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TRADE POLICY REVIEW

REPORT BY

PAKISTAN

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Pakistan is attached.

Contents

1 INTRODUCTION

1.1. Pakistan is pleased to submit its fourth Trade Policy Review (TPR) report. Since the last Review in 2008, Pakistan's economy has faced many challenges emanating from international as well as domestic elements. However, economic recovery is now underway. Most economic indicators such as foreign exchange reserves, the stock market and large-scale manufacturing are showing major improvements.

1.2. Since the last TPR, Pakistan has undergone significant political developments. In 2010, under a constitutional amendment, many of the federal functions were devolved to the provinces. This was accompanied by the 7th National Finance Commission Award, with a new resource redistribution formula which shifted greater funding to the Provinces. The provincial taxing powers have been expanded, including a sales tax on services; and internal and external borrowing by provinces has also been permitted. From a trade perspective, the Amendment allows for diversity of approaches to improve competitiveness and focus on leveraging comparative advantages within the country. Pakistan also saw its first orderly transition from one democratically-elected government to another in May 2013. The new Government set in motion a major reform agenda, particularly focusing on the revival of the economy.

1.3. Another major but non-political development has been the formulation of a Strategic Trade Policy Framework (STPF). The STPF has replaced the annual national Trade Policy with a holistic, three-year policy framework. This has provided consistency of approach, coherence of content and predictability of action. The first STPF was launched for the years 2009-2012 and the second covered the period from 2012-2015.

1.1 The Political Economy Context

1.4. The first ever successful democratic transition in 2013 marked a critical moment in Pakistan's history. The smooth political transition provided a basis for heightened optimism for Pakistan's democratic development. This political maturity is also evidenced by a cross-party political consensus that resulted in the 18th constitutional Amendment, passed unanimously in Parliament. The Amendment reflects a long-standing political demand for arriving at a more balanced sharing of powers and responsibilities between the federal government and the provinces.

1.5. This combination of the two changes has translated into a strengthening of capacities of provincial governments in terms of policy-making, planning, budgeting, monitoring and for developing institutional mechanisms for improved public-private sector relations. The last, i.e. public-private sector relations, are manifested in terms of legislation, institutional frameworks, provinces competing for FDI and reaching out to international businesses for investing in sectors under their mandates.

1.2 Institutional Reforms

1.6. Premier institutional reforms have taken place in the wake of the 18th constitutional Amendment. With political, legislative and administrative powers devolved to provincial governments and federating units in a number of key areas such as agriculture, environment, social services including education and health, there has been a recalibration of powers, roles and functions between the federal and provincial governments.

1.7. In addition, the political vision for growth and institutional reform is well articulated at both the centre and in the federating units. At the federal level, Vision 2025 articulates the federal government's plans, while each of the provinces has its own context-specific overarching development frameworks. These frameworks are sufficiently diverse to allow for local decision-making and visions while conforming to the broad parameters outlined in the national Vision 2025 framework. A common thread among all these policy frameworks is to use the private sector as an engine of growth and to provide an enabling business environment that facilitates trade, job creation, accountability and conformity with international standards for environment and labour.

1.8. Following this vision and in consonance with Pakistan's commitment to its international obligations, a "Treaty Implementation Cell" has been established to formulate an effective mechanism in consultation with all provincial governments and relevant federal ministries/division/agencies for effective implementations of the ratified Conventions, regularly document the progress made; and to help and guide the provincial governments in formulation of templates for the generation of reports on compliance, in line with international best practices.

1.3 Socio-Economic Development

1.9. To protect vulnerable segments of the populace from the impact of the indicators described, Pakistan has put in place a social protection programme, the Benazir Income Support Program (BISP), to compensate for reduction in domestic electricity subsidies, inflation and fiscal adjustment measures. Recently, the Government has increased the stipends paid to the poorest families from PRs 3,600 to PRs 4,500 per quarter starting from FY2014-2015.

1.4 Security Environment, Energy: the Challenges

1.10. Ongoing security challenges, both within the country and in the region, are a crippling constraint to Pakistan's economic and social development. A series of natural disasters (devastating floods in 2010 and 2012) along with a consistent security threat resulting from militancy and terrorism has led to declines in Foreign Direct Investment, over US$3 billion according to one estimate. Due to the war on terror (Zarb-e-Azb) a vast number of people are now internally displaced (IDPs) causing major disruption in economic and social life. With the heart-breaking attack in Peshawar on a children's school, the security narrative has taken on a new life; resources that would otherwise be used for improving infrastructure, education and health services, are now being diverted towards strengthening the law enforcement agencies.

1.11. Pakistan is facing an unprecedented energy crisis in recent history. This has contributed to lagging economic activity and increasing public discomfort with outages of electricity in the summer and gas in the winters. Certain industries are more affected than others. The current energy deficit amounts to 6,500 MW. The federal and provincial governments have focused their efforts on inviting investments in hydro and alternative energy sources to ensure a continuous supply of energy to the business sector.

2 POLICY REFORM HIGHLIGHTS

2.1. Pakistan's economic reform agenda revolves around 4 Es i.e. **Economy, Education, Energy, and elimination of Extremism**. The Government has maintained a steady course in the face of challenges and has recorded some noteworthy achievements. Recent major achievements include:

