POLICY REFORMS AGENDA FOR PROMOTION AND DEVELOPMENT OF TRADE

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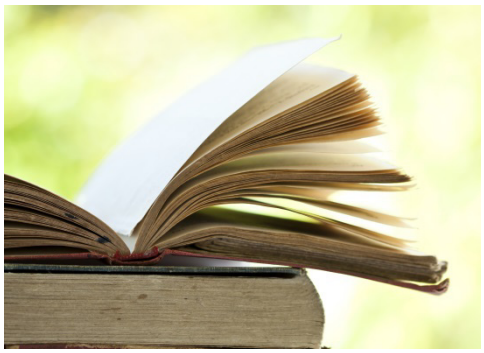

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ABBREVIATIONS

SPS	Sanitary and Phytosanitary measures
TBT	Technical Barrier to Trade
WTO	World Trade Organization
GATS	General Agreement on Trade in Services
WIPO	World Intellectual Property Organization
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TDAP	Trade development Authority of Pakistan
SBP	State Bank of Pakistan
PEC	Pakistan Engineering Council
SECP	Securities and Exchange Commission of Pakistan
IPRs	Intellectual Property Rights
SRO	Statutory Regulatory Order
ICAP	Institute of Chartered Accountants of Pakistan
CNIC	Computerized National Identity Card
GOP	Government of Pakistan
PMDC	Pakistan Medical and Dental Council
IPO	Intellectual Property Office

EXECUTIVE SUMMARY

The world has witnessed the success of export-led growth strategies in the Newly Industrialized Countries (NIC), whereas Pakistan is suffering from stagnant growth both in economic and trade arena. This study will discuss trade issues and propose possible remedies.

The manufacturing sector in Pakistan has historically suffered at the hands of overall low level of international competitiveness. The inability of Pakistani products to compete in international markets has been a result of several ingrained issues such as; (i) inadequate human resource and lack of clearly defined performance indicators for service providing institutions, (ii) limited investment in modern efficient techniques, (iii) poor data management, (iv) non-existent productivity indicators for businesses, (iv) lack of product diversification and (v) limited capacity of the products to meet international quality, health and social standards. The last problem is further augmented by limited available infrastructure to credibly test to comply with international Quality Standard requirements.

The above inadequacies indicate the modern times complexities and intricacies involved in the implementation of successful trade policies. Prime Minister of Pakistan has set a target of doubling exports by the 2018. Such growth, however, is far from automatic. To realize this goal, Pakistan will need to do more than reinforce the fiscal and monetary discipline that has enabled it to regain lost ground and forward momentum. The plans for economic recovery and doubling of exports cannot be achieved in isolation. Rather, this requires “Whole of The Government Approach”. The strategy must build on designing and implementation of such complementary policies that will reduce cost of doing business, and enhance competitiveness of Pakistan products domestically as well as at the international front. This necessitates review of the existing policy framework that directly or indirectly affects export competitiveness, identify gaps and suggest remedial measures to synchronize policies which would in turn propel economic revival to produce a higher and sustained growth.

The study suggests a roadmap that will contain strategy for the following:

1. Rationalizing the regulatory burden on the export sector
2. Increasing competitiveness through policy reforms
3. Engage in technology enabled production of goods through R&D
4. Develop consensus in favour of reforms within the industry.

Export competitiveness initiatives also hinge on the myriad of policy tools and approaches in vogue around the globe on trade, macroeconomic policy, customs and logistics, and direct enterprise support. It emphasizes the importance of global integration in achieving competitiveness – be it through new technologies or market-integrating economic policies

The key policies which affect export competitiveness and require to be formulated with “Export” as priority are as follows:

- Monetary Policy
- Fiscal Policy
- Industrial Policy
- Science & Technology Policy
- Investment Policy
- Policy on Labour/Education and Technical Training
- Other Policies on Trade Facilitation

Each of the above issues is discussed in detail, pointing out key challenges and recommendations. Key recommendation/solutions include i) Establishment of Exim-bank, ii) Establishment of Export Credit Insurance Company, iii) Mark-up support for value-added sector iv) Simplification of tariff structure, v) Expansion of Direct Taxes, vi) Strengthening of National Tariff Commission vii) Industrial policy for broad based innovation in all sectors, viii) Strengthening of SECP, Competition Commission, SPB, ix) Increase Mutual Recognition Agreements, x) Up-gradation of Testing Labs, xi),Launching of Technology Foresight Exercise, xiii) Establishment of Innopolis (R&D centers), xiii)Launching of Pakistan Design Centre, xiv) Improvement in Energy supply and Security situation, xv) Strengthening of Labour Laws, xvi) Regulation of Distribution Channels in domestic commerce, and xviii) Improving infrastructure for easy movement of goods and services.

Enforcement and strengthening of Intellectual Property Rights Law needs special attention of the MOC, while a strong Services Division under its ambit is needed. Simultaneously skill development for workers in export industry is required. Thus it can safely be concluded that MOC not only needs to concentrate on issues that directly fall under its jurisdiction, but has a major coordination role on issues that impinge upon trade development and promotion being dealt with in other Ministries and Provincial Departments. A compendium of trade related issues that need to be legislated upon should be prepared and necessary work should be undertaken under its supervision.

The study ends with its conclusions as discussed above and contains certain recommendation based on the overall discussion in the study. For the benefit of usurer of this study the recommendations have been divided into three phases, the first one containing short term recommendations and identifies low hanging fruits that can immediately be harvested/plucked while other recommendations can be taken at hand in the medium and long term perspective.

INTRODUCTION

General overview

The present Government is striving hard for an economic take-off through a series of ambitious reform programs, supported by concessional financing, that have not only spurred a recovery but set the stage for a period of accelerated and sustainable growth.

Pursuing policies to stimulate private investment and higher productivity, Pakistan could see per capita real GDP increase over the next decade by over 5 % a year, on average. That forecast in GDP growth as announced in the budget 2014-15 is optimistic, yet achievable. The stabilization measures and structural reforms already in place have laid the foundation for a per capita GDP growth at double the annual average rate --2.6 %-- over the past 5 years. The recent momentum in economic development has also created an opportunity for the government to rethink the priorities that it should adopt to stimulate the pace of growth and development.

In a bid for economic recovery, the Prime Minister of Pakistan has set a target of doubling exports by 2018. Such growth, however, is far from being automatically achievable. To realize this goal, Pakistan requires doing more than just reinforce the fiscal and monetary discipline that enabled the country to regain lost ground and achieve forward momentum. Such plans for economic recovery and doubling of exports cannot be achieved in isolation either; this will require a "Whole of The Government Approach". The strategy must be built on designing and implementing complementary policies that will reduce the cost of doing business and enhance competitiveness of Pakistani products domestically as well as on the international front. This necessitates a review of the existing policy framework that directly or indirectly affects export competitiveness in order to identify gaps and suggest remedial measures to synchronize policies which in turn would propel economic revival and produce a higher level of sustainable growth.

A review of the existing policy framework related to various sectors of the economy, such as, Monetary and Fiscal, Investment, Industrial, Science, Technology, and labour suggest that the existing policy regimes are not in sync with the trade policy. This lack of a well-structured, coordinated and export focused policy framework has resulted in a stagnating export performance by Pakistan.

Trade Policy Reforms

During the last two decades, developing countries have focused on policy reforms which centered on favouring greater market openness and better integration into the global economy. Two major assumptions underpin these reforms: first; that outward-oriented economies appear to have performed better in terms of economic growth and; second, that raising average incomes generally benefited all groups of people. However, the adoptions of such policies have shown mixed results. Pakistan embarked on a market-oriented policy reform with a predominantly manufacturing sector, which had been developed under a long-standing, protectionist state-trading regime. From its inception in early 1990's, this policy regime embodied a policy bias towards domestic consumption oriented industries. As a result, Pakistan's trade indicators reflect low outward orientation, concentration on low value-added activities and an undiversified product mix which is out of line with the fastest growing areas of world demand. The export share of Gross Domestic Product (GDP) has remained low and has even fallen—from 13 to 11 % in 2010, while 45 products account for around 83 % of exports, with ten products mostly from the textiles and garment sector—representing more than half that amount. As a result, the share of textiles and garments in exports has been approximately 60 % consistently, while food and leather accounted for an additional 17 %, and engineering barely 2 %. On the other hand, the engineering share of world trade has grown to 60 % from rising export powers in East Asia and Latin America, while the world's textile shares have remained at a stagnant 6 %, but even here, existing competitors from South Asia and new competitors from South East Asia are challenging for a share of this portion of world trade, making competition fiercer in the commodities Pakistan traditionally specialized in. Within this broader policy orientation, attempts have been made in recent years to promote export-oriented industries side by side with the tariff-protected trade regime. Given the deep-rooted import-substitution bias in the policy regime, the new emphasis on

export promotion has essentially involved introducing certain measures in support of export-oriented activities with a view to offset the anti-export bias of the pre-existing regime.

It is generally believed by business sector, government and academics that the country's exports are not competitive in international markets and that Pakistan is, therefore, unable to expand its market share. In particular, firms often complain of the lack of an investment-conducive climate, which impedes business expansion and exports.

A study of a number of successful economies brings out the positive role well-designed government policies played in supporting trade development. The most important policies complementary to trade reform are those that promote a stable macroeconomic environment and a sound legal framework. Without these conditions, and other policies that promote factor mobility, the reallocation of resources in response to trade reforms is mostly subdued. Other beneficial complements to trade policy reform include an efficient and honest trade-related business and administrative environment (ports, customs regulations, customs agents, banks, telecommunications and transport), as well as public and private institutions for collecting and disseminating export-market information and developing links with international buyers.

The ability to expand, diversify and upgrade production requires import of capital goods and intermediaries as part of the global supply chain process. This will increase exports required to offset the shrinking invisible account surplus, thereby alleviating balance of payments difficulties. Most importantly, however, export growth remains an outcome of productive, innovative and sophisticated firms. If export success is to be achieved, learning from neighbouring success stories ought to be a central theme and policy goal in economic management in times to come.

The Energy crisis is stated to be the greatest hindrance to industrial growth by all manufacturers. However, even available energy is not being used efficiently in Pakistan. Being a producer of low valued products makes Pakistan among the most inefficient users of energy. For instance, the energy unit used to produce a product in Pakistan will be of five or six times less value than the like/similar product manufactured in Japan with the same energy unit. Since electricity/energy may constitute up to 70% of input costs, production is therefore vulnerable to any external energy shock. In other words, the amount of energy used in production is therefore proportionately greater in Pakistan than in Japan which produces higher value goods.

The purpose of this Paper is draw broad contours of Trade Policy that is comprehensive, cohesive and coherent by forging synergies between the existing legal, institutional and sectoral initiatives/polices.

The Government of Pakistan intends to carry out a systematic evaluation of Policy Framework and identify constraints faced by the exporters' community at all the three levels i.e. "Behind, at and beyond the Border" and suggest possible remedies/interventions at the policy level. The main objective is to define a policy reform roadmap to help accelerate export growth. Export competitiveness is a complex issue; the factors that affect export competitiveness are multiple and spread across sectors and geography.

In order to carry out a meaningful analysis, the aim to identify various areas which help improve the business environment and enhance export competitiveness, reduce the cost of doing business by simplifying and facilitating procedures for them.

This would, in addition to facilitating the existing community of exporters, motivate entrepreneurs to invest more in terms of money and effort to venture in to the export business.

The roadmap will contain a strategy for the following:

1. Rationalizing the regulatory burden on the export sector

2. Increasing competitiveness through policy reforms

3. Engage in technology enabled production of goods through R&D

4. Develop consensus in favour of reforms within the industry.

Consultative sessions with all stakeholders (public plus private sector) are planned to achieve the milestones outlined in this roadmap. The time for the above initiatives is more appropriate today as proposed efforts of the Government have been accentuated by the grant of a GSP+ status by the European Union to Pakistan. A number of studies have been conducted in the shape of sector and institutional reports by the Government of Pakistan, International Trade Centre, under the auspices of EU funded TRTA II program, USAID and many other institutions. These studies were reviewed and analyzed so that issues impinging on the failure to achieve set export targets could be further worked upon.

