilization results in criticism from the importing countries barring the trade liberalization. Pakistan has not been able to utilize its trade quotas to the fullest because of the energy crisis. Industrial sector must be prioritized while deciding the distribution of energy.

**Ministry of Finance, Planning Affairs and Economics**

3. The multi-lateral trade negotiations agenda in the WTO should also include that the various quotas in trade should be independent of the non-quota trade agreements and no barring should be imposed on other articles of trade if quota is granted in one article e.g. textiles.
4. Granting MFN status to different countries is important because countries are concerned about bound tariff rate rather than applied rate, so public awareness should be created in this regard before granting the status, if the decision is opposed, as in the case of India.
5. Pakistan's activities in WTO should be based on regional alliances in trade rather than political alliances, in this way Pakistan can be a part of future trade agreements of WTO.

**BRIC:**

**Brazil:** Brazil is currently the 8<sup>th</sup> largest economy of the world and will be the 6<sup>th</sup> largest economy of the world by the end of 2012. However, Pakistan's trade with Brazil stands at a very low level i.e. \$400m annually. Brazil-China trade volume stands at \$56b, thus distance is not a problem and the procurement and logistic strategy adopted by China can be used in this regard. Till now Pakistani commerce sector has not explored the Brazilian market. The area on which Pakistan can focus is the import of ethanol and other bio-fuels from Brazil which can be a good alternative to fossil fuels for solving energy crisis.

**Russia:** Trade relations with Russia have not been established on full potential because of Pakistan's inclination towards the US in all sort of policy making. India on the other hand has benefitted greatly from trade with Russia. Fostering trade relations with Russia is an important aspect of trade diplomacy because Russia holds key positions in various regional trade associations. Recently Russia became the member of WTO after 18 years of negotiations and

### Ministry of Finance, Planning Affairs and Economics

this is a great opportunity for Pakistan to enter into an FTA (Free Trade Association) or PTA (Preferential Trade Association) with Russia which will result in 25% trade tariff concessions for Pakistani export articles. For trade liberalization under the WTO regime, Russia will have to grant FTA and PTA status to nations, Pakistan has to be one of them. Other issues which need to be addressed for improving trade with Russia include relaxation in Visa policies, bilateral banking cooperation and construction of a land route (New Silk Road, discussed in trade relations with Central Asia). India is the largest exporter of tea to Russia, Pakistan has the same favorable conditions for growing tea in the northern areas which can be utilized and Pakistan can become a tea exporter to Russia and Central Asian states. Moreover Rubber and Steel can be imported from Russia at much cheaper tariffs under after FTA/PTA association.

**India:** India is one of the most rapidly growing economies of the world. Granting MFN status to India is a positive step in promoting regional trade and economic cooperation; however the current economic conditions of Pakistan are not suitable enough for such a step. MFN will ensure considerably lower tariffs on import of Indian goods resulting in increased imports from India which will have devastating effects on the local manufacturing industry. It is worth noticing that India granted MFN status to Pakistan in 1996, however no substantial advantage have been achieved from this because of the fact that the highest tariff in India are on agricultural and textile sector and thus Pakistani exporters still cannot access the Indian markets. Trade with India will be productive once Pakistan resolves its energy crisis, strengthens its economy and remove trade barriers on textiles and agriculture, in this way MFN status can be given a practical meaning. Right now, the government should consult the textile, automobile, leather, garment and pharmaceutical manufacturers while selecting the items for concessionary tariff to India and for finalizing the negative list in order to save domestic industry from any damage. Moreover

### **Ministry of Finance, Planning Affairs and Economics**

machinery and semi-finished products can be imported from India at lower prices as compared to the current options. (I plan to write a detailed paper on MFN status and its implications; I will complete that in the first week of April).

**China:** Trade relations with China have proved to be very beneficial for Pakistan, however Pakistan exports only 56 trade articles to China, whereas the imported trade articles from China are more than 1000, this creates a large imbalance between imports and exports. The large imports from China have already affected the local manufacturing industry because of the cheaper prices of the imported goods. Therefore with regards to the trade relations with China, the Youth Ministry of Finance, Planning affairs and Economics recommends the following two point agenda:

1. Checks should be imposed on the trade items imported from China. Preference should be given to China in terms of imports of services. A negative list should be maintained in order to save the local manufacturers.
2. Extensive visits to China should be arranged for the Pakistani manufacturers and exporters by the Ministry of Commerce in order to explore the Chinese market, which is the largest in the world so that exports to China could be increased.

Creation of negative list will initially increase inflation in the country, but will ultimately yield better results as it will strengthen the economy.

### **SAARC Countries:**

SAARC countries excluding India and particularly Bangladesh and Sri Lanka provide great opportunity to the Pakistani exporters. Since these countries are very populous and have a very

### **Ministry of Finance, Planning Affairs and Economics**

small agricultural base to feed their large populations, Pakistan can export agricultural goods to these countries and the only competition faced by Pakistan in this regard is from India. Cement is another important export to the SAARC countries and Pakistan faces very less competition in this regard. Steps should be taken to increase the cement production in order to exploit the South Asian market. Similarly Pakistan can also compete in electronics such as Fans, Washing Machines etc. China and Far East countries pose tough competition in this regard but Pakistani goods have the advantage of low prices and cheaper logistics, thus Pakistani exporters can dominate these areas as the quality demands of SAARC countries are lower as compared to the rest of the world. Awarding PTA status to these nations can be a positive development in this regard.

### **Iran, Afghanistan and Central Asian States**

Afghanistan offers the largest market in the region to be exploited by Pakistani exporters. China and India are the two main competitors of Pakistani products in Pakistan but Pakistan has the advantage on the basis of its long shared border with Afghanistan and therefore Pakistan can compete on the basis of low prices because of cheaper logistics. In addition to manufactured goods, Pakistan can export services to Afghanistan. Moreover the projected profits to be generated from the Gawader port highly depend on trade relations with Afghanistan and Central Asian States. Pakistan can also import cheaper energy resources, particularly natural gas from the Central Asian States, an agreement in this regard has already been made with Turkmenistan; the barriers to its implementations must be removed promptly. Pakistan should take the leading role for trade cooperation in this region and should initiate the idea of a New Silk Road, running through Afghanistan to the Central Asian States, connected to the Motorway networks in

**Ministry of Finance, Planning Affairs and Economics**

Pakistan. This way the Gawader port will be utilized by Central Asian States and Pakistan can earn large amount of foreign exchange as transit fees. A funding conference for the proposed New Silk Road can be arranged for securing funds from international sponsoring agencies. The Free Economic Zones set up by WTO in the Central Asian States are yet to be utilized by Pakistani investors and exporters, government should arrange visits in order to increase awareness about these FEZs.

Trade with Iran follows a very simple principle; Pakistan can export cheap agricultural products to Iran and can get cheap fossil fuels for solving its energy crisis; however trade with Iran is becoming more and more difficult for Pakistan due to the international sanctions imposed on Iran. However, Pakistan should change its stance in this regard and should side with Brazil and China who voted against the sanctions. Regional economic cooperation can yield much better results for Pakistani economy.

**EU:**

Pakistani textile goods are very popular in European markets and recently Pakistan has been granted up to 40% waiver in trade tariffs on various trade articles by the WTO members in Europe. Pakistan can improve its exports considerably if it resolves its energy crisis as Pakistani manufacturers is not utilizing the quotas to the fullest. Exports should be minimized from EU and Indian goods should be preferred over EU goods, negative lists should be modified in this regard.

**Ministry of Finance, Planning Affairs and Economics**

**Improvements in Volume of Trade**

The following recommendations should be adopted in order to improve the volume of trade:

1. Pakistan should promote the export of services as there is a huge potential in this regard. Telecommunication and software can be the pioneer industries in this regard. Pakistan can export these services to other underdeveloped countries in Africa and South Asia. Statistics in this regard have to be improved and the ministry of Commerce should form a Services Statistics Wing in order to maintain the data of services through professionals which Pakistan can export to underdeveloped countries. Pakistan already missed out on such an opportunity in 2002 due to lack of data when WTO asked for statistical data in this regard for the provision of services in African countries. Since the implementation of GATS (General Agreement on Trade in Services) there is a large market for services in Africa to be exploited.
2. It is imperative to improve the security situation in the country in order to invite foreign investors to the country which is very important for supporting the economy of the country in the current scenario.
3. The Ministry of Commerce should form a WTO Wing in order to increase lobbying and ensure inclusion of Pakistan's interests in future WTO agreements. In this way Pakistan can take the advantage of the WTO regime to the fullest.
4. Value addition should be done to the export articles and finished products should be exported rather than raw goods. Foreign investment can be utilized for establishing the manufacturing industry for such goods.

**Ministry of Finance, Planning Affairs and Economics**

5. Trade policy should be based on the principles of Autonomous Trade Liberalization and regional cooperation should be increased.
6. The quality of goods should be improved in order to compete in the global market. A training institute should be established by the Ministry of Commerce in this regard.
7. Legislation should be carried out for intellectual property protection and copyright laws should be modified on the international recommendations. This is very important for inviting investment.
8. Trade Policy should be formulated for more than one year in order to achieve consistency. Annual modifications and checks should be applied.