- the revival and resumption of the privatization program, including divestiture of the shares of United Bank Limited (UBL), approximately US$400 million; Pakistan Petroleum Limited (PPL), subscription PRs 30 billion, which is the highest ever in Pakistan's stock market history; and realization of PRs 15.3 billion;
- disinvestment of Oil and Gas Development Corporation Limited (OGDCL) shares worth around US$800 million; along with raising of US$1 billion in international Sukuk;
- Pakistan has successfully tapped international capital markets after a gap of seven years by issuing Euro Bonds worth US$2 billion;
- the successful auction of 3G-4G licences achieved a target of PRs 120 billion. Two more unsold licences worth PRs 50 billion will be auctioned at an appropriate time.
- the resumption of programmes lending by the World Bank and ADB has enabled access to some US$1.5 billion to improve cash flow;
- allocation for National Income Support Program (NISP) has increased from PRs 40 billion in fiscal year 2013 (FY hereinafter) to PRs 118 billion in FY15 to expand the social safety net;
- the energy sector circular debt of PRs 503 billion has been cleared, resulting in an addition of 1700MW to the national grid that has reduced power outages and helped in the revival of industrial growth;
- Karachi Stock Exchange is one of the best performing regional stock exchanges. Karachi Stock Exchange Index, which stood at 19,916 on 11 May 2014, has continuously scaled new heights and stood at 333,585.8 on 14 January 2015. On the other hand, the market capitalization increased from PRs 5.04 trillion to PRs 7.53 trillion for the same period, showing an increase of nearly 50%, while in dollar terms it amounted an increase of 45%.
- incorporation of new companies, which was recorded at 3,953 during 2012-13 increased to 4,587 during 2013-14, showing an increase of 16%; in July-November 2014-15, the

1,723 new companies have been incorporated, up 12.32% from the figure of 1,534 in July-November 2013-14.

- the Government has decided to set up the Export-Import (EXIM) Bank to enhance export credit and to reduce the cost of borrowing for exporting sectors. Mark-up rate on export finance has been reduced from 9.4% to 7.5%;
- a National Power Policy has been prepared in 2013 to provide a roadmap for providing affordable energy and improve energy mix;
- fiscal austerity alongside an increase in tax collection to reduce fiscal deficit and to create fiscal space for development projects;
- under Public Sector Enterprises Reform Strategy, the Government has initiated restructuring plan to reduce the losses of various state-owned enterprises (SOEs) like Pakistan Steel Mills, Pakistan Railway and Pakistan International Airways (PIA);
- inflation has been brought down to single digit to 7.5% during the last quarter of FY14, as compared to 8.1% in 2013;
- revenue collection has improved by over 13% as compared to 2013. The FBR revenue during this period recorded PRs 1,171.87 billion as compared to PRs 1,031.4 billion last year.
- development spending: the significance of fiscal adjustment is enhanced when viewed in the context of development spending, which was recorded at PRs 441 billion in financial year 2013-14 against the revised target of PRs 425 billion. Thus, unlike in the past when adjustment was achieved by cutting development spending, the Government has made full development spending. Total development spending is planned at PRs 525 billion in financial year 2014-15.

3 ECONOMIC ENVIRONMENT AND POLICIES

3.1 Economic Developments

3.1. The economy has recorded a real GDP growth of 4.1% in FY14, the highest in five years and is projected to reach about 4.3% in FY2014-2015. The turnaround in growth has been supported by strong fiscal consolidation, strengthening revenue generation, investments in energy, increase in foreign remittances, and improvement in large-scale manufacturing. On the other hand, the agriculture sector posted 2.1% growth. Total growth is expected to rise to approximately 5% in the medium-term due to easing fiscal adjustment and improvements in structural constraints in the energy sector, public enterprises, and the investment sector.

3.2. Despite power and gas shortages, manufacturing grew by 5.8% in FY14, compared with only 1.4% during FY13. The capital and financial account got a boost by US$2 billion by Euro Bonds placement, privatization proceeds, and bilateral and multilateral inflows. Pakistan is targeting fiscal consolidation of around 4–4.5% of GDP over the next three years.

3.3. There has been an increase in remittances from abroad, from US$6.45 billion in 2007-2008 to US$15.83 billion in 2013-2014. Liquid foreign exchange reserves also grew from US$11.4 billion in 2007-2008 to US$14.14 billion in 2013-14 to improve liquidity in the economy. The contribution of the services sector to Pakistan's economy has steadily increased from 56.6% in FY09 to 58.1% in FY14. This increase reflects progressive liberalization in Pakistan's financial sector, telecom industry, and an expansion of wholesale and retail trading services in the country. Per capita income, which was US$1,340 in 2012-2013, increased to US$1,386, showing a growth of 3.5%.

3.4. Pakistan's exports have increased from US$24.5 billion in FY13, to US$25.1 billion in FY14. The award of GSP-plus status to Pakistan by the EU is one of the favorable factors that helped this increase. The increase in exports during FY14 was largely due to 5.3% growth in textiles. Other items like rice, leather, fish and fish preparations, oil seeds, meat and cotton also registered a healthy increase year-on-year. On the other hand, imports grew rather moderately due to soft international prices of furnace oil, palm oil and fertilizer, which helped reduce Pakistan's import bill in FY14 and improved the trade balance.

3.2 Investment Policy

3.5. Pakistan has one of the most open investment regimes in the world. The investment policy 2013-2017 has further opened up the economy to FDI. Some highlights of the new policy include

100% foreign ownership in the social and infrastructure sectors. For the services sector, 100% of the profits may be repatriated and foreign investors can retain 100% equity "for the life of the investment." This policy has also done away with the minimum initial capital investment requirements in all sectors including the services sector.

3.6. Secondly, with a few exceptions such as the airline, banking, agriculture and media sectors, there is no upper limit on the share of foreign equity allowed. Thirdly, in the agricultural sector, 60% foreign ownership is permitted. Corporate farming has been allowed for companies incorporated in Pakistan. There are no limits on the size of corporate farming land holdings with a 50-year land-lease tenure with the option to renew the lease. Raw material and machinery for agricultural and agro-based industries can be imported duty free. Full remittance of capital, profits, and dividends is allowed, and dividends are tax-exempt.

3.7. The construction, housing, information technology and tourism sectors have been granted "industry" status, i.e. they are eligible for lower tax and utility rates than banks, insurance companies and other businesses that are considered a part of the "commercial sector".