The literature reviewed in this regard is as follow:

- Enhancing Exports in Textile Made-Ups and Light Engineering Sectors to Economic Cooperation Organization (ECO) Countries, ITC (2012).
- Service Export Development Strategy for Pakistan, ITC (2013)
- Policy Reform to Enhance Competitiveness and Export of Horticulture (Mango and Kinnow).
- Trade in Services Agreement (TISA): Option for Pakistan.
- Pakistan's Trade Potential and Proposed Regional Comprehensive Economic Partnership (RCEP), ITC
- Service Export Development Strategy for Pakistan, ITC (2014)
- Review of Pak-China and Pak-Malaysia FTAs to develop a framework to Review Preferential Trade Agreements, ITC.
- Enhancing Livestock Sector Export Competitiveness, ITC.
- Trade in Industrial Goods with India: Opportunities and Challenges for Pakistan, ITC.
- Enhancing Pakistan's Trading Benefits from the Proposed EU GSP+ Scheme, ITC.
- Enhancing Dairy Sector Export Competitiveness, ITC.
- Promoting Pakistan's Exports in Professional, Computer Related and Transport Services, ITC.
- Textile and Leather Sector of Pakistan, ITC.
- Pharmaceutical and Surgical Instrument Industry of Pakistan – A Technology Up-gradation Roadmap, ITC (2014).
- Plurilateral Negotiations on Trade in Services (TISA), Options and Recommendations for Pakistan, ITC.
- Tokaric, S. (2006), Does Import Protection Discourage Exports? IMF Working Paper WP/06/20, Washington DC.
- Lerner, Abba (1936), The Symmetry Between Import and Export Taxes, Economica, 3: 11 (August).

CHAPTER 1: NEED TO RATIONALIZE THE REGULATORY BURDEN ON THE EXPORT SECTOR

How to ease the regulatory burden is the biggest challenge towards enhancing export competitiveness of Pakistan, which primarily falls under the category of Taxes and Duties.

Taxes

Pakistan's tax policy differs from that of most countries. Whereas, the predominant source of taxes in most other successful exporters is domestic activity, in Pakistan, substantial portions of taxes are derived from imports. Customs duty contributes no more than 2% of revenue in most of the economies, but in Pakistan, its share is 12 %. More than half of total sales tax collection comes from imports. In addition, the withholding income tax on imports, which was raised in 2012-13, contributes a significant portion of the income tax receipt. Of the total revenue collection amounting to PKR 1,939 billion during 2012-13, sales tax on imports contributed PKR 403 billion, customs duty PKR 239 billion, and withholding income tax PKR 103 billion. Taxes on imports contributed PKR 745 billion (Approximately 38 %) of the total tax receipts during this period.

High taxes on international trade slow down economic activity, make industry less competitive, and encourage smuggling. With increased globalization and regional integration, lower taxes on international trade would enhance gross domestic product (GDP) growth, trade to GDP share, and tax to GDP ratio.

Box 1: Anti-export bias

A useful review of the concept of anti-export bias is produced in Tokaric 2006). He notes three distinct effects:

- Tariffs on imports create a disincentive to export by directly raising the domestic price of imports of imports relative to exports, or equivalently, by reducing the price of exports relative to imports. This is based on Lerner (1936) who shows that there exists a symmetry, or an equivalence, between the effects of an import tariff and an export tax on domestic relative prices.
- Import tariffs also indirectly alter the price of exports relative to the prices of goods produced solely for the domestic market—nontraded or home goods. Since a tariff raises the price of imports, consumers have an incentive to shift consumption away from the more expensive imports toward home goods, which will raise the price of home goods if these two types of goods are substitutes. Thus, a tariff on imports will reduce the price of exports relative to nontraded goods in this case. This appreciation in the real exchange rate would shift production away from exports and toward nontraded goods.
- Import tariffs can also affect a country's ability to export by altering the prices of primary factor inputs—wages and rentals on capital. For example, if the production of imports in many developing countries requires relatively larger amounts of capital than labour, then a higher tariff would raise the rental rate on capital. If capital is mobile across all sectors of the economy, the higher rental rate on capital would be spread across all sectors, which, by itself, would raise costs of production in the export sector and reduce output. It is also true that in this example, a tariff will reduce the wage rate, so the extent to which a tariff affects factor costs in a sector depends on how intensively that sector uses various factors of production.

Source: Tokaric (2006).

The complexity of Pakistan's tax regime is also a major obstacle. There are multiple rates for all taxes, including Sales Tax, Customs and Income Tax. Since most basic rates are high, there are multiple exemptions, which give rise to severe distortions. According to the World Bank, in Pakistan the time required to prepare, file, and pay (or withhold) three major types of taxes: the corporate income tax, the value added or sales tax, and labour taxes, including payroll taxes and social security contributions is more than twice that for Sri Lanka and India, and nearly four times that of Malaysia.

Another area of concern is that within domestic taxes, over 70 % of the tax burden is placed on manufacturing, despite the fact that its share in Pakistan's GDP is about 25 %. Agriculture, which constitutes about 20 % of GDP, contributes less than 1 % of tax. Similarly, services constitute 54 % of GDP but contribute only 25 % of total taxes. Furthermore, Pakistan's tax system favours income created through inactive sources, such as rental income. Income earned through working as a salaried person or through business is charged a much higher rate. Such discriminatory regimes found in special sectoral deals such as manufacturing versus agriculture or services could be termed as biased against exports.

Compared to most other countries, Pakistan's standard tax rates are higher. For example, the standard rate of sales tax is 17 % compared to 12 % in neighbouring countries including India and Sri Lanka. In the case of corporate tax, Pakistan's rate of 35 % is higher than most other countries. Similarly, Pakistan's customs duty rates are among the highest in the region. Higher protective rates make Pakistan's industry inefficient and unable to compete in the export market. High duty rates also provide incentives for traders to move from the formal to informal economy.

Another point for consideration is that tax policy in successful countries is formulated by economists and trade policy experts to guide the economy towards investment, production and trade; in Pakistan tax policy is formulated by the FBR, whose main concern is providing revenue. There is a need for an independent commission such as the National Tariff Commission of Pakistan in collaboration with the Ministry of Finance to review the existing tax policy: the objectives, structure and administration with a view to ensure that tax policy is consistent with broad national economic objectives.

In Pakistan's system tax, measures are often taken to meet short-term objectives, including annual revenue targets. In particular, levying regulatory duties on imports makes it very unpredictable for conducting international trade. Similarly, frequent changes in sales tax rates make Pakistan's tax system unreliable by increasing enforcement and compliance costs. High and variable taxes on imports adversely impact investment and business decisions.

Policy suggestions

Pakistan requires a paradigm shift: the tax burden should be transferred from imports to domestic activity, as is common in most other countries, and applied in a manner which is more neutral between sectors (unless justified by some externalities – benefits to the economy as a whole). This means fewer taxes on international trade, greater income tax and consumption taxes on goods and services.

On the issue of Tariff Rationalization the government need to take the following steps:

a) Revise the tariff for some defined objectives in short, medium and longer terms.

These objectives may be of national interest (efficient allocation of resources, industry requirements, and competitiveness of domestic industry), sustainable and equitable development, review/revise rates, quota schemes, deletion/substitution programs

b) Simplification of tariff structure

c) Correction of anomalies

d) Removal or reduction of cascading

Following are some specific suggestions to reduce the burden of import taxes and simplifying each of the major taxes.

Sales tax

- Sales Tax (on imports and domestic production/consumption) contributes the largest share, or 44 %, of total share. Therefore, reform of the Sales Tax regime will provide maximum benefits.
- At present there are multiple sales tax rates (0, 5, 7, 17, 19.5, 22 %, and 3 % additional tax on commercial importers). Most other countries have one or two rates and few exemptions. Pakistan's multiple rates create a complex Sales Tax regime that is prone to misuse.
- Sales Tax rates should be reduced to one or two rates and with few exceptions. It should only be waived on exports.
- High dependence on sales tax from petroleum, which contributes 43 % of the total, is an aberration and a major impediment in achieving high economic growth.

Income tax

- At present, there are two parallel income tax regimes in Pakistan: the Normal Tax regime and Final Tax regime (FTR). A tax reduction for one sector increases the burden on other sectors, and two regimes for income derived from different sources is not fair. At times, charging lower taxes on exports is treated as a subsidy by some importing countries, and Pakistani exports are subjected to countervailing duties for the difference between FTR and the normal tax.
- Although there is some use of third-party information for detecting tax evaders, its potential is not fully exploited. The NADRA database could be used more effectively. Additional third party resources that can be used for tax enforcement purposes are records of property sale/purchase through housing societies; vehicles registered with motor registration authorities; data from utility companies; club memberships; and credit card data. There is no justification for urban and rural elite to fail to pay income taxes. The enforcement tools and resources are available and must be leveraged.
- The Withholding Tax system should be reformed. Withholding taxes are useful in some cases, including banking transactions; however, extensive use of this scheme complicates the tax system and also results in making withholding taxes function as indirect taxes. Some withholding taxes, including those on imports, amount to increasing duty on international trade.
- As a rule, withholding taxes when imposed on the formal economy should be considered an advance payment of the final tax liability.
- Amnesty schemes serve as a serious disincentive for honest taxpayers and should be avoided at all costs. Experience shows that amnesty schemes have yielded little extra revenue. The open-ended money whitener scheme under section 111(4) should also be abolished.

Tariffs and duties

Pakistan has a higher average tariff in the region making the inputs for industry expensive and rendering production non-competitive. Pakistan has had a long-term tariff protection scheme for inefficient industries/sectors. These highly protective tariffs carry an anti-export bias by increasing costs, discouraging the investment in export-oriented industries and not forcing domestic producers to look outward. Statutory Regulatory Order regime is further having an adverse contribution by making the tariff regime very complex and inefficient.

A transparent and simplified tariff-setting mechanism helps to boost trade. The Ministry of Commerce and the Federal Board of Revenue (FBR) are working collaboratively for tariff rationalization and to remove this anti-export bias. The objective is to address the anomalies created as a result of undue concessions to various segments of the industry while ensuring a level playing field for the domestic industry. This tariff rationalization exercise will also address the issues emanating from concessionary regimes under the FTA/PTA. Such a reformed tariff regime should help in achieving a high level of efficiency in various sectors of the economy, attaining sustainable growth, facilitating inflow of technology and enhancing competitiveness. It should reduce the cost of doing business while also considering the aspect of consumer welfare while becoming responsive to the changing trade environment.

The government is committed to reducing the tariff slabs from 7 to 4, except for a few items, by July 2017. As an initial step the government has reduced the number of tariff “slabs” or tiers to 6 as part of the budget 2014-15, within a range of 0-25 %, with few exceptions and tariff peaks allowed to address sensitive goods and special sectors. Further by reducing one slab a year, the plan for reaching to 4-slab will be achieved.

Recommendations by Federal Tax Ombudsman (Pakistan) Advisory Committee

Pakistan has experimented many ways to develop a tax culture but with little concern for stakeholders. The reliance on amnesty schemes, shifting reliance from direct taxes to indirect taxes and on final tax regimes were measures aiming towards improving collection of revenue alone instead of inculcating a tax culture in the country.

The aim should be that the tax policies are designed to ensure financing of governmental actions and to achieve a basis for sustainable economic growth. The key areas requiring immediate attention are better tax education, simplification of tax procedures, creating a conducive social, political and economic environment and developing information technology facilities.

There should be a statutory body for the policy-making process, separate from FBR, represented by: the Planning Commission, Ministry of Finance, Ministry of Law, FBR, professionals and organizations like Institute of Chartered Accountants of Pakistan, Tax Bars, Chambers of Commerce and Stock exchange. This is consistent with best practices worldwide. It would help prevent political interference, foster accountability, and support.

The Computerized National Identity Card number of a person should be the identifier for all tax transactions, both at the Federal and the Provincial level. National Tax Numbers should be restricted to the companies only. A central number will make filing easier for the tax payers, and will provide access to all information to all the relevant tax collection authorities.

An Integrated Management System (IMS) is required and this is already in an advanced stage of development. The data included may then be compared with the return filed or not filed by taxpayers and non-taxpayers. After the automatic data mining there is an audit tracking system which would track the actions taken for record purposes. One latest part of the data warehouse information being used by a large number of countries is online access to each and every transaction taking place at their banks. If this is introduced, then this will take care of the huge tax gap that Pakistan has of Tax-to-GDP ratio of almost 79 %.

Stability in the tenure of senior tax managers, investment in key soft infrastructure (IT); qualified human resource and governance improvements are all urgently required. These actions have been on the tax reform agenda for years, if not decades. The success mainly depends on the decision-making power and sustained implementation capacity of the political leadership.

Management tools including annual and monthly action plans, regular review of key performance indicators, performance reporting as a monitoring tool, and stringent internal controls, and defined policies and procedures according to function will strengthen the department.

The Appellate Forums should be made independent from the formal / informal influence of FBR. The tax adjudication system must rest on the fundamentals of independence, insulation and isolation from tax collection. Prosecution has to be separated from adjudication with a gradual shift towards

independence by transferring the adjudication system under the command and control of independent office or Ministry of Law or, preferably, under the respective High Courts in conformity with section 10A of the Constitution.

There should be a gradual phasing out of fixed tax, final tax and minimum tax regimes and moving towards taxation on net income basis.

