Pakistan's Interests in Reforming Global Trade Governance

South Asia Regional Dialogue on Global Economic Governance and Trade

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Structure of the Presentation

This presentation consists of:

- Part I(a): Defining ‘interests’ and ‘reform’
- Part I(b): Pakistani Economy
- Part II: Pakistan’s position & expectation from the on-going negotiations in Agriculture
- Part III: NAMA Negotiation

PART I: Introduction

Defining ‘Interests’ and ‘Reform’

- Reform:
  - Identifying Shortcomings – the Doha mandate
  - Nature & process of reform – trading off of interests, negotiating power and the need to align interests with others
- Interests
  - General Systemic Interests
  - Specific Economic Interests

Pakistan: Basic Info (2006-7)

- Population: 162 million
- GDP growth rate: 8.5%
- Per Capita Income: $788
- Exports: US$18.87billion
- Imports: US$22.7 billion
- Agriculture dominates
- Textile-centric industry
- Growing Services

Pakistan: Basic Info (Contd. 1)

- Three Policy Pillars: De-regulation, Liberalization & Privatization
- Integration through FTAs
- Trade profile is different from other South Asian countries: most liberal in SA (world bank), Tilted market access etc

- PART II: Pakistan's Interests in Agriculture Negotiations

Agriculture in Pakistan

- Dominant sector in the economy – GDP (23%); Employment (42%); growth rate 7.5%
- NFIDC: 72 out of 120 districts net food deficit
- 2006-07 Exports: US$1.8b; Imports: US$2.2b
- Key exports: Cotton, Rice & some fruits
- Key imports: edible oils, Wheat (irregular) and high value dairy products

Agriculture in Pakistan (contd. 1)

- Winners: Cotton, Dairy, livestock & fisheries. Potential in Value added agricultural products
- Losers: Production of Wheat, pulses, sugar to lag behind domestic demand by 2015
- Substantial imports would be necessary (7 million MT of wheat every year by 2020)
- Serious food security concerns

Pakistani Agriculture in WTO context: Policy Environment

- Low level of assistance
  - Focus on wheat and sugarcane (80% in 1995-2000)
  - Mainly green support
- Liberal import regime
  - Low applied tariffs (0-30%)
  - high bound tariffs (100%)
- High level of government intervention
  - Role is declining

Pakistani Agriculture in WTO Context (Market Access)

- 85% of agriculture tariff lines are bound, mostly at 100%
- Tea, Maize, Wheat & Sugar bound at 150%
- Low Applied levels, on average at 25%
- Imports by private parties allowed

Pakistani Agriculture in WTO context (Domestic Support)

- 11 products received support in 1995
- The AMS during the base period (1986-88) was US$640 million.
- Present AMS is negative; -7.6% of the total agriculture production.
- Till 2001-02 there were some non-product specific AMS in form of electricity subsidy

Pakistani Agriculture in WTO context (Export Competition)

- Prior to the WTO Pakistan provided direct export subsidy to Cotton and Rice; now abolished
- Limited freight subsidy for fresh fruit & vegetables. Total value of this subsidy in 2001-02 was US$2.8 million

Measuring a “Successful” Round for Pakistan Agriculture

- Large increase in market access (tariff cuts)
- Tariff caps of 100% (developed)
- Limited # of ‘exemptions’ (Sensitive, Special)
- Broad definition, tariff cuts for tropical products
- Effective cut to tariff escalation
- Large reductions in domestic support (cotton)
- Export subsidy phased out quickly

Objectives of the WTO Agriculture Negotiations for Pakistan

- Lead & support the Cairns, G33 and G-20 coalitions
- Secure reduction commitments in disruptive support and protection of other countries
- Secure improved access to international markets for the competitive export sectors
- Limit adjustments for most vulnerable sectors
- Respect the food security requirements of consumers

Reduction in Support and Protection: Three Pillars

- Market Access (Offensive Interest)
  - Largest gains
  - Least developed pillar
- Domestic Support
  - Limited commercial impact, but politically charged
- Export Competition
  - Limited impact, need consistency with other sectors
  - Pakistan has both ‘defensive’ and ‘offensive’ interests

Part III: Pakistan's Interests in NAMA Negotiations

Industrial Sector in Pakistan

- Limited industrial base
- Textiles dominate the sector – GDP (48%); Exports (68%); growth rate 3.5%
- 2006-07 Exports: US$16.7b; Imports: US$20b
- Key exports: Yarn, Knitwear
- Key imports: machinery, cars

Industrial Sector in the WTO Context

- 98.7% of tariff lines are bound
- Bound in the range of 5% to 25%
- Applied tariff in the range of 0% to 25%

Issues in NAMA for Pakistan

- Simple Swiss formula with two coefficients 6 and 30
- Preference erosion
- Joining sectoral negotiations?
  - e.g. Turkish proposal on textiles
- Flexibilities, which sectors to protect?

Pakistan's Defensive Interests

- Revenue implication from tariff reduction not substantial
  - decreasing customs revenue contribution (autonomous liberalisation) – maximum tariff at 25% already with few exceptions
  - Reductions to take place from bound rates not applied
    - Pakistan has a lot of leverage in policy space as binding much higher than applied rates
- Only 1% tariff lines are unbound. Treatment of unbound tariff lines not very significant
  - Automobiles?

Pakistan’s Offensive Interests

- Interests: (why NAMA should move forward)
  - Increasing numbers of FTAs decreasing Pakistan's competitive advantage vis-à-vis major markets
    - NAMA calls for reduction on MFN basis
  - After phase out of textile quota, tariffs are a major concern
    - Most developed country tariff peaks are in this sector
- Concerns:
  - Erosion of preferences under present state of negotiations and existence of autonomous regimes of developed countries

- Thank you