3.8. To further improve the investment climate in the country, Pakistan shall implement the following main features of the 2013-2017 policy: (a) public-private sector dialogue (PPD) for policy formulation; (b) FDI generation and promotion campaign; (c) investment facilitation (one window operation); (d) development of special economic zones (SEZs); (e) coordination networks with stakeholders.

3.9. The Special Economic Zones Act aims to encourage domestic and international investors to establish industrial infrastructure. Industrial clusters can be established through public-private collaboration or solely by the private sector. The Special Economic Zones Act includes a one-time exemption from customs duties and taxes for all capital goods imported into Pakistan for the development, operations and maintenance of a SEZ (both for the developer as well as for the zone enterprise) and exemption from all taxes on income for a period of ten years.

3.10. The Board of Investment has undertaken an exercise in consultation with the Finance Division, Securities and Exchange Commission of Pakistan (SECP), Federal Board of Revenue (FBR), Employees Old–age Benefit Institution (EOBI), provincial governments as well as the private sector to improve investment climate in the country by reducing the procedures, cost and time, focusing on the following ease-of-doing-business indicators including starting a business, paying taxes, trading across borders, getting credit, getting electricity and enforcing contracts.

3.11. Pakistan offers sound opportunities for investment especially in oil and gas exploration, financial business, communications, construction and chemicals, which are major sectors for foreign direct investment in the country. There is bright potential for FDI in power, liquefied natural gas (LNG), gas, infrastructure development and petro-chemicals' sectors. In addition, the textile sector can attract local investment in the country after the GSP-plus status given by the European Union. Similarly, other sectors in manufacturing like electrical machinery, electronics, transport equipment (automobiles), rubber and rubber products, metal products, and leather and leather products have a potential to attract foreign investment into the country.

3.3 Fiscal Policy

3.12. The fiscal deficit fell from 8.2% of GDP in FY13 to 5.5% of GDP in FY14 due to fiscal consolidation through improvements on the fiscal front including growth in both tax and non-tax revenues, coupled with a control on current expenditures. The FY2014-2015 budget aims to lower the deficit (excluding grants) to 4.8% of GDP.

3.13. Since the last Review, serious efforts have been undertaken to improve revenue generation and its collection. The devolution to the federating units has provided an opportunity to build their own revenue potential, as they are now fully empowered to levy and collect General Sales Tax (GST) on services. The share of provinces' own tax collection in total revenues has increased from 5.3% in FY11 i.e. before the devolution under the 18th Amendment to 10.7% in FY14. The provinces ran budget surpluses consistent with achieving the envisaged year-end fiscal turnout. The National Finance Commission Award granted 57.5% of the divisible pool of tax revenues to the provinces who are supporting fiscal consolidation by maintaining budget surpluses to maintain fiscal sustainability.

3.4 Monetary Policy

3.14. Pakistan's monetary policy has undergone significant changes in tandem with the changing economic landscape. During 2013-2014, monetary expansion decreased to 12.5% from 15.9% in 2012-2013. This decrease was principally due to lower government borrowings from the banking system. In 2013-2014 net foreign assets were higher than 2012-2013 due to a recovery in foreign inflows. Credit to private sector (flows), which was registered at negative PRs 19 billion during 1 July 2012 to 28 June 2013 increased to PRs 378.8 billion for the same period during 2013-14, a growth of 19 times and reflecting increased investment activity in the private sector. The increase in private sector credit was due to improved financial conditions in the corporate sector, and improved business sentiment in the markets.

3.15. Inflation, which had averaged around 12% in the five years, was recorded at 8.6% for 2013-14, despite undertaking significant fiscal adjustment and enhanced tax effort; during November 2014, CPI stood at 4% - the lowest level in 11 years. During July-December 2014-15, average CPI stood at 6.1% against 8.9% last year.

3.5 Reforming the Taxation System

3.16. The Government is introducing reforms that aim to eliminate tax exemptions and other gaps. The practice of issuing Statutory Regulatory Orders (SROs) is being abandoned, that led to narrowing the tax base, complicating tax administration and weakening tax compliance. In recent months, no new SROs have been issued to grant exemptions or concessions. The FY2014-2015 budget includes the necessary legislation to eliminate SRO exemptions and concessions totalling 0.34% of GDP, plus additional tax policy measures to broaden the tax base amounting to 0.2% of GDP. Eliminating most SROs, granting tax exemptions or concessions is expected to ultimately increase tax revenues by 1-1.5% of GDP, with all designated SROs eliminated in no more than three years. These steps will facilitate gradually moving the GST to a fully-fledged integrated modern indirect tax system with few exemptions, along with an integrated income tax by FY2016-2017.

3.17. To improve revenue generation, the government has chalked out a program of tax administration reform. Reform measures include: (a) tendering of electronic volume tracking of production to improve sales tax collection; (b) field surveys of potential high net worth taxpayers to broaden both the sales and income tax bases; (c) implementation of an IT solution for tax refunds (computerized risk-based evaluation of sales tax or CREST) to detect discrepancies in sales tax invoices at different stages and put an effective check on many fake invoices and inadmissible refunds, leading to fiscal savings. This system has allowed rejection of false claims worth PRs 10 billion; (d) introduction of risk-based e-registration in sales tax to manage new registrations; (e) revision of valuation rulings in customs duties to mitigate wrong declarations and under-invoicing; (f) electronic data interchange (EDI) connectivity to streamline trade with Afghanistan; (g) enforcement and auditing as part of tax compliance programme; (h) expanding and improving the information technology infrastructure at the FBR to enhance tax compliance efforts; (i) further revenue and expenditure measures will be implemented to achieve a sustainable deficit of around 3.5% of GDP.

3.6 Tariff Rationalization

3.18. Pakistan has undertaken a three-year process to rationalize its customs tariff. The objective of the rationalization process is to reduce the maximum tariff and the number of total slabs of tariff. Trade policy reforms focus on simplifying tariff rates, phasing out SROs that establish special rates and/or non-tariff trade barriers in some 4,000 product areas, and improving trade relations should deliver the much needed competitive environment.