Other recommendations include: Tax Amnesties to be discouraged; rationalization of tax rates by bringing them down to acceptable levels to help broaden the tax base; verification of wealth of government functionaries through independent agencies; the undocumented economy to be tackled through measures such as the introduction of tax credits on production of evidence of specified expenses and cross verification of payments made for medical, real estate, food, etc; review exemptions available in the taxation laws, bringing them to the bare minimum level; and the Federal Government should persuade the provinces to impose agriculture taxes uniformly. Taxpayers' rights also need to be effectively protected by enacting a Taxpayers Bill of Rights.

CHAPTER 2: INCREASING COMPETITIVENESS THROUGH POLICY REFORMS

Determinants of competitiveness are varied and complex. It is clear that those economies which have a liberal and open trade policy enjoy stronger economic growth, and their overall development performance, including export growth, is ensured. Investment in physical capital and infrastructure, coupled with appropriate macro, micro and governance fundamentals are also essential. Further, human and social capital, soft infrastructure, support for technology related innovation, business friendly regimes, sound markets, strong and enforceable Intellectual property rights are complementary areas to maintain productivity and achieve operational efficiency through inter-firm and inter-industry linkages.

Export competitiveness initiatives also hinge on the myriad of policy tools and approaches in vogue around the globe on trade, macroeconomic policy, customs and logistics, and direct enterprise support. It emphasizes the importance of global integration in achieving competitiveness – be it through new technologies or market-integrating economic policies. The policy mix that emerges out of the above competitiveness analysis comprises of four core areas with education and health often considered as an important core area. To sum up, the following are important or core areas for achieving export competitiveness:

i. Removal of economic biases having to do with tariff and non-tariff barriers, real exchange rate misalignment, distortive tax regimes, the overall fiscal health of the economy, product and factor market conditions, and property right protection.

ii. Services and costs (e.g., infrastructure, customs and trade logistics, the costs of doing business including compliance cost of regulation).

iii. Pro-active measures that seek to correct market failures and help to develop, technology creation and adaptation, product standards and certifications, export promotion, environmental and social standards, social safety nets).

iv. Education and health, i.e., primary and higher education, vocational and on-the-job training and provision of basic health care.

For the purpose of increasing competitiveness through policy reforms it is thus important that Pakistan has policy integration through the “whole of government” approach. The key policies which affect export competitiveness and require to be formulated with “Export” as priority are as follows:

- Monetary Policy
- Fiscal Policy
- Industrial Policy (in the general sense, covering the primary, secondary and tertiary sectors)
- Science & Technology Policy
- Investment Policy
- Policy on Labour/Education and Technical Training
- Other policies on Trade Facilitation

A brief on the above mentioned policies along with their linkages to trade is presented below:

Monetary Policy

Monetary policy is the process of managing the money supply to achieve specific goals such as constraining inflation, maintaining exchange rate, achieving full employment, or economic growth.

Imports and exports of a country depend significantly on the exchange and interest rates prevalent in the economy, both of which in turn, are dependent on the monetary policy being pursued by the central bank. When money supply increases in an economy, then there is a decrease in the interest rate within the country. It results in the devaluation of the local currency, which effects exports positively and imports negatively.

When money supply decreases in an economy, there is an increase in interest rate which causes local currency to appreciate resulting in a decrease in exports and an increase in imports. It seems that pursuing expansionary monetary policy is a good option as far as volume of exports are concerned, however as always in economics, there is a tradeoff here too. The increase in volume of exports is partly and sometimes wholly offset by the decreased export earnings. A good approach is to strive for stability in the monetary policy as it will lead to stability in the whole economy. Stable monetary policy leads to stable interest and exchange rates in a country, which significantly affect the economic outlook, build investor confidence and decrease the risks involved in transactions taking place at the international level. Similarly, the availability of cheap credit, because of lower interest rate set by the central bank, facilitates borrowing by the local export-oriented industries to increase production and export capacity.

In order to solicit views of the stakeholders, a meeting was held in the Ministry of Commerce on June 5, 2014 where views of stakeholders including the State Bank of Pakistan on the incentives provided to the exporters were listed.

Issues/Key challenges

- Fluctuating Exchange Rates
- Limited access to finance
- Crowding out of the private sector

Recommendations

- *Establishment of the EXIM Bank*

An Export-Import Bank of Pakistan may be established which would also work as an official export credit agency (ECA) providing comprehensive export loan and guarantee programs to support Pakistani enterprises conducting business overseas. The Pakistan Exim bank would actively supported Pakistan's efforts to develop an export-led growth economy model and facilitate economic cooperation with foreign countries. Exim bank's primary services could include Export Financing, Trade Financing, and Guarantee programs structured to meet the needs of exporters/clients in an effort to both complement and strengthen clients' competitiveness in global markets. The Bank will also provide Overseas Investment Financing, Import Financing, and Financial Advisory and Structuring Services related to business opportunities abroad.

- *Establishment of Export Insurance Corporation/Company*

Pakistan Export Insurance Corporation (PEIC) may be established after promulgating the Export Insurance Act as an official export insurance agency under the Ministry of Commerce. Its mission should be to promote Pakistan's exports, overseas investment, and other overseas business activities by providing export insurance, overseas investment insurance, and credit guarantees.

The National Assembly would need to approve the underwriting limits of the corporation and government contributions to the Export Insurance Fund every year. The corporation wouldthen

underwrite export insurance within the limits approved, while taking the responsibility for operating the fund thus contributed.

The PEIC would need to establish a Board of Directors whose mandate would be to deliberate, decide and establish basic policies for the corporation's activities such as the types of export insurance, coverage rates, budgets, and closing accounts. To be led by the PEIC chairman and President, the committee could have up to ten members, including high-ranking officials from the Ministry of Finance, Ministry of Planning, Ministry of Industries, Board of Investment, Ministry of Commerce, Secretary-level executives from TDAP and experts from the private sector/academia.

Other important decisions to be made by the Board of Executive Directors of PEIC would be to develop export insurance products and high value-added services with a view of promoting Pakistan's exports and promote global trade.

To this end, the corporation would actively address the ever-changing global trade environment. PEIC would provide domestic exporters with different types of export insurance as well as, export credit guarantee. PEIC could provide (1) Export Credit Guarantee (Pre-shipment) mostly needed by SMEs; (2) Export Credit Guarantee (Post-shipment); (3) Foreign Exchange Risk by hedging the Foreign Exchange fluctuation risks by eliminating losses on account of FX fluctuations.

The most important role of PEIC would be to provide credit guarantees to exporter of plant and machinery as well as large contractors engaged in long term projects, in conjunction with the proposed EXIM Bank.

It could also offer export credit research and information services on importers and their countries, and collect export receivables. The proposed PEIC could potentially become Pakistan's Growth Engine.

- Mark-up support to the value added sector
- The cost of financial capital-borrowing from banks or other financial institutions is very high in developing countries when compared to developed countries, which erodes competitiveness and investment. For this reason, preference is given to labour-intensive industry. The Government of Pakistan has devised a scheme of concessional loans to exporters against confirmed Letter of Credit, but due to cumbersome procedures it is not easy to avail of this facility. Pending the establishment of the EXIM bank Government of Pakistan should emulate similar schemes in place in developing countries such as Brazil.

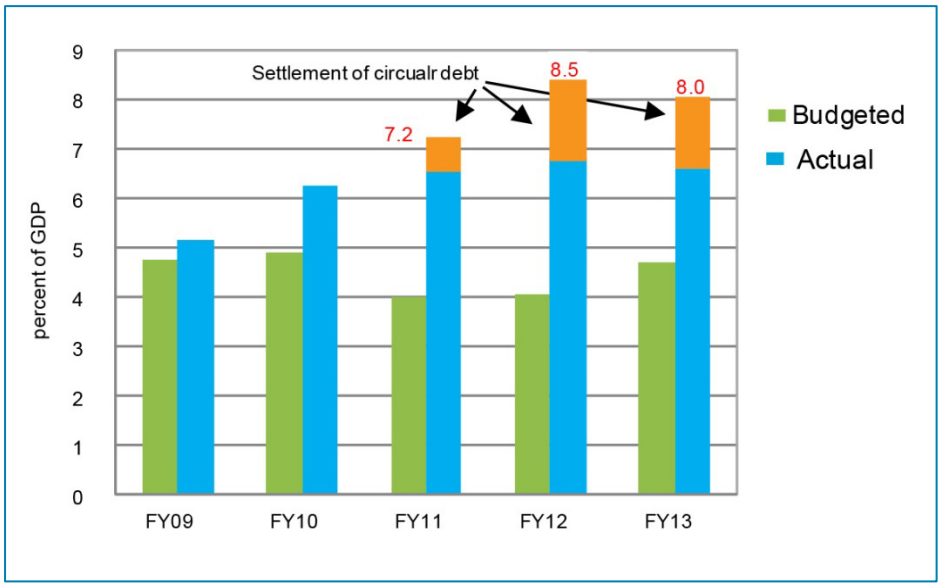
Fiscal Policy

Fiscal policy refers to the change in government expenditure and taxation decisions, which in turn affect the aggregate demand in an economy. It is a tool applied to streamline the economy and to do away with the fluctuations i.e. recessions and booms. Stability is highly desirable in all components of the economy including international trade. International trade of a country is largely influenced by fiscal policy through changes in taxation and government expenditures, which have causal linkages with interest rates, exchange rates and with industrial output, all of which are major determinants of the aggregate international trade of a country. If a deficit-financing approach is pursued by the government, which increases government expenditure by borrowing and printing notes, it may result in crowding out private investment and usually the export-oriented industries are affected. They may be unable to get funds to finance their production and consequently end up exporting less than their potential. However many companies have access to funds through their overseas affiliates, unlike local companies, in particular SMEs.

High revenue-expenditure deficit (budget deficit) of the government leads to higher borrowing by the government, which may drive up the interest rate, increase borrowing costs with negative effects on exports. Government spending usually leads to the depreciation of the real exchange rate and ultimately leads to a trade deficit which is evident in the case of Pakistan. Pakistan's exports have not

been elastic to change with the real exchange rate resulting in lower export earnings despite the depreciation of the rupee.

Figure 1: Fiscal deficit



Source: Ministry of Finance

Similarly, fiscal policy in the form of higher taxes also affects the export-oriented industries and results in decreased production. In Pakistan, the levy of taxes on international trade, particularly on imports is disproportionate and complicated because of over emphasis on domestic industry protection, mushrooming issuance of SROs. Also, some export industries have been given incentives in the form of tax rebates, which has resulted in the concentration of exports only in a few sectors and discouraged diversification of export in terms of products.

Issues/Key challenges

- Simplification of the tariff structure
- Expansion of the direct taxes and reduction of complexity in the tax system
- Shift from indirect taxes to direct taxes

Recommendations

- National Tax Reform Commission or Task force may be constituted to simplify the tax system in Pakistan. Recommendations of the FTO Advisory Committee could serve as a basis of further work by the above proposed Commission.
- National Tariff Commission may be strengthened

The function of the Commission would be to advise the Government on:

i. Tariff measures or other form of assistance for:

   a. Providing protection to the indigenous industry;

   b. Improving the competitiveness of the indigenous industry; or

   c. Promoting exports from Pakistan;

ii. Any other matter relating to protection or assistance to the indigenous industry that the Federal Government may refer to the Commission.

iii. Implementation of trade policy instruments for protecting the domestic industry against unfair trade practices, i.e. anti-dumping, countervailing and safeguards as per existing laws in Pakistan.

To enable the National Tariff Commission to work efficiently, there is a dire need for capacity building, infrastructure development of the NTC. Further, staffing and training requirements, gaps in existing legislation and rules need to be identified and filled.

Industrial Policy

Pakistan's industrial policies were either formulated in response to a crisis, or as part of a series of medium-term development plans – most of which were never fully implemented. Pakistan has experienced five waves of significant industrial policy changes. The first was based on a decision by India to impose a trade embargo on Pakistan in 1948 shortly after independence. In this phase, Pakistan encouraged investment in consumer goods and provided protection from external competition. This approach resulted in an increase in industrial production for domestic consumption.

The next wave was part of the Second and Third (1960-65 and 1965-70 respectively) five-year development plans during President Ayub Khan's regime. The third wave of industrial policy involved the nationalization of large scale manufacturers under President Zulfikar Ali Bhutto's administration (1971-1973). Public sector corporations were set up to finance the industrial sector - the beginning of today's deep-rooted, public-management distortions. The fourth wave, started in the 1990s, had three main components, namely; deletion policy, deregulation measures and privatization. The deletion policy focused on achieving self-reliance in the engineering sector and the promotion of technology transfer. The fifth wave (1999-2008) resulted in the private sector gaining a very prominent role. Deregulation and adjustments to the tariff regime led to major developments in the automobile and consumer electronics industries.

The industrial policy plans and macroeconomic goals were not anchored in appropriate microeconomic understanding and analysis. There was not any significant relationship between public investment and long-term economic growth in Pakistan. Phases of stagnant investment rates have also occurred with frequently changing political regimes and economic policies, and volatility in the balance of payments. Pakistan has experienced phases of import substitution, export orientation and resurgence of protectionism. Thus, trade and industrial policy in Pakistan was never supported by a broad-based growth model.

Industrial policies are sector specific and are not synchronized with an export-led growth strategy. Unless there are significant externalities, in which public benefits outweigh the costs, there is little economic rationale to support industrialization of specific sectors. There is no blueprint for the ideal industrial policy, it is contextual. Several developing economies that had opened up their trade and investment regimes and brought about a level playing field are now once again considering and reviewing their industrial policies since economic growth has been slowing down in the wake of the recent food, fuel and financial crises.

Statutory tariffs have become less relevant as a measure of the true level of protectionism as they are now modified through large scale and uncontrolled use of Statutory Regulation Order (SRO) exemptions bringing extra protection to selected industries. Thus, if a final product is (nominally) protected by a statutory tariff of 25 %, its effective protection could further increase by a reduced tariff on its raw material inputs. These distortions across import substitution activities have increased the general anti-export bias in the system. This means that industrial policy is out of sync with trade policy.

South Korea has established a number of small and medium-size manufacturing companies that have established units engaged in manufacturing electric and electronic products. This has been done

through Korea Small and Medium business Administration (SMBA), which has assisted SMEs to enhance their innovative capacity and entrepreneurship for their stable growth in a changing global environment. SMEDA in Pakistan can provide this kind of help to SMEs.

Key Issues/Challenges

- Protectionist industrial policies
- Non-emphasis on value-added sectors
- Anti-export bias and pro-textile bias
- High degree of government involvement in most markets ranging from agriculture to manufacturing, from retail to transport and from trading to construction.
- Lack of a transparent and competitive market.
- Government regulation is not organized or informed by research, leading to contradictory and cumbersome regulation.
- Lack of clarity in government policy – importing commodity one year, buying from the local market next year, allowing imports then disallowing—creates opportunities for rent-seeking at the expense of the consumer.

Recommendations

- The Government of Pakistan needs to take a less intrusive and a more facilitative approach to devise broad-based policy options of "industrial policy" covering education, science, regional development, cluster groups, promotion of participation in value chains, etc., not merely sectoral subsidization (unless there are proven positive externalities)
- The role of industrial policy must be such that it enables an environment in which broad-based innovation is encouraged in all sectors rather than favouring certain sectors based on political and not economic rational.
- There is an urgent need for further deregulation; the private sector will also have to realize that six decades of subsidies and tax incentives must go if true entrepreneurship and innovation is to be promoted.
- Institutions responsible for bringing about competitive markets should be given autonomy; these include the Competition Commission of Pakistan, Securities and Exchange Commission of Pakistan and the state bank. In order to promote across the board openness in trade and investment, non-tariff barriers including import controls imposed by entities such as the Engineering Development Board and Federal Board of Revenue must be revisited.

Science and Technology Policy

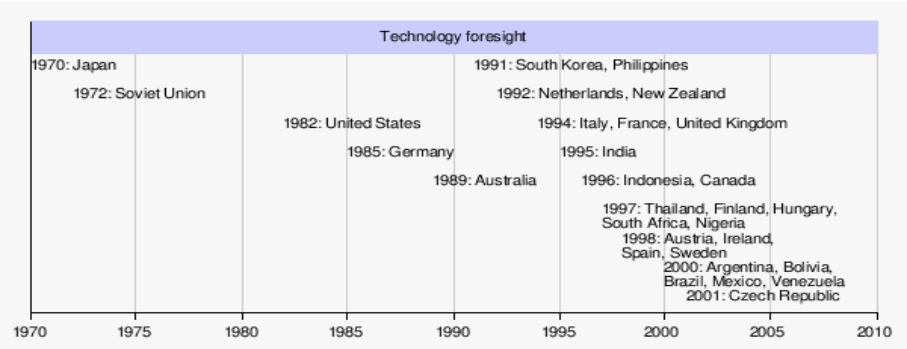
Background: The first "National S&T Policy" was approved in 1984 which was followed by the "National Technology Policy and Technology Development Plan - 1993". The Ministry of Science and Technology announced in 2012 aims "To achieve the security, prosperity and social cohesion of Pakistan through equitable and sustainable socio- economic progress using science, technology and innovation as central pillars of development all sectors of economic activity".

The policy focuses on ST&I Planning and Management Structure, Human Resource Development, Indigenous Technology Development, Technology Transfer & Creation of Absorptive Capacity and International Cooperation as well as R&D Thrust Areas. The prominent features of the current policy are the proposal of an effective mechanism of policy oversight, highlighting innovation as a driver of economic activity, paradigm shift from supply to demand side and an effort to align ST&I policy with national policies in other economic sectors.

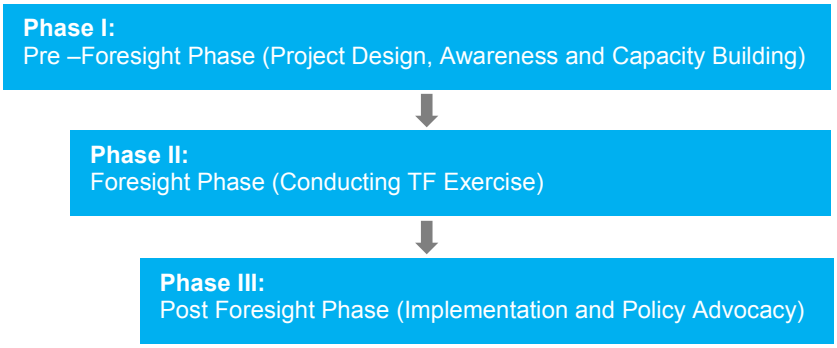
Launching a Technology Foresight Exercise

The broad aim of technology foresight is to identify emerging generic technologies likely to yield the greatest economic and social benefits. There is a long history to technology forecasting and "futures studies", with waves of interest evident in the 1930s and especially the 1960s/70s. During the 1990s, technology foresight became much more widespread. Japan has been engaging in extensive foresight activities since 1970, and there were several foresight initiatives in France in the early 1980s. Later that decade, countries such as Australia, Canada and Sweden also began to experiment with technology foresight (See Figure below). However, prior to 1990, there was comparatively little technology foresight in Germany, the United Kingdom and the United States. Around 1990, the situation began to change with Australia, France, Germany, Netherlands, United Kingdom, United States, South Korea and various other countries launching major foresight exercises. It is high time now for Pakistan to join the group of countries and adopt a systematic system of identifying critical technologies for export development.

Figure 2: Time trend of technology foresight exercise in various economies



- The Foresight Exercise conducted in the countries given in the above figure was tied to actions and in particular to informing planning and priority-setting, and it placed great emphasis on network-building. While there are various methodologies for carrying out the Foresight process, it is clear from country specific experiences that the economic, social and cultural contexts of different countries and of different industries can influence the choice of the methodology used. In some cases combinations of methodologies can be extremely effective, e.g. scenario and Delphi. The experience of Asia Pacific Economic Cooperation (APEC) Center for Technology Foresight (CTF) is that Foresight can be an extremely effective tool for strategic technology planning at multi-economy, national and industry levels.
- In this era of competition and increasingly rapid change, new technology is playing a growing role in relation to economic and social development. As the country moves towards knowledge-based economy, industrial competitiveness is coming to depend to a greater degree on new technologies and innovation. However, emerging technologies and the strategic research which underpins them are often too far removed from the market, too risky or too expensive for industry to take sole responsibility for their support. Pakistan must assume at least part of the financial responsibility. Yet governments cannot afford to fund all areas of research and technology which their scientists or industrialists would like them to support. Choices have to be made, and technology foresight offers a process to help make those choices. Successful exploitation of technology has become critical to achieving export competitiveness.
- The Technology Foresight exercise is a systematic forward thinking process aimed at identifying possible critical technologies. It is concerned with developing a vision for the future by looking at possible future needs, opportunities and threats. The Technology Foresight process will involve an in-depth analysis and discussions to identify key issues and trends in terms of market and technological opportunities up to 2020 for Pakistan's exporting sector. The foresight exercise is normally conducted in the following three phases:



Establishment of R&D Parks through Government, academia and Industry Collaboration

In order to climb the competitiveness ladder and to establish a knowledge based economy,a review the following initiatives as pathways towards a knowledge economy has to be undertaken:

- Research Technology Park (RTP) of North Caroline, USA.
- Knowledge Transfer Partnership (KTP) of UK.
- Technology Park Malaysia - 'Ecosystem" for accelerated and sustainable economic growth
- DaedeokInnopolis (Korea) – An initiative to better respond to the economic demands of the nation.
- Technology Park in China – A real estate facility leased to big companies like Microsoft and others for their projects.

None of these initiatives may produce the desired economic results if duplicated in Pakistan. A customized system needs to be developed that realistically takes into account the background realities, available resources and desired economic goals.

Background realities

- The national industrial base both in private and public sector does not make any investment in technology or their workforce or executive development, lacks visionary leadership, and is non-competitive.
- Universities have been unsuccessful in solving industry problems and lack credibility with industry participants.
- National R&D centers have not produced any significant technology commercialization success story.
- The public policies have not delivered the desired economic results.
- The engineering sector's contribution to trade is 60 % globally compared to only 2 % in Pakistan.
- The national industrial base has low productivity, deficient product design and poor product quality. New manufacturing technologies and developments in operational management have not been incorporated, leaving the industrial sector non-competitive in the global market.
- There are no venture capital investments available as R&D endeavors have yet to be undertaken.
- Successful economies have gone through various economic development programs that prepared a pathway towards knowledge economy such as:
  - Productivity Enhancement Programs.
  - Quality Enhancement Programs.

- Value addition programs through enhanced design and better manufacturing technologies.
- University-Industry linkages developed over time through meaningful working relationships and credible performance based on knowledge sharing.
- Intellectual Property Rights protection system and IPR protection & enforcement.

- Mechanism
  - A fair and equitable reward system for researchers and knowledge-based institutions.
  - Programs for promotion of innovation and entrepreneurship.
  - Financing instruments and mechanisms for entrepreneurial ventures.
  - Utilization of the full potential of the Industrial base.
- A mechanism and a system to achieve this are needed. This should develop meaningful and credible linkages between universities and Industry while enhancing the economy and exports without significant costs.
- Utilization of national R&D and university resources to improve product and manufacturing technologies; a collaborative effort between academia and industry
- This initiative should further enhance national competitiveness in the global market and is a pre-requisite for entering into a 'knowledge economy 'era.
- Developing Ecosystems – a pathway towards a Knowledge-based Economy through the creation of a new breed of entrepreneurs and the establishment of technology SMEs.

Recommendations for establishing innovation cluster

To establish an innovation cluster, the stakeholders will have to undertake/setup the following projects to secure not only higher levels of exports but an overall increase in competitiveness vis-à-vis international participants.

1. Industrial Performance enhancement unit (IPEU) - To assist current industrial participants in enhancing productivity, quality on a continuous basis. Staffing and operational costs must be provided in the project.

2. Talent and Competency Enhancement – Programs for talent and competency enhancement for business and technical management should also be included in the project.

3. System development and organizational restructuring of National Research Centers and University Research Facilities to collaborate with industry to enhance product value through design and technology, for improved global competitiveness.

4. R&D Facility – An appropriate and well equipped research facility, staffed by expert researchers and management to efficiently develop technologies and products that are sector specific and effectively address domestic and global market needs and start-up SMEs. Allocation of funds for 464 R&D projects @ $50K per project should be planned.

5. Design & Manufacturing Resource Center (DMRC) – To take R&D through prototype, functional and commercial product stages as well as manufacturing process development. The center will also undertake product 'value added' projects for Technology SMES.

6. Technology Incubation Center (TIC) - A facility that provides office space, services such as consultancy services and assistance with business start-ups capital. A venture capital of $10 million should be planned for business start-ups to innovative entrepreneurs for commercialization of their products.

7. Technology Parks (TP) – Technology Parks (TP) are a means for bringing together academic, business and relevant organizations into one physical location and supporting inter-

relationships between these groups and Ecosystem complex and the university. TPs are provided in select ecosystems complexes.

8. Science and technology ventures (STV) and Technology transfer office - A business entity to act as holding company for technology businesses and also administer technology transfer and intellectual property management.

9. Center for innovation and entrepreneurship (I&E) - An organization to promote awareness about I&E through its Professional Development center (PDC) and international subject matter experts.

Launching a/the Pakistan Design Center

Export share in the international markets can be increased through competitive products. Product competitiveness can be achieved through innovative design, material, development and research. The adoption, absorption, mastering, adaptation and application of new designs, depend on the strength and efficiency of the national system of design in relation to indigenous R&D capabilities and related international networks. In seeking an appropriate solution to the above issues, the first step would be to establish a Pakistan Agency for Design promotion. The main objective of this Pakistan Agency for Design Promotion would be to enhance export potential through creating a national design innovation system to develop design enhancement capability in export–oriented industry. The project is aimed to develop a design center in the country to create awareness of importance of design and cater for design R&D needs of prioritized export sectors. The design center will develop policy, processes, and infrastructure and a coordination mechanism among industry stakeholders, i.e. the export–oriented industry, universities, R&D organizations and government, for discovery, development and enhancement of design.

Pakistan is losing economic competitiveness in its export markets. A host of problems such as rising national debt, unemployment, scandals, corruption, and the terrorism have eroded the sense trust in the transparency and effectiveness of the government, thereby negatively impacting on foreign trade.

A number of confidence building measures for expanding trade thus need to be undertaken. For the expansion of exports, innovative designs will serve to advance the goals of economic competitiveness by saving time and money and simplifying the use, manufacturing, and maintenance of goods and services.

For achieving export competitiveness, it is becoming abundantly clear that knowledge-based economies are gradually being replaced by what is known as “creative economies,” where design takes center stage in any export-led growth strategy. Advanced countries such as Japan, the US and EU have adopted “total design solutions” in their strategies. Advancement in technology coupled with well-designed products is determining the global positioning of products.

The Strategic Trade Policy Framework 2009-12 recognizes the fact that global buyers have become more demanding- requiring more value for money, better quality, enticing designs and lower prices. It is due to the lack of these qualities that Pakistan is caught trapped in the low quality, low priced intermediary goods segment of the export market. It is imperative that climbing the export-sophistication ladder, to a large extent, is linked to upgrading local industry’s capacity to integrate into the global supply chain. This in turn depends on the factors such as the technology intensity, income index (per capita measure), capital intensity in the production process, value addition, better designs, entrepreneurial abilities, returns to factors of production etc. There can be many entry points to increase the sophistication level of export products such as research, design, assembly, production, distribution, and marketing.

Investment Policy

Investment refers to the expenditure on infrastructure capital goods like machinery and plants, which are not for immediate consumption and used rather for the production of goods and services in an

economy. Investment is one of the key determinants for changes in the GDP of a country assuming savings are equal to investment.

A high investment to GDP ratio translates into a higher growth rate and has a significant effect on the country's exports as well. It is evident from China whose investment to GDP ratio was 47 % and from India, where the investment to GDP ratio stood at 35 % of GDP in 2013; their exports stood at US$2.209 trillion and US$317 billion, respectively, in 2013. As compared to these, the latest data from Economic Survey of Pakistan reveals that Pakistan's investment to GDP ratio has been 13.99 % of GDP in the preceding fiscal year while the exports stood around US$25 billion.

Pakistan did not have an investment policy, as such, during the 1950s, 60s, and 70s. The private sector was the main vehicle for industrial investment during the 1950s and the 1960s and the involvement of the public sector was restricted to three out of 27 basic industries. By the late 1960s the economy was largely dominated by the private sector in important areas like banking, insurance, certain basic industries and international trade in major commodities. The services sector was reserved for local investors. Foreign investment was not allowed in the field of banking, insurance, and commerce.

On Jan. 1, 1972, the GOP issued an Economic Reforms Order taking over the management of ten major categories of industries, commercial banks, development financial institutions, and insurance companies. The sudden shift towards the nationalization of private sector industrial units shattered investors' confidence. At the same time there was also acceleration in direct investment by the public sector in new industries ranging from the basic manufacturing of steel to the production of garments and bread. The status of the public sector as a catalyst and gap filler in the 1950s and 1960s changed to that of repository of the "commanding heights" of the economy. All foreign investment was, however, exempted from nationalization.

Although the government changed its stance after the dismal performance of the nationalization; in 1978, for the first time, the public and private sectors were given equal importance for investment. However, the public sector remained dominant in making industrial policies thorough out 1980s and complicated industrialization procedures discouraged private local and foreign investment. The industries required the clearance of the Central Investment Promotion Committee (CIPC) and the approval of the Federal Government.

The highly regulated nature of Pakistan's economy proved to be a deterrent to the inflow of FDI. Specifically, FDI was discouraged by: (i) significant public ownership, strict industrial licensing, and price controls by the GOP; (ii) the inefficient financial sector with mostly public ownership, directed credits, and segmented markets; and (iii) a non-competitive and distortionary trade regime with import licensing, bans, and high tariffs.

Pakistan began to implement a more liberal foreign investment policy as part of its overall economic reform program toward the end of the 1980s. Accordingly, a new industrial policy package was introduced in 1989 based on the recognition of the primacy of the private sector. A number of policy and regulatory measures were taken to improve the business environment in general and attract FDI in particular. A Board of Investment (BOI), attached to the Prime Minister's Secretariat, was set up to help generate opportunities for FDI and provide investment services. A "one-window facility" was established to overcome difficulties in setting up new industries.

During the 1990s, a more liberal regime was adopted by the Government of Pakistan to attract FDI into the country. A large number of quantitative restrictions and non-tariff barriers had been removed while negative and prohibited lists of imports were also been reduced. Export incentives were also broadened. The highly cumbersome duty-drawback system was replaced with a scheme whereby 80 % of the duty-drawback is paid automatically within three days to the firm, and the remaining 20 % is paid within one week after inquiry.

The visa policy of Pakistan had been modified to make it more attractive to foreign investors. Foreign investors with substantial investment are granted 3 years multiple entry visa. There is no restriction/requirement for a work permit for foreign managerial and technical personnel for gainful employment/occupation in private firms. Under these reforms, Pakistan acquired very liberal investment policies. However, after 2008 due to key challenges such as the war on terror, law and

order situation, weak economic policies, corruption and high cost of doing business, Pakistan was unable to attract FDI commensurate to its investment potential.

A prudent investment policy is another key determinant for the promotion of international trade. Policies favourable to investment benefit the export-oriented sector in terms of machinery and infrastructure related investment, leading to overall growth and development. Pursuing liberal investment policies, decreasing the bureaucratic hurdles and doing away with cartels and lobbies who try to keep out investors from entering a specific sector greatly helps increase the volume of exports.

Thus, formulation and implementation of a more open, coherent investment policy can go a long way towards solving many of the economic problems of a country.

Issues/Key challenges

- War on terror
- Law and order
- Weak economic policies
- Complexity in tax structure
- Energy crises
- Ineffective legal enforcement of the investment contract

Recommendations

- Consistency in the economic policies
- Simplified Tax structure: /concessions to foreign investment apart, private investors continue to face a plethora of federal, provincial, and local taxes and regulations. Federal levies include custom duties, sales tax, with-holding tax at import stage, and excise duty.
- The government introduced a few temporary importation schemes, including Duty and Tax Remission Scheme (DTRE), 'Manufacturing Bonds Scheme' wherein the importer shall export temporarily imported goods after due processing thereof within eighteen months of their import.

  Under the temporary importation scheme, the federal government has exempted whole of the customs duty and sales tax on temporary importation of goods for subsequent export as specified. This facility is mostly available to exporters also registered as manufacturers against bank guarantee or pay order or indemnity bond equivalent to the amount of customs duty and sales tax otherwise imposed thereon.

  - In order to provide a unified and uniform procedure for the import of duty-free items to be used in the production of finished goods meant for export by the manufacturers-cum-exporters, it is proposed to merge all 'temporary importation schemes' notified vide SRO 492(I)/2009 and other schemes like DTRE to facilitate the manufacturers-cum-exporters. Presently different schemes have separate procedures for temporary importation of goods to be consumed in the production of export goods. (The DTRE scheme uses a different procedure from that of duty free imports under the 'Manufacturing Bonds scheme' or 'temporary importation schemes' notified vide SRO 492(I)/2009).
- Effective Legal System: Foreign investors in Pakistan also have to cope with a complex legal situation. Laws based on different legal systems are applied independently. Uncertainty is exacerbated by the practice of issuing Special Regulatory Orders (SROs) that can amend or alter existing laws.
- Alternate Dispute Settlement Mechanism
- Export oriented Investors must be encouraged

Labour Policies in Pakistan

Since creation of Pakistan, five labour policies have been announced by the government in the years 1955, 1959, 1969, 1972 and 2002. After the gap of 8 years, in 2010 the Government announced the latest labour policy. In 2012, the Labour Ministry devolved as the subject of labour became a provincial legislative issue.

All labour polices before 2010 basically laid-down the parameters for the growth of trade unionism; the protection of workers' rights; the settlement of industrial disputes and redress worker grievances. The labour policy of 2010, for first time in the history of Pakistan, addressed issues that had direct bearing on exports. It was divided into four parts, i.e.

- Legal framework;
- Advocacy: Rights of Workers and Employers;
- Skill Development and Employment;
- Manpower Export.

The Government of Pakistan's Labour Policy envisaged a harmonious working relationship between workers and employers for improving the performance and efficiency of the industry. The rights and obligations based approach to labour issues was being followed also in accordance with the Constitution of the Islamic Republic of Pakistan. In order to fulfil obligation under the Constitution, as well as under international covenants with regard to well-being and socio-economic protection of the workers, a strategy had evolved and pursued in accordance with the concept of decent work in the employment sector. The decent work strategy of the country comprises four elements that are closely related.

- Opportunities for productive, remunerative, safe and decent work;
- Social protection;
- Respect for workers' basic rights and interests; and Social dialogue.

A comprehensive skill development human resource strategy was also the next main pillar of the labour policy. The unique feature of this labour policy was "Man Power Export" It was decided in the policy that human resource will be considered one of the major capitals of Pakistan. Procedures regarding export of manpower will be simplified and streamlined by making necessary amendments in the Emigration Rules to ensure expeditious processing of demands for overseas jobs. Concrete steps were taken in the labour policy for the export of manpower and the formation of the 'Manpower Export Committee' in the Ministry of Labour and Manpower to:

- Prospects of Pakistani emigrant workers
- Promoting emigration and protecting emigrants
- Re-integration of returning emigrants and effective use of Diaspora resources
- Support measures and implementation mechanism

Another challenge that is being faced by the business community as well as the government arises from the conditionality for taking benefit of the EU GSP+ scheme. To qualify for GSP+, Pakistan and other beneficiary countries are eligible for duty-free imports of non-sensitive items and reduced tariffs for sensitive items, subject to ratification and effective application of 27 key international conventions on sustainable development and good governance (16 on human rights and labour rights, and 11 on environmental standards, drug enforcement).

The burden is on the beneficiary country to prove "effective implementation" of the conventions; however, the special incentive arrangement can be withdrawn temporarily if the beneficiary country fails to meet certain conditions. Some aspects related to the reporting and monitoring requirements and on-ground implementation will include (i) yet to be defined violation thresholds and (ii) unconditional acceptance of applicant state to third party monitoring. Within Pakistan, the key issues are costs of implementation, stakeholder sensitization and the impact of devolution on the concerned subjects.

In Pakistan Labour, Employers Liability & Workmen's Compensation, Employment Insurance, Trade Unions & Labour Disputes, Regulation of Labour and Safety in Mines and Oilfields are among the subjects that have devolved from the center to the Provinces as a result of the 18th Amendment of the Constitution. However, the provincial Governments have thus far neither developed the required legal framework or legislation for compliance with international obligations nor authorized the Federal Government to act their behalf in this matter.

An analysis has been done on the new GSP+ scheme's conditionality requirements on sustainable development and good governance and its implications on beneficiary countries. Simultaneously, a review has been conducted on Pakistan's status vis- à-vis the 27 conventions required for GSP+ qualification and challenges to be faced for meeting the eligibility criteria. The analysis suggests a need for designating a focal body that coordinates between the canter and provinces and among provinces in the area of legislation for the implementation of international conventions while maintaining liaison in the area of international monitoring, keeping in the devolution of labour issues to the Provinces.

Key Issues/Challenges

- Restrictive labour regulations governing maximum hours, overtime conditions, length of temporary contracts, remuneration rates, and welfare contributions.
- The discretionary approach of provincial inspectors, labour tribunals, and wage authorities in enforcing requirements and adjudicating disputes adds considerable uncertainty to labour market outcomes.
- The informal nature of the labour market stifles incentives and retards investment in workers' skills, both by the employer and the worker himself.
- Devolution of the Labour Ministry and non-implementation of the Labour Policy
- Consolidation of the Labour Laws/Non Compliance of International Labour Conventions resulting in banning of exports
- Manpower Exports

Recommendations

- Strong need for labour market reforms: a good start by codifying antiquated legislation and starting the process of liberalizing the market.
- Completion of the legislative reform agenda focusing first on reforming the 14 laws governing labour welfare
- To have a comprehensive Human Resource Development Strategy.
- To revive the export strategy as envisaged in 'Labour Policy 2010' by the MHRD
- To start the "Decent Work Practices" Program
- To deal with the post devolution situation and to adhere to GSP+ requirements, enhanced coordination between all stakeholders at country level is needed.
- Advanced capacity building and awareness campaigns need to be launched
- Creation of dedicated country-level monitoring unit

- Sector-level monitoring through a public-private stakeholder body comprising professional bodies chambers and government departments
- Enhanced number of judicial commissions for reporting
- Creation of a panel of trade consultants and legal experts advise on GSP+ conditionality

International Quality and Food safety Standards

Pakistan's agro-based export consignments are frequently rejected due to non-compliance with food safety/quality standards in trade. There is either a lack SPS management capacity or the Acts/Laws/quality standards are outdated. This results in huge losses of foreign exchange earnings. The central problem is that non-compliant products are consigned to markets due to a systematic failure of SPS management system. There is thus a need to establish a permanent regulatory body dealing with all aspects of SPS/TBT issues.

A. Sanitary and Phytosanitary measures (SPS)

The WTO Agreement on application of SPS measures sets out the basic rules for food safety and animal and plant health standards. It allows countries to set out their own standards which must be based on science to protect a country from damage caused by the entry, establishment or spread of pests. They should be applied only to the extent necessary to protect human, animal or plant health or life from additives, contaminants, toxins, disease-causing organisms, plant-carried or animal carried diseases and pests. They should not be arbitrary or unjustifiably discriminated between countries. Member countries are encouraged to use international standards, guidelines and recommendations, where they exist. The basic aim of the WTO SPS Agreement – to which Pakistan is party, is to maintain sovereign right of any government to protect the level of health.

The legal frameworks that exist in Pakistan are as follows:

- The Pakistan Animal Quarantine (Import and Export of Animal and Animal Products) Ordinance, 1978 (XLIX of 1979)
- The Pakistan Plant Quarantine Act, 1976 (LXXV of 1976)
- The Agricultural Produce (Grading and Marking) Act, 1937 (I of 1937)
- The Seed Act, 1976 (XXIX of 1976)
- The Pakistan Fish Inspection and Quality Control Act, 1997 (XXXV of 1997)
- The Exclusive Fisheries Zone (Regulation and Fishing) Act, 1975 (XXXII of 1975)

B. Technical barriers to trade (TBT)

The WTO TBT Agreement applies to all products including, industrial and agricultural products and both voluntary standards and technical regulations. This allows members to apply standards, technical regulations, conformity assessment procedures for the protection of human safety or health (sockets, seat belts, labeling cigarettes), protection of animal and plant life or health (pollution, extinction, e.g., turtle extruder device), environment protection (level of vehicle emissions), prevention of deceptive practices (labeling, size), and other objectives such as quality-size of fruits and vegetables, technology harmonization etc.)

The Pakistan Standards & Quality Control Authority (PSQCA) and the Pakistan National Accreditation Council (PNAC) under the Ministry of Science and Technology has a direct role to play in this regard. The PSQCA maintains an E-Catalogue of Pakistan standard specifications. This contains around 5731 records of standards for different sectors.

Other measures needed to be taken for export development through improvement of quality infrastructure by : i) strengthening SPS management; ii) improving export quality, value addition and compliance of supply chains of sectors where Pakistan has competitive edge; and iii) improving conformity assessment infrastructure and services.

On strengthening SPS Management and Controls, Pakistan should endeavour to develop improved coordination and management of SPS measures and develop a coherent approach to food safety controls. It should also support the strengthening of food safety controls in key sectors in collaboration with relevant provinces. The main aim should be: i) to strengthen the SPS management system; and ii) effective application of food safety controls.

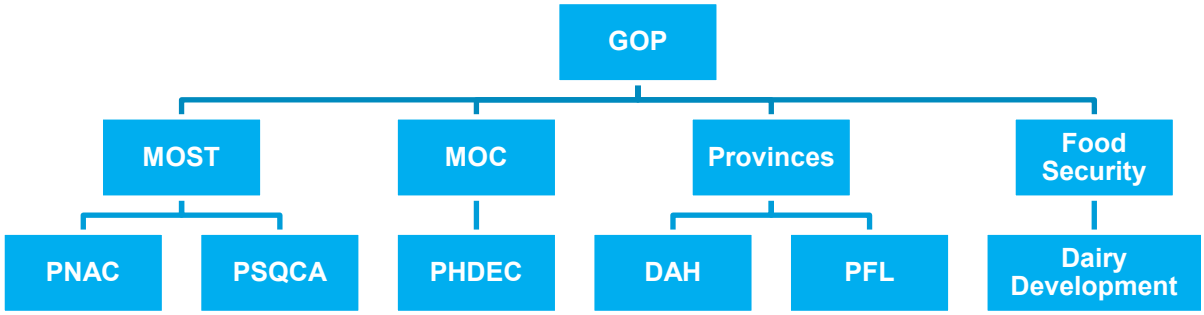
For the development of new food safety and phytosanitary laws, further work needs to be undertaken in developing new food safety and plant health legislation in line with International best practices on Food Safety and Plant Protection.

Pakistan also needs to develop model technical regulations covering a wide range of new food safety and phytosanitary measures to incorporate Codex Alimentarius and IPPC requirements such as farm to fork control systems, risk analysis, traceability systems and the role and management of laboratories. Furthermore, development of inspection guidelines, manuals and checklists: detailed codes and guidance for inspectors in different food industry sectors need to be prepared. Technical capacity of food safety inspection staff also needs to be enhanced.

Training of trainers and consultants in management systems on quality, environment, food safety, GAP, CSR is also required

The Way forward

A permanent regulatory body dealing with all aspects of SPS/TBT issues needs to be established. The aim of that body should be to strengthen the SPS/TBT management Capacity and regulate food safety, agricultural and manufacturing related issues associated with trading goods, especially imports. It may further ensure coordination between various departments and remove resource and scientific and infrastructural constraints and monitor/evaluate the workings of affiliated line departments. At present there is an overlap in the administration of the SPS/TBT issues as is presented below:



In this regard, the Ministry of Food Security has proposed the establishment of National Animal and Plant Health Inspection Services (NAPHIS). The scope of this unit may be extended to cater for manufacturing/industrial goods and the department/organization should be established on priority basis.

Education and Vocational Training

The importance of basic health and education remains clear. Past experiences on global integration, especially in more sophisticated industries, have put the agenda of specialized education and vocational training – building "human capital" – at the forefront of the competitiveness.

A competitiveness strategy for achieving the above should not be static but dynamic. Although the macroeconomic fundamentals and human resources remain key to competitiveness, the new paradigm of competitiveness is very much about getting the microeconomic business environment right. Although the business environment is equated with the ease of doing business, it should also consist of public or semi-public institutions covering innovation and R&D, standards and certification, skills enhancement, export promotion, etc. Such cannot be responsibilities of the private sector alone nor that of the public sector. In essence, several of these are not industry-specific issues either, but issues that affect the functioning of various industrial clusters and the way each is connected with the other. The challenge of each competitiveness program will be in applying the broad pro forma framework on trade competitiveness into a meaningful policy dialogue and strategic initiative that works towards removing specific binding constraints in Pakistan.

The Higher Education Commission for the purpose of Human Resource Management suggests:

i. Research facilities and higher education institutions need to supported with the installment of an improved PhD level faculty (which would amount to about 300-400 PhD level researchers in every university with about 50-100 PhD level researchers at every research facility so as to provide the ideal manpower required for the further enhancement of Pakistan local educational establishment, services and production industry.

ii. While developed nations have about 2500-3000 scientists and engineers per million in their population who play an integral role in the state's development, in comparison, Pakistan currently only has about 120 scientists and engineers. In this manner, the country needs to train about 500,000 highly trained scientists and engineers spanning over the next ten years for various fields and industries. To achieve this, a major postgraduate level training program needs to be developed by the Higher Education Commission. Furthermore, once this level of trained manpower is achieved, the state needs to provide them with the proper infra-structure, facilities, research funding and a high salary structure in order for these trained individuals to be effectively employed. It is now up to organizations under the Higher Education Commission, the Ministry of Science and Technology and other related Ministries to collaborate and recognize the areas of national significance ultimately organize the required postgraduate training programs.

iii. In order to hold on to these highly trained individuals after having educated them, the state should attempt to offer them a competitive salary and a favorable working environment. In order for this system of gaining employment with a proper salary structure to appeal to the country's brightest minds and attract them towards a profession in science it should be initially introduced at the higher education level and every S&T institution within the country and be subjected to a standard performance assessment.

iv. Besides this, the government should launch a bold program in order to make sure that it stimulates the local science and technology society at the same time as offering inducements to the already existing leading scientists from industrially advanced states to come back to Pakistan. The goal of reversing the problem of brain drain should be a top priority of any state that wishes to cultivate its economy. In the same manner, the following steps were suggested for the development of science education:

Currently there is a considerable disparity in the potential of school graduates and the required skill level within the industry. There is, hence, a dire need for professional training institutions to be developed which would reflect international standards. This may be achieved through the improvement of already existing institutions and through the availability of a highly trained faculty and

suitable laboratories. At the same time, advice from the private sector should also be sought for the regular and proper revision of the curriculum. All graduates from such institutions should then receive training in their relevant industry for a period of six months. Similarly, it is also essential to encourage the establishment of a continuous learning environment so that the knowledge and skills of students can be regularly improved and enhanced.

v. Within secondary and higher secondary educational institutes, it is important to establish exclusive programs which would aid in learning physics, mathematics, biology, chemistry, computer science etc. This however would require improving the curriculum and making sure that the students have access to excellent teachers and training tools. For this reason it will be essential for all science students in high schools and secondary institutions to study mathematics, physics, chemistry and biology. Students of other subjects, on the other hand, will be required to study mathematics with another science subject. To ensure that students develop a sense of excitement regarding learning new subjects, the government needs to take steps towards investing in setting up science laboratories in both urban and rural schools.

vi. The government needs to tackle the issue of the alarming shortage in science teacher through creating a method of contract appointments for graduates who have no gainful employment. The lowest credentials for school teachers should be kept at B.Sc/BA and not High School. For this purpose the government needs to start training a group of high quality mathematics and science teachers and should consider implementing a system of 'merit pay' or additional incentives in order to pay and preserve them within this profession.

vii. To achieve excellence and accountability in the country's local system of education it is vital that Pakistan creates a certain standard in its educational institutes. By ensuring through regular reviews and assessments the quality of the students being shaped by the schools and colleges the state can ensure that the level of competition and quality can match any international criterion.

viii. Community Technical Colleges' that can turn out the needed skilled manpower in fields such as electronics, mechanics, medical technology, refrigeration, plumbing, design, computer programming and production technology.

ix. A relationship should be formed with the proper international groups (for instance, UNESCO, Inter Academy Panel, National Academy of Sciences, USA etc.) for the purpose of improving the level of science education in local schools.

x. The learning of science and technology should be attached with knowledge of social sciences so that gaining an understanding in science and technology will united with a sense of ethical values and thoughtfulness.

xi. To guarantee an international level of research in the local academic and research institutions, academic assessments should be carried out repeatedly. At the same time, it should be made sure that the financial support corresponds with the outcome levels. Such practices have now become a norm in all the scientifically leading countries.

xii. Universities should be required to sustain their workshop equipment through the employment of highly trained individuals for the upkeep and preservation of expensive science equipment. Similarly national libraries (including digital libraries) should be set up for the purpose of providing a higher level study of science and technology whilst also allowing access to issues of every international journal on science, engineering and technology.

Furthermore, according to studies conducted by the HEC, the following areas should be given greater emphasis in order to have the required impact on the S&T efforts:

i. Basic sciences (physics, mathematics, chemistry, biology)

ii. Applied sciences (engineering, information technology (IT), agri-science, bio-technology, material sciences, etc.)

iii. Setting up a mechanism related R&D efforts with socio-economic development

iv. Quality assurance

In addition, other measures include:

i. Extra attention should be bestowed upon converted new knowledge into new technological products that would work to guarantee the continued development of small, medium and large sized industries within the state. Additional methods should also be launched which would work for the benefit of technological growth to be available for the general population with the goal of influencing and advancing the every citizen's quality of life. For this purpose, science parks should be created with an interdisciplinary culture which will appeal to scientists and technologists from all over the world.

ii. 'Technology foresight' exercises should be carried out at frequent intervals to account for present and future requirements of technology, to find niche opportunities for Pakistan and the predicted impact which technologies will have within a social, economic, health and environmental aspect. Hence there is a need to support these R&D and technological advancements. The state needs to present these technologies through a calculated strategy and distribute them within the production sectors.

iii. In order to provide socio-economic benefits to the people, the state needs to develop higher education and science & technology programs. Not only will this be profitable to the society but will also create a sense of commitment which will allow for a continuous investment in science, innovation and discovery.

iv. It has now become essential that suitable steps be developed in order to promote a sense of innovation and entrepreneurship. This would, however, comprise creating a feeling of cooperation between government departments, universities, the Ministry of Science and Technology, the Higher Education Commission as well as the private sector.

Although it is vital to support the basic research as well as new product and process development, within the short and medium term, greater priority should be placed upon getting hold of international technology and launching reverse technology programs. This would allow for the easier understanding of this foreign technology which would ultimately be a guiding force towards adaptive and domestic research and the improvement of domestic science.

Technology Readiness Evaluation and Road Mapping:

Prior to embarking on a TF exercise, it is first more important to make assessments of the technological capabilities of the nation. Hence the government should agree upon certain technological road mapping exercise in the following style:

- An extensive consultation with the sector, scientists, government representatives and economists.
- Developing a strategy and plan of action that will provide solutions for filling skill, technology and policy gaps.
- Recognizing the most valuable sectors establishing a standard for all institutions
- Determining the most important projects while detecting their costs and possibly future impact within the social and economic development

Competition Policy

In commerce and trade 'Competition' refers to rivalry among businesses and players in the market in order to increase market share of their goods and services. This is done by offering better prices,

quality and innovative products. Competition Law is necessary to address issues arising from attempts to reduce, restrict, prevent or distort competition. Absence of Competition Laws may result in increase of anti-competitive or unfair practices to oust legitimate competitors, instead of participating in fair competition. A large number of countries (above a hundred) have adopted Competition Laws, in order to protect businesses and consumers from anti-competitive practices.

Competition law aims to reduce market barriers and eliminate anti-competitive practices. it is considered to be an essential economic tool to prevent market failure through capture or collusion. Pakistan has a competition regime since 1970 in the form of the Monopolies and Restrictive Trade Practices Ordinance. It was implemented with the aim to prevent concentration of wealth in hands of few and was designed to achieve the social objective of distributive more than promoting economic efficiency and enhancing consumer welfare.

Pakistan completely overhauled its competition regime in 2007 by enacting a new legislation, namely the Competition ordinance of 2007 – a modern competition law essentially based on the principles enshrined in the Treaty of Rome. The ordinance also established the Competition Commission of Pakistan (hereinafter referred to as the Commission) to implement the new competition law. Further the ordinance of 2007 was enacted as an Act of Parliament in October 2010.

Key issues/Challenges

- Lack of information and awareness of this Law in general public
- Sometime it takes a long time to appoint Chairman of Members in case of resignation or some-other reason which renders the Commission's work on hold due to lack of quorum.

Recommendations

- Competition Commission should launch aggressive awareness campaigns in order for public to know the usefulness of Competition Law
- CCP may establish help desk to guide people to file complaints
- Government should endeavour to ensure that the composition of the Commission always remain filled in, so that the quorum is complete to be functional
- Annual Reports may be reviewed by responsible/competent authority

CHAPTER 3: DOMESTIC COMMERCE

Domestic Commerce is described as the "front end" of the economy. According to a study done by IDS (a consulting firm) the domestic sector contributes roughly one third to the GDP and provides 10 % of the aggregate employment, but has only recently gathered the attention of the Ministry of Commerce.

The five areas of domestic commerce include domestic marketing channels, i.e., wholesale and retail coupled with transport, storage and warehousing as well as real estate. These are the backbone of the economy which drive growth through efficient, cost effective infrastructure which is needed to promote trade (both domestic and international).

Key Issues/Challenges

- Registration requirements of firms
- Availability of Human Capital
- Financing by Banks
- Governance issues like Contract enforcement, corruption and extortion
- Regulatory environment
- Law and order situation
- Lack of business ethics

Recommendations

- The newly established Domestic Commerce Wing of MOC should play lead role in mitigating the difficulties.
- Legal changes should be brought to ease regulatory environment by the Parliament/Government.
- SBP should encourage banks to ease access to Finance/loans.
- Educational syllabus should be tailored for human resource development to cater for the needs of this sector.
- There is a need to improving logistics (the national transportation system).

A good logistics system is important for Pakistan to access foreign markets at reasonable costs. It also helps to bring in new firms and new products into the market through the integration of domestic markets and exploiting intra-industry trade. Reducing trade costs, upgrading the quality of services, improving connectivity with foreign markets and logistics system is the key to export diversification.

Although Pakistan has a sizable transport and logistics system and environment that support trade in various types of commodities of varying cost, time and reliability sensitivities, ranging from agricultural products to electrical and other manufactured products, yet according to Logistics Performance Index (LPI), Pakistan's overall logistics performance was below that of India and Bangladesh, as well as, below the global average.

LPI data suggest that Pakistan's main weaknesses are in the areas of infrastructure, customs and logistics competence. Connectivity in Pakistan varies and is fraught with geographical disparities. Except for relatively, well-functioning markets in the Karachi – Lahore- Islamabad—Sialkot-Peshawar, trade logistics services in other areas are generally of a poor quality, especially when compared to other countries of a similar level of development.

The national logistics hub in Pakistan is located in the south of the country. As one moves north and west of the country and away from the core national corridor, access to high quality infrastructure and

services reduces. Dilapidated road conditions, consumes more time and increases wear and tear of vehicles carrying cargo. It would seem that in order to improve domestic connectivity, the authorities could consider developing multi-modal systems based on rail and consolidation of trade volumes.

Presently Pakistan Railways plays a relatively limited role in the country's freight transport despite having a network that extends over much of the country. Despite almost eight thousand kilometres of broad gauge routes linking all the major centers as well as access to the Iranian and Indian network, the railway market share continues to decline while there has been a leveling off in the volume of freight traffic. Railway tariffs are part of the problem and need to be rationalized.

The Government of Pakistan trucking policy, which is now being implemented, is designed to complement the NCTIP and serve as the basis for modernizing the trucking sector. It contains several progressive provisions which, if realized would contribute to a higher quality of service from the trucking sector. Some of the key proposals in the policy are: (i) enhancing access to finance, (ii) central information depository for motor vehicle registration, and (iii) vehicle worthiness certification.

Air transport is the second most important mode of transport for international shipments in Pakistan, but is mostly covered by international carriers. Despite open sky policy in air freight services only a few international carriers' provide30-40 weekly scheduled all-cargo services in and out of Pakistan. Karachi, Lahore and Sialkot are the only cities with access to scheduled dedicated cargo services. More than 90 % of Pakistan's international trade is transported by sea. Most of the trade traffic is through Karachi where there are two container terminals, the Karachi International Container Terminal (KICT) and Port Qasim. Of the two, KICT handles the most volumes. All major shipping lines provide services to either Karachi or Port Qasim. However, connections to Europe are indirect, mostly through some Middle Eastern port. Port efficiency needs to be improved to reduce costs

CHAPTER 4: TRADE IN SERVICES

According to the Economic Survey of Pakistan, the share of the services sector has reached 58.1 % in 2013-14. Six sub-sectors including: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and Other Private Services (Social Services) are mainly included in this Survey. The services sector has witnessed a growth rate of 4.3 % as compared to 4.9 % last year.

The growth performance of the services sector is broad based: all components contributed positively in growth, Finance and Insurance at 5.2 %, General Government Services at 2.2 %, Housing Services at 4.0 %, Other Private Services at 5.8 %, Transport, Storage and Communication at 3.0 % and Wholesale and Retail Trade at 5.2 %.

According to the Survey, the Pakistan Bureau of Statistics released quarterly growth rate for the first time during the current fiscal year. Pakistan has shared its methodology for preparing quarterly economic figures with international financial institutions, like the IMF. They have reportedly expressed satisfaction over the methodology.

It seems somewhat paradoxical that the Ministry of Commerce has not owned/recognized trade in services as an integral part of their mandate. It is therefore important that this be clarified and that a separate wing dealing with Trade in Services be established in the Ministry of Commerce, so that Import and Export Policy along the lines of the treatment of Trade in Goods be made a part of trade policy, on this subject as well. The MOC will also be able to assemble an incentive package for exporting companies that are willing to apply for Registration and marketing, as service provider in importing countries.

In 2007 an Indian professor at the International Conference on Innovative Cluster held in Daedeok, Korea, alluded recent economic success of his country he stated that although Indian manufacturing industry has been big, it had essentially catered for import substitution. In that way it can be said that Indian economy transformed from an agrarian one to a vibrant services industry (meaning software industry). In other words it is possible to graduate from one kind of economy to another bypassing the intermediate stage. Countries therefore, need to concentrate more on science and technology to achieve an accelerated growth momentum.

Policy Issues/Challenges

- The MOC needs to play a central role on trade in services
- There is a need to devise a methodology for collection of export data/statistics on services
- There is a need for a central authority to promote and develop export in services
- The lack of TDAP sponsored participation in related trade fairs needs to be addressed
- There is a need to consider sponsoring trade delegations on trade in services by TDAP, similar to those for goods.

Recommendations

The MOC should establish a services wing and act as focal point for promotion of Trade in Services as for trade in Goods. There are 11 major sectors that fall under the ambit of Trade in Services, which are further divided in 155 sub-sectors. Each WTO Member has made binding commitments on liberalizing each sub-sector in the four modes, i.e., i) consumption abroad, ii) cross border consumption, iii) commercial presence and iv) movement of natural persons. After establishing an institutional mechanism under the MOC a comprehensive study may be instituted to identify export opportunities in different markets for the services sector.

In order to regulate import and export of services the Government in collaboration with professional organizations like PEC, SBP, SECP, Manpower Division and Pakistan Medical and Dental Council may establish Regulations and also work on issues like mutual recognition of degrees and accreditation requirements. It is recommended that:

- Trade in Services policy should be in made a part of Trade Policy
- TDAP should play a more active role and develop a new incentive package

CHAPTER 5: TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS

Intellectual Property Laws are one of the oldest existing Laws on the statute of International Trade Laws.1883 marked the birth of the Paris Convention for the Protection of Industrial Property, the first major international treaty designed to help the people of one country obtain protection in other countries for their intellectual creations in the form of industrial property rights, known as:

- Inventions (patents)
- Trademarks
- Industrial designs

The Paris Convention entered into force in 1884 with 14 member states, which set up an International Bureau to carry out administrative tasks, such as organizing meetings of the member States.

In 1886, copyright entered the international arena with the Berne Convention for the Protection of Literary and Artistic Works. The aim of this Convention was to help nationals of its member States obtain international protection of their right to control, and receive payment for, the use of their creative works such as:

- Novels, short stories, poems, plays;
- Songs, operas, musicals, sonatas; and
- Drawings, paintings, sculptures, architectural works.

The IPR Treaties are administered by WIPO till 1995, but the trade linkage and trade remedies were developed when TRIPS Agreement became part of WTO and legally binding on all WTO Members.

Innovation has become one of the most important vectors of sustainable growth for businesses, and of economic prosperity for society as a whole. Businesses must constantly improve or renew their products if they wish to keep or capture market shares. Sustained inventive and innovatory activity, leading to the development of new products or services, puts businesses at an advantage in technological terms and is a major factor in their competitiveness. Businesses often invest large amounts of money in research and development and in the advertising and marketing of their products. This investment will not be undertaken unless they are in a position to recoup their expenditures. Appropriate and effective protection of intellectual property helps to establish the confidence of businesses, inventors and creators and is a powerful incentive for investment, and hence for economic progress.

Counterfeiting and piracy are detrimental to the proper functioning of competition. Since counterfeit and pirated goods are, by definition, substitutes in the economic sense for lawfully marketed goods which they imitate, the divergences in the cost base in for illegal operators will also give rise to differences in the conditions of competition for the lawful operators. Counterfeiters and the producers of pirated goods are saved the research and development costs and the marketing costs of legitimate traders. Their free-riding enables them to capture an increasing share of the market, thereby producing distortions in the conditions of competition and to diversions of the natural trade flows of legal goods. The phenomena of counterfeiting and piracy, thus leads to the loss of turnover and market shares by legitimate businesses. Additionally, they suffer the loss of future sales from the loss of brand image with their customers. The spread of counterfeit and pirated products leads to a prejudicial downgrading of the reputation and originality of the genuine products particularly when businesses gear their publicity to the quality and rarity of their products. This phenomenon also involves additional transaction costs for businesses (costs of protection, investigations, expert opinions and disputes) and in certain cases may even lead to tort actions against the de facto right holder of the products marketed by the counterfeiter or pirate where the proof of good faith is in doubt.

Under WTO rules "each Member shall ensure the conformity of its laws, regulations and administrative procedures with its obligations in the WTO Agreements." The TRIPS Agreement in five paragraphs of Article 41 contains general enforcement obligations which are incumbent on their Members. Article 61 requires the institution of criminal procedures and remedies in case of wilful trademark, counterfeiting or copyright piracy on commercial scale.

As a consequence of the establishment of Intellectual Property Office Pakistan, the Ministry of Commerce seems to have foregone its mandate on TRIPS issues although the Permanent Representative of Pakistan to WTO essentially has to defend any IPR issues raised at WTO forum.

Pakistan has enacted/amended the following Laws relating to the protection of Intellectual Rights:

- Patents Ordinance, 2000 (As amended by Patents (Amendment) Ordinance, 2002
- Trade Marks Ordinance, 2001.
- Copyright Ordinance, 1962 as amended in 2000

Policy Issues/Challenges

- TRIPS being a trade related issue needs to be dealt with in the MOC
- The existing Trade Mark Law is not a cognizable offence and therefore, contains inadequate/weak provisions for purposes of its enforcement
- The Trade Mark Law is not included in the FIA schedule of offences and therefore is effectively out of their jurisdiction/purview.
- There is a lack of awareness on TRIPS among enforcement agencies and general public
- A huge loss accrues to the Government exchequer as no duty is paid by manufacturers of fake and counterfeit products
- FDI is lessened as investors are apprehensive that their rights could easily be infringed due to weak IPR laws and their enforcement

Recommendations

- A trade-related IPR wing should be established in MOC
- Work needs to be carried out on strengthening the Trade Mark Law to make it cognizable. This may be undertaken in conjunction with IPO Pakistan and Justice Division.
- Trade Mark offences should be included in the FIA schedule of offences
- TDAP should be mandated to run awareness campaign on the importance of protection of IPRs

CHAPTER 6: TRADE FACILITATION MEASURES

A study by World Bank reveals that Electronic Documentation for trade can save 1.5% - 15% of landed cost of an imported item; a 3 % savings for intra-APEC trade translates into US $60 billion. Customs delays versus clearance delays remain a key component. Average customs transaction involves 29-30 different parties, 40 documents, 200 data elements (30 of which are repeated 30 times).

WTO Agreement on Trade Facilitation (TFA) was finally concluded at Bali Ministerial in 2013 (but needs to be ratified by two-thirds of the WTO membership to enter into force).Following the conclusion of the TFA Agreement, the OECD re-calculated the potential benefits as a result of eventual implementation based on the criteria developed by them which is as follows:

“Full” implementation scenario

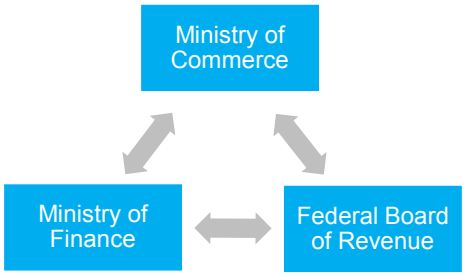
In this scenario variables corresponding to provisions that formed part of the negotiations but were not included in Agreement have been removed from the original estimates of likely trade cost reductions. This concerns very few variables, so that the estimates of potential cost reductions from the Agreement are practically unchanged from the estimates produced by the OECD in early 2013 (OECD Trade Policy Paper No. 144). The new estimates are for a 14.1% reduction of the total landed costs of imports by low-income countries (LICs), 15.1% for lower-middle-income countries (LMICs) and 12.9 % for upper-middle-income countries (UMICs). The highest impacts are still exerted by the same types of measures in almost all cases: for LICs indicators (f) Documents, (g) Automation, and (a) Information Availability (3 %, 2.4 % and 1.7 % of total landed costs, respectively); for LMICs (f) Documents, (h) Procedures and (g) Automation (2.7 %, 2.3 % and 2.1 %); and for UMICs (h) Procedures, (g) Automation and (c) Advance rulings (2.8 %, 2.3 % and 1.3 %)

“Limited” implementation scenario

The “limited” implementation scenario assumes that countries that are already implementing best practices will continue doing so, but that others will not where implementation is discretionary. This scenario reveals significant opportunity costs for low and lower middle income countries, in particular.

For all three income groups, this scenario results in lower overall trade cost reductions. For LICs the potential trade cost reduction reaches 11.7 %, 2.4 %age points less than if all provisions were implemented. The three most influential types of measures remain the same, but their impact is now more limited: (f) Documents would potentially reduce costs by 2.5 %, (g) Automation by 1.7 %, and (a) Information Availability by 1.3 %. LMICs could benefit from potential trade cost reductions of 12.6 %, 2.5 % points less than in the case of “full” implementation of best practices, of which 2.4 % would be for improved practice on (f) Documents, 2.1 % for (h) Procedures and 1.5 % for (g) Automation. In the case of UMICs the impact would be of 12.1 %, 0.8 % points less than if they “fully” implemented best practices, with a potential cost reduction of 2.4 % for (h) Procedures, 1.9 % for (g) Automation and 1.2 % for (c) Advance rulings. The opportunity cost is expected to be lower for the group of UMICs because many of the countries already implement some of the measures that are now formulated on a “best endeavour” basis.

However, the government has to be careful about the estimates of the potential gains from improved trade facilitation– they do not apply in all cases in all countries but are often illustrative of worst cases.



A unit to implement the TFA may be established at the Ministry of Commerce with representatives from all the relevant departments/division including FBR and Ministry of Finance to be its permanent members. Furthermore, we may revive the government may revive and hold regular meetings of the Federal Export Development & Promotion Board (FEDPB) to be chaired by the Prime Minister.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

Conclusions

- Pakistan's exports of goods and services to GDP ratio was 13.2per cent in 2010-14, and has either remained static or even fallen below what it was a decade ago, suggesting little change in the degree of integration in world trade whilst in China and South Korea this ratio is to 23.6 per cent and 53.9 per cent in 2010-2014 respectively.
- Lack of product diversification, which is due to absence of technology or design inputs. Consequently, Pakistan is engaged in production and export of low value-added products.
- Lack of geographic diversification as EU and the US are the most important destinations of Pakistan's exports. The US and European markets cater for 31 percent and 23 percent of Pakistan's total exports respectively. China is the third most important destinations, with an 11.5 percent share. Afghanistan, Oman, Turkey, and the United Arab Emirates (UAE) have also emerged as its export markets
- Trade in Services not given enough attention
- Lack of institutional capacity particularly in areas trade policy instruments (Antidumping, Countervailing and Safeguard measures)
- Low level of negotiating skills particularly on WTO and FTAs issues
- Weak trade development Office (TDAP) Lack of proper market research Infighting between Political and Commercial Sections in Embassies abroad hampers/dampens efforts of Commercial Representatives
- Weak laws make it impossible to enforce trade laws such as Intellectual Property Laws

The study contains general recommendations, in addition to specific ones, based on the overall discussion in the study. For the benefit of users of this study the recommendations have been divided into three phases, the first one containing short term recommendations and identifies low hanging fruits that can immediately be harvested/plucked while other recommendations can be taken at hand in the medium and long term perspective

<u>Issues impinging on Trade Development</u>

- Education and Vocational Training
- Weak enforcement of IPRs
- Energy Crises
- Terrorism, negative travel advisories
- Tarnished soft image of the country
- Low emphasis on science and technology and lack of R&D
- Low level of coordination between Central Government and Provinces on issues of devolved subjects
- Presently, apart from being deficient in exportable surplus, Pakistani products also suffer on account of poor quality and higher rates, compared to our competitors. This is due to increased input cost, low labour productivity, compliance issues, transportation problems, especially in countries where the direct air links do not exist, and there is a dearth of technological innovation to overcome these handicaps. Moreover, rise in international price of petroleum products has made cheaper products (low value-added products) more vulnerable as compared to high value-added products which can easily absorb the increase shock. The need for value-addition is, therefore, more urgent than ever before. There is a need to create an R&D Complex that focuses on market-oriented solutions. This R&D Complex, mostly built in clusters, should support ongoing

improvements in varied processes, so that stakeholders can achieve their goals. These clusters should create a collaborative environment of research labs, post-graduate universities, cutting edge IT firms, all of which should be supported by the Federal and Provincial Governments.

- There is a need to visit policies which have created an anti- export bias and has kept Pakistan's trade orientation so low. Vision 2030 aptly acknowledges that "The lack of diversification in Pakistan's manufacturing sector has been due to heavy protection granted to resource based industries, high rates of import duties on raw materials used in the production, machinery, equipment, and chemical industries, and zero or low rates of import duties on finished and semi-finished goods relating to these sectors. This is further compounded by widespread smuggling of all consumer durables. Many of these issues have been resolved to some extent through tariff rationalization in the last few years, but further fine tuning is needed to encourage investments in manufacturing".
- To sum up, manufacturing sector is suffering from inherent weaknesses which include several factors such as, inadequate Human Resource, limited BMR investment, poor data management, lack of benchmarking, little or no product improvement/diversification, and to top it all, there is a lack of capacity and legal coverage for adherence to international standards on quality, labour, social and production standards.

Modern day trade development has become more complex and intricate for which "whole of the Government approach" is required. The key policies that affect export competitiveness, and require to be formulated with "Export" as priority are as follows:

- Monetary Policy
- Fiscal Policy
- Industrial Policy
- Science & Technology Policy
- Investment Policy
- Policy on Labour/Education and Technical Training
- Other Policies on Trade Facilitation

- Each of the above issues is discussed in detail, pointing out key challenges and recommendations. Key recommendation/solutions are provided in Recommendation section below

Recommendations

<u>Immediate Measures/Low hanging fruits</u>

1) Through a series of partnerships, the government of Pakistan and the Ministry of Commerce may establish a think-tank which would consist of scientists, researchers and industrialists to support product innovation. This would be done through establishing technology parks, equipped with latest equipment for testing labs, quality assurance, product designing, standards, upgrading present industry and registering new patents.

2) It is now vital to remain on the lookout for innovative products developed by universities research centers for commercialization. The major industry that needs constant up-gradation is textiles and clothing. New projects like micro fiber, anti-fire fabric need to be researched upon. Training in CAD / CAM is essential for competitiveness in clothing sector. Further, the state should seek collaborations in producing textile dyes and chemicals.

3) Develop around ten new high valued surgical instruments such as the ones used for transplant in human body, e.g. hip bone, knee joints, implants, etc. Electro medical equipment and finer finished products need to be developed in Pakistan.

4) Create new products for sports goods industry using the latest materials and technology. Similarly, cutlery (high valued) can also be developed in collaboration with world renowned brands in this field.

5) Upgrade fan industry – e.g. conversion of some big units to produce machinery for wind energy equipment (if possible). In Korea small wind energy plants are used to light street lamps etc.at higher altitudes.

6) The promotion of auto parts industry also needs constant innovation and highly trained engineers for designing through CAD/CAM/KATIA program for use in CNC machines.

7) PCSIR laboratories in Pakistan need to be upgraded. A few students belonging to PCSIR are competing doctorate studies in foreign institutes and services can be utilized for upgrading PCSIR so as to make it a premium institution in the field of R&D.

8) The field of studies / research should include Nanotechnology, biotechnology, information technology, electronics, telecom etc.

9) There is moreover a requirement to establish a modern Design Center with a clear purpose and vision. The importance of design is being emphasized further by economists and experts who argue that "Knowledge economy" of the last couple of decades is being replaced by creative economy. Simply put, companies that put innovation and creativity at the forefront of their strategies/ plans are going to have a greater competitive edge in the future. They also suggest that manufacturing companies especially high tech amongst them need to employ a Chief Design Officer to look after its design needs through innovative design solutions.

10) Develop a comprehensive plan for design promotion (five years plan)

11) Design a country image / slogan like "dynamic Korea" or Hallyu (Korean Wave).

12) Attention be given to products (Industrial / services) with particular emphasis on packaging. In other words attain design competitiveness.

13) Designate a Chief Design Officer for the Government so as to redesign government offices exposed to foreigners / foreign companies like trade promotion organizations; investment promotion organizations; relevant service centers including airports, duty free shops as well as Ministries.

14) Redesign banks, insurance companies, utility offices, business and products keeping in view the over-riding design peculiar to the atmosphere, mode and message of that country.

15) Design and develop standard operation procedure (SOPs) for government ministries, agencies /affiliates.

16) Promotion of a soft image through cultural events, visual and performing arts, introduction of rich archeological heritage evokes international image of a country like Pakistan that is endowed with rich cultural heritage.

17) As a first step, TDAP could consider annual design competition in collaboration with Pakistan School of Fashion Design (PSFD) and choose the 10 best designs in Pakistan for denim wear, knitwear, casual shirts, blouses, cