SUMMARY

1. Pakistan's economy has exhibited resilience in a difficult environment. Real GDP growth averaged nearly 3.2% annually during the period under review, and is projected to be in excess of 4% in 2014/15. Pakistan's economy was able to post growth despite adversities such as a tight security environment, the global economic crisis, and a host of natural disasters. However, serious challenges remain; these include power shortages, a weak fiscal position and lack of investment.

2. Pakistan has been running persistent fiscal deficits during the review period. The deficit exceeded 8% of GDP in both 2011/12 and 2012/13, but fell to 5.3% in 2013/14. During the period under review, total fiscal revenue as a proportion of GDP declined to under 13% in 2012/13, while tax revenue as a proportion of GDP declined to under 10%, which is among the lowest in the world. The decline in revenue can be attributed to a number of factors, most notably widespread tax evasion, a wide array of tax exemptions, and failure to widen the tax base. Furthermore, the prevalence of Statutory Regulatory Orders (SROs), which are discretionary measures providing tax and tariff exemptions and relief to vested interests, are a significant drain on fiscal revenue.

3. Expenditures have been in excess of 21% of GDP in both 2011/12 and 2012/13. Expenditures have grown on the back of increasing debt service payments, which are due to perpetual fiscal deficits and their financing. A significant amount of the expenditure covers losses of state-owned enterprises such as Pakistan International Airlines, Pakistan Railways and Pakistan Steel Mills. The Government also provides a substantial subsidy to the power sector. Consequently, Pakistan is now in a position where revenues cannot meet even current expenditures and the Government has to borrow just to function. The authorities realize the precarious fiscal position and have initiated a programme of fiscal consolidation and the restructuring or privatization of state-owned enterprises.

4. The objectives of monetary policy are to maintain monetary stability and promote economic growth. Recent monetary policy has been driven by efforts to keep the exchange rate stable and accumulation of foreign exchange reserves. The pursuit of these objectives is hampered by the lack of central bank autonomy, which in recent years has led to considerable borrowing by the Government to finance the fiscal deficit and borrowing by public sector enterprises. Inflation as measured by the consumer price index (CPI) peaked at 17% in 2008/09; it has since declined to 8.6% in 2013/14 due to a fall in world prices for primary commodities and a reduction in some domestic administered prices.

5. Pakistan's current account deficit decreased from nearly US$14 billion in 2007/08 (8.2% of GDP) to around US$3 billion in 2013/14 (1.2% of GDP). The improvement in the current account deficit can be attributed to a more than halving of the services deficit and a considerable increase in workers remittances. Furthermore, in 2013/14 the financial and capital account rebounded.

6. Pakistan's exports continue to be heavily concentrated, with agriculture, textiles and clothing accounting for over three fourths of total exports in 2013. The largest single import category continues to be fuels. The share of manufactures in total imports has fallen. The decline can be attributed to a subdued investment environment. Pakistan's largest export markets continue to be the EU(28), followed by the United States and China; Pakistan's largest import supplier is the United Arab Emirates, followed by China and the EU(28).

7. In April 2010, both houses of parliament passed the 18th constitutional Amendment. The Amendment decentralizes political power and reduces the powers of the President, while at the same time rebalancing power between the judiciary, government and the opposition. As a result, the responsibilities of 17 federal ministries have already been transferred to the provinces.

8. Under Vision 2025, launched in 2014, the Government aims to make Pakistan an upper-middle income country by 2025 and a top ten economy by 2047. In January 2013, the Government announced its three-year Strategic Trade Policy Framework 2012-15. Under the framework, the Government envisages increasing exports to US$95 billion during the three-year period. To achieve its target, the Government has identified seven areas of focus. These are: regional trade; strengthening of the institutional framework for promotion of exports; creation of regulatory efficiencies; export development initiatives; increasing exports from less-developed

regions of Pakistan; promotion of domestic commerce; and strengthening the monitoring and evaluation network.

9. Pakistan provides at least MFN treatment to all except two WTO Members, India and Israel. Since 2012, imports from India are conducted on the basis of a negative list of about 1,200 products that cannot be imported. This change from a previously existing and more restrictive positive list has resulted in a significant boost to bilateral trade. Trade with Israel is prohibited. There are a number of outstanding notifications in areas such as SPS, TBT and domestic support in agriculture.

10. During the period under review, Pakistan has been a respondent in one dispute settlement case initiated by Indonesia, concerning anti-dumping and countervailing duties imposed by Pakistan on certain paper products from Indonesia. In 2014, Pakistan also notified the WTO of a request for consultations with the European Union regarding the imposition of countervailing measures by the EU on imports of certain polyethylene terephthalate (PET) from Pakistan.

11. Pakistan considers the multilateral trading system to be the cornerstone of its trade policy. It also believes that preferential trade agreements (PTAs) are complementary to the multilateral trading system. Pakistan is a signatory to the South Asia Free Trade Agreement. It also has bilateral free-trade agreements with China, Indonesia, Iran, Malaysia, Mauritius and Sri Lanka.

12. Under Pakistan's investment regime, 100% FDI is permitted in most industries. FDI is prohibited in arms and ammunitions; high explosives; radioactive substances; security printing; currency and mint; and consumable alcohol. The share of foreign equity is limited in the airline, banking and print and electronic media sectors. Coupled with a strategic location, natural resources and a pool of skilled labour, the liberal FDI regime makes Pakistan an attractive investment destination. However, FDI has remained tepid during the review period. This can be attributed to the precarious security situation, chronic power and gas shortages, and the high cost of doing business.

13. The objectives of the Government's investment policy are to achieve a progressive increase in net FDI inflows to reach US$5.5 billion in 2018. The Foreign Direct Investment Strategy 2013-17 stipulates improved facilitation procedures and project-focused FDI promotion. The latter implies that the Government will concentrate on target sectors such as: infrastructure and communications; manufacturing; energy; mining and exploration; construction and real estate; automotive and the agricultural sector. Both the strategy and the policy seek to achieve their goals through Special Economic Zones (SEZs), which are the bedrock of the Government's current investment strategy.

14. Since its last Review in 2008, Pakistan has taken some cautious steps of trade liberalization. Its average applied MFN tariff is 14.3% in 2014/15, slightly down from 14.8% in 2008. All but 45 tariff lines are *ad valorem*. Since July 2014, Pakistan no longer has duty free tariff lines. The tariff displays a significantly positive escalation. Some 98% of tariff lines are bound; the average bound rate is 61.5%. Regulatory exemptions and concessions provided for various industries under SRO regimes remain an important source of deviation from MFN rates.

15. Pakistan has bound other duties and charges at zero, but "regulatory import charges" of 5% apply on some 284 mostly agricultural products. Since Pakistan's last Review, the Government has been implementing a programme to modernize customs procedures. In addition to tariffs, imports are subject to sales tax.

16. Despite cautious liberalization, overall tariff levels remain high, which weakens productivity growth and constitutes an impediment to efficient resource allocation and the integration of Pakistan into global value chains. In addition, the use of ad hoc trade policy instruments under SROs remains common and severely undermines the predictability of the trade regime; it also supports a culture of rent-seeking. The elimination of tariff and tax-related SROs, planned for end-2015, will significantly increase transparency of the trade regime.

17. Since its last Review, Pakistan has initiated 58 anti-dumping investigations, which led to the imposition of 31 definitive measures. It has not taken any safeguard or countervailing measures. Import prohibitions and restrictions are maintained for health, safety, security, moral, and

environmental reasons. Pakistan's standards are mostly based on international standards. A National Food Safety, Animal, and Plant Health Regulatory Authority is currently being established. No SPS notifications have been submitted since January 2000.

18. Production and exports are assisted by a wide range of general and sectoral programmes that offer tax exemptions or concessions, subsidies, concessionary credit, duty drawbacks, and agricultural price and other domestic support. Exports are subject to an export development charge of 0.25%. In addition, numerous agricultural goods are subject to "regulatory duties" of 5% when exported.

19. State intervention and ownership remain considerable. In October 2013, the Government published a new list of 32 companies to be privatized. Although, the restructuring and subsequent privatization of some of these entities was initiated in the 1990s, there has been little progress over the last six years. In particular, privatization of the three most important loss-carrying companies has been repeatedly postponed. A National Procurement Strategy was launched in 2013 which aims to make public procurement processes more efficient and transparent. Competition policy has been considerably strengthened through the adoption of a Competition Act in 2010. Pakistan has also undertaken efforts to advance enforcement of intellectual property rights.

20. The agriculture sector contributes about 21% to GDP and is central to employment and livelihoods. The Government's overall policy objectives for the agriculture sector are achieving food security and increasing the sector's growth rate. Pakistan's main cash crops are wheat, rice, maize, cotton, and sugar cane. However, over the last 20 years the crop subsector has been gradually declining while the share of livestock in agricultural value-added has significantly increased. Pakistan has traditionally been a net food importer, but for the first time in many years it incurred a trade surplus in food products in 2013. Rice is the single most important export product, while palm oil has been the main agricultural import.

21. Pakistan's main agricultural policy measures include tariffs, input subsidies and support prices. Since the adoption of the 18th constitutional Amendment, many responsibilities in agricultural policy-making have shifted to the Provinces. Numerous agricultural and food products have been subject to *ad hoc* measures under SROs; certain agricultural products have also been subject to export prohibitions. Support prices are maintained for wheat. Pakistan has submitted no notifications about domestic support to the WTO since 2008.

22. Chronic electricity shortages and high electricity prices are a serious problem for Pakistan's economy. Power generation, transmission and distribution are generally inefficient. Electricity prices are usually insufficient to cover production costs; tariffs are designed in a manner that effectively subsidizes the middle class. The Government's policy in the power sector aims to increase energy supply, decrease reliance on fossil fuels for electricity production, and reduce price distortions and theft.

23. Pakistan's manufacturing activities are dominated by food processing and textiles. Textile production is concentrated in the preliminary processing stages and dominated by cotton textiles, clothing, and synthetic fibres. Textiles and clothing make up more than 50% of Pakistan's merchandise exports. Under its new Textile Policy, the Government aims to further promote high value-added activities and improve productivity in the subsector. Protection in manufacturing is particularly high in the automotive subsector, with tariffs of up to 100%. Coupled with limited local competition among just a few assemblers, this leads to prices for passenger cars in Pakistan that are significantly higher than in other countries.

24. Services contribute about 58% to Pakistan's GDP. Pakistan is a participant in the negotiations on a trade in services agreement (TISA). It is a net importer of services, although the deficit has been declining over the past years. Strong state involvement persists in nearly all service subsectors. The financial services subsector has shown resilience in a challenging macroeconomic environment, and the stock market has performed remarkably well. The telecom sector has grown strongly since 2008, mainly driven by mobile subscriptions. Pakistan's port infrastructure has improved considerably since its last Review. The Government is trying to revitalize the largely dysfunctional railway system. Air fares are deregulated. Pakistan's tourism sector suffers from security concerns, but has considerable long-term potential.