3.19. The Government is finalizing the design of the new system to simplify the tariff structure to move over three years to a simple, transparent framework, with four slabs between 1 and 25% rates with fewer exceptions. For FY2014-2015, tariff slabs were consolidated from seven to six. All items at 30% have been moved to a new maximum rate of 25% rate. The phase-in of the revised tariff rates and phase-out of trade SROs began in July 2014 and Pakistan is on track to further reduce the tariff slabs and the next round of SRO elimination with the next budget cycle. Implementation of the new tariff structure would be completed by July 2017.

4 STRATEGIC TRADE POLICY FRAMEWORK

4.1. The national trade policy of Pakistan used to be announced on an annual basis until 2008. From 2009 onwards, Pakistan has adopted a three-year national trade policy. Accordingly, Strategic Trade Policy Framework (STPF) 2009-2012, and STPF 2012-2015 were announced. STPF 2012-2015 aims to enhance Pakistan's competitiveness over the medium-term and to make export sector an engine of growth. Using a mix of instruments and outlining a measured approach toward addressing several institutional gaps in terms of regulation and fostering an enabling environment, the STPF seeks to further enhance market-based, private-sector-led systems to promote trade.

4.2. The salient features of STPF 12-15 to achieve its goals are as follows:

- i. focus on regional trade;
- ii. create regulatory efficiencies;
- iii. promote agro-processed exports;
- iv. promote exports of the services sector;
- v. revamp export promotion agencies;
- vi. undertake effective trade diplomacy;
- vii. rationalize tariff protection policy;
- viii. reform and develop domestic commerce;
- ix. mobilize new investment in export-oriented industries;
- x. enhance the role of women entrepreneurs in exports;
- xi. increase exports from less-developed regions of Pakistan;
- xii. enhance access to export financing and credit guarantees;
- xiii. enhance product and market development and diversification;
- xiv. facilitate export-oriented industry to offset the impact of the energy crisis.

4.3. The measures taken to achieve STPF 2012-2015 strengthened different aspects of Pakistan's export competitiveness directly or indirectly. These measures were identified on the basis of an evaluation of STPF 2009-2012. As a result, the following measures, achievements and results have been announced in STPF 2012-15 for institutional strengthening and governance:

- a. establishment of:
  - i. domestic commerce wing;
  - ii. Pakistan Land Port Authority (PLPA);
  - iii. EXIM Bank;
  - iv. Leather Export Promotion Council;
  - v. Services Trade Development Council;
  - vi. Trade Dispute Resolution Organization;
  - vii. Resource Management Unit.
- b. rationalization of tariff policy;
- c. strengthening of training and product development institutes;
- d. revamping of export promotion agencies and the trade monitoring mechanism;
- e. constitution of a Trade Committee headed by the Commerce Minister.

5 INTERNATIONAL TRADE LIBERALIZATION

5.1. Being a founding Member of GATT in 1947 and the WTO in 1995, Pakistan continues to support an open, transparent and rules-based multilateral trading system. Despite daunting challenges, Pakistan strongly believes that trade imbalances will be minimized through a fast and successful outcome of the DDA. The sharp increase witnessed in trade disputes at the WTO is a reminder of the fact that what will not be settled through negotiations will ultimately be imposed through dispute settlement.

5.1 WTO and Multilateral Liberalization

5.2. Pakistan is an active participant in all DDA negotiations and is fully committed to achieving a mutually advantageous outcome of the entire DDA. Pakistan's key interests lie in seeking better market access under NAMA, agriculture and services. Pakistan is also keen on results in TRIPS, rules and dispute settlement.

5.1.1 Industrial products/NAMA

5.3. Pakistan continues to engage constructively in the NAMA negotiations with a view to securing more favourable commitments in the existing market access and trading conditions, particularly in those sectors that are foremost to its export interests. Pakistan is eager to achieve tariff liberalization for all manufactured goods on an MFN basis, and removal of tariff peaks, especially in sectors like textile and clothing.

5.1.2 Standards and conformity assessment

5.4. Under three different European Union-funded technical assistance trade projects (EU-TRTA), a large number of milestones have been, and continue to be, achieved as regards conformity assessments and technical standards. Development of voluntary standardization and technical regulations, development of internationally traceable measurement and calibration capabilities, development and accreditation of national proficiency testing (PT) schemes, internationally-recognized national accreditation services, and development of business plans to commercialize testing services of the laboratories to ensure sustainability are some of the initiatives that shall greatly help Pakistan in its industrial base and exports.

5.1.3 Agriculture

5.5. Agriculture contributes almost 20% to the GDP in Pakistan and approximately 44% of the labour-force is employed by the agricultural sector. Pakistan is an NFIDC (net food importing developing country) and agriculture remains critical to its rural economy in terms of livelihood, food security and development. Tariff reduction, early elimination of all forms of export subsidies and substantial reduction of trade-distorting domestic support need to go beyond paper-cuts; reforms will bring significant improvements in market access for agriculture products. With a view to achieving these objectives, Pakistan is closely allied with the G20 and Cairns Group.

5.6. Pakistan is also a member of the G33 and shares its concerns against dumping of subsidized food products which warrant developing countries to self-designate a limited number of agriculture products as special products, besides recourse to the SSM for protecting its fragile agriculture sector from unforeseen import surges. However, these flexibilities need to be negotiated in the light of current trade realities so that trade among developing countries is not hampered. Pakistan believes that competitiveness, sustainability and profitability are the guiding principles for the agriculture sector.

5.1.4 Sanitary and phytosanitary measures (SPS)

5.7. In readiness for more and better agro-exports, the above-mentioned EU-TRTA programmes have provided a large number of capacity-building measures on SPS matters. Notably, training courses were conducted in method validation, measurement, traceability, microbiology testing, and HACCP training of processors in fisheries/food sectors. Initiatives such as strengthening the SPS management system; the establishment of the NAPHIS (National Animal and Plant Health Inspection Service), and the approval of Pakistan Bio-Security Authority Bill and Food Safety and Phytosanitary Laws has been achieved. Model technical regulations were drafted and new guidelines for effective application of food safety control were published. Finally, support to testing and calibration laboratories, as well as business planning process, has been initiated.

5.1.5 Services

5.8. In services, Pakistan has a liberal applied regime that goes beyond GATS commitments and it wishes to seek similar market access opportunities in all the four modes of supply, chiefly in modes 1 and 4. Pakistan is engaged in plurilateral and bilateral negotiations in services negotiations such as the TISA (Trade in Services Agreement) and fully supports endeavours at all levels for ambitious outcomes in the services sector.

5.9. Finally, Pakistan is also conducting stakeholder consultations for exploring the possibility of acceding to plurilateral agreements on Information Technology (ITA), Government Procurement (GPA) and the Green Goods Agreement.

5.1.6 Trade facilitation

5.10. Pakistan is a keen supporter of the Trade Facilitation Agreement (TFA) and has already submitted its "List A" to the WTO. Pakistan is working on other aspects of the TFA including coordinating a needs assessment at the WTO and implementation of TFA elements through bilateral initiatives. In the meantime, Pakistan continues to expand on trade facilitation enhancement initiatives.

5.11. In order to enhance the scope of automation in customs procedures, Pakistan Customs Computerized System (PACCS) has been discontinued and in its place a locally-developed Web Based One Customs (WeBOC) system has been introduced. The new system is paperless, allows online manifest filing and goods declaration, is available on a 24/7 basis and is based on the best international practices of risk management System. Manual interference for Customs examination and clearance times have been substantially reduced. Multiple import and export steps have been reduced to a single step.

5.12. For faster clearance procedures and dwell times, simple but effective infrastructure changes have increased the number of trucks that can be cleared in a single day at the busiest border from 300-500; a new form of financial guarantees has been introduced between Pakistan and Afghan Customs in collaboration with insurance agencies to ease prohibitive surety/bond burdens on traders; the introduction of Electronic Data Interchange (EDI) for exchange of critical information; installation of new, state-of-the-art weigh bridges at the Chaman and Torkham borders that would reduce the waiting time for trucks at the border; and finally, the drafting of Customs rules governing the new procedures for traders trading with Afghanistan are significant results which shall spill over to the rest of the operations. With a new Asian Development Bank (ADB) project posited to commence in August 2015 which focuses on trade facilitation at border posts, Pakistan will continue to modernize and implement all complementary TF efforts.

5.1.7 Trade remedy laws

5.13. As a founding Member of the WTO, Pakistan enacted all three trade remedy laws in the years 2000-2002. However, to keep pace with the expansion of trade ties as well as experience gained over the last thirty years of the WTO's trade remedy laws, Pakistan initiated a major overhaul of the country's trade remedy laws in 2014. These laws have been sent to the Cabinet and shall be presented to the Parliament early 2015. Amendments and changes therein reflect best practices all over the world employed by investigative authorities.

5.14. The National Tariff Commission (NTC) is the sole investigative authority for trade remedies and it continues to undergo both infrastructure development as well as changes to the methodology and practices to upgrade its systems. During the period under review, 58 anti-dumping investigations were initiated and 31 measures were imposed. In this period, 16 anti-dumping duties were terminated. Pakistan has not taken any countervailing actions. The only countervailing investigation initiated against alleged subsidized imports of certain paper from Indonesia and Thailand was terminated during the period under review. No safeguard measures have been imposed during the period under review.

5.1.8 Dispute settlement

5.15. Since its last Trade Policy Review, Pakistan has been involved in two disputes at the WTO; in the first as a Complainant and in the second as a Respondent. In 2010, the European Commission imposed a Countervailing Duty (CVD) on PET products from Pakistan. Pakistan has initiated a case at the DSB in October 2014 and consultations were held in December 2014.

5.16. In 2011, the NTC initiated AD and CVD investigations against certain paper from Indonesia. On 27 November 2013, Indonesia requested consultations with Pakistan with respect to the continuation of, and failure to terminate in a timely manner, certain AD and CVD investigations on certain paper products from Indonesia. On 12 May 2014, Indonesia requested the establishment of a panel. On 23 May 2014, the DSB suspended the establishment of a panel.

5.17. In dispute settlement reforms, Pakistan is one of the pioneers in trying to amend the laws and procedure of the dispute settlement system to make the system more accessible, robust and responsive to the needs of developing and other Members.

5.1.9 Protection of intellectual property rights

5.18. The Intellectual Property Organization (IPO-Pakistan) achieved a milestone in the promulgation of IPO Pakistan Act, 2012 which encompasses various provisions on the diverse functions of the IPO.

5.19. IP tribunals, for the speedy disposal of IP litigation, have been notified by the federal government initially for three major cities i.e. Karachi, Lahore and Islamabad. The city of Karachi shall cover both the provinces of Sindh and Balochistan; Lahore shall cover all of Punjab province and Islamabad shall cover the Federal territory and KPK province.

5.20. This will result in the transfer of all IP infringement cases from district courts to IP tribunals. Further, the IPO Act 2012 empowers IPO Pakistan to initiate, monitor and conduct inquiries, investigations and proceedings related to IP offences. IPO Pakistan is in the process of formulating rules thereunder.

5.21. In other developments, the Trademarks Journal has been digitized, which is a turning point for IP in the country. Training continues to be developed and delivered to investigation officials and is taking place on IP inspection; critical trainings aim to aid enforcement of IPRs at the border. Finally, a much-needed training and awareness-raising is being conducted to bring business closer to IP creation for small-and medium-sized enterprises.

5.2 Regional and Bilateral Trade

5.22. Pakistan has been actively engaged in seeking preferential trading arrangements in several configurations with a view to better integrating with its surrounding regional trading partners.

5.2.1 Regional trade

5.23. Among regional trade arrangements, Pakistan is a member of **SAFTA** (South Asian Free Trade Area) that comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka. It has been operational since 1 July 2006. The SAARC Agreement on Trade in Services was also signed during the 16th SAARC Summit held at Thimphu, Bhutan, on 28-29 April 2010. Currently, Pakistan is in the process of submitting its offer under the SAARC Agreement on Trade in Services.

5.24. Another RTA is the **ECO** Trade Agreement (Economic Cooperation Organization) that has been signed on 17 July 2013 by five out of ten ECO Member States. These five members are Pakistan, Iran, Turkey, Afghanistan and Tajikistan. Pakistan has also signed and ratified three agreements pertaining to Trade Preferential System TPS-OIC. These are expected to come into force shortly. It is expected that their operationalization would enhance trade between Pakistan and the OIC Member countries.

5.25. Following the global trade patterns where increasingly complex preferential trade agreements (PTAs) are being negotiated among WTO Members, Pakistan also signed a PTA with the **D-8 (Developing 8)** Group of Countries (Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey) on 13 May 2006. The Instrument of Ratification was signed by the President on 8 February 2012. Pakistan has completed all the procedural formalities on its part for operationalization of the D-8 PTA.

5.26. Pakistan signed a Framework Agreement on Trade with **MERCOSUR** in 2006, aiming at concluding a PTA leading to FTA to enhance trade. An exploratory meeting was held in 2010. Recently, Pakistan has sent a formal note to the MERCOSUR Secretariat for resumption of talks.

5.27. Pakistan is actively engaged in pursuing an FTA with the **Gulf Cooperation Council** (GCC) i.e. Bahrain, the State of Kuwait, Oman, Qatar, the Kingdom of Saudi Arabia and the United Arab Emirates. Finally, Pakistan, along with the **ASEAN**, constituted a Joint Study Group (JSG) to explore the possibility of economic and trade integration. A study has been completed with positive recommendations.

5.2.2 Bilateral trade

5.28. Pakistan's bilateral trade with **India** has been considerably liberalized. In March 2012, Pakistan abolished the limited positive list of imports substituting it with a negative list of 1,209 items. Now, over 82% of all tariff lines are importable from India. Some restrictions apply on trade through the land-borders because of lack of infrastructure. Since the last TPR, bilateral trade has doubled from US$1.2 billion to over US$2.5 billion. The potential is estimated to be over US$10 billion and efforts are being made to remove the remaining barriers to achieve this objective.

5.29. Pakistan and **China** have bilateral trade of US$11.3 billion in FY2014. In July 2013, a Memorandum Of Understanding (MOU) on the China-Pakistan economic corridor was signed that will eventually enhance connectivity of Pakistan and China with all regional countries in Asia and Central Asia by building further rail, road, gas, oil pipelines and fiber optic links.

5.30. Negotiations for the second phase of the Pak-China FTA commenced in March 2011 and have continued through January 2015. Both countries addressed issues including electronic data interchange (EDI), sanitary and phytosanitary measures and Technical Barriers to Trade. The Agreement on Trade in Services between Pakistan and China was signed on 21 February 2009 and is operational as of 10 October 2009.

5.31. The **Pakistan–Sri Lanka** FTA has been operational since June 2005. Under the FTA both parties have offered preferential market access to each other. Bilateral review meetings are held on a yearly basis. During the last meeting of the Review Committee, both sides constituted four Joint Working Groups on Trade, Investment, Customs Cooperation and the Auto Sector. The Joint Working Group held its first meeting in October 2014. Both sides have agreed to broaden the scope of the FTA by the inclusion of separate chapters on services and investment.

5.32. **Pakistan and Mauritius** signed a Preferential Trade Agreement (PTA) on 30 July 2007 and the same is operational since 30 November 2007. During the last meeting of the Mauritius-Pakistan Joint Working Group on Trade and Economic Cooperation, held at Ebene, Mauritius, on 16-17 July 2014, both sides agreed to broaden the scope of the PTA with deeper cuts in tariff.

5.33. An FTA with **Malaysia** has been operational since 1 January 2008. This agreement is Pakistan's first comprehensive FTA incorporating trade in goods and services, investment and economic cooperation. The second Joint Review Committee meeting (JRC) of the Malaysia-Pakistan Comprehensive Economic Partnership Agreement (MPCEPA) was held on 25-26 February 2014 in Pakistan. PTA with **Indonesia** was also signed on 3 February 2012 and the same has been operational since 1 September 2013.

5.34. Pakistan is making considerable efforts to increase trade and better trading conditions with **Afghanistan** where it is implementing development projects in the areas of health, education, infrastructure and housing, and has provided a general assistance package of US$500 million. Pakistan and Afghanistan's trade totalled US$1.9 billion in FY2014. Both countries are keen to foster bilateral economic cooperation and are working together on a number of regional projects relating to roads, rail, energy and connectivity. In the context of connectivity and energy, on 11 October 2014, Pakistan signed an agreement with Afghanistan on the casa-1000 transit fee.

5.35. **Pakistan and Turkey** are seeking to enhance their economic relationship further. Turkey invests significantly in Pakistani energy, infrastructure and urban development projects, and Pakistan invests in several fast-growing Turkish industries.

5.36. **Pakistan and Iran** are committed to cementing economic ties by intensifying trade links. The proposed Iran-Pakistan gas pipeline project is an important bilateral initiative, particularly given Pakistan's energy needs. The Pakistan-Iran PTA was signed on 4 March 2004 and became operational on 1 September 2006.

5.37. Following changes to the **EU's GSP Scheme**, Pakistan qualified for GSP-plus status. As a result, Pakistan's exports are able to compete against other countries which are currently enjoying duty free status.

6 MARKET DEVELOPMENT AND REGULATION

6.1 Stock Market Performance

6.1. The Karachi Stock Exchange (KSE) is one of the best performing stock markets in the region. In terms of index performance the KSE-100 index boasted an increase of 49% in 2012 and 49% in 2013. In 2014, it has risen by 23%, wherein the benchmark KSE-100 index touched its highest level of 31,906 points by end-December 2014, against 9,727 in January 2010. The consistent over-the-year upward movements in the index and health turnovers indicate its sustainability in spite of significant financial volatility.

6.2. The stock exchanges in Pakistan have been successfully corporatized and demutualized on 27 August 2012 consequent to promulgation of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012. Demutualization is a ground-breaking reform for the Pakistani capital market as it helps address conflicts prevalent in the earlier mutualised set-up of the stock exchanges by segregation of commercial and regulatory functions and separation of ownership and trading rights.

6.3. Commodity markets constitute an important part of the capital markets. These markets help reduce price volatility and risks associated with a commodity, aid in price determination and help bring about a balance in production and consumption of commodities in the economy. To cater for the hedging requirements of various groups of investors and to broaden the investor base in the commodities market, various futures contracts were introduced over time which include futures contracts on varying size of gold and silver, rice, palm oil, crude oil, sugar and cotton.

6.4. For the development of the debt-capital market, a Bonds Automated Trading System was introduced at the stock exchanges for providing an automated trading platform for trading in debt market securities. Further, the settlement of trading in debt securities listed at the OTC (Over-The-Counter) segment of the stock exchanges has been made mandatory through the National Clearing and Settlement System (NCSS) of the National Clearing Company of Pakistan Limited as against the earlier practice of settlement of these trades on a counterparty basis outside the NCSS. This initiative will facilitate auto settlement of these trades.

6.5. Leverage is a well-established and a widely acceptable venue for generating greater liquidity for the capital markets and has existed in open form or other, both internationally and locally. Realizing this, the Securities (Leveraged Markets and Pledging) Rules, 2011 were promulgated in line with international best practices after exhaustive consultation with all relevant stakeholders. These rules provide a broad regulatory framework for margin trading, securities lending and borrowing and pledging of clients' securities, thus providing avenues for meeting the financing needs of capital markets while providing retail investors with an easy access to financing against shares.

6.6. To stimulate growth in the debt market, efforts were made to launch trading of government-debt instruments at the stock exchanges. The regulatory framework and necessary system development were finalized with efforts by the Securities Exchange Commission (SECP), the State Bank of Pakistan (SBP), KSE and the Central Depository Company of Pakistan Limited (CDC). The Regulatory framework was approved for the purpose and soft launch of trading in Treasury bills (T-bills) Pakistan launch was made by the Minister for Finance on 18 February 2014.

6.7. To implement robust anti-money-laundering and combating the financing of terrorism regime in the Pakistan capital market in light of the FATF (The Financial Action Task Force) recommendations and international best practices, effective know-your-customer (KYC) and customer-due-diligence (CDD) polices and producers, were introduced for the capital market and its intermediaries.

6.2 Financial Sector

6.8. The financial sector is dominated by commercial banks and the performance of the banking sector has been strong. Profitability increased by 44% (year-on-year), mainly due to an increase in net interest income, declining provisioning charges, and higher non-interest income. Total credit grew by 2.5% from June to September 2014. The capital adequacy ratio (CAR) increased to 15.5%, above the minimum requirement of 10%. The size of the banking sector has grown steadily with better financial health. To further enhance the assessment of the health and soundness of the financial sector, the State Bank of Pakistan (SBP) continues to work on developing a preliminary "encouraged" set of financial soundness indicators (FSIs).

6.9. The legislative and regulatory framework is largely compliant with Basel core principles of banking supervision, international standards of Anti-Money-Laundering and Combating the Financing of Terrorism (AML/CFT) and Basel III for capital adequacy. At the moment, the minimum paid up capital requirement for banks incorporated in Pakistan is PRs 10 billion, along with a CAR requirement of 10% for all banks and direct foreign investment (DFIs).

6.10. Key financial trends indicate growth in deposits by 73.6% over the last four years reaching PRs 8.3 trillion as of December 2013. Total assets have also increased and reached PRs 10.5 trillion in December 2013 as compared to PRs 6.52 trillion in December 2009. Profitability has increased steadily and the banking industry after tax profit stands at PRs 112 billion in December 2013 as compared to PRs 54 billion in 2009.

6.11. The banking sector in Pakistan has also experienced numerous developments in the form of enhanced use of technology and automation, expansion in outreach through branches and branchless banking initiatives, and rapid growth of Islamic banking. Commercial banks and microfinance banks have attracted sizable foreign equity investment in recent years, as the regulatory environment is conducive and business prospects are bright.

6.12. In the coming years, the banking system is expected to experience significant improvements in payment systems, alternate delivery channels, consumer protection framework, and outreach for SMEs and Microfinance customers. The State Bank of Pakistan, being the banking regulator and the Central Bank, has issued a road map of Basel III implementation in a phased manner; moreover, revisions have been made in prudential regulations to improve functioning of the banks.

6.13. In addition to commercial banks, a diverse range of non-banking financial institutions (NBFIs) vis-a-vis asset management companies, mutual funds, pension leasing companies, "modarbas", investment finance companies and investment advisors, also constitute part of Pakistan's financial landscape. These institutions are under the regulatory ambit of SECP. Their size as at 30 June 2014 was PRs 639 billion. The non-banking financial sector's assets during the last five years have witnessed a steady upward trend mainly due to growth in the mutual fund industry which represents 70% of the sector's assets.

6.14. During the past couple of years, the SECP has strengthened its regulatory framework of mutual funds which is now broadly compliant with the International Organization of Securities Commission (IOSCO) principles. Other amendments made to facilitate the NBFIs' business include permitting leasing companies to write smaller-tenure lease contracts, allowing investment finance companies to conduct brokerage business from their own platform and issuing detailed instructions on Sharia audit and compliance mechanism. The SECP is presently reviewing the entire business model and prevalent regime of this sector with a fresh perspective.

6.3 Public Sector Enterprises

6.15. The Government is focusing on privatization of public-sector enterprises (PSEs) to improve public-sector resource allocation. The Cabinet Committee on Privatization initially approved a list of 31 PSEs for action and subsequently added another seven PSEs to the list. The privatization programme is aimed at offering and/or marketing one or two transactions in each quarter during the coming year.

6.16. Eleven companies have been identified in the oil and gas, banking and insurance, and power sectors for block sales and primary or secondary public offerings. Minority stakes in UBL and PPL were sold in June 2014. In November, financial advisors were hired for Allied Bank Limited (ABL) and Habib Bank Limited (HBL) to market minority stakes within six months.

6.17. Strategic private sector participation (SPSP) is another important economic intervention. Twenty-four companies have been identified for strategic partnership, to unlock their potential through their managerial and investment participation and to increase the value of the Government's residual shareholding. The Government has in sight adequately addressing labour market issues and social implications.

6.18. The sale of Heavy Electric Complex (HEC) is being finalized and financial advisors have been hired for the National Power Construction Company (NPCC) in July 2014 to finalize the offer by end-March 2015. Share sales of Faisalabad Electric Supply Company (FESCO) and Northern Power Generation Company Limited (NPGCL) are also planned to complete the transactions by end-August 2015. For Islamabad Electric Supply Company (IESCO) and Lahore Electric Supply Company (LESCO), completion of the transaction is expected by end-October 2015. The Government is also developing medium-term plans to restructure Pakistan International Airlines (PIA), Pakistan Steel Mills and Pakistan Railways.

6.4 Corporate Governance

6.19. The SECP launched its revised Code of Corporate Governance on 10 April 2012. This revised Code, *inter alia*, provides for enhanced representation of independent directors, a balance of executive and non-executive directors on the boards, separation of offices of the Chairman and the Chief Executive, and formation of a human resource and remuneration committee. The Code was further revised in 2013 and 2014 to remove practical difficulties and to facilitate improved compliance, in light of feedback from relevant stakeholders. The revised Code also forms part of the Rulebook of the Karachi Stock Exchange and Listing Regulations of the Lahore Stock Exchange and Islamabad Stock Exchange.

6.20. Public-Sector Companies (Corporate Governance) Rules, 2013 were made by the SECP and came into effect from June 2013. In compliance with these rules, the Government of Pakistan constituted a Board of Directors of all public-sector companies to ensure transparency and good governance. The objectives of transparency and good governance were achieved by inducting 60% independent members in the boards of these public-sector companies. Moreover, it has been ensured that independent members are in the majority on the Boards. The initiative of the SECP will go a long way to improving the governance of these public-sector companies.

6.5 Telecommunications

6.21. Since the last Trade Policy Review, the telecom sector has seen substantial growth, particularly in the cellular mobile sector. From a mere 8 million cellular subscribers in 2004, cellular subscribers have jumped over a figure of 125 million with access to more than 72% of the population and 92% of the land area. More than US$12 billion have been invested in the telecom infrastructure by local and foreign companies, earning revenues worth hundreds of billions in return each year. The successful launch of 3G and 4G technologies in April 2014 is expected to result in rapid expansion of quality broadband and accelerated digitization. To complete the broadband infrastructure value chain, the Universal Service Fund Company (USF) has been tasked to aggressively extend optic fibre cable/node to each underserved "tehsil" headquarters, and all major en-route towns with populations of 15,000 and above.

6.22. Universal telecentres are aimed at bridging the digital divide between rural and urban communities. In the first phase, 500 telecentres will be established in unserved rural and semi-urban areas of the four provinces and Islamabad. These centres will provide public access to ICT services and also create local employment opportunities.

6.6 Competition Policy and Practice

6.23. The Competition Commission of Pakistan (CCP) is an independent quasi-regulatory, quasi-judicial body that was established in October 2007. The major aim of the CCP is to provide a legal framework creating a business environment based on healthy competition, improving economic efficiency, and protecting consumers from anti-competitive practices. The performance of the CCP has been in the spotlight for enforcement practices as being top five out of 42 agencies in the region of Asia-Pacific, Middle East and Africa for 2012. As a part of greater transparency and better working, the CCP has requested UNCTAD to conduct a peer review. The CCP has also established an appellate body and procedures to ensure world-class working procedures and competitive.

7 WAY FORWARD-VISION 2025

7.1. Pakistan has launched "Vision 2025" for economic and social development which is based on a (5+7) framework for growth and development. There are seven pillars and five key enablers. The five key enablers are: (a) shared vision; (b) political stability and continuity of policies; (c) peace and security; (d) rule of law; and (e) social justice.

7.2. The seven pillars of Vision 2025 are: (a) putting people first; developing human and social capital; (b) achieving sustained, indigenous and inclusive growth; (c) democratic governance, institutional reforms and modernization of the public sector; (d) energy, water and food security; (e) private sector and entrepreneurship-led growth; (f) developing a competitive knowledge economy through value addition; (g) modernizing transportation infrastructure, and greater regional connectivity.

7.3. The Government's Strategic Development Plan aims at creating a globally competitive economy, focusing on macroeconomic stability through inclusive growth. Pakistan aims to achieve over 7% growth by FY2018, to address growing poverty and unemployment, while improving socio-economic indicators including health and education. The Energy Policy aims to improve the energy mix to avoid the need for tariff increases and to attract foreign investment.

8 CONCLUSION

8.1. Pakistan supports an open, fair and rules-based trading system to achieve sustainable and inclusive growth at home and abroad. Pakistan shall continue to participate actively in the work of the WTO, while pursuing regional and bilateral trade agreements as catalysts for multilateral liberalization. We are looking forward to a successful conclusion of the Doha Round and remain committed to all our international obligations.

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