

# Chapter 7

## Pakistan

*By Woong Lee and Chankwon Bae*

### Introduction and objective

This chapter discusses a comprehensive study on the possible strategies of membership expansion under APTA as a potent mechanism for regional cooperation and integration in Asia and the Pacific. In particular, the study analyses the benefits for Pakistan in acceding to APTA as well as the benefits for the Participating States of APTA. Finally, using the results from various empirical analyses, this chapter provides policy recommendations for formulating a strategy for the Participating States of APTA in extending membership to Pakistan.

### A. Overview of the economy of Pakistan

#### 1. Macroeconomic performance

According to the International Monetary Fund (IMF),<sup>1</sup> as of 2014, the Pakistani economy was the forty-third largest in the world at approximately \$220 billion in terms of nominal gross domestic product (GDP), and the twenty-sixth largest at \$882 billion based on purchasing power parity (PPP) valuation. Pakistan's population of approximately 186 million makes it the sixth largest in the world. In 2014, the GDP per capita was \$1,342, ranking it at 152 in the world, while the ranking for GDP per capita in terms of PPP, at \$4,736, was 134. Pakistan is a developing country, but is one of the Next Eleven,<sup>2</sup> comprising 11 countries that have the potential to be one of the largest economies in the world, together with the BRIC country grouping (Brazil, Russian Federation, India and China), in the twenty-first century.

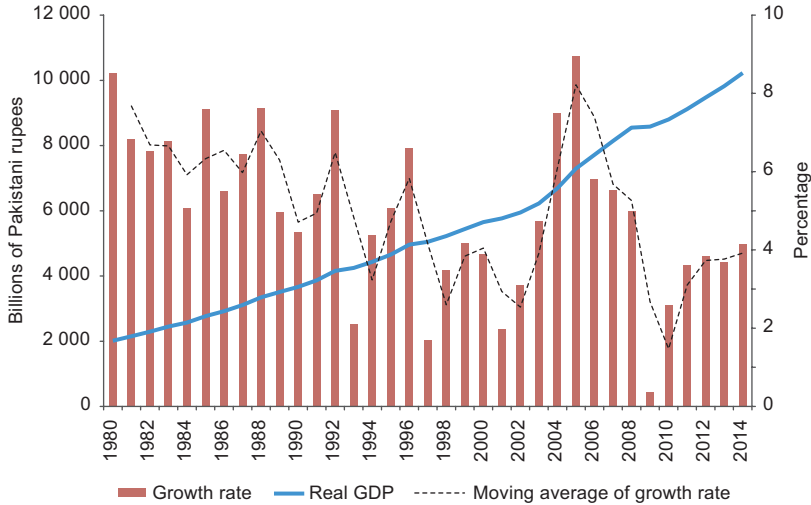
Pakistan's growth was relatively strong in the 1980s, with an annual GDP growth rate of 6.6%. This performance by Pakistan's economy was due to economic deregulation and inflow of remittances. However, Pakistan experienced slow economic growth during the 1990s and the 2000s, but the rate became vigorous in 2004 and 2005 at 7.84% and 8.96%, respectively (figure 7.1). Then, from 2006 to 2009, the growth rate dropped substantially. Recently, the economy has recovered, but its speed of recovery has been slow, with an average growth rate of 3.58% during the past five years (table 7.1).

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<sup>1</sup> IMF World Economic Outlook database, April 2015.

<sup>2</sup> The terminology "Next Eleven" was introduced by Goldman Sachs and Jim O'Neill.

**Figure 7.1. Trends of real GDP and rate of growth in Pakistan**



Source: IMF World Economic Outlook database.

Note: Left axis is the real GDP and right axis is the growth rate. Units of growth rate and real GDP are percentage and billions of Pakistani rupees (PKR), respectively. The base year for real GDP is the 2005/06 fiscal year of Pakistan.<sup>3</sup>

**Table 7.1. Average growth rates of the economy in Pakistan, 1980-2014**

Period	Ten-year average growth (%)	Period	Five-year average growth (%)
1980-1989	6.59	1980-1984	6.75
1990-1999	4.50	1985-1989	6.43
2000-2009	4.69	1990-1994	4.78
2010-2014	3.58	1995-1999	4.21
		2000-2004	4.24
		2005-2009	5.13
		2010-2014	3.58

Source: IMF World Economic Outlook database.

One important point that should be noted regarding Pakistan's economy is the problem of electricity. Pakistan has been facing chronic electricity shortages and high electricity prices, which creates a serious problem for the country's economy. The worsening power shortage as well as leakage of electricity and theft has meant hardship both for households and for businesses. The infrastructure (power generation, transmission and distribution) is inefficient and electricity prices are not sufficient to compensate for production costs. This severe electricity crisis is not a result of short-term management but rather due to long-term

<sup>3</sup> The fiscal year in Pakistan ends on 30 June.

energy policies over the past 30 years, meaning that a turnaround in policy by the energy policymakers of Pakistan is necessary.

The economy achieved 4.1% real GDP growth rate in 2014, which was the highest in four years. This upward growth trend has been supported by the settlement of: (a) fiscal deficits; (b) renewed generation of government revenue; (c) investment in the energy sector; (d) increase in remittance inflows; and (e) improvement in the large-scale manufacturing sector (WTO, 2015a). The growth is forecast to reach 4.3% in 2015 and 4.7% in 2016 (IMF, 2015). This upturn is mainly due to the easing of fiscal adjustment and the improvement of structural constraints in the energy sector, public enterprises and the investment sector (WTO, 2015a).

On the demand side, an increase in private consumption and investment led to economic growth in 2014 (table 7.2). According to Asian Development Bank figures (ADB, 2015), an increase in the inflow of remittances as well as growth in rural and small business income also boosted consumption in 2014. However, although net exports were negative from 2011 to 2014, a decrease in net exports also supported the growth of the Pakistan economy.

**Table 7.2. Demand-side contributions to growth**

	2011	2012	2013	2014	Share of GDP in 2014 (%)
GDP	3.62	3.84	3.70	4.14	100
Consumption	4.60	5.00	2.10	5.40	78
Gross capital formation	-6.70	2.50	2.80	4.30	15
Government spending	0.00	7.30	10.10	1.50	11
Net exports	-9.90	50.20	-28.00	7.40	-3

Source: CEIC database.

A strong revival in the industrial sector led to remarkable economic growth in 2014 (table 7.3; figures 7.2-7.4). In particular, a recovery in construction and steady expansion in the manufacturing and services sectors spurred a 4.14% growth of real GDP in 2014, up from 3.70% in 2013. There was a construction boom due to the large development spending of the Government, which contributed the most in 2014. Energy deficiencies continued to impede manufacturing output, despite efforts to improve energy supply and management by the Government (ADB, 2015). Expansion in services, which consists of 58% of GDP, slowed to 4.37% from 5.13% in 2013. Weaker growth in general government services as well as finance and insurance services offset growth in wholesale and retail trade, transport, storage and communication services.

**Table 7.3. Supply-side contributions to growth**

	2011	2012	2013	2014	Share of GDP in 2014 (%)
GDP	3.62	3.84	3.70	4.14	100
Agriculture	1.96	3.62	2.68	2.69	21
Industry	4.51	2.55	0.61	4.45	20
Services	3.94	4.40	5.13	4.37	58

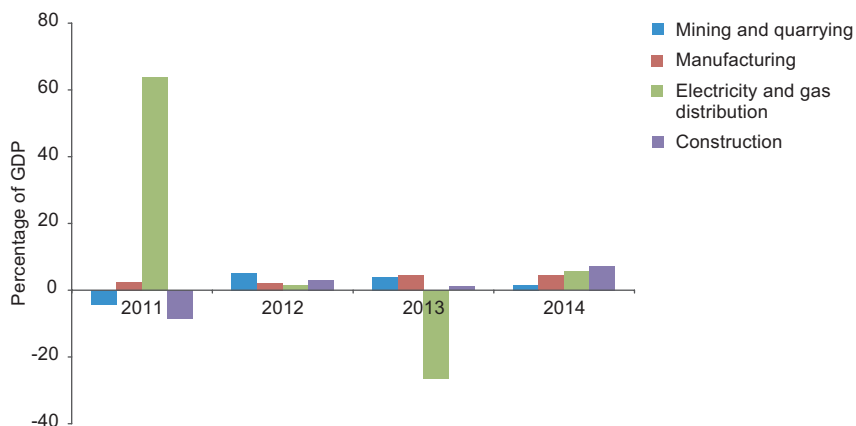
Source: CEIC database.

**Figure 7.2. Contribution of the agricultural sector to GDP**



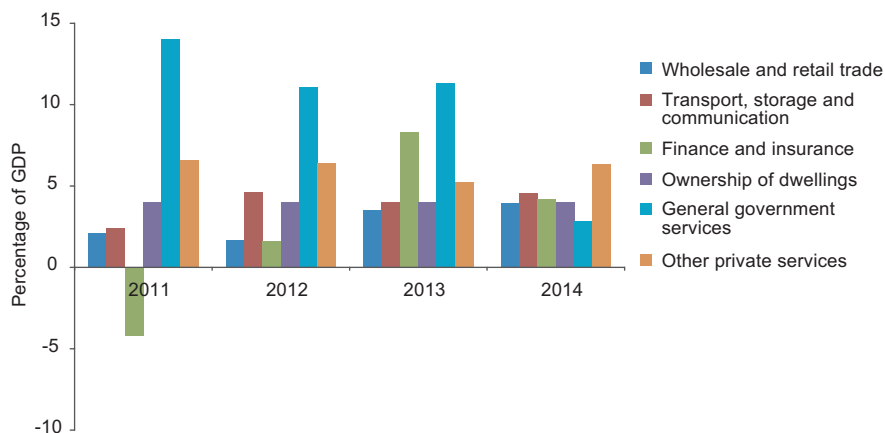
Source: CEIC database.

**Figure 7.3. Contribution of the industrial sector to GDP**



Source: CEIC database.

**Figure 7.4. Contribution of the services sector to GDP**



Source: CEIC database.

## 2. Stability of politics<sup>4</sup>

The first ever successful democratic transfer of political power was achieved in Pakistan in 2013. This smooth transition of political power is expected to provide a foundation for democratic development in Pakistan. Cross-party political consensus resulted in the unanimous passing of the eighteenth constitutional amendment in the Parliament, which shows the new political maturity of Pakistan. The amendment reveals a long-lasting political claim for achieving more balanced power and responsibilities between the federal and provincial Governments.

## 3. Policy reforms

Pakistan's economic reform agenda can be summarized as the four E's – economy, education, energy and (elimination of) extremism. The Government has sustained steady action in the face of challenges and has achieved some visible results.

Recent key outcomes include the following (WTO, 2015b):

- (a) The resumption of active privatization – selling shares of United Bank Limited (UBL) for approximately \$400 million; subscribing to Pakistan Petroleum Limited (PPL) for PKR 30 billion (the highest-ever record in the history of the Pakistani stock market) and realizing it at PKR 15.3 billion;
- (b) The disinvestment of Oil and Gas Development Corporation Limited (OGDCL) shares, worth approximately \$800 million, together with an increase of \$1 billion in International Sukuk;<sup>5</sup>

<sup>4</sup> WTO, 2015a.

<sup>5</sup> Islamic financial certificate.

- (c) Successful re-entry to global capital markets by issuing Euro Bonds worth \$2 billion, after a gap of seven years;
- (d) The auctioning of 3G-4G licences, which raised PKR 120 billion. The auctioning for two more unsold licences valued at PKR 50 billion will be held at an appropriate time;
- (e) The World Bank and the Asian Development Bank resumed financing loans to Pakistan, which improved cash flow with an influx of \$1.5 billion;
- (f) The allotment for the National Income Support Programme (NISP) was almost tripled from PKR 40 billion in fiscal year 2013 to PKR 118 billion in fiscal year 2015 in order to expand the social safety net;
- (g) A circular debt of PKR 503 billion in the energy sector was cleared. This resulted in additional electricity output of 1,700 MW for the national grid, which reduced power outages and assisted the growth of the industrial sector;
- (h) The outlook for Pakistan's Stock Market appears positive. The KSE is one of the best performing stock exchanges in Asia. The KSE stood at 28,493.24 on 1 September 2014 and has continuously grown, breaking several records, and stood at 34,447.47 on 28 August 2015. In addition, market capitalization has substantially increased by nearly 50%;
- (i) The number of new companies incorporated during the 2012/13 fiscal year totalled 3,953 rising to a further 4,587 during the 2013/14 fiscal year, which represents an increase of 16%;
- (j) The Government decided to establish the Export-Import Bank to improve export credit and to reduce the cost of borrowing for exporting firms. Regarding the export finance, the mark-up rate has dropped from 9.4% to 7.5%;
- (k) The Ministry of Water and Power has developed a prospective power policy to support the current and future energy demand of the country. One result was the formulation of a National Power Policy in 2013 to present a roadmap for providing affordable energy and improving the energy mix;<sup>6</sup>
- (l) Tight fiscal policy with an increase in tax revenue collection has been implemented in order to reduce the fiscal deficit and to create fiscal room for various development projects;
- (m) Public sector enterprises account for a large share of Pakistan's economy, amounting to approximately 10% of GDP.<sup>7</sup> Under the Public Sector Enterprises Reform Strategy, the Government has initiated a restructuring plan to reduce the losses of various state-owned enterprises such as Pakistan Steel Mills, Pakistan Railway and Pakistan International Airways;

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<sup>6</sup> Ministry of Water and Power, Government of Pakistan.

<sup>7</sup> Asian Development Bank (November 2014), "Proposed Technical Assistance Loan for the Islamic Republic of Pakistan: Public Sector Enterprise Reforms Project".

- (n) Significant fiscal adjustment was made to increase development spending from PKR 425 billion, with a target of PKR 441 billion in the 2013/14 fiscal year. Hence, unlike in the past when adjustment was accomplished by cutting development spending, the Government has executed the full amount of development spending. Total development spending was planned as PKR 525 billion for the 2014/15 fiscal year;
- (o) Under the Vision 2025 plan, which was formulated by the Ministry for Planning, Development and Reform, the Government aims to make Pakistan an upper-middle income country in terms of the United Nations classification by 2025 and a top 10 economy by 2047.<sup>8</sup> The objective of the Government's Strategic Development Plan is to create a globally competitive economy by targeting macroeconomic stability through inclusive growth. Pakistan aims to achieve 7% of real GDP growth in 2018, in order to deal with poverty and unemployment, and to improve health and education. The energy policy is aimed at improving the energy mix to avoid the need for price increase as well as to attract foreign investment;
- (p) In January 2013, the Ministry of Commerce announced the Strategic Trade Policy Framework, 2013-2015.<sup>9</sup> Under this framework, the Government envisions total exports of \$95 billion during 2013-2015. In order to achieve this target, the Government has identified seven areas of focus: (a) regional trade; (b) strengthening of the institutional framework for promotion of exports; (c) the creation of regulatory efficiencies; (d) export development initiatives; (e) increasing exports from less-developed regions of Pakistan; (f) the promotion of domestic commerce; and (g) the strengthening the monitoring and evaluation network (WTO, 2015a; p. 9).

#### **4. Relations with the Participating States of APTA**

##### **(a) Bangladesh**

Pakistan and Bangladesh are regional neighbours in South Asia and are both members of the South Asian Association of Regional Cooperation (SAARC) and the South Asia Free Trade Agreement (SAFTA). After independence from Britain in 1947, these two countries were united until 1971 as West and East Pakistan. The Bangladesh Liberation War in 1971 resulted in East Pakistan becoming Bangladesh. Their official diplomatic relations began in 1976.

Relations between the two countries are generally stable and they have strong trade links. Apart from SAARC and SAFTA, both of them are members of the Developing-8 Countries (D-8), the Organization of Islamic Cooperation (OIC) and the Commonwealth of Nations.

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<sup>8</sup> See [www.pakistan2025.org](http://www.pakistan2025.org) (accessed on 1 July 2015). For additional details, also see <http://www.pc.gov.pk/wp-content/uploads/2015/05/Vision-2025-Executive-Summary.pdf> (accessed on 23 May 2016).

<sup>9</sup> Ministry of Commerce, Government of Pakistan.

**(b) China**

The relationship between Pakistan and China began in 1950 when Pakistan established official diplomatic relations with China. Both countries have placed great importance on the relationship and have regularly exchanged high-level visits, resulting in a variety of agreements. China has provided economic, military and technical assistance to Pakistan as a close strategic ally.

International trade between the two countries has been rapidly increasing and the China-Pakistan FTA has been in effect since 2007. The agreement represented Pakistan's first FTA with a large economy. In addition to merchandise-related liberalization between the two countries, the Agreement on Trade in Services between Pakistan and China became effective on 10 October 2009. As a result, both countries have reciprocally provided access to more than 10 sectors in services.

The economic ties between Pakistan and China also include China's investment in Pakistan. Both countries have agreed to promote cross-border trade, which has led to China's investment in Pakistan's financial and energy sectors.

In this regard, construction of the Pakistan-China Economic Corridor is in progress, which will connect Pakistan with China and the Central Asian countries with highways. Upon completion, it is expected bilateral ties between both countries will be strengthened.

**(c) India**

The relationship between Pakistan and India is complicated due to the fact that there are a number of historical and political issues. The most significant issue was the partition of former British India in 1947. In addition, the Kashmir conflict and a number of military conflicts have made both countries suspicious and hostile towards one another. However, both countries have economic ties under SAARC and SAFTA.

Since the new Government took office in Pakistan in 2013, relations between the two countries have made significant steps. In particular, both countries reached a consensus on allowing Non-Discriminatory Market Access on Reciprocal Basis (NDMARB) status for each other, which is expected to liberalize bilateral trade.

**(d) Republic of Korea**

Pakistan and the Republic of Korea established diplomatic relations in 1983. Since then, relations between the countries have improved. Recently, both countries try to strengthen their relationship, especially through economic cooperation. In August 2015, both countries launched a joint feasibility study on a Pakistan-Republic of Korea FTA. Also, the Republic of Korea is a member of Friends of Democratic Pakistan.



**(e) Sri Lanka**

Official diplomatic relations between Pakistan and Sri Lanka were established in 1949. Pakistan is the second-largest South Asian trading partner of Sri Lanka. It is meaningful that Sri Lanka was the first nation to sign a bilateral FTA with Pakistan. Both countries are members of SAARC and SAFTA. Also, the Pakistan-Sri Lanka FTA has been in effect since 2005.

**(f) Lao People's Democratic Republic**

Diplomatic relations between Pakistan and the Lao People's Democratic Republic were established on 15 July 1965.<sup>10</sup> Both countries also signed the Bilateral Investment Treaty in 2004; however, it has yet to enter into force.<sup>11</sup>

**(g) Mongolia**

Official diplomatic relations between Pakistan and Mongolia were established on 6 July 1962. Since then, there has been little trade between the two countries.<sup>12</sup>

## **B. Trade and trade policy in Pakistan**

### **1. Brief outline of Pakistan's trade structure**

The share of Pakistan in world trade has remained stagnant during the past decade. The country's exports to the world amounted to around 0.15% as a percentage of total world exports. Imports from the rest of the world remained at around 0.25% for 10 years, except in 2014 when they increased to 0.31% (table 7.4).

Table 7.5 shows the trend of Pakistan's top 20 export partners during the past 10 years. Pakistan's largest export partner in the past decade has been the United States. However, its importance has tended to shrink, as the United States' percentage share in Pakistan's total exports dropped from 24.9% in 2005 to 14.8% in 2014.

The second-largest export partner was the United Arab Emirates in 2005 and 2010 with 7.6% and 8.4%, respectively. However, that ranking dropped to the fifth in 2014, along with its percentage, which was at 5.2%.

The rise of China as a major export partner with Pakistan should be noted. It began as Pakistan's eighth-largest export partner at 2.7%, but quickly rose to the fourth in 2010 with 6.5%, and reached second place in 2014 with 9.1%.

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<sup>10</sup> See <http://mofa.gov.la/index.php/61-list-of-states-which-the-lao-pdr-has-established-diplomatic-relations-since-1950/49-1950> (accessed on 1 July 2015).

<sup>11</sup> See <http://investmentpolicyhub.unctad.org/IIA/CountryBits/114#iialInnerMenu> (accessed on 1 July 2015).

<sup>12</sup> See [http://www.mfa.gov.mn/en/index.php?option=com\\_content&view=article&id=70&Itemid=170&lang=en](http://www.mfa.gov.mn/en/index.php?option=com_content&view=article&id=70&Itemid=170&lang=en) (accessed on 1 July 2015).

**Table 7.4. Trade volume of Pakistan**

Year	World		Pakistan			
	Exports (US\$ million)	Imports (US\$ million)	Exports (US\$ million)	World (%)	Imports (US\$ million)	World (%)
2005	9 464 870	10 175 839.5	15 934	0.17	25 043	0.25
2006	11 154 327	11 806 601.7	16 814	0.15	29 817	0.25
2007	12 785 792	13 622 560.4	17 223	0.13	32 589	0.24
2008	14 883 486	15 819 892.2	19 893	0.13	42 298	0.27
2009	11 517 964	12 144 994.0	17 316	0.15	31 583	0.26
2010	14 229 128	14 958 841.9	20 989	0.15	37 513	0.25
2011	16 942 299	17 812 884.9	25 140	0.15	43 542	0.24
2012	16 665 007	17 494 419.3	24 467	0.15	43 813	0.25
2013	17 166 402	17 791 586.4	25 023	0.15	43 775	0.25
2014	14 257 319	15 382 664.9	24 509	0.17	47 414	0.31

Source: United Nations COMTRADE database.

Note: World (%) represents Pakistan's exports and imports as a percentage of world exports and imports.

Among the Participating States of APTA, China, Bangladesh, India, the Republic of Korea and Sri Lanka are in the top 20 list.

India was the fourteenth in 2005 accounting for 2.1% of total exports by Pakistan, but then dropped to the eighteenth (1.3%) in 2010, followed by a rebound back to the fourteenth with 1.6%. Although India's ranking has fluctuated, the country's importance in terms of percentage as a total of Pakistan's exports did not change.

Bangladesh's proportion increased considerably. Bangladesh was Pakistan's sixteenth-largest export partner with 1.5% in 2005 and the ninth with 3% in 2010, and then it was again at the ninth with 2.8% in 2014.

The Republic of Korea was Pakistan's nineteenth largest export partner with 1.3% in 2005, the seventeenth (1.3%) in 2010 and the sixteenth (1.5%) in 2014. Although the volume of exports from Pakistan to the Republic of Korea has increased, the proportion of the Republic of Korea has not improved.

Sri Lanka was not among the top 20 largest export partners of Pakistan in 2005. However, it first entered the list as the sixteenth-largest export partner in 2010 with 1.3% and was the twentieth with 1.1% in 2014.

**Table 7.5. Top 20 destinations for exports by Pakistan**

Rank	Exports in 2005			Exports in 2010			Exports in 2014		
	Country	Amount (US\$ million)	%	Country	Amount (US\$ million)	%	Country	Amount (US\$ million)	%
1	United States	3 971	24.9	United States	3 638	17.3	United States	3 626	14.8
2	United Arab Emirates	1 211	7.6	United Arab Emirates	1 769	8.4	<b>China</b>	2 238	9.1
3	Afghanistan	1 064	6.7	Afghanistan	1 670	8.0	Afghanistan	1 879	7.7
4	United Kingdom	905	5.7	<b>China</b>	1 375	6.5	United Kingdom	1 644	6.7
5	Germany	712	4.5	United Kingdom	1 094	5.2	United Arab Emirates	1 276	5.2
6	Hong Kong, China	597	3.7	Germany	972	4.6	Germany	1 204	4.9
7	Italy	576	3.6	Turkey	643	3.1	Spain	790	3.2
8	<b>China</b>	432	2.7	Italy	638	3.0	Italy	759	3.1
9	Spain	386	2.4	<b>Bangladesh</b>	636	3.0	<b>Bangladesh</b>	687	2.8
10	Netherlands	378	2.4	Belgium	512	2.4	Netherlands	668	2.7
11	France	362	2.3	Hong Kong, China	490	2.3	Belgium	656	2.7
12	Saudi Arabia	352	2.2	Spain	474	2.3	Saudi Arabia	509	2.1
13	Belgium	340	2.1	Saudi Arabia	407	1.9	France	419	1.7
14	<b>India</b>	335	2.1	Netherlands	392	1.9	<b>India</b>	391	1.6
15	Turkey	299	1.9	France	350	1.7	Turkey	389	1.6
16	<b>Bangladesh</b>	232	1.5	<b>Sri Lanka</b>	284	1.4	<b>Republic of Korea</b>	376	1.5
17	South Africa	221	1.4	<b>Republic of Korea</b>	279	1.3	Kenya	333	1.4
18	Canada	212	1.3	<b>India</b>	269	1.3	Hong Kong, China	316	1.3
19	<b>Republic of Korea</b>	200	1.3	South Africa	253	1.2	South Africa	290	1.2
20	Iran, Islamic Rep. of	178	1.1	Canada	227	1.1	<b>Sri Lanka</b>	266	1.1

Source: United Nations COMTRADE database.

Note: % = percentage of total exports by Pakistan.

Table 7.6 summarizes Pakistan's top 20 import partners from 2005 to 2014. Saudi Arabia was the largest import partner of Pakistan, followed by the United Arab Emirates in 2005. Pakistan's main imports from those two countries are petroleum-related products. China was the third-largest import partner of Pakistan, accounting for 9.3% of total imports by Pakistan in 2005. China's rank and proportion continued to increase during the next 10 years, to eventually become the largest import partner of Pakistan. The proportion of China in Pakistan's total imports was more than 20% in 2014.

As for the Participating States of APTA, the Republic of Korea and India are included in the list. In 2014, the Republic of Korea's rank was the eleventh with 2.6%, but its importance decreased, dropping to fourteenth position (1.4%).

**Table 7.6. Top 20 destinations for imports by Pakistan**

Rank	Imports in 2005			Imports in 2010			Imports in 2014		
	Country	Amount (US\$ million)	%	Country	Amount (US\$ million)	%	Country	Amount (US\$ million)	%
1	Saudi Arabia	2 651	10.6	United Arab Emirates	5 248	14.0	<b>China</b>	9 569	20.2
2	United Arab Emirates	2 478	9.9	<b>China</b>	5 248	14.0	United Arab Emirates	7 071	14.9
3	<b>China</b>	2 338	9.3	Saudi Arabia	3 838	10.2	Saudi Arabia	4 415	9.3
4	Japan	1 631	6.5	Kuwait	2 608	7.0	Kuwait	2 955	6.2
5	United States	1 527	6.1	Malaysia	2 055	5.5	Indonesia	2 099	4.4
6	Kuwait	1 264	5.0	United States	1 628	4.3	<b>India</b>	2 099	4.4
7	Germany	1 143	4.6	Japan	1 595	4.3	United States	1 765	3.7
8	Malaysia	731	2.9	<b>India</b>	1 560	4.2	Japan	1 743	3.7
9	United Kingdom	719	2.9	Germany	961	2.6	Malaysia	1 279	2.7
10	Indonesia	684	2.7	Singapore	914	2.4	Singapore	1 147	2.4
11	<b>Republic of Korea</b>	650	2.6	Iran, Islamic Rep. of	884	2.4	Oman	1 133	2.4
12	<b>India</b>	576	2.3	Thailand	872	2.3	Germany	1 068	2.3
13	Thailand	538	2.1	<b>Republic of Korea</b>	739	2.0	Thailand	729	1.5
14	Switzerland	488	1.9	Indonesia	676	1.8	<b>Republic of Korea</b>	655	1.4
15	Australia	451	1.8	United Kingdom	636	1.7	United Kingdom	597	1.3
16	Singapore	445	1.8	Italy	567	1.5	Italy	466	1.0
17	Italy	436	1.7	Australia	467	1.2	South Africa	440	0.9
18	Sweden	386	1.5	Canada	464	1.2	France	397	0.8
19	Iran, Islamic Rep. of	363	1.5	France	399	1.1	Afghanistan	392	0.8
20	Russian Federation	356	1.4	South Africa	390	1.0	Ukraine	382	0.8

Source: United Nations COMTRADE database.

Note: % = percentage of total imports by Pakistan.

In contrast to the Republic of Korea, the importance of India as an import partner was strengthened. India's rank was the twelfth with 2.6%, which was lower than the Republic of Korea's proportion, in 2005. However, it rose to eighth place (4.2%) in 2010 and sixth position in 2014.

In terms of the HS 6-digit level, Pakistan's main export product is HS 100630, followed by 520512, 630260, 630231 and 630210 (table 7.7). Among the top 20 export products, 12 products are related to the textile industry (HS 520512, 630260, 630210, 610590, 630239, 520942, 620462, 420310, 630710, 610510 and 620342).

Pakistan's top import products are also fuel-related. The proportion of HS 271019 is the largest at 16.4%, followed by HS 270900 and 271011. In addition to petroleum-related products, Pakistan imported considerable amounts of HS 151190, which accounted for 3.7% of total imports, followed by HS 890800 and 490700.

**Table 7.7. Top 20 exports and imports by Pakistan in 2013, HS 6-digit level**

Exports			
HS 6	Amount (US\$ million)	%	Description
100630	1 790	7.2	Semi-milled or wholly-milled rice, whether or not polished or glazed: parboiled
520512	1 436	5.7	Cotton yarn (uncombed cotton 85% or more)
630260	760	3.0	Toilet linen, kitchen linen, of terry towelling, of cotton
630231	673	2.7	Other bed linen of cotton
630210	670	2.7	Bed linen, knitted or crocheted
620342	653	2.6	Men's or boys' trousers, overalls, breeches, of cotton
630239	598	2.4	Other bed linen, of other textile materials
271019	522	2.1	Petroleum oils and oils obtained from bituminous minerals, other than crude: distillate and residual fuel oils (including blended fuel oils),
252329	507	2.0	Other Portland cement
520942	496	2.0	Denim (yarn of different colour; cotton 85% or more; more than 200 g/m <sup>2</sup> )
170199	488	1.9	Other cane or beet sugar, chemically pure sucrose
620462	484	1.9	Women's or girls' trousers, breeches, of cotton
711319	401	1.6	Articles of jewellery, and parts thereof, of other precious metal, whether or not plated or clad with precious metal
420310	385	1.5	Articles of apparel, of leather or of composition leather
630710	377	1.5	Floor-cloths, dishcloths, dusters and similar cleaning cloths
901890	297	1.2	Other medical, surgical or veterinary instruments and appliances, and parts and accessories
220710	274	1.1	Ethyl alcohol (alcoholic strength 80 degrees or more)
610510	265	1.1	Men's or boys' shirts of cotton, knitted or crocheted
100640	254	1.0	Broken rice
610590	226	0.9	Men's or boys' shirts of other textile materials, knitted or crocheted
Imports			
HS 6	Amount (US\$ million)	%	Description
271019	7 165	16.4	Petroleum oils and oils obtained from bituminous minerals, other than crude: distillate and residual fuel oils (including blended fuel oils)
270900	5 473	12.5	Petroleum oils and oils obtained from bituminous minerals (crude)
271012	2 092	4.8	Petroleum oils and oils obtained from bituminous minerals (other than crude) and preparations: light oils and preparations

**Table 7.7. (continued)**

Imports			
HS 6	Amount (US\$ million)	%	Description
151190	1 610	3.7	Palm oil and its fractions (other than crude oil)
890800	963	2.2	Vessels and other floating structures for scrapping
490700	816	1.9	Unused postage, revenue or similar stamps of current or new issue in the country to which they are destined; stamp-impressed paper; banknotes; cheques
520100	757	1.7	Cotton (not carded or combed)
851712	634	1.4	Telephones for cellular networks or for other wireless networks
290243	481	1.1	P-xylene
720449	416	1.0	Other ferrous waste and scrap
710812	389	0.9	Gold in other unwrought forms
390210	374	0.9	Polypropylene, in primary forms
230400	335	0.8	Oil-cake, solid residues resulting from extraction of soya-bean oil
270119	333	0.8	Coal (other than anthracite, bituminous coal)
120510	323	0.7	Low erucic acid rape or colza seeds
090240	313	0.7	Other black tea (fermented) and other partly fermented tea
290531	296	0.7	Ethylene glycol (ethanediol)
300220	286	0.7	Vaccines for human medicine
310530	283	0.6	Diammonium hydrogen orthophosphate (diammonium phosphate)
310210	270	0.6	Urea (whether or not in aqueous solution)

Source: United Nations COMTRADE database.

## 2. Bilateral trade with Participating States of APTA

### (a) Bangladesh

Pakistan's exports to Bangladesh amounted to 1.58% of Pakistan's total merchandise exports in 2006 and peaked in 2011 at 3.77% (table 7.8). However, the exports dropped to 2.84% in 2012, and have stayed at around the 2012 level.

Pakistan's imports from Bangladesh are relatively small, compared with its exports to Bangladesh, reaching 0.19% of Pakistan's total exports in 2006 (table 7.8) and increasing to 0.24% in 2010, before dropping to 0.13% in 2014.

**Table 7.8. Trading by Pakistan with Bangladesh**

Year	Exports to Bangladesh (US\$ million)	% of total	Imports from Bangladesh (US\$ million)	% of total
2006	265.91	1.58	55.89	0.19
2007	273.63	1.59	62.33	0.19
2008	422.26	2.12	85.93	0.20
2009	365.86	2.11	76.12	0.24
2010	636.27	3.03	73.90	0.20
2011	946.70	3.77	82.73	0.19
2012	695.94	2.84	59.49	0.14
2013	718.32	2.87	57.26	0.13
2014	687.45	2.80	60.24	0.13

Source: United Nations COMTRADE database.

On the HS 6-digit level, the main product in terms of amount exported from Pakistan to Bangladesh is HS 520942 (table 7.9), representing almost 30% of total exports to Bangladesh. All products except HS 390760 are cotton-related.

**Table 7.9. Trading by Pakistan with Bangladesh, HS 6-digit level**

Exports to Bangladesh, 2013			Imports from Bangladesh, 2013		
HS 6	Amount (US\$ million)	%	HS 6	Amount (US\$ million)	%
520942	210	29.2	530310	43	5.9
520932	69	9.6	240120	3	0.4
520100	48	6.7	890110	2	0.3
520512	44	6.1	530710	1	0.2
520532	30	4.1	960200	1	0.1
520919	29	4.0	284700	1	0.1
521142	27	3.8	090220	0	0.1
521223	17	2.4	410622	0	0.1
390760	15	2.1	530720	0	0.0
520911	11	1.5	090240	0	0.0

Source: United Nations COMTRADE database.

Note: % = percentage of each item in total exports and total imports.

## (b) China

Pakistan's exports to China, as a percentage of Pakistan's total merchandise exports in 2006, reached 3.01% and rapidly increased and peaked in 2012 at 10.69% (table 7.10). Although the exports to China then declined they still accounted for 9.13% of total exports by Pakistan in 2014.

Pakistan's imports from China were much higher than its exports, which were more than double amount of Pakistan's total imports from 2006 to 2014, accounting for 9.78% and more than 20%, respectively.

**Table 7.10. Trading by Pakistan with China**

Year	Exports to China (US\$ million)	% of total	Imports from China (US\$ million)	% of total
2006	505.85	3.01	2 914.82	9.78
2007	603.20	3.50	4 163.86	12.78
2008	723.70	3.64	4 737.34	11.20
2009	979.80	5.66	3 779.77	11.97
2010	1 374.71	6.55	5 247.71	13.99
2011	1 668.50	6.64	6 470.65	14.86
2012	2 616.45	10.69	6 687.57	15.26
2013	2 634.78	10.53	6 626.32	15.14
2014	2 237.76	9.13	9 569.05	20.18

Source: United Nations COMTRADE database.

On the HS 6-digit level, exports of HS 520512 in 2013, as a percentage of total exports to China, amounted to 45.1% (table 7.11), and followed by HS 520912. The proportion of HS 851712 was the highest among Pakistan's imports in 2013, followed by HS 851762.

**Table 7.11. Trading by Pakistan with China, HS 6-digit level**

Exports to China, 2013			Imports from China, 2013		
HS 6	Amount (US\$ million)	%	HS 6	Amount (US\$ million)	%
520512	1 188	45.1	851712	622	9.4
520912	124	4.7	851762	148	2.2
520511	122	4.6	540233	145	2.2
261000	109	4.1	310530	138	2.1
100630	102	3.9	851769	135	2.0
520812	72	2.7	401120	121	1.8
520532	72	2.7	854140	110	1.7
520522	71	2.7	550320	101	1.5
251512	46	1.8	853939	90	1.4
520911	45	1.7	890800	83	1.2

Source: United Nations COMTRADE database.

Note: % = percentage of each item in total exports and total imports.



**(c) India**

Pakistan's exports to India amounted to 1.94% of Pakistan's total merchandise exports in 2006, decreasing to 1.08% in 2011 before rebounding to 1.60% in 2014 (table 7.12).

Pakistan's imports from India steadily increased from 3.74% in 2006, with a brief decline to 3.42% in 2009. Since 2013, the imports have remained above 4% (table 7.12).

**Table 7.12. Trading by Pakistan with India**

Year	Exports to India (US\$ million)	% of total	Imports from India (US\$ million)	% of total
2006	326.04	1.94	1 114.99	3.74
2007	290.53	1.69	1 266.23	3.89
2008	352.77	1.77	1 690.77	4.00
2009	232.86	1.34	1 080.40	3.42
2010	269.03	1.28	1 559.92	4.16
2011	272.50	1.08	1 607.33	3.69
2012	347.31	1.42	1 572.59	3.59
2013	401.88	1.61	1 874.06	4.28
2014	391.28	1.60	2 098.68	4.43

Source: United Nations COMTRADE database.

On the HS 6-digit level, the main product in terms of the amount exported from Pakistan to India was HS 080410 at 18.3% of the total exports to India, followed by HS 740400. The main product in terms of the amount imported from India was HS 520100 (15.7%), followed by HS 230400 (table 7.13).

**Table 7.13. Trading by Pakistan with India, HS 6-digit level**

Exports to India, 2013			Imports from India, 2013		
HS 6	Amount (US\$ million)	%	HS 6	Amount (US\$ million)	%
080410	73	18.3	520100	295	15.7
740400	29	7.2	230400	291	15.6
170199	27	6.7	070200	128	6.8
252329	25	6.1	290243	124	6.6
520100	20	5.0	390210	91	4.8
120740	18	4.6	390120	38	2.0
271019	18	4.6	071310	37	2.0
290321	15	3.7	320416	30	1.6
252010	15	3.7	090240	28	1.5
291736	14	3.6	070310	25	1.4

Source: United Nations COMTRADE database.

Note: % = percentage of each item of total exports and total imports.

**(d) Republic of Korea**

Pakistan's exports to the Republic of Korea amounted to 1.05% of the country's total merchandise exports in 2006 and steadily increased to peak at 1.60% in 2011 (table 7.14). Although exports by Pakistan to the Republic of Korea declined slightly thereafter, they remained at around 1.5% in 2013 and 2014.

Pakistan's imports from the Republic of Korea generally remained close to 2% of the country's total imports from 2006 to 2014 (table 7.14), with the exception of 2008 (1.67%), 2012 (1.57%) 2014 (1.38%).

**Table 7.14. Trading by Pakistan with the Republic of Korea**

Year	Exports to the Republic of Korea (US\$ million)	% of total	Imports from the Republic of Korea (US\$ million)	% of total
2006	177.23	1.05	614.09	2.06
2007	181.89	1.06	637.32	1.96
2008	207.60	1.04	707.48	1.67
2009	237.09	1.37	627.25	1.99
2010	278.94	1.33	739.14	1.97
2011	401.70	1.60	837.19	1.92
2012	329.87	1.35	685.71	1.57
2013	397.17	1.59	858.66	1.96
2014	376.01	1.53	655.17	1.38

Source: United Nations COMTRADE database.

On the HS 6-digit level, the main product in terms of the amount exported from Pakistan to the Republic of Korea was HS 220710 at 28.3% of total exports, followed by HS 220720 (table 7.15).

The main product in terms of the amount imported from the Republic of Korea by Pakistan was HS 890800 at 23% of total imports, followed by HS 271019.

**Table 7.15. Trading by Pakistan with the Republic of Korea, HS 6-digit level**

Exports to the Republic of Korea, 2013			Imports from the Republic of Korea, 2013		
HS 6	Amount (US\$ million)	%	HS 6	Amount (US\$ million)	%
220710	112	28.3	890800	197	23.0
220720	44	11.0	271019	31	3.7
520812	34	8.5	840690	24	2.8
520512	22	5.6	840681	22	2.6
740400	19	4.9	292910	20	2.3
411310	15	3.7	320416	18	2.1
520523	15	3.7	390230	18	2.0
520513	7	1.9	390330	14	1.6
410792	7	1.7	550200	13	1.5
520532	7	1.7	630900	12	1.4

Source: United Nations COMTRADE database.

Note: % = percentage of each item in total exports and total imports.

#### (e) Sri Lanka

Pakistan's exports to Sri Lanka remained stable with minimal fluctuation from 2006 to 2014 (table 7.16). Of Pakistan's total exports in 2006 and 2014, exports to Sri Lanka amounted to 1.04% and 1.09%, respectively.

Pakistan's imports from Sri Lanka, which were much lower than its exports, declined steadily from 2006 to 2014 (table 7.16). In 2006, imports to Sri Lanka amounted to 0.24% of Pakistan's total imports and in 2014 they had decreased to just 0.13%.

**Table 7.16. Trading by Pakistan with Sri Lanka**

Year	Exports to Sri Lanka (US\$ million)	% of total	Imports from Sri Lanka (US\$ million)	% of total
2006	174.99	1.04	70.97	0.24
2007	208.53	1.21	59.79	0.18
2008	216.58	1.09	66.22	0.16
2009	214.26	1.24	55.79	0.18
2010	283.77	1.35	53.37	0.14
2011	347.71	1.38	61.13	0.14
2012	300.87	1.23	83.41	0.19
2013	316.35	1.26	63.52	0.15
2014	265.96	1.09	61.38	0.13

Source: United Nations COMTRADE database.

On the HS 6-digit level, the main product in terms of the amount exported from Pakistan to Sri Lanka was HS 252329 at 14% of total exports, followed by 170199 (table 7.17). The largest amount of imports from Sri Lanka was HS 140490, which accounted for more than 27% of total imports, followed by HS 441112 and HS 090411.

**Table 7.17. Trading by Pakistan with Sri Lanka, HS 6-digit level**

Exports to Sri Lanka, 2013			Imports from Sri Lanka, 2013		
HS 6	Amount (US\$ million)	%	HS 6	Amount (US\$ million)	%
252329	44	14.0	140490	17	27.3
170199	34	10.9	441112	5	7.7
520932	25	8.0	090411	4	6.6
520942	23	7.4	071340	4	6.2
100110	23	7.3	400122	4	6.1
730690	15	4.6	441114	3	5.0
520911	13	4.2	400121	3	4.8
070190	12	3.8	080119	3	4.5
100630	10	3.3	080111	3	4.4
300490	9	3.0	090240	2	3.0

Source: United Nations COMTRADE database.

Note: % = percentage of each item in total exports and total imports.

**(f) Lao People's Democratic Republic and Mongolia**

Trading between Pakistan and the Lao People's Democratic Republic and Mongolia was miniscule (tables 7.18 and 7.19). The total trade of exports and imports, between Pakistan and the Lao People's Democratic Republic and Mongolia did not exceed \$1 million from 2006 to 2014.

**Table 7.18. Trading by Pakistan with the Lao People's Democratic Republic and Mongolia**

Lao People's Democratic Republic					Mongolia				
Year	Exports (US\$ million)	% of total	Imports (US\$ million)	% of total	Year	Exports (US\$ million)	% of total	Imports (US\$ million)	% of total
2006	0.18	0.00	0.16	0.00	2006	0.06	0.00	0.12	0.00
2007	0.23	0.00	0.02	0.00	2007	0.00	0.00	0.19	0.00
2008	0.10	0.00	0.16	0.00	2008	0.07	0.00	0.00	0.00
2009	0.17	0.00	0.04	0.00	2009	0.02	0.00	0.02	0.00
2010	0.08	0.00	0.00	0.00	2010	0.08	0.00	0.00	0.00
2011	0.25	0.00	0.00	0.00	2011	0.18	0.00	0.02	0.00
2012	0.47	0.00	0.00	0.00	2012	0.11	0.00	0.01	0.00
2013	0.76	0.00	0.17	0.00	2013	0.28	0.00	0.00	0.00
2014	0.76	0.00	0.01	0.00	2014	0.14	0.00	0.04	0.00

Source: United Nations COMTRADE database.

**Table 7.19. Trading by Pakistan with the Lao People's Democratic Republic and Mongolia in 2013, HS 6-digit level**

Exports to the Lao PDR			Imports from the Lao PDR			Exports to Mongolia			Imports from Mongolia		
HS 6	Amount (US\$ million)	%	HS 6	Amount (US\$ million)	%	HS 6	Amount (US\$ million)	%	HS 6	Amount (US\$ million)	%
300439	0	62.2	380991	0	57.8	300390	0	35.5	851769	0	50.3
300490	0	12.3	720827	0	42.2	300490	0	22.0	220190	0	32.9
901890	0	8.1				040900	0	15.5	853339	0	16.8
300410	0	7.5				621139	0	10.1			
411200	0	3.2				210690	0	6.2			
520831	0	3.0				410719	0	3.8			
520932	0	2.3				901890	0	2.9			
540752	0	0.6				950662	0	1.1			
410719	0	0.6				210310	0	0.8			
540744	0	0.1				481720	0	0.5			

Source: United Nations COMTRADE database.

Note: % = percentage of each item in total exports and total imports.

### 3. Trade policy regime<sup>13</sup>

Despite liberalization, Pakistan's overall tariff levels are still high (table 7.20), which weakens its productivity growth, impedes efficient resource allocation and hinders its integration into global value chains. Moreover, extempore trade policy instruments under Statutory Regulatory Orders (SROs) remain common, which naturally leads to rent-seeking behaviour. Tariffs and tax-related SROs were due to be eliminated by the end of 2015, which will significantly improve the transparency of Pakistan's trade policy regime.

**Table 7.20. Tariff profile in Pakistan**

Tariffs	Year	Total (%)	Agricultural (%)	Non-agricultural (%)
Simple average final bound		60.0	95.5	54.8
Simple average MFN applied	2013	13.5	15.4	13.2
Trade weighted average	2012	1.0	7.1	10.4
Imports in US\$ billion	2012	44.0	5.6	38.4
Binding coverage	2013	98.7		99.0
Maximum duty (binding)	2013	200.0	200.0	100.0
Maximum duty (MFN applied)	2013	100.0	90.0	100.0

Source: WTO, 2014, World Tariff Profiles.

<sup>13</sup> WTO, 2015a and 2015b.

Tariffs, input subsidies and price supports are Pakistan's main agricultural policy measures. Since the eighteenth Constitutional Amendment was adopted, a large number of responsibilities in agricultural policy decisions have been shifted to provincial governments. Many agricultural and food products have been subject to extemporaneous measures under SROs. A certain number of products have also been subject to export prohibitions; price supports have been retained for wheat. Since 2008, Pakistan has submitted no notifications to WTO regarding domestic support.

The level of protection in the manufacturing sector is exceptionally high in the automotive industry, with the imposition of duties of up to 100%. Coupled with limited domestic competition among a few assemblers, the high level of protection results in prices for passenger cars in Pakistan, that are substantially higher than in other countries.

To deal with high tariff levels, the Government of Pakistan has initiated a three-year process for rationalizing its custom duties. The main objective of the rationalizing process is to cut the maximum tariff and the total number of tariffs. The reforms of trade policy are focusing on the simplification of tariff rates, the phasing out of SROs that set special tariff rates or non-tariff trade barriers in about 4,000 product areas, and the improvement of trade relations to ensure a more competitive environment.

The Government of Pakistan is in the three-year process of finalizing the arrangement of the new system for simplifying the tariff structure. A simple and transparent framework is being established with a minimum number of exceptions. During the 2014/15 fiscal year, the number of tariff slabs was cut from seven to six. All items at 30% have been adjusted to a new maximum rate of 25%. In order to support fiscal consolidation by maintaining budget surpluses for fiscal sustainability, the country's provinces are preparing to phase in the new system.

#### **4. Trade Agreements<sup>14</sup>**

##### **(a) WTO**

Pakistan is one of the original members of WTO and provides, at minimum, most favoured nation (MFN) treatment to most WTO members (except India) as well as some non-WTO members. Pakistan is in the process of providing India with non-discriminatory market access (NDMA). Under the NDMA scheme, Pakistan is expected to reduce the number of items on the sensitive list to 100 tariff lines. Trade with Israel is prohibited. Pakistan has actively participated in the Doha Round of negotiations and has shown strong support for effective rules based on the international trading system.

##### **(b) South Asian Free Trade Area**

The South Asian Free Trade Area (SAFTA), which entered into force on 1 January 2006, has statutory force for Pakistan. Tariff reductions were initiated in July 2006 and are scheduled to be completed by December 2016.

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<sup>14</sup> WTO, 2015b.

Under Trade Liberalization Programme of SAFTA, Pakistan's tariff reduction was to take place in two phases. Under Phase I, from 2006 to 2008, tariff rates above 20% were reduced to 20% in two years while tariff rates below 20% were reduced on a margin of preference (MoP) basis of 10% per year. Under Phase II, from 2008 to 2013, tariff rates were reduced to between zero and 5% within five years. Goods on the sensitive list are excluded from tariff cuts. The sensitive list of Pakistan comprises 938 tariff lines at the HS 6-digit level. Items in the services sector are exempt from concession.

**(c) Pakistan-Sri Lanka FTA**

The Pakistan-Sri Lanka FTA entered into force on 12 June 2005. Under the provisions of the FTA, tariffs were removed for approximately 90% of Pakistan's tariff lines on an MoP basis. Items in the negative list are excluded for tariff reductions. Pakistan has 607 HS 6-digit tariff items on the list. Its tariffs on 206 HS 6-digit items were immediately reduced to zero.

Margins of preference of 20% were immediately applied to five HS 6-digit items. Another 26 HS 6-digit tariff items are subject to tariff rate quotas. These include tea. Pakistan has fulfilled its first- and second-stage commitments and implemented its final stage in June 2008. Both countries agreed to include services and investment.

**(d) Pakistan-China FTA**

The Pakistan-China FTA came into force on 1 July 2007. During the first five years, designated tariffs were continuously reduced or eliminated. Pakistan's tariff reductions include approximately 5,900 HS 8-digit items, which is around 85% of total tariff items.

Tariff rates for items, in category I, were reduced immediately by 25% and were phased out in three equal installments by 2010, which represents 35.6% of the HS 8-digit tariff items. The rates for items in category II were immediately cut by 20% and were lowered to, or below, 5% in five equal installments by 2012 (19.9% of tariff items). The rates for category III were immediately reduced by 8% and were phased out to a 50% MoP in five equal installments by 2012 (2% of tariff items). The rates for category IV were lowered immediately by 3% and were phased out to a 20% MoP in five equal installments by 2012 (26.1% of tariff items). However, the items in category V and VI are not subject to concessions or reductions.

The Agreement on Trade in Services between Pakistan and China became effective on 10 October 2009. Under the provisions of the Agreement, Pakistan provides China with access to 11 sectors and 107 subsectors out of a possible 160 subsectors on a national treatment basis. China has provided Pakistan with market access to 11 sectors and 133 subsectors on a national treatment basis. The Agreement was being renegotiated.

**(e) Malaysia-Pakistan Closer Economic Partnership Agreement**

The Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA) entered into force on 1 January 2008. The Agreement was Pakistan's first comprehensive FTA, covering trade in goods and services, investment and economic cooperation. For merchandise trade, Pakistan eliminated tariffs on 43.2% of the imports from Malaysia by 2012. Malaysia eliminated tariffs on 78% of imports from Pakistan. Pakistan lowered the tariff on seven palm oil tariff lines by 15% margin of preference, 10% in 2008 and an additional 5% in 2010. The Agreement is being reviewed.

Regarding trade in services, both countries have provided WTO-plus market access to each other. In computer and IT-related services, Islamic banking and Islamic insurance, Pakistan has secured 100% equity in Malaysia. Mutual recognition arrangements are also covered in the MPCEPA. These arrangements offer a framework for accreditation of educational institutions and academic programmes. The agreement also includes a chapter on investment.

**(f) Pakistan-Iran Preferential Trade Agreement**

The Pakistan-Iran Preferential Trade Agreement (PTA) came into force on 1 September 2006. Pakistan extended preferential tariff margins of 5, 10, 15, 20 or 30% (mainly 10% and 30%) on 338 HS 6-digit tariff items from 1 September 2007. According to the authorities, trade under the Agreement is minimal due to international sanctions on the Islamic Republic of Iran.

**(g) Pakistan-Mauritius Preferential Trade Agreement**

The PTA between Pakistan and the Republic of Mauritius was signed on 30 July 2007 and became effective on 30 November 2007. The Agreement provides for tariffs to be substantially lowered or phased down within two years of the date of effectuation.

Pakistan agreed to extend its preferential tariffs, initially 50%, and full elimination after one year to the Republic of Mauritius on a wide range of items including fresh flowers, fruit, tea, tinned tuna, sugar, soap, certain food preparations and products, receiving a preferential tariff margin of 40%. However, these are subject to tariff quotas totalling some eight million pieces annually.

Six memoranda of understanding were also signed to promote bilateral trade and cooperation, including customs, small and medium-sized enterprises, state trading corporations, technical standards, sanitary and phytosanitary measures, fisheries and export promotion.

Both nations stated that trade under the Agreement was concentrated in rice and did not cover other sectors; as such, they expect to hold negotiations on an FTA.



**(h) Pakistan-Indonesia Preferential Trade Agreement<sup>15</sup>**

The Pakistan-Indonesia PTA entered into force on 1 September 2013. Under the PTA, Indonesia provides Pakistan with market access at preferential rates on export products including fresh fruit, cotton yarn, cotton fabrics, ready-made garments, fans (ceiling, table and pedestal), sports goods (badminton and tennis rackets), leather goods and other industrial products. In addition, Indonesia provides Pakistan with market access to kinnow at 0% tariff. In a similar manner, Pakistan provides Indonesia with market access at preferential tariff rates.

Customs duties have been reduced on 313 items. Moreover, Pakistan extends a 15% MoP over the standard tariff rate to palm oil products from Indonesia, similar to that extended to Malaysian palm oil products under the MPCEPA.

**(i) Plurilateral and other arrangements**

Negotiations are in progress with the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). Pakistan has also agreed to joint studies on possible free or preferential trade agreements with Japan, the Republic of Korea and ASEAN.

**(j) Organization of Islamic Conference<sup>16</sup>**

The Organization of Islamic Conference (OIC) is the second-largest intergovernmental organization after the United Nations. Its membership includes 57 States across four continents. The OIC seeks to represent the collective voice as well as safeguard and protect the interests of the Muslim world in promoting world peace and harmony. The Framework Agreement on the Trade Preferential System among OIC member States comprises 18 signatories, including Pakistan. The Protocol on Preferential Tariff Scheme for TPS-OIC (PRETAS) called for specific tariff reductions on an agreed schedule. The second round of negotiations, initiated in November 2006, declared a road map and target date of 1 January 2009 to establish PRETAS. Pakistan has signed and ratified the Agreement, but it has yet to enter into force as it has not been ratified by all its members.

**(k) Developing-8 group of countries<sup>17</sup>**

The Developing-8 (D-8) group of countries is an organization for the development and economic cooperation among the eight member countries, i.e., Pakistan, Bangladesh, Egypt, Indonesia, the Islamic Republic of Iran, Malaysia, Nigeria and Turkey. The member States signed the Preferential Trade Agreement (PTA) during the fifth D-8 summit in 2006. The PTA requests tariffs above 10% to be lowered in four annual instalments, and eight annual instalments for least developed members, on 8% of the members' total tariff lines.

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<sup>15</sup> See <http://aric.adb.org/fta/pakistan-indonesia-free-trade-agreement> (accessed on 1 September 2015).

<sup>16</sup> See <http://www.oic-oci.org/oicv2/home/?lan=en> (accessed on 9 April 2015).

<sup>17</sup> See <http://www.developing8.org/> (accessed on 9 April 2015).

Visa, customs and shipping agreements were reached, but the agreement is not yet in force as it has not been ratified by all parties.

**(l) Economic Cooperation Organization<sup>18</sup>**

Under the Economic Cooperation Organization (ECO) Agreement, Pakistan is expected to offer preferential tariff margins of 10 percentage points on the same imported items as those eligible under SAFTA. Tariffs are to be reduced to a maximum rate of 15% in eight years, except for Afghanistan (15 years). Items on the sensitive list are excluded from tariff reductions. Initially, the number of sensitive goods was limited to 1% of HS 6-digit items. The coverage of the positive list of tariff reductions is to be expanded proportionately in eight years in equal annual stages to 80% of the members' tariff lines. The Agreement excludes trade in services and it has yet to be implemented as it has not yet been ratified by all member countries.

**(m) Other preferential arrangements**

Pakistan has retained preferential tariffs under the GATT Protocol Relating to Trade Negotiations among Developing Countries and the Global System of Trade Preferences (GSTP). It has also made commitments regarding the third round of GSTP negotiations which has been concluded but yet to be implemented.

## **C. Potential gains from Pakistan's accession to APTA**

### **1. Analysis of comparative advantage**

This section investigates those items in which Pakistan has a comparative advantage and which are conceded by the Participating States of APTA. To do this, Pakistan's revealed comparative advantage (RCA) for each item at the HS 6-digit level has been calculated. Second, the items having RCAs greater than one have been selected. Last, each Participating State of APTA's MoP list and the items of Pakistan with an RCA greater than 1 have been matched in order to identify the items in which Pakistan has a comparative advantage. They have then been included with the items that can be conceded by each Participating State of APTA.

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<sup>18</sup> The ECO is an intergovernmental regional organization that was established in 1985. Its purpose is to promote economic, technical and cultural cooperation among the member States. ECO is the successor organization to the Regional Cooperation for Development (RCD) that existed from 1964 to 1979. Current membership includes Afghanistan, Azerbaijan, the Islamic Republic of Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan. See [www.ecosecretariat.org/detail\\_info/about\\_eco\\_d.htm](http://www.ecosecretariat.org/detail_info/about_eco_d.htm) (accessed on 9 April 2015).

**Revealed Comparative Advantage**

RCA is a measure based on the Ricardian theory for calculating the relative advantage or disadvantage of trade in a specific sector. An RCA between 0 and 1 indicates a comparative disadvantage, whereas an RCA above 1 reveals comparative advantage. In the context of this study, the formula is shown in equation (1):

$$RCA_{ij} = \frac{X_{ij}/X_{wj}}{X_i/X_w} \dots\dots\dots (1)$$

where  $X_{ij}$  is Pakistan’s exports to the world in a given product or sector  $i$ ;  $X_{wj}$  is total exports by Pakistan to the world;  $X_i$  is the world’s exports of a product to the world; and  $X_w$  is total exports by the world. An index that is greater than 1 indicates that a country’s proportion of exports in that sector exceeds the proportion of world exports in the same sector. In such a case, it is inferred that the country has a comparative advantage in that sector.

In the context of Pakistan, if the RCA in a certain sector is greater than 1, then Pakistan has a revealed comparative advantage in that sector, which means that a RCA in a given sector is an indication of Pakistan’s competitiveness in the said sector on the world market.

The advantage of using the RCA is that it is consistent with changes in a country’s relative factor endowment and productivity. However, it is sometimes argued that an RCA is not appropriate in that it is a better measure of competitiveness rather than of comparative advantage, due to the fact that a high volume of exports can result from market distortions, such as governmental subsidies or manipulated exchange rates.

**2. Results**

**(a) Bangladesh**

Upon examination of Bangladesh’s APTA concession list and the items of Pakistan’s RCA, Pakistan has a comparative advantage in 27 items at the HS 6-digit level in Bangladesh’s concession list. The RCAs of these 27 items range from 1.04 to 67.36. The highest MoP is 70, given by HS 842099 (calendaring or other rolling machines, other than for metals or glass, and cylinders, HS 8420), whereas the item that has the highest RCA of 67.36, is HS 611692 (cotton in gloves, mittens and mitts, knitted or crocheted, HS 6116).

**(b) China**

In China’s case, Pakistan has a comparative advantage in 240 items, at the HS 6-digit level in China’s APTA concession list. For the items having an RCA greater than 1, the range is from 1.01 to 381.33.

Among the Participating States of APTA, China's concession list includes the largest number of items from Pakistan with an RCA greater than 1. The highest MoP is 50 for 27 items in the list. Pakistan has a comparative advantage greater than 100 for 17 items. Including these items, there are 95 items from Pakistan with an RCA of 10 or higher. The item having the highest RCA, 381.33, is HS 520912 (3-thread or 4-thread twill, including cross twill – plain weave – unbleached, HS 52091).

**(c) India**

In the case of India, there are 74 items at the HS 6-digit level in which Pakistan has a comparative advantage in India's APTA concession list. Among the items with an RCA greater than 1, the range is from 1.03 to 316.72. There are four items with an MoP of 100, which means total tariff elimination to the Participating States of APTA. The item having the highest RCA, 316.72, is HS 252610 (not crushed, not powdered – natural steatite, whether or not roughly trimmed or merely cut, by sawing or otherwise, into blocks or slabs of a rectangular – including square – shape; talc, HS 2526). There are six items for which Pakistan has an RCA greater than 100. Among the items with an RCA of more than 100, 22 items have an RCA greater than 10 in the concession list.

**(d) Republic of Korea**

Examination of the Republic of Korea's APTA concession list and Pakistan's RCAs, at the HS 6-digit level reveals that there are 156 matches between items in the Republic of Korea's concession list and items in which Pakistan has a comparative advantage. These RCAs ranges from 1.01 to 486.62. The highest RCA recorded by Pakistan was 486.62, which is HS 521021 (plain weave – bleached – woven fabrics, of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing not more than 200 g/m<sup>2</sup>, HS 5210). Nine items have an RCA greater than 100. Including those items, there are 58 items with an RCA greater than 10. The highest MoP given by the Republic of Korea is 50.

**(e) Lao People's Democratic Republic**

In case of the Lao People's Democratic Republic, it is found that there are 84 items, at the HS 6-digit level, in which Pakistan has a comparative advantage in the list of the Lao People's Democratic Republic's APTA concession. Among the items having RCA greater than 1, the range is from 1.07 to 370.11. The item having the highest RCA, 370.11, is HS 630210 (bed linen, knitted or crocheted). There are five items in which Pakistan has an RCA greater than 100. Including the items with an RCA greater than 100, there are 26 items with RCA greater than 10 in the concession list.

**(f) Mongolia**

Upon examination of Mongolia's APTA concession list and Pakistan's items with RCA, there are 36 items at the HS 6-digit level, in which Pakistan has a comparative advantage in Mongolia's concession list. The range of these items is between 1.16 and 351.15. The highest RCA for Pakistan in this list is 351.15, which is HS 520531 (measuring per single

yarn, 714.29 decitex or more, not exceeding 14 metric number per single yarn – cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale, HS 5205). There is only 1 item, HS 520531, having an RCA greater than 100 and there are 20 items including HS 520531, which have RCA greater than 10. The highest MoP given by Mongolia is 30 and the lowest is 10, excluding zero MoP.

**(g) Sri Lanka**

Examination of Sri Lanka’s APTA concession list and Pakistan’s RCAs reveals that at the HS 6-digit level there are 41 matching items, from 1.59 to 139.76, in the concession list, in which Pakistan has a comparative advantage greater than 1. The highest RCA of Pakistan in this list is 139.76, which is HS 420321 (specially designed for use in sports – gloves, mittens and mitts – articles of apparel and clothing accessories, of leather or of composition leather, HS 4203). Two items have an RCA greater than 100 and there are 12 items which have RCA greater than 10. The highest MoP given by Sri Lanka is 50 and the lowest is five, excluding zero MoP.

**(h) Pakistan’s potential as a Participating State of APTA**

Table 7.21 shows Pakistan’s potential to increase its exports to the APTA Participating States by acceding to APTA. In table 7.21, “RCA > 1 & MoP applied” indicates the amount of goods in which Pakistan has comparative advantage in the world market and at the same time for which the Participating States of APTA provide accession rates based on MoP.

The right-hand column in table 7.21 provides these amounts as a percentage of total imports from Pakistan. The findings in the table imply that Pakistan’s exports to China and India could have greater potential than those to the Republic of Korea, Bangladesh and Sri Lanka. In China’s case, 88.8% of total imports from Pakistan comprise items that, in addition to Pakistan’s RCA being greater than 1, are also included in the General Concession List of China.

**Table 7.21. Pakistan’s potential competitiveness in APTA through RCAs**

Country	RCA >1 and MoP applied (US\$ million)	Total imports from Pakistan (US\$ million)	% of total imports
Bangladesh	17.5	963.2	1.8
China	2 143.9	3 196.8	67.1
India	336.6	379.2	88.8
Republic of Korea	52.7	522.1	10.1
Lao PDR			
Mongolia			
Sri Lanka	1.5	378.7	0.4

Source: Authors’ calculation using the RCA measure.

Note: Bangladesh’s imports are for 2011 while the other countries’ imports are for 2013.

### 3. Partial equilibrium analysis

A partial equilibrium analysis was employed to analyse the effects of Participating States of APTA tariff concessions on Pakistan's exports.

While a general equilibrium analysis incorporates all markets' interactions simultaneously, the partial equilibrium model only considers the effects of a given policy action – i.e., reductions of tariffs – in markets or products that are directly affected. This implies that the model does not account for the interactions between the markets (or products) in an economy. However, the partial equilibrium analysis is advantageous in several ways. The main advantage is that the data requirement is minimal. The only data required are trade flows, tariffs, policy changes and elasticities of markets or products. Therefore, this can take advantage of the rich dataset that is publicly available. In addition, another advantage, thanks to the minimal data requirement, is that the partial equilibrium model can target markets at a fairly disaggregated level.

However, the partial equilibrium model also has disadvantages. It relies on previous time-series data (flows of trade), which make results sensitive to pre-determined parameters in the model; thus, interpretations of the results should be viewed with caution.

#### (a) SMART model

SMART is a static partial equilibrium model developed by the United Nations Conference for Trade and Development (UNCTAD) and the World Bank during the 1980s. Its main objective was to assess the impact of the General Agreement on Trade and Tariffs (GATT) rounds and it is based on the theory proposed by Laird and Yeats (1986). SMART is based on the equilibrium demand of a product as a function of relative prices between domestic and foreign goods.

A trade policy reform leads to tariff reduction on a specific product that is imported from a country, which results in a decrease in the price of the product imported from that country. This, in turn, causes a change in the relative price between domestic and the exporting country's products. As a result, demand for domestic products decreases while increasing for the products from the foreign country. The degree of change depends on the price elasticity of demand for the foreign country's product in the domestic market. The increase in import from the foreign country is called the trade creation effect, relying on the volume of imports and price elasticity. In addition, the relative price between the beneficiary country and other foreign countries changes due to the tariff reduction, as imports from other foreign countries decrease at the expense of the increase in imports from the beneficiary country. This is called the trade diversion effect, depending on elasticity of substitution between the imported goods.

One of the advantages of using SMART is that it has the ability to analyse the effects of changes in trade policy in case of imperfect substitutes. It is more appropriate than a model with homogenous products when tariff preferences are examined as corner solutions are avoided. SMART can be used to analyse the tariff effects of a single market on disaggregated product levels up to the HS 6-digit level.

This study employed the data and the SMART model that are provided by World Integrated Trade Solution (WITS) to simulate the impact of tariff concessions offered by the Participating States of APTA on Pakistan's products. More specifically, this study analyses the trade benefits for Pakistan when acceding to APTA, both in terms of trade creation and trade diversion.

In the SMART model, a linear-quasi utility function is used in equation (2). The assumption is that the utility is determined as a function of demand for imported goods and a numeraire good.

$$U = \sum_j u_j(m_j) + n \dots\dots\dots (2)$$

In equation (2),  $n$  represents a numeraire good, and  $m_j$  stands for imported good  $j$ . There is no substitution between  $n$  and  $m_j$ , as linear utility function is assumed.

The solutions of utility maximization argument under a budget constraint provide equilibrium demands for the imported and the numeraire goods, as shown in equations (3) and (4).

$$m_{j,i} = f(p_{j,i}^d ; p_{j,\neq i}^d), \forall j,i \dots\dots\dots (3)$$

$$n = y - \sum_i \sum_j (p_{j,i}^d \times m_{j,i}) \dots\dots\dots (4)$$

where  $m_{j,i}$  is a good  $j$  imported from country  $i$ ,  $p_{j,i}^d$  is the domestic price of good  $j$  imported from country  $i$  and  $p_{j,\neq i}^d$  are domestic prices of good  $j$  imported from the rest of the world except country  $i$ .

The tariff is defined as the difference between the domestic price and world price; thus, the relationship between the prices and tariff can be derived as equation (5):

$$p_{j,i}^d = p_j^w (1 + t_{j,i}^d) \dots\dots\dots (5)$$

where  $p_j^w$  is the world price of good  $j$  and  $p_{j,i}^d$  is the tariff rate on good  $j$  imported from the country  $i$ .

The key interest is the effects of tariff reduction, i.e., the tariff concession in favour of the Participating States of APTA. The trade concession effects are estimated by adjusting the MoP in equation (6):

$$t_{j,i} = t_{j,i}^d (1 - \theta_{j,i}) \dots\dots\dots (6)$$

where  $\theta_{j,i}$  represents the margin of preference on imported good  $j$  from country  $i$ .

Price elasticity of demand with regard to imported good  $j$  can be expressed as equation (7):

$$\varepsilon_{j,i} = \frac{\partial m_{j,i}}{m_{j,i}} \bigg/ \frac{\partial p_{j,i}^d}{p_{j,i}^d} \dots\dots\dots (7)$$

There are two main effects stemming from tariff reductions. One is the trade creation effect and the other is the trade diversion effect.

The trade creation effect can be defined as the increase in demand in the domestic country for a good imported from the partner country, resulting from a decrease in the price, associated with price changes due to a tariff cut.

Trade diversion is a tendency of importers to substitute a good from one to another source in response to a change in price by one exporter, but not others. This implies that if prices fall in one foreign country and those in the rest of the world do not, then there is a tendency to import more goods from the foreign country and less from the rest of the world.

The trade creation effect can be calculated using the definition of the price elasticity as in equation (8):

$$TC_{j,i} = p_{j,i}^w \varepsilon_{j,i} m_{j,i} \frac{\partial p_{j,i}^d}{p_{j,i}^d} \dots\dots\dots (8)$$

Using the variables introduced in this section, equation (8) is written in equation (9) as:

$$TC_{j,i} = m_{j,i} \varepsilon_{j,i} \frac{(t_{j,i} - t_{j,i}^d)}{(1 + t_{j,i}^d)} \dots\dots\dots (9)$$

It is possible that there is substitution of imports from the rest of the world to country  $j$ ; therefore elasticity of substitution is important in calculating the trade diversion effect. Elasticity of substitution of imported good  $j$  between country  $i$  and rest of the world is defined in equation (10):

$$\sigma_{j,i,\neq i} = \frac{\partial \left[ \frac{m_{j,i}}{m_{j,\neq i}} \right]}{\frac{m_{j,i}}{m_{j,\neq i}}} \bigg/ \frac{\frac{\partial p_{j,i}^d}{p_{j,\neq i}^d}}{\frac{p_{j,i}^d}{p_{j,\neq i}^d}} < 0 \dots\dots\dots (10)$$



where  $m_{j,\neq i}$  is imports of good  $j$  from the rest of the world except country  $i$ .

Using equation (9), the trade diversion effect is derived in equation (11):

$$TD_{j,i} = \partial m_{j,i} = \left( \frac{m_{j,\neq i} \times m_{j,i}}{m_{j,\neq i} + m_{j,i}} \right) \varepsilon_{j,i} \frac{(t_{j,i} - t_{j,i}^d)}{(1 + t_{j,i}^d)} \sigma_{j,i,\neq i} \dots\dots\dots (11)$$

For Pakistan's benefits,  $TC_{j,i}$  is the increased imports of good  $j$  from Pakistan due to concession of tariffs in a Participating State of APTA.  $TD_{j,i}$  is the amount of imports of good  $j$  that is diverted from the rest of the world to Pakistan. Similarly, each Participating State of APTA's benefits are calculated in terms of trade creation and trade diversion effects.

In this study, equations (9) and (11) were utilized to estimate the effects of trade creation and trade diversion, respectively. In both equations, tariff shock is given by  $(t_{j,i} - t_{j,i}^d)$ , while  $t_{j,i}$  is the accession rate for good  $j$ , derived from equation (6), and  $t_{j,i}^d$  is the applied MFN rate for good  $j$ .

**(b) Data**

For the analysis of Pakistan's benefits from acceding to APTA, the imports by the Participating States of APTA from Pakistan or the rest of the world except Pakistan were used. For the analysis of the benefits gained by the Participating States of APTA from Pakistan's accession to APTA, Pakistan's imports in 2013 from the rest of the world and from each Participating State of APTA were used.

The import data were drawn from the United Nations Common Format for Transient Data Exchange (COMTRADE). With the exception of Bangladesh, the year of imports is 2013. In Bangladesh's case, 2011 data were used for imports due to the fact that 2013 data were not available in COMTRADE. Correspondingly, the import data were based on HS 2012 for all Participating States of APTA except Bangladesh. For 2011 data for Bangladesh, HS 2007 was used.

Pre-determined parameters (elasticities and tariffs) in SMART are drawn from the UNCTAD Trade Analysis Information System (TRAINS) in WITS. Own price elasticities are drawn from Kee, Nicita and Olarreaga (2008) in SMART. Elasticity of substitution is assumed to be 1.5 for all products. Elasticity of export supply is assumed to be 99, which is close to infinite (Lang, 2006). Tariffs are the MFN tariff rates. The base of MFN tariffs is 2013, except Bangladesh, to which 2011 MFN tariffs are applied. Tariff policy changes are drawn from the national list of general tariff concessions concluded in the APTA Fourth Round negotiations.

## D. Potential impact on exports of Pakistan to current Participating States of APTA

This section analyses the results of the total effects of Pakistan's exports to the Participating States of APTA, which are the sum of trade creation and trade diversion, from a SMART simulation. The results from simulations do not present the estimates for the Lao People's Democratic Republic and Mongolia due to the fact that the effects are minimal in the case of Mongolia, while import data are not available in COMTRADE for the Lao People's Democratic Republic. From the perspective of Pakistan, the estimate of the export effect, as a percentage of total imports of the other five Participating States of APTA from Pakistan, is 1.84% (table 7.22).

**Table 7.22. Implications of Pakistan's concessions offered  
by five Participating States of APTA**

(US\$ thousand)

Participating State of APTA	TC	TD	Total	Trade effect as % of total imports
Bangladesh	928.207	178.832	1 107.039	0.11
China	47 531.210	7 631.250	55 162.460	1.73
India	6 991.339	1 627.299	8 618.638	2.27
Republic of Korea	31 649.120	1 618.819	33 267.939	6.37
Sri Lanka	1 226.627	777.225	2 003.852	0.53
<b>Total</b>	<b>88 326.503</b>	<b>11 833.425</b>	<b>100 159.928</b>	<b>1.84</b>

*Source:* Authors' calculation using SMART model.

*Note:* TC – trade creation effect; TD – trade diversion effect; and % = total imports is trade effect as a percentage of total imports in each Participating State of APTA.<sup>19</sup>

In terms of the United States dollar, the increase in imports from Pakistan is largest from China. However, as a percentage of total imports from Pakistan by each Participating State of APTA, the benefit for Pakistan from acceding to the APTA is the highest with the Republic of Korea, followed by India, China, Sri Lanka and Bangladesh, respectively. Again, for Pakistan the impact from APTA accession is the greatest in connection with the Republic of Korea. Pakistan will be able to obtain a more than 6% increase in its exports to the Republic of Korea.

As expected, trade creation dominates, and overall trade creation and trade diversion are 1.62% and 0.22%, respectively, as the share of total imports. This tendency does not change in trade with each Participating State of APTA.

<sup>19</sup> The exporting country is Pakistan, and the importing countries are the Participating States of APTA. Thus, from the perspective of Pakistan, trade effects mean export effects to the current APTA Participating States.

Actual benefits for Pakistan from accession to APTA could be higher than the estimates due to the fact that the general concession list of each Participating State of APTA is used. Under the assumption that the special concession list of each Participating State of APTA for LDCs is applied to Pakistan's products, the trade benefits for Pakistan as a new Participating State of APTA would be much higher than the estimates in this study.

## 1. Bangladesh

The trade creation effect from Bangladesh's tariff concessions is the highest in the case of HS 611692 (gloves, mittens and mitts, knitted or crocheted; of cotton) followed by HS 100110 (durum wheat), 121190 (plants and parts of plants; other), 845180 (machinery for washing, cleaning, wringing, drying, ironing etc.; other machinery) and 611699 (gloves, mittens and mitts, knitted or crocheted; of other textile materials) (table 7.23).

**Table 7.23. Benefits for Pakistan from concessions offered by Bangladesh**

(US\$ thousand)			
HS 6	TC	Tariff	MoP
611699	14.279	0.25	0.20
845180	14.725	0.03	0.30
121190	23.327	0.12	0.20
100110	47.710	0.03	0.20
611692	742.082	0.25	0.20
HS 6	TD	Tariff	MoP
380991	9.989	0.05	0.10
844630	10.646	0.03	0.30
611692	10.646	0.25	0.20
845180	20.467	0.03	0.30
100110	56.549	0.03	0.20

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

The trade diversion effect from Bangladesh's tariff concessions is the largest in HS 100110, followed by HS 845180, 611692, 844630 (weaving machines, i.e., looms; for weaving fabrics of a width exceeding 30 cm., shuttleless type), 380991 (finishing agents, dye carriers to accelerate the dyeing or fixing of dyestuffs and other products and preparations – for example, dressings and mordants; other: of a kind used in the textile or like industries). The overall trade effect is not effective in Bangladesh's case. The greatest benefit for Pakistan from Bangladesh's concessions may come from HS 611692.

## 2. China

The trade creation effect from China's tariff concessions is the highest in the case of HS 520512 (cotton yarn – other than sewing thread – containing 85% or more by weight of cotton, not put up for retail sale; single yarn, of uncombed fibres: measuring less than 714.29 decitex, but not less than 232.56 decitex exceeding 14 metric number but not exceeding 43 metric number), followed by HS 410441 (tanned or crust hides and skins of bovine or equine animals, without hair on, whether or not split, but not further prepared; in the dry state (crust): full grains, unsplit; grain splits), 520912 (woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200 g/m<sup>2</sup>; unbleached: 3-thread or 4-thread twill, including cross twill), 520511 (cotton yarn – other than sewing thread – containing 85% or more by weight of cotton, not put up for retail sale; single yarn, of uncombed fibres: measuring 714.29 decitex or more, not exceeding 14 metric number), and 251512 (marble and travertine; merely cut, by sawing or otherwise, into blocks or slabs of a rectangular – including square – shape) (table 7.24).

**Table 7.24. Benefits for Pakistan from concessions offered by China**  
(US\$ thousand)

HS 6	TC	Tariff	MoP
251512	1 853.349	0.04	0.50
520511	2 619.533	0.05	0.30
520912	5 130.374	0.10	0.35
410441	5 945.619	0.05	0.30
520512	18 248.870	0.05	0.30
HS 6	TD	Tariff	MoP
520522	1 456.932	0.05	0.30
411310	1 475.202	0.14	0.30
520511	1 578.718	0.05	0.30
251512	1 872.771	0.04	0.50
080290	2 187.381	0.25	0.50

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

The trade diversion effect from China's concessions is the highest in HS 080290 (areca nuts; other), followed by HS 251512, 520511, 411310 (leather further prepared after tanning or crusting, including parchment-dressed leather, of other animals, without wool or hair on, whether or not split, other than leather of heading 41.14; of goats or kids), and 520522 (cotton yarn – other than sewing thread – containing 85% or more by weight of cotton, not put up for retail sale; single yarn, of combed fibres: measuring less than 714.29 decitex, but not less than 232.56 decitex exceeding 14 metric number but not exceeding 43 metric number).

Although the increased imports from Pakistan may not be large for China, it is not insignificant to Pakistan; thus, Pakistan would benefit as its imports to China increase by acceding to APTA.

### 3. India

The effect of trade creation from India's concessions is the highest in HS 410719 (further prepared after tanning or crusting, including parchment-dressed leather, of bovine or equine animals, without hair on, whether or not split, other than leather of heading 41.14; other), followed by HS 290321 (vinyl chloride – chloroethylene), 410449 (tanned or crust hides and skins of bovine or equine animals, without hair on, whether or not split, but not further prepared; in the dry state (crust): other), 410799 (leather further prepared after tanning or crusting, including parchment-dressed leather, of bovine or equine animals, without hair on, whether or not split, other than leather of heading 41.14; other: other), and 680911 (boards, sheets, panels, tiles and similar articles, not ornamented; faced or reinforced with paper or paperboard only) (table 7.25).

**Table 7.25. Benefits for Pakistan from concessions offered by India**

(US\$ thousand)

HS 6	TC	Tariff	MoP
680911	651.914	0.10	0.14
410799	655.555	0.10	0.40
410449	712.867	0.10	0.40
290321	760.273	0.05	0.30
410719	1 301.448	0.10	0.40
HS 6	TD	Tariff	MoP
410799	146.576	0.10	0.40
283620	164.184	0.08	0.30
410449	210.471	0.10	0.40
290321	264.615	0.05	0.30
410719	303.909	0.10	0.40

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

The effect of trade diversion is also the highest in HS 410719, followed by HS 290321, 410449, 283620 (disodium carbonate) and 410799.

The benefits from India are much less than expected, but it is mainly due to the fact that both countries have been participating in SAFTA, and the preferential tariff rates are interchangeable.

### 4. Republic of Korea

The effect of trade creation by Pakistan's exports to the Republic of Korea is the highest for HS 271011 (light petroleum oils and preparations), followed by HS 410712 (leather further prepared after tanning or crusting, including parchment-dressed leather, of bovine

or equine animals, without hair on, whether or not split, other than leather of heading 41.14; whole hides and skins: grain splits), 410792 (other; grain splits), 410711 (whole hides and skins; full grains, unsplit), and 410791 (other; full grains, unsplit) (table 7.26).

**Table 7.26. Benefits for Pakistan from concessions offered by the Republic of Korea**

(US\$ thousand)

HS 6	TC	Tariff	MoP
410791	639.729	0.05	0.50
410711	4 758.513	0.05	0.50
410792	4 777.561	0.05	0.50
410712	4 868.006	0.05	0.50
271011	15 507.460	0.02	0.10
HS 6	TD	Tariff	MoP
410712	96.338	0.05	0.50
620462	104.657	0.13	0.40
950662	117.440	0.08	0.30
411310	172.999	0.05	0.30
271011	436.373	0.02	0.10

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

The effect of trade diversion is also the highest in HS 271011, followed by HS 411310, 950662 (inflatable balls other than golf balls and table-tennis balls, such as soccer balls and basketball), 620462 (cotton in trousers, bib and brace overalls, breeches and shorts for women or girls), and 410712.

As already indicated, the benefits for Pakistan are expected to be the highest from concessions by the Republic of Korea. Especially in the case of HS 271011 (light petroleum oils and preparations), the trade effect is estimated to be \$20 million, which is not a trivial amount. The margin of preference is only 10% and the effects of both trade creation and trade diversion are substantial. Assuming that the Republic of Korea's concessions for Pakistan's products could be even more generous, Pakistan would be able to obtain greater benefits as a Participating State of APTA.

## 5. Sri Lanka

The effect of trade creation by Pakistan's exports to Sri Lanka is the highest in HS 730630 (other tubes, pipes and hollow profiles of iron or steel; other, welded, of circular cross-section, of iron or non-alloy steel), followed by HS 030559 (dried fish, other than edible fish offal, whether or not salted but not smoked; other), 410799, 611692, 650700 (head-bands, linings, covers, hat foundations, hat frames, peaks and chinstraps, for headgear) (table 7.27).

**Table 7.27. Benefits for Pakistan from concessions offered by Sri Lanka**

(US\$ thousand)

HS 6	TC	Tariff	MoP
650700	1.804	0.30	0.10
611692	16.476	0.15	0.10
410799	97.661	0.15	0.50
030559	104.309	0.05	0.50
730630	1 002.920	0.15	0.50
HS 6	TD	Tariff	MoP
650700	1.746	0.30	0.10
410799	14.411	0.15	0.50
611692	16.280	0.15	0.10
030559	146.610	0.05	0.50
730630	593.328	0.15	0.50

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

The effect of trade diversion for Pakistan is also the highest in HS 730630, followed by HS 030559, 611692, 410799 and 650700.

The benefits for Pakistan from Sri Lanka would be minimal due to the fact that both countries have been participating in SAFTA, similar to the case of India.

## **E. Potential impact on imports to Pakistan from current Participating States of APTA**

This section shows the results of the total trade effects, sum of trade creation and trade diversion. It is understood that for the accession to APTA, Pakistan will have to first offer items on which it intends to give tariff concessions and being a developing country it has to match with the modality of Fourth Round concessions and then negotiate with APTA member countries to expand the list or enhance the concessions. However, a prediction on Pakistan's offer cannot be done in this study. Rather we take the least obligation position meaning thereby that its list of concessions is the same as Bangladesh's list. This would give the least case scenario and since Pakistan will offer a better concessions gains would be much higher than the projections in the study. The results imply the effect of Pakistan's accession to APTA and impact of concessions on imports of Pakistan from the current Participating States of APTA.

The results from the simulations do not present the estimates for the Lao People's Democratic Republic and Mongolia due to the fact that the effects would be minimal in the case of both countries.

From the perspective of Pakistan, the estimates on import effects, sum of trade creation and trade diversion, as a percentage of the imports from the five APTA Participating States as a whole is only 0.29% (table 7.28), which is not significant, compared with the estimates on the increase in exports of Pakistan to the current Participating States of APTA. However, it is mainly due to the fact that trade between Pakistan and the APTA Participating States is simply not large enough. This situation would be better off in favour of the existing APTA Participating States as Pakistan joins the APTA and the volume of trade between Pakistan and other APTA Participating States increases.

**Table 7.28. Implications of Pakistan's concessions offered to five Participating States of APTA**

(US\$ thousand)

Participating State of APTA	TC	TD	Total	Trade effect as % of total imports
Bangladesh	44.412	7.506	51.918	0.09
China	15 680.690	4 929.820	20 610.510	0.31
India	2 689.303	2 635.364	5 324.667	0.28
Republic of Korea	537.419	408.355	945.773	0.11
Sri Lanka	206.089	128.924	335.013	0.53
<b>Total</b>	<b>19 157.913</b>	<b>8 109.969</b>	<b>27 267.882</b>	<b>0.29</b>

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and % = total imports is trade effect as a percentage of total imports in each Participating State of APTA.<sup>20</sup>

In terms of the United States dollar, the trade effects are the largest in China. However, as a percentage of total imports from each country, the benefit from Pakistan's accession is the highest for Sri Lanka, followed by China, India, the Republic of Korea and Bangladesh. The increase in imports from Pakistan is largest in China. However, the benefits for the five Participating States of APTA is merely \$2.7 million, and, overall, the trade effects are lower than those for Pakistan in merchandise trade.

## 1. Bangladesh

The trade creation effect from Pakistan's tariff concessions for Bangladesh is the largest in HS 890110 (cruise ships, excursion boats and similar vessels principally designed for the transport of persons; ferry-boats of all kinds), followed by HS 611610 (gloves, mittens and mitts, knitted or crocheted; impregnated, coated or covered with plastics or rubber), 121190 (plants and parts of plants; other), 844839 (parts and accessories of machines of heading 84.45 or of their auxiliary machinery; other), and 940510 (chandeliers and other electric ceiling or wall lighting fittings, excluding those of a kind used for lighting public open spaces or through-fares) (table 7.29).

<sup>20</sup> The importing country is Pakistan and the exporting countries are the Participating States of APTA. Thus, from the perspective of Pakistan, trade effects mean import effects from the current Participating States of APTA.



**Table 7.29. Benefits for Bangladesh from concessions offered by Pakistan**

(US\$ thousand)

HS 6	TC	Tariff	MoP
940510	0.087	0.28	0.15
844839	0.088	0.05	0.10
121190	0.459	0.05	0.20
611610	16.998	0.25	0.20
890110	26.765	0.10	0.20
HS 6	TD	Tariff	MoP
844849	0.015	0.08	0.10
844839	0.052	0.05	0.10
940510	0.105	0.28	0.15
121190	0.180	0.05	0.20
611610	7.151	0.25	0.20

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

The trade diversion effect for Bangladesh is the largest in HS 611610, followed by HS 121190, 940510, 844839, and 844849 (parts and accessories of weaving machines, i.e., looms, or of their auxiliary machinery; other). Overall, as already shown in the previous section, the trade effect is trivial in the case of Bangladesh.

## 2. China

The trade creation effect from Pakistan's tariff concessions for China is the highest in HS 722530 (flat-rolled products of other alloy steel, of a width of 600 mm or more; other, not further worked than hot-rolled in coils), followed by HS 720890 (flat rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled not clad, plated or coated; other), 850211 (electric generating sets and rotary converters; generating sets with compression-ignition internal combustion piston engines (diesel or semi diesel engines): of an output not exceeding 75 kVA), 854370 (electrical machines and apparatus, having individual functions, not specified or included elsewhere in the chapter; other machines and apparatus), and 730423 (drill pipe of stainless steel; other drill pipe) (table 7.30).

The trade diversion effect for China is the largest in HS 730423, followed by HS 840991 (parts suitable for use solely or principally with the engines of heading 84.07 or 84.08; other: suitable for use solely or principally with spark-ignition internal combustion piston engines), 850213 (electric generating sets and rotary converters; generating sets with compression-ignition internal combustion piston engines (diesel or semi diesel engines); of an output exceeding 375 kVA), 850211, and 540244 (other yarn, single, untwisted or with a twist not exceeding 50 turns per metre; elastomeric).

**Table 7.30. Benefits for China from concessions offered by Pakistan**

(US\$ thousand)

HS 6	TC	Tariff	MoP
730423	1 178.773	0.15	0.20
854370	1 585.746	0.12	0.15
850211	1 669.536	0.15	0.15
720890	2 099.854	0.15	0.20
722530	2 583.977	0.05	0.20
HS 6	TD	Tariff	MoP
540244	204.569	0.05	0.30
850211	225.375	0.15	0.15
850213	264.129	0.08	0.35
840991	364.547	0.28	0.10
730423	537.180	0.15	0.20

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

### 3. India

The trade creation effect from Pakistan's tariff concessions for India is the highest in HS 290243 (cyclic hydrocarbons; xylenes: p-xylene), followed by HS 121190, 560749 (twine, cordage, ropes and cables, whether or not plaited or braided and whether or not impregnated, coated, covered or sheathed with rubber or plastic; of polyethylene or polypropylene: other), 120300 (copra) and 290241 (cyclic hydrocarbons; xylenes: o-xylene) (table 7.31).

**Table 7.31. Benefits for India from concessions offered by Pakistan**

(US\$ thousand)

HS 6	TC	Tariff	MoP
290241	118.553	0.05	0.30
120300	127.361	0.10	0.20
560749	169.981	0.25	0.70
121190	194.709	0.05	0.20
290243	1 474.049	0.05	0.30
HS 6	TD	Tariff	MoP
845180	44.263	0.05	0.30
844520	64.552	0.05	0.30
401161	96.018	0.20	0.15
290241	125.362	0.05	0.30
290243	1 969.796	0.05	0.30

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

The trade diversion effect for India is the largest in HS 290243, followed by HS 290241, 401161 (new pneumatic tyres, of rubber; other, with a “herring-bone” or similar tread: of a kind used in agricultural or forestry vehicles and machines), 844520 (textile spinning machines), and 845180.

#### 4. Republic of Korea

The trade creation effect from Pakistan’s tariff concessions for the Republic of Korea is the largest in HS 270720 (oils and other products of the distillation of high temperature coal tar; similar products in which the weight of the aromatic constituents exceeds that of the non-aromatic constituents; toluol or toluene), followed by HS 540244, 870120 (road tractors for semi-trailers), 853590 (electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, for a voltage exceeding 1,000 volts; other) and 290230 (cyclic hydrocarbons; toluene) (table 7.32).

**Table 7.32. Benefits for the Republic of Korea from concessions offered by Pakistan**

(US\$ thousand)

HS 6	TC	Tariff	MoP
290230	30.872	0.05	0.10
853590	38.240	0.10	0.10
870120	39.201	0.20	0.20
540244	59.849	0.05	0.30
270720	100.644	0.05	0.20
HS 6	TD	Tariff	MoP
320411	23.379	0.10	0.10
290532	27.172	0.05	0.30
853590	32.259	0.10	0.10
540244	48.020	0.05	0.30
870120	65.291	0.20	0.20

Source: Authors’ calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

The trade diversion effect for the Republic of Korea is the largest in HS 870120, followed by HS 540244, 853590, 290532 (Acyclic alcohols and their halogenated, sulphonated, nitrated or nitro-sated derivatives; diols: propylene glycol – propane-1, 2-diol) and 320411 (synthetic organic colouring matter and preparations; disperse dyes and preparations).

#### 5. Sri Lanka

The trade creation effect from Pakistan’s tariff concessions for Sri Lanka is the largest in HS 080119 (coconuts; other), followed by HS 080111 (coconuts; desiccated), 401511 (gloves, mittens and mitts; surgical), 090411 (pepper; neither crushed nor ground), and 611610 (gloves, mittens and mitts, knitted or crocheted; impregnated, coated or covered with plastics or rubber) (table 7.33).

**Table 7.33. Benefits for Sri Lanka from concessions offered by Pakistan**

(US\$ thousand)

HS 6	TC	Tariff	MoP
611610	8.608	0.25	0.20
090411	10.609	0.04	0.10
401511	26.911	0.20	0.10
080111	60.453	0.05	0.60
080119	71.023	0.05	0.70
HS 6	TD	Tariff	MoP
121300	8.929	0.05	0.20
090411	13.471	0.04	0.10
401161	15.240	0.20	0.15
401511	18.934	0.20	0.10
080111	51.270	0.05	0.60

Source: Authors' calculation using SMART model.

Note: TC – trade creation effect; TD – trade diversion effect; and tariff is the MFN applied tariff rate for each product.

The trade diversion effect for Sri Lanka is the largest in HS 080111, followed by 401511, 401161, 090411 and 121300 (cereal straw and husks, unprepared, whether or not chopped, ground, pressed or in the form of pellets).

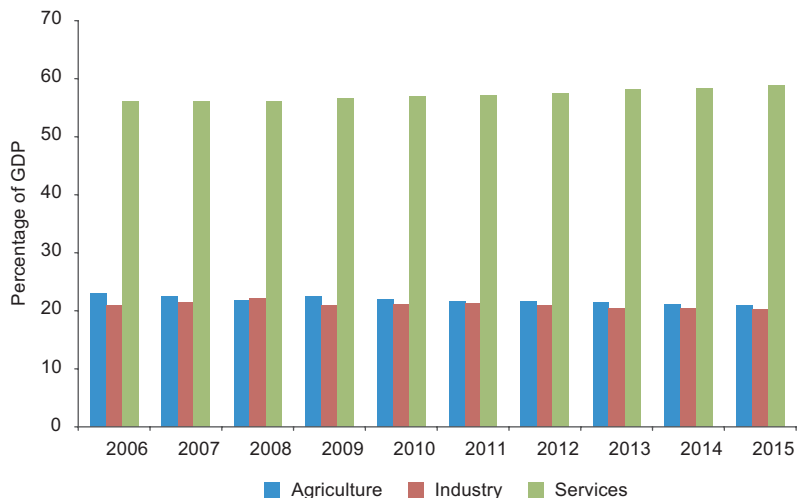
## **F. New area of cooperation with Pakistan under APTA**

### **1. Overview of trade in services and foreign investment in Pakistan**

#### **(a) Services sector**

Pakistan's services sector currently represents a major share of its economy. The latest data show that Pakistan's services sector accounted for 58.8% of GDP in the 2014/15 fiscal year (figure 7.5). During the last decade, there was little variation in the structure of Pakistan's economy. The share of the agricultural sector decreased from 23% to 20.9%, whereas the share of the services sector increased from 56% to 58.8%. There was almost no change in the share of the industrial sector during this period. The importance of the services sector in relation to activities within Pakistan's economy has been gradually increasing.

**Figure 7.5. Pakistan's sectoral share of GDP, 2006-2015**



Source: CEIC database.

Overall, the growth of Pakistan's economy between 2007 and 2015 relied on the growth of the services sector (table 7.34). In fact, the growth rate of the services sector, which accounted for more than half of the total GDP, exceeded that of other sectors and the overall GDP growth rate.

**Table 7.34. Growth rates of GDP and individual sectors in Pakistan**

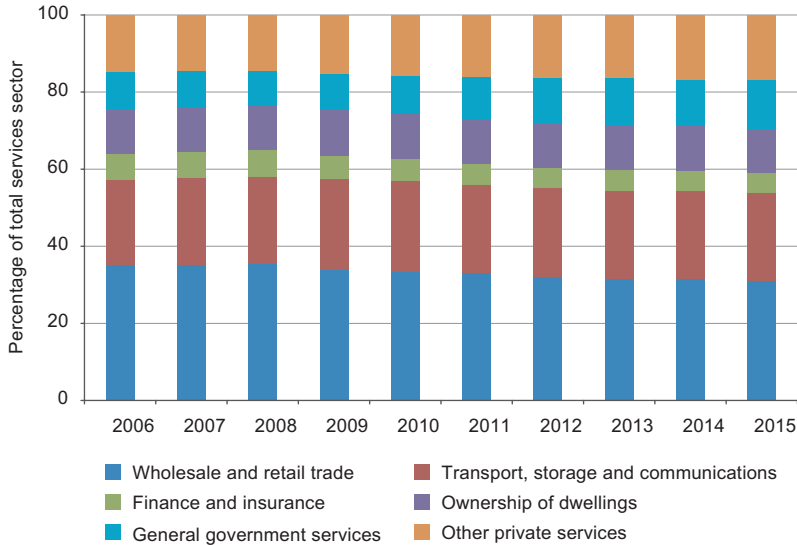
Year	(Per cent)			
	GDP	Agriculture	Industry	Services
2007	5.5	3.4	7.7	5.6
2008	5.0	1.8	8.5	4.9
2009	0.4	3.5	-5.2	1.3
2010	2.6	0.2	3.4	3.2
2011	3.6	2.0	4.5	3.9
2012	3.8	3.6	2.5	4.4
2013	3.7	2.7	0.6	5.1
2014	4.0	2.7	4.5	4.4
2015	4.2	2.9	3.6	5.0

Source: CEIC database.

Figure 7.6 shows that the share of the wholesale and retail trade in the services sector was more than 35% in 2006 but gradually declined to 31% in the 2014/15 fiscal year. The share of transport, storage and communications is constant in the last decade, around 22-23%. The share of ownership of dwellings also did not fluctuate in the last decade,

staying approximately at around 11%. The share of general government services was around 9% in the late 2000s but increased to 12.7% in 2014/15 fiscal year. The share of other private sectors gradually increased from 14.5% in 2006 to 16.8% in 2015. One salient point is that the share of finance and insurance was small and showed a declining trend in the last ten years. It was 6.8% in 2008 but dropped to 5.3% in 2014/15 fiscal year.

**Figure 7.6. Contribution of subsectors in Pakistan's services sector**



Source: CEIC database.

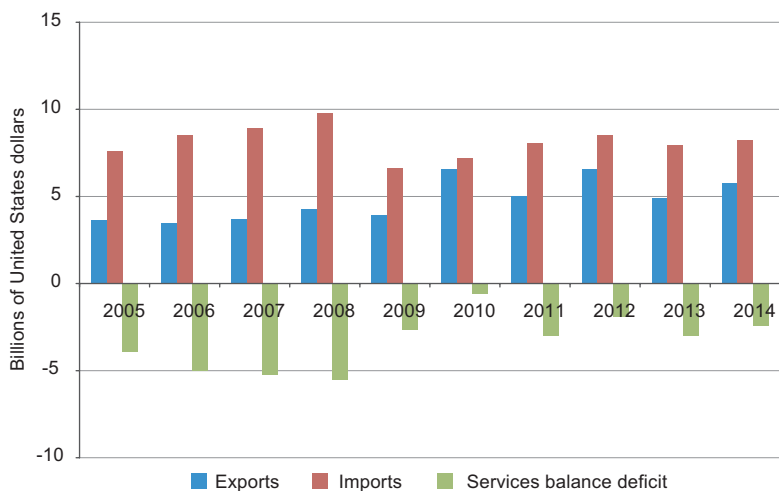
**(b) Trade in services**

In the past 10 years, Pakistan has been a net importer of services. Pakistan's services imports were always greater than its services exports (figure 7.7). The gap, services balance deficit, was at its peak in 2008 at approximately \$5.5 billion. At that time, services imports were almost \$10 billion. Since 2010, services exports have tended to increase; hence, the magnitude of the deficit shows a downward trend.

As shown in figure 7.8, the share of finance and insurance in Pakistan's services imports shows an increasing trend. It was 3.11% in 2007 but continued to increase, reaching 5.58% in 2014. The share of travel was almost 19% in 2006 but dropped to 11.47% in 2009. Nevertheless, it rebounded to 18.54% in 2012 but declined again to 15.71% in 2014.

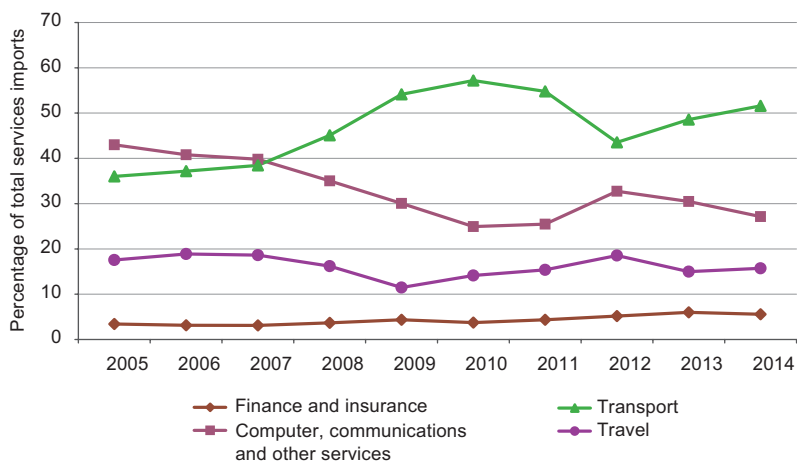
It is especially noticeable that transport services imports soared but the imports of computer, communications and other services plummeted. The share of transport was 36% in 2005, the largest (57.19%) in 2010, and recently down to 51.58%. The share of computer, communications and other services was 43% in 2005, but dropped substantially to 24.95%

**Figure 7.7. Trade and balance of services in Pakistan**



Source: World Bank database, World Development Indicators.

**Figure 7.8. Trends of Pakistan's services imports by major items**

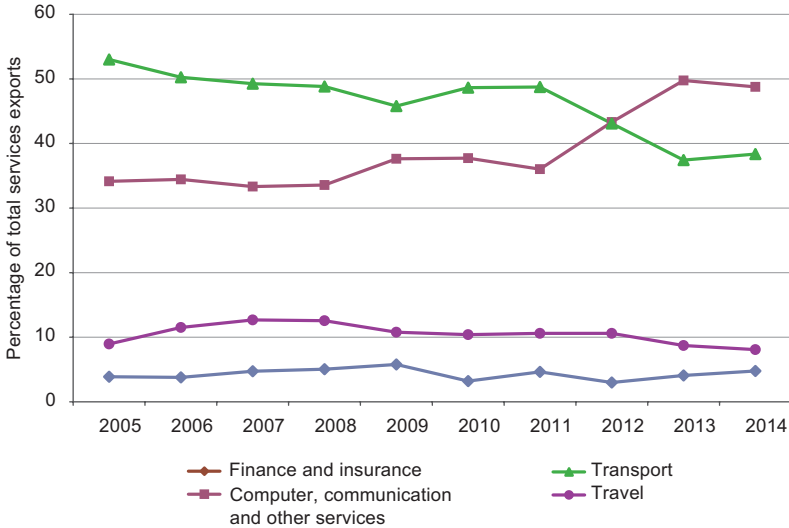


Source: World Bank database.

in 2010 and rebounded only slightly to 27.13% in 2014. From 2005 the share of computer, communications and other services was larger than that of transport services until 2007; the situation subsequently reversed in favour of transport services. In addition, Pakistan's transport services demand from abroad is now much higher than IT-related services.

The share of finance and insurance in Pakistan's services exports shows a gradually increasing trend from 2005 (3.9%) to a peak in 2009 (5.8%) and a slightly dropping to 4.8% in 2014 (figure 7.9). The share of travel in Pakistan's services exports was 9% in 2005, increased to 12.7% in 2007 but dropping to 8.1% in 2014.

**Figure 7.9. Trends of Pakistan's services exports by major items**



Source: World Bank database.

In response to the case of services imports, there was a change in the trend of services exports. The share of computer, communications and other services substantially increased and the share of transport dropped sharply. The share of computer, communications and other services in services exports was 34.1% in 2005, rising to 48.8% in 2014. In contrast, the share of transport services was 53% in 2005 but thereafter dropped continuously to 38.4% in 2014. As a result, the contribution of transport services and that of computer, communications and other services reversed from 2012.

The importance of the services sector is identified by its degree of growth and its contribution to Pakistan's economy. Overall, the growth rate of the services sector exceeded that of the economy as a whole and its share of GDP was more than half.

Similar to other developing countries, the role of finance and insurance is not large. Therefore, finance and insurance are suitable industries should be regarded as a new area for cooperation between Pakistan and the Participating States of APTA, especially with relatively developed nations such as China and the Republic of Korea.



**(c) Foreign investment**

Table 7.35 shows the recent trends of foreign direct investment (FDI) in Pakistan from 2010 to 2015. The inflow of FDI was more than \$3 billion in 2010 but dropped to nearly \$2 billion in 2012. It then recovered to slightly more than \$2.8 billion in 2014 and slightly decreased to \$2.7 billion in 2015. The outflow of FDI was relatively stable at around \$1 billion, except during 2011 and 2015 which were approximately at \$0.6 billion and \$1.8 billion, respectively.

**Table 7.35. Summary of foreign investment in Pakistan, 2010-2015**

(US\$ million)

Year	Foreign direct investment			Foreign portfolio investment Net	Total (net)
	Inflow	Outflow	Net		
2010	3 184.3	1 033.5	2 150.8	587.9	2 738.7
2011	2 269.6	634.8	1 634.8	364.6	1 999.3
2012	2 099.1	1 278.4	820.7	-60.0	760.6
2013	2 665.3	1 208.9	1 456.4	119.6	1 576.0
2014	2 847.4	1 148.8	1 698.6	622.8	2 321.4
2015	2 732.0	1 809.1	922.9	917.3	1 840.2

Source: State Bank of Pakistan.<sup>21</sup>

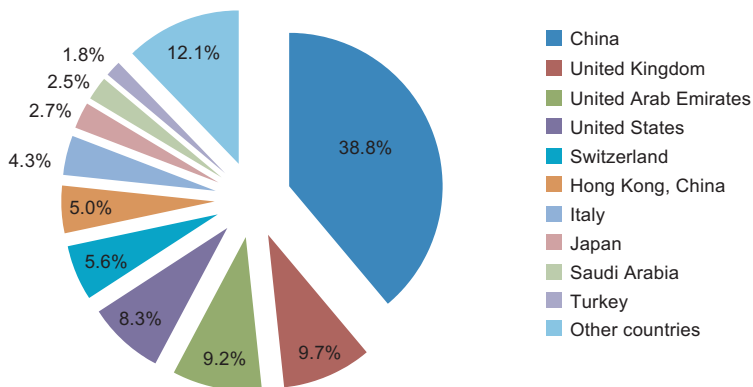
Note: Foreign public investment is excluded. Pakistan's fiscal year runs from 1 July to 30 June.

The trend of net FDI reveals a decline. It dropped sharply from just over \$2 billion in 2010 to \$0.82 billion in 2012. Although net FDI recovered to almost \$1.7 billion in 2014, it again decreased to \$0.9 billion in 2015.

Figure 7.10 shows the inflow of FDI by country of origin in fiscal year 2014/15, using the latest data available. China, with a 38.8% share of total FDI inflows (\$1.06 billion), is the leading source of FDI inflows to Pakistan, followed by the United Kingdom with 9.7% (\$264.1 million), the United Arab Emirates with 9.2% (\$252.6 million), and the United States with 8.3% (\$225.5 million). Figure 8.17 also indicates that almost 90% of the FDI to Pakistan originated from the top 10 countries, among which, China is the only Participating State of APTA.

<sup>21</sup> *Summary of foreign investment in Pakistan* by Zarar Askari, available at <http://www.sbp.org.pk/ecodata/NetinflowSummary.pdf>.

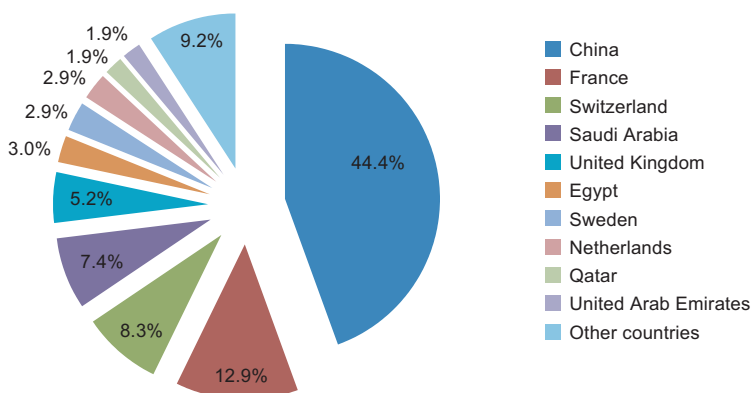
**Figure 7.10. Pakistan's FDI inflows: Top investors' share (fiscal year 2014/15)**



Source: State Bank of Pakistan.

Figure 7.11 shows the outflow of FDI by destination countries in fiscal year 2014/15. It is interesting to note that the share of FDI outflows is also the largest in China's case with a 44.4% share of total FDI outflows (\$802.5 million), followed by France with 12.9% (\$233 million), Switzerland with 8.3% (\$151 million), Saudi Arabia with 7.4% (\$133.2 million) and the United Kingdom with 5.2% (\$94.5 million). Among the top 10 shares of FDI inflows as shown in figure 7.10, China, Switzerland, Saudi Arabia, the United Arab Emirates and the United Kingdom are included in terms of the top 10 shares of FDI outflows. This implies that there could be a link, such as the global value chain, between the inflow and outflow of FDI through Pakistan, among these five countries. Here, China is the only Participating State of APTA.

**Figure 7.11. Pakistan's FDI outflows: Share of top destination countries (fiscal year 2014/15)**

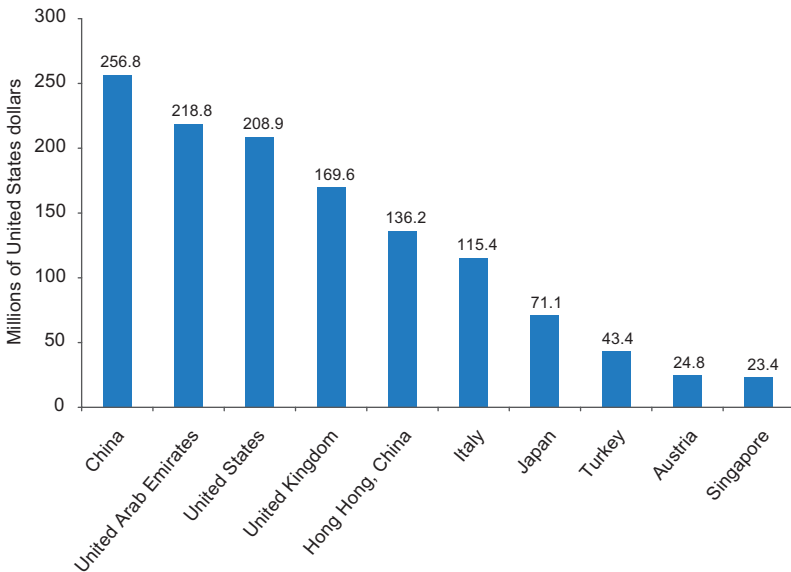


Source: State Bank of Pakistan.

Figure 7.12 indicates that net FDI inflows in Pakistan were relatively diversified in fiscal year 2014/15. The largest FDI inflow was from China (\$256.8 million), followed by the United Arab Emirates (\$218.8 million), the United States (\$208.9 million), the United Kingdom (\$169.6 million), Hong Kong, China (\$136.2 million), Italy (\$115.4 million) and Japan (\$71.1 million). In terms of net FDI inflows, China is the only Participating State of APTA in this listing.

In the case of China, the FDI inflows to Pakistan were \$1.06 billion whereas the FDI outflows to China were \$802.5 million. Similarly, the amount of FDI inflows exceed by that of FDI outflows to the United Arab Emirates, the United States, the United Kingdom as well as other countries shown in figure 7.12.

**Figure 7.12. Pakistan’s net FDI inflows (fiscal year 2014/15)**

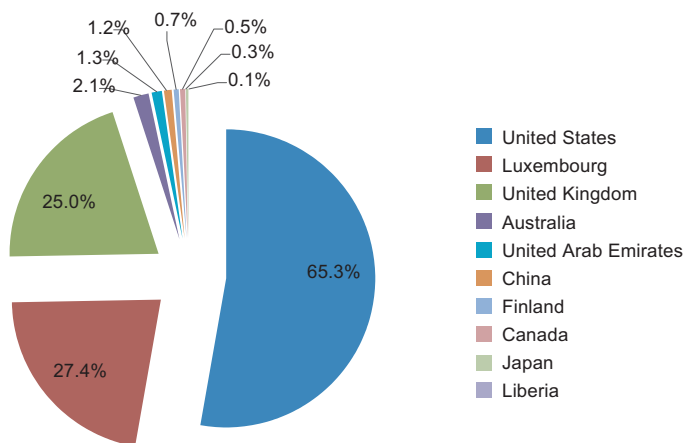


Source: State Bank of Pakistan.

Note: Unlike figures 7.10 and 7.11, shares are not used in figure 7.12 due to the fact that total net FDI inflows are the sum of positive and negative values of net FDI inflows in millions of United States dollars.

Figure 7.13 shows the share of top 10 investor countries of net foreign portfolio investment in Pakistan in fiscal year 2014/15, which was mainly dominated by the United States (65.3%), followed by Luxembourg (27.4%) and the United Kingdom (25%). Among APTA Participating States, China is the only Participating State investing in financial market of Pakistan.

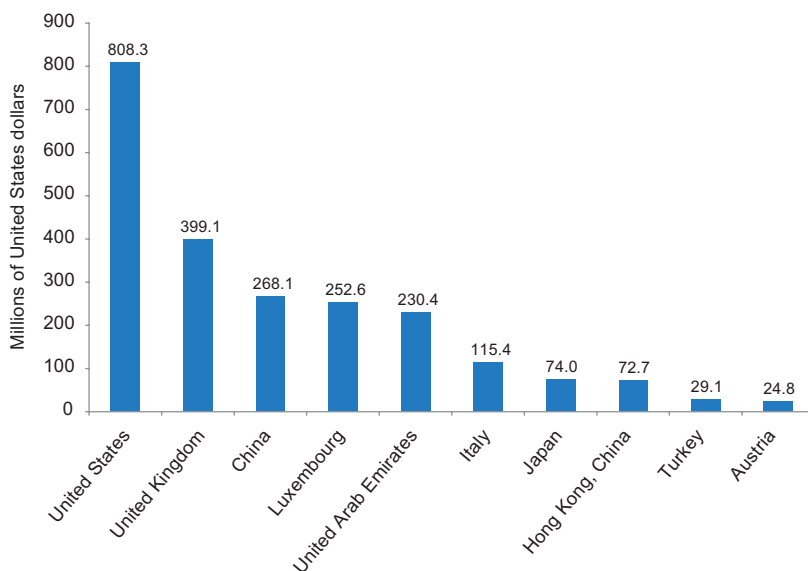
**Figure 7.13. Pakistan's net foreign portfolio investment: Top investors' share (fiscal year 2014/15)**



Source: State Bank of Pakistan.

Figure 7.14 shows the share of top 10 investor countries of Pakistan's net foreign private investment, which is the sum of net foreign direct investment and net foreign portfolio investment. In terms of net inflow of funds from abroad, the United States' contribution was the highest at \$837.7 million, followed by the United Kingdom (\$399.1 million), China (\$268.1 million), Luxembourg (\$252.6 million) and the United Arab Emirates (\$230.4 million).

**Figure 7.14. Net foreign private investment in Pakistan (fiscal year 2014/15)**



Source: State Bank of Pakistan.

Table 7.36 shows the FDI inflows to Pakistan by the top 20 industries in fiscal year 2014/15. The communications industry has the greatest share of 41.6%, followed by oil and gas exploration (11%), financial business (10.1%) and power (8.4%). It is interesting to note that more than 70% of FDI inflows to Pakistan are concentratedly in these four industries. In the communications industry, most FDI inflows are in telecommunications, amounting to more than \$900 million.

**Table 7.36. Inward FDI in Pakistan by industry  
(fiscal year 2014/15)**

Rank	Industry	Amount (US\$ million)	Share (%)
1	Communications	948.8	41.6
2	Oil and gas exploration	250.2	11.0
3	Financial business	231.1	10.1
4	Power	191.7	8.4
5	Chemicals	92.2	4.0
6	Tobacco and cigarettes	80.7	3.5
7	Beverages	67.5	3.0
8	Trade	59.1	2.6
9	Transport equipment (automobiles)	56.1	2.5
10	Textiles	47.5	2.1
11	Personal services	47.3	2.1
12	Food	44.0	1.9
13	Electronics	41.4	1.8
14	Construction	37.4	1.6
15	Transport	12.0	0.5
16	Cement	10.0	0.4
17	Pharmaceuticals and OTC products	7.4	0.3
18	Petroleum refining	7.1	0.3
19	Metal products	4.7	0.2
20	Rubber and rubber products	4.4	0.2

Source: State Bank of Pakistan.

Table 7.37 shows Pakistan's FDI outflows to other countries by the top 20 industries in fiscal year 2014/15. The leading industry in FDI outflows, communications industry, is the same as for the inflows, with more than half of the total outflows, followed by cement, financial business, tobacco and cigarettes in the top four rankings. The large amount of FDI inflows and outflows in communications industry may be related to privatization procedures for this industry.

**Table 7.37. Outward FDI in Pakistan by industry  
(fiscal year 2014/15)**

Rank	Industry	Amount (US\$ million)	Share (%)
1	Communications	848.8	54.1
2	Cement	229.5	14.6
3	Financial business	118.7	7.6
4	Tobacco and cigarettes	69.4	4.4
5	Power	64.7	4.1
6	Metal products	59.8	3.8
7	Pharmaceuticals and OTC products	54.6	3.5
8	Food	50.5	3.2
9	Electronics	28.3	1.8
10	Personal services	10.4	0.7
11	Chemicals	4.0	0.3
12	Electrical machinery	2.8	0.2
13	Mining and quarrying	2.5	0.2
14	Construction	2.4	0.2
15	Oil and gas exploration	2.1	0.1
16	Trade	0.4	0.0
17	Transport	0.2	0.0
18	Storage facilities	0.2	0.0
19	Beverages	–	0.0
20	Transport equipment (automobiles)	–	0.0

Source: State Bank of Pakistan.

Table 7.38 shows net FDI inflows in Pakistan by the top 20 industries in fiscal year 2014/15. The leading industry is oil and gas exploration industry with a share of 35%, followed by power (17.9%), financial business (15.9%), communications (14.1%) and chemicals (12.4%).

**Table 7.38. Net FDI inflows in Pakistan by industry  
(fiscal year 2014/15)**

Rank	Industry	Amount (US\$ million)	Share (%)
1	Oil and gas exploration	248.1	35.0
2	Power	127.0	17.9
3	Financial business	112.4	15.9
4	Communications	100.1	14.1
5	Chemicals	88.2	12.4
6	Beverages	67.5	9.5
7	Trade	58.6	8.3
8	Transport equipment (automobiles)	56.1	7.9
9	Textiles	47.5	6.7
10	Personal services	36.9	5.2
11	Construction	35.0	4.9
12	Electronics	13.1	1.8
13	Transport	11.8	1.7
14	Tobacco and cigarettes	11.2	1.6
15	Petroleum refining	7.1	1.0
16	Rubber and rubber products	4.4	0.6
17	Sugar	3.1	0.4
18	Tourism	2.4	0.3
19	Ceramics	1.7	0.2
20	Basic metals	1.5	0.2

Source: State Bank of Pakistan.

## **2. Barriers to trade in services and foreign investment in Pakistan**

### **(a) Trade in services<sup>22</sup>**

Overall, Pakistan permits all types of foreign investment in services, except in certain sectors such as aviation, banking, agriculture and media.

There is no cap on the share of equity that foreign investors can hold. Foreign investors in Pakistan are limited in terms of remittance of royalty payments to a maximum of \$100,000 for the first payment. There are also limits on the maximum amount of royalty payments – 5% of net sales for the subsequent five years.

The Government of Pakistan forbids the importation, sale, distribution and transmission of films that are deemed as being inconsistent with religious and cultural standards domestically.

<sup>22</sup> Office of the United States Trade Representative, 2015.

The Government also prohibits websites that are deemed to be immoral or unethical. The ban on the video-sharing website, YouTube, has been in place in Pakistan since September 2012.

Thus, the creation of the International Clearing House (ICH) was ordered by the Ministry of Information Technology and Telecommunications in October 2012. The ICH raised charges by fourfold and reduced competition for international calls to Pakistan. However, serious concerns were voiced not only by the United States but also the Competition Commission of Pakistan (CCP) and mobile operators about this change.

Several court cases were held to determine the legality of the ICH and the Supreme Court of Pakistan sent the matter back to the jurisdiction of the CCP. In April 2013, the CCP decided against the increase in international call termination rate. Despite this judgement, the increased rate \$0.088 per minute remains unchanged, although the Pakistan Telecommunication Authority no longer mandates it.

This increase in international call termination rate in Pakistan resulted in a response from the United States. In March 2013, the United States Federal Communications Commission (FCC) issued a Memorandum Opinion and Order, the main point of which is: The floor rate set by the ICH that went against previously negotiated rates with United States long distance international carriers is anti-competitive and, hence, necessitated actions to protect United States consumers in accordance with FCC policy and precedents. The continuation of the high rate would cause a substantial increase in the cost and constrain demand for calling Pakistan. The FCC ordered all United States carriers not to pay termination rates to Pakistani carriers in excess of the rates that were effective ahead of the increase in the rate on 1 October 2012.

In June 2014, the Ministry of Information Technology and Telecommunications announced that it would abolish the ICH on 1 August 2014, but several long-distance phone service providers challenged the action in court and obtained a stay of ICH's abolishment. In February 2015, the Supreme Court of Pakistan vacated the stay order of a lower court, which effectually led to the abolishment of the ICH. In response to the finding by the Supreme Court of Pakistan, the Pakistan Telecommunication Authority issued a notification informing telecommunications operators of the deregulation of termination rates, with immediate effect. Once it was implemented, the rates were to revert to competitive levels.

Foreign banks are subject to incorporation with a local company if they do not meet the following conditions: (a) the absence of global Tier-1 paid up capital (for example, equity and retained earnings of \$5 billion or more); (b) they are not from countries that are part of regional groups and associations in which Pakistan is a member (for example, SAARC); and (c) the absence of business operations in Pakistan.

The upper limit for foreign investment in the banking sector in Pakistan is 49%. The National Insurance Company, a major state-owned enterprise, has the exclusive power to underwrite and insure public sector firms, assets and properties. However, the Government of Pakistan has discretionary powers to grant exemptions to this requirement. Private sector firms may pursue foreign reinsurance facilities to meet the maximum of 65% for their re-insurance needs.



## **(b) Foreign investment<sup>23</sup>**

Foreign businessmen in Pakistan have voiced concerns over corruption and a weak judicial system, which could significantly discourage foreign investment in Pakistan.

In 2002, the Government of Pakistan approved the National Anti-Corruption Strategy that identified areas of pervasive corruption and recommended reforms to eradicate corruption.

The National Anti-Corruption Strategy recognized the National Accountability Bureau as the sole federal anti-corruption agency. In 2009, the Supreme Court directed the National Assembly to pass new legislation to update the executive ordinance establishing the National Accountability Bureau, but the National Assembly has not yet passed such legislation.

In Pakistan, it is difficult to enforce contracts for American and other foreign investors. Parties that pursue legal remedies in the Pakistani judicial system may face several years of delays and unpredictable outcomes as the courts are overloaded.

## **3. Barriers related to trade facilitation in Pakistan<sup>24</sup>**

### **(a) Technical Barriers to Trade**

Pakistan normally requires adherence to Codex Alimentarius (Codex) rules, and generally accepts packaging materials if it is allowed in the exporting country.<sup>25</sup> Most foodstuffs are imported in ready-to-sell form; in consumer-ready packaging. A noticeable exception is vegetable oil. Pakistan requires refined vegetable oil to be imported in bulk for repackaging, for purposes of supporting local packaging and saving foreign exchange. This could be regarded as a Technical Barrier to Trade in food-related products.

Pakistan requires all imported meat to be certified as *halal*, produced in accordance with Islamic practices. Pakistan may also require other specific certificates, based on global alerts or other emergencies.

Pakistan requires all imported packaged medicines or drugs to present the product name and pharmaceutical raw materials on the labels of the products, in accordance with the Drugs Labelling and Packaging Rules that were published by the Ministry of National Health Services, Regulations and Coordination in 1986.

In accordance with the provisions of the Drug (Imports and Exports) Rules 1976, the exporters must certify that pharmaceutical (allopathic) raw materials meet pharmaceutical

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<sup>23</sup> Office of the United States Trade Representative, 2015.

<sup>24</sup> Ibid.

<sup>25</sup> The Codex is the most widely used international food standards. The guidelines and codes contribute to the safety, quality and fairness of the international food trade. See [www.codexalimentarius.org/about-codex/en/](http://www.codexalimentarius.org/about-codex/en/) (accessed on 1 September 2015).

grade and should have at least 75% of the shelf life remaining as calculated from the date of filing of the Import General Manifest (IGM), except for those pharmaceutical raw materials specifically allowed by the Director-General, Ministry of National Health Services, Regulations and Coordination. If indication of shelf life is not provided on the packaging, the customs authorities may allow clearance on the basis of Form 7, a Batch Certificate issued by the manufacturer showing the expiration dates.

Quality certification, defined by the Pakistan Standards and Quality Control Authority is required for certain products such as mineral water, carbonated beverages, edible oils including cooking oil, Portland cements, construction materials containing asbestos and oil stoves.

Pakistan's notifications to the WTO under the Technical Barrier to Trade Agreement were submitted in June 2007. The 25 notifications cover labelling, packaging, storage, and transport of a number of food as well as health and safety standards adopted to cover mainly sampling and testing procedures.

#### **(b) Sanitary and Phytosanitary Barriers**

On 4 July 2014, Pakistan's Economic Coordination Committee issued Order 646, which allows, in principle, imports of cattle from countries with a negligible risk status for Bovine Spongiform Encephalopathy under the provisions of the World Animal Health Organization.

The United States' and Pakistani regulators finalized the terms of the health certificate and the sample certificate that were posted on the United States Department of Agriculture (USDA) website on 24 February 2015. Pakistan has not accepted the United States beef and beef-product exports but the United States continues to engage Pakistan to open the market to these products.

Also, Pakistan does not allow the import of beef and beef products from the United States for the same reasons. Initially, Pakistan had banned imports of live cattle from the United States. However, the Government of the United States argues that the concern over Bovine Spongiform Encephalopathy in the United States is misplaced.

#### **(c) Policies on imports**

The Government of Pakistan pledged to abandon the use of Statutory Regulatory Orders (SROs) by June 2014 under the conditions of its International Monetary Fund (IMF) programme that was approved in September 2013. However, it still grants ad hoc sector or product-specific import duty exemptions, concessions and other protections by means of proclamation of SROs.

The Federal Board of Revenue (FBR) of Pakistan is in the process of removing SROs by means of allowing SROs to expire without renewal. However, the FBR's approximate calculation is that it will take three years for all SROs to be completely eliminated. A list of SROs as well as other trade policy and regulatory documents are posted on the FBR website.

Many traders engaged in the food and consumer products sectors have voiced their concerns about the lack of consistency in customs valuation in Pakistan. Likewise, a number of traders engaged in the machinery and materials sectors have complained that customs officials have evaluated goods based on a set of minimum values rather than the reported transaction price.

An importer for a large United States multinational enterprise has raised concerns over two new SROs (420 and 575) that have raised the sales tax on imported “finished footwear and apparel” from 5% to 17%. It is unfair in that the sales tax on domestically produced products continues to be 5%. The FBR officials have explained that taxes on domestically-produced goods will increase to 17%, to match goods produced in foreign countries. However, they do not have a specific timeline for this plan.

The Government of Pakistan imposes a very high tariff rate of 50% on imports of automobile parts and components that compete with domestically-produced products, compared with the tariff rates of 35% applied to domestically manufactured products. However, it is reported that there are no domestically produced parts and components in the automobile industry.

It is required that commercial invoices and packing lists be included inside each shipping container. The requirement could be an obstacle to traders due to the fact that invoices and packing lists are not always issued in the same location as that from which products are shipped. These documents may be issued after items are shipped. The penalty for non-compliance is \$526 per container.

The Government of Pakistan has announced regulatory duties (temporary tariffs) of 20% for wheat and sugar to protect farmers against imports. The Government also restricts imports of second-hand specialized vehicles, ships, trawlers, aircraft and related parts and equipment unless these items meet specified conditions such as prior approval or clearance, certain testing arrangements or other procedural requirements. The Government of Pakistan has explained that these unusual requirements are mainly due to health, safety, security and environmental reasons.

Designated goods may be imported only by the public sector or industrial demand. Examples are active ingredients for the formulation or manufacture of pesticides. Imports of waste, parings, and residual polyethylene and polypropylene must be covered by mandatory certification in the exporting country or by a specialized pre-shipment inspection company.

**(d) Government procurement**

The Public Procurement Regulatory Authority is an independent organization that is responsible for ruling and monitoring on public sector procurement regulations and procedures. Notices for international tender must be publicly advertised. A private tender contract that is manipulated for firm-specific qualifications is strictly prohibited.

There are no documented “buy domestic products” policies. However, there are several improper practices that remain regarding government procurement, such as political influence

on procurement awards, charges of official corruption, lack of transparency, judicial intervention and long delays in bureaucratic decision-making.

Tendering parties have reported cases in which the Government used the lowest bid as a basis for further negotiation, rather than accepting the lowest bid by regulation. Pakistan is not a signatory to the WTO Agreement on Government Procurement, but has recently attained observer status.

**(e) Protection for intellectual property rights**

Pakistan stayed on the Priority Watch List in the 2014 Special 301 Report. The report cited some samples in enforcement of intellectual property rights (IPR) through raids, seizures and arrests; but there was little improvement in overall IPR protection. Several infringements of IPR remain, such as counterfeiting and piracy (e.g., piracy related to the contents of books and optical discs).

Pakistan has put substantial efforts into resolving IPR problems. However, it has made little progress in implementing the provisions of the law regarding IPR. The Intellectual Property Organization forwarded a proposal to the Cabinet for forming a policy board, but the Cabinet has not yet approved it and IPR tribunals have not been created.

In addition, Pakistan has not made further progress towards more effective protection against unfair commercial use of undisclosed tests or other data generated to obtain marketing approval for pharmaceutical products. Despite negotiating a draft of a data protection law between the Government of Pakistan and international and local pharmaceutical firms, the law has not been enacted. With regard to patents, Pakistan lacks an effective method to prevent the issuance of marketing approvals for unauthorized copies of pharmaceutical patented products.

With regard to copyright, the Government of Pakistan has not carried out any significant measures to improve copyright enforcement, especially for dealing with optical disc piracy. Only a small percentage of arrests regarding IPR have resulted in prosecution, with most verdicts resulting in minor sentences. Book piracy also continues to weaken legal trade and investment. With regard to trademarks, counterfeit products (both imported and domestically produced) tend to increasingly come onto the market with few efforts at enforcement.

#### **4. Pakistan's efforts<sup>26</sup>**

**(a) Service liberalization**

In the services sector, Pakistan has a scheme that has actually been liberalized beyond GATS commitments. Pakistan wants to seek market access opportunities in all four modes of supply, especially modes 1 and 4. Pakistan is involved in bilateral and multilateral negotiations in services for ambitious outcomes in the services sector.

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<sup>26</sup> WTO, 2015b.

Pakistan carries out stakeholder consultations for looking into the possibility of acceding to multilateral agreements on information technology, government procurement and green goods.

**(b) Trade facilitation**

Pakistan is an ardent supporter of the Trade Facilitation Agreement (TFA) and has already submitted its “List A” to WTO. Pakistan is also exerting efforts regarding other aspects of the TFA, including coordination of needs assessment at WTO and execution of TFA elements through bilateral initiatives. For the present, Pakistan continues to invest efforts in the enhancement initiative of trade facilitation.

In order to improve the scope of automation in customs procedures, the Pakistan Customs Computerized System has been aborted and replaced by the introduction of a locally-developed Web-Based One Customs system. The new system is paperless and is available for 24 hours and seven days; it follows the best international practices for risk management, and allows online manifest filing and goods declaration. The numbers of manual intervention on customs examination and clearance have been reduced considerably. It also combines and integrates multiple steps in import and export processes into a single step.

In order to achieve faster clearance procedures and dwelling times, not only simple but also effective infrastructure changes have been introduced. They include the following changes:

- (a) The number of trucks, 300 to 500 of which are cleared at the busiest borders per day, has been increased;
- (b) A new form of financial guarantee has been introduced between Pakistan and Afghan customs in cooperation with insurance agencies in both countries in order to alleviate prohibitive surety or bond burdens on traders;
- (c) Electronic Data Interchange (EDI) has been introduced for the exchange of critical information;
- (d) New and cutting-edge weighbridges have been installed at the Chaman and Torkham border crossings, which could reduce the waiting times for trucks at the border;
- (e) The drafting of customs rules, which govern the new procedures for traders who exchange with Afghanistan, has resulted in meaningful results that will spill over to the rest of the operations.

A new Asian Development Bank (ADB) project was initiated in August 2015, which focuses on trade facilitation at border posts. With this ADB project, Pakistan is expected to continue to modernize and implement all complementary efforts for trade facilitation.

## **5. Review of service trade and investment agreements under APTA**

The Fourth Round of negotiations was launched at the second session of the Ministerial Council of APTA in October 2007. In addition to the tariff concessions, it was the first time that a round of negotiations was held for the purpose of deepening trade cooperation and integration in a comprehensive fashion.

The Fourth Round included non-tariff measures, trade facilitation, trade in services and investment. The negotiations were concluded during the forty-fourth Standing Committee meeting held in July 2014 in Bangkok.

Three Framework Agreements were signed by the Participating States of APTA: (a) The Framework Agreement on Trade Facilitation; (b) the Framework Agreement on Promotion, Protection and Liberalization of Investment; and (c) the Framework Agreement on Trade in Services. These three framework agreements are based on Article 11 of APTA, which states that “Participating States shall explore future areas of cooperation with regard to border and non-border measures to supplement and complement the liberalization of trade”. Article 26 of APTA on Amendments to APTA provides further reference for these agreements.

Together with tariff concessions, the three framework agreements will contribute to expanding economic cooperation and integration among the Participating States of APTA, including Pakistan once it has acceded to APTA.

## **6. Potential gains from accession to APTA for Pakistan and for the Participating States of APTA**

The Ministerial Council of APTA concluded the Fourth Round of negotiations in July 2014. As a result, the Participating States of APTA signed and ratified not only new tariff accessions but also the three framework agreements on trade facilitation, investment liberalization and service liberalization. It is expected that these Framework Agreements will contribute to diverse areas of cooperation and integration among the Participating States of APTA. Hence, Pakistan, as an APTA Participating State, could likely benefit from the Framework Agreements.

### **(a) Rules of Origin**

Establishment of multilateral Rules of Origin (RoO) can offset the “noodle bowl” effect caused by many different sorts of bilateral FTAs. RoO can also reduce various international trade-related transaction costs by simplifying across-the-board application.

There were difficulties due to a lack of consensus regarding *de minimis* imports and product-specific rules in the APTA negotiations.<sup>27</sup> However, RoO-related issues, including the introduction of change in tariff headings, were actively discussed.

Consequently, Annex II, "Rules of Origin for the Asia-Pacific Trade Agreement", was created in order to specify the origin of products eligible for preferential concessions in view of Article 8 of APTA. Annex II defines the issuance and submission of certificate of origin, verification procedures for the products' origin and coordination between the countries directly involved in origin verification.

The resulting changes related to RoO-related issues as well as expansion of tariff concessions will improve actual utilization of APTA. If Pakistan accedes to APTA, it will be able to take advantage of the substantial improvement in RoO.

**(b) Trade facilitation**

The Framework Agreement on Trade Facilitation in APTA will contribute to reducing transaction costs incurred by international trade, which promotes trade in the Participating States of APTA.

According to the United Nations International Symposium on Trade Efficiency, held, at Ministerial level, in Columbus, Ohio, in October 1994, it concluded that "adoption of trade efficiency measures can significantly lower the costs of trade transactions. Estimates place the costs of trade transactions at 7% to 10% of the total value of world trade."<sup>28</sup>

Firms always try to minimize various transaction costs in order to maintain competitiveness, but complex trade procedures give rise to hidden costs such as those related to acquisition of licences and document preparation as well as costs of materials, parts and labour that are included in the prices of exporting goods.

Implementation of trade facilitation will contribute to the expansion of international trade by reducing trade-related transaction costs and improving ease of business. Such facilitation includes:

- (i) Simplification and expedition of customs procedures, and expansion of accessibility to information (opening and renewing related information and constructing database and so forth);
- (ii) Securing international standardization and certification transparency (accordance to international standards in terms of ISO, mutual recognition agreement and so forth);

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<sup>27</sup> '*De minimis*' in import duties refers to imports of negligible value. When the value of imports is below the minimum threshold for import duty, *de minimis* amounts are set by the importing country's customs authority. See [www.cbp.gov/trade/nafta/guide-customs-procedures/other-instances-confer-origin/deminimis](http://www.cbp.gov/trade/nafta/guide-customs-procedures/other-instances-confer-origin/deminimis) (accessed on 15 August 2015).

<sup>28</sup> See [https://www.wto.org/english/tratop\\_e/tradfa\\_e/intergov\\_e.htm](https://www.wto.org/english/tratop_e/tradfa_e/intergov_e.htm) (accessed on 23 May 2016).

- (iii) Simplifying movement procedures of businessmen (e.g., a short-term visa waiver programme and expediting of visa processing);
- (iv) Facilitating electronic commerce (e.g., ensuring security of electronic payment system).

**(c) Investment liberalization**

Investment liberalization is a crucial part of regional economic integration under APTA. Investment is crucial in terms of adjusting the structure of an economy and to realizing the benefits of a multilateral economic agreement such as APTA. In addition, investment will play an important role, both in facilitating structural adjustment and in compensating losses from trade liberalization of goods and services.

Utilization of the Framework Agreement on Promotion, Protection and Liberalization of Investment, implemented on 3 January 2013, will contribute to gaining increased FDI in the APTA region.

**(d) Service liberalization**

The services sector, regardless of whether an economy is advanced, developing and undeveloped economies, plays an important role in economic prosperity. Its importance has been intensified in production and employment. Therefore, service liberalization generally has a considerable impact on a nation's economy by boosting global competitiveness and creating new jobs.

Liberalization of the services sector is effective in reducing consumer prices, in addition to the fact that reforming the services sector would enhance competitiveness in the communications, transportation and finance sectors as well as other service industries. It would also lead to improved competitiveness of the manufacturing sector, a more expeditious response to changes in consumer demand, optimal arrangement of production activity and enhancement of competitiveness in international trade.

According to a study on the ASEAN-Republic of Korea FTA, the impacts of liberalization in the services sector, with a 60% reduction in its trade barriers to services, are equivalent to a 0.21% increase in the Republic of Korea's GDP (Park and Kang, 2005).

Kim and Keum (2013) also showed that the rate of economic growth in a country having open financial services is 1% higher than that in a country with closed ones. In addition, the rate of economic growth in a country having liberalized financial and communicative services is 1.5% higher than in a country with inadequate liberalization in services. However, they explained that success of service liberalization relied on effective regulations and suitable reform programmes.



With the Framework Agreement on the Promotion and Liberalization of Trade in Services as a momentum, APTA created a legal framework for concession negotiations in the services trade, enabled the Participating States of APTA to push forward cooperation in the services sector, and led to actual elimination of trade barriers together with expansion of services trade.

The Framework Agreement on the Promotion and Liberalization of Trade in Service was utilized as a base for cooperation in the services sector even before the settlement of the Republic of Korea-China FTA, which gave support to maintenance of services trade between the two countries, including medical tours, cultural contents and oversees construction (Kim and Keum, 2013).

Therefore, by acceding to APTA, Pakistan will be able to take advantage of these improvements in services and contribute to enhancing services trade between the Participating States of APTA.

## **7. New areas for cooperation between Pakistan and the Participating States of APTA**

Pakistan's services sector accounts for 60% of its total GDP. The largest contributing industries in Pakistan's services sector are the wholesale and retail trade, accounting for more than 30%, followed by the transportation sector. A point that warrants further attention is that the role of finance and insurance is minimal in Pakistan, accounting for approximately 5% of total GDP. Moreover, in the services trade, the proportions of both exports and imports are less than 10%, showing its minor position in international exchange. A number of scholars have argued that financial development is a key factor among less-developed and developing countries for achieving economic growth and finally joining the ranks of advanced nations (e.g., Giuliano and Ruiz-Arranz, 2009).

Pakistan could take advantage of its accession to APTA to improve its finance and insurance environment. Utilization of the framework agreements in APTA could provide a route to eliminating barriers to trade facilitation, services sector and services investment in combination with Pakistan's continuing efforts.

As it joins the APTA, Pakistan could have more opportunities to reform financial industries. Pakistan could extend its cooperation with advanced Participating States of APTA in addressing the chronic problems of electric power shortage with circular debt.

APTA could also be a stepping stone to promoting liberalization of Pakistan's economy. Once Pakistan accedes to APTA, it will be much easier to negotiate FTAs, such as a Pakistan-Republic of Korea FTA.

## G. Conclusion and recommendations

### 1. Conclusion

The recent economic performance of Pakistan has demonstrated its great potential to the rest of the world. The size and growth rate of Pakistan's economy are not negligible, given its \$220 billion GDP, a population of 186 million, and recent growth rates in the 4% range. Declining trends in the current and fiscal balance deficits, a stabilizing foreign exchange rate as well as soaring stock market indices are also positive indicators regarding the potential and prospects of the country's economy.

The stability of the political environment in Pakistan was confirmed by the first-ever peaceful transfer of political power in 2013. The present administration, being well-qualified and experienced, is expected to maintain the country's newfound political stability. Also, Pakistan's foreign relations with the Participating States of APTA appear to be secure and sound, although its imports and exports with the Participating States of APTA are not substantial, with the exception of China.

Although its trade regime has been rigid, Pakistan has invested considerable efforts towards achieving liberalization. Pakistan seeks not only to reduce tariff rates but also eliminate almost all types of barriers against international exchanges. Pakistan has concluded a series of bilateral and multilateral trade agreements with SAARC, China, Indonesia, Malaysia, the Islamic Republic of Iran, Mauritius and Sri Lanka as well as other countries through OIC, D-8, ECO etc.

Pakistan's contribution to world trade is minimal at this point. Its shares of total exports and imports in the world in 2014 were only 0.17% and 0.31%, respectively. Among the Participating States of APTA, only Bangladesh, China, the Republic of Korea and Sri Lanka are included in the top 20 countries for Pakistan's exports. As for imports, China, India and the Republic of Korea are the only countries in the list of top 20 countries.

The results from the analysis of comparative advantage show that Pakistan has the potential to enhance its exports when it accedes to APTA. There are a non-negligible number of items that give Pakistan a comparative advantage in the global market and, at the same time, the Participating States of APTA provide concessions for themselves: Bangladesh (27 items); China (240 items); India (74 items); the Republic of Korea (156 items); the Lao People's Democratic Republic (84 items); Sri Lanka (41 items); and Mongolia (36 items).

In the use of SMART model, based on a partial equilibrium analysis, the results show that if Pakistan accedes to APTA, the increase in imports by the Participating States of APTA from Pakistan would be 1.84% as a percentage of their total imports. This outcome is based on the assumption that Pakistan is offered general concessions by each member.

In terms of the amount of United States dollar, the increase in imports from Pakistan is the largest with China, but in terms of the percentage of total imports from Pakistan by each Participating State of APTA, the benefits for Pakistan from acceding to APTA is the highest

with the Republic of Korea, followed by India, China, Sri Lanka and Bangladesh. For Pakistan, APTA accession is the most beneficial in the case of the Republic of Korea, with an increase of more than 6% in exports to the Republic of Korea.

However, it is certain that actual benefits for Pakistan from accession to APTA would be higher, as this study's estimates are based on the general concession lists for each Participating State. Under the assumption that each Participating State's special concessions list to LDCs is applied to Pakistan's products, the trade benefits for Pakistan would be much higher than the estimates.

In comparison with Pakistan's gain, it is estimated that the benefits for the Participating States of APTA will not be significant mainly due to the fact that trade between Pakistan and the Participating States of APTA is not large enough. This situation would improve trading volume for the current APTA Participating States after Pakistan's accession to APTA.

Pakistan's services sector accounts for 60% of the country's total GDP. The share of the wholesale and retail trade is the largest, accounting for more than 30%, followed by the transportation sector. In this regard, the fact that the role of finance and insurance is minimal, at approximately 5% of total GDP, deserves special attention. Moreover, in the services trade, the proportion of exports as well as imports are less than 10%, showing its relatively minor position in international exchange. A number of scholars have argued that financial development is a key factor for less-developed and developing countries in achieving economic growth and entering the ranks of advanced nations.

Pakistan could possibly take advantage of acceding to APTA to improve the environment with regard to finance and insurance. Utilization of the APTA framework agreements could serve as an instrument with which to eliminate barriers to trade facilitation, services sector and service investment, in combination with Pakistan's continuing efforts.

With accession to APTA, more opportunities would open up for Pakistan in terms of cooperation with advanced Participating States of APTA (China and the Republic of Korea) in reforming financial industries as well as addressing the chronic problems of electric power shortage with circular debt.

Ultimately, APTA will become a stepping stone to promote liberalization of Pakistan's economy. Once Pakistan accedes to APTA, it will be much easier to negotiate FTAs.

In conclusion, this study shows that Pakistan would benefit greatly from acceding to APTA. However, to maximize its gains from APTA membership, Pakistan should continue to enact reforms in order to remove all trade and non-trade barriers related not only to merchandise trade but also to services and foreign investment.

## 2. Recommendations

This study concludes that the accession of Pakistan to APTA is feasible, and that it would benefit Pakistan as well as the current Participating States of APTA.

On the basis of the main implications in this study, the following approach towards a successful accession to APTA by Pakistan is recommended by:

- (a) Thorough preparation in advance for further liberalization in areas of great sensitivity from a strategic perspective, including measures to raise their competitiveness along with strong institutional support;
- (b) Increasing the economic cooperation with Participation States of APTA and ESCAP;
- (c) Making attempts to demonstrate clearly the positive economic impact of trade liberalization for Pakistan under the APTA, including ways to improve its high levels of trade and non-trade barriers.

Ultimately, Pakistan should pursue comprehensive economic liberalization, in order to maximize potential benefits from acceding to APTA, in areas of service and foreign investment as well as merchandise trade. To do this, Pakistan should:

- (a) Focus on the finance and insurance sectors by cooperating with advanced APTA Participating States in order to overcome the weaknesses of these sectors;
- (b) Extend its cooperation with the APTA Participating States to address the chronic problems of electric power shortage with circular debt.

Last, Pakistan could make APTA accession as a stepping stone to further liberalization. As a Participating State of APTA, Pakistan can pursue a more broad and liberalized FTA with the other Participating State of APTA, such as a Pakistan-Republic of Korea FTA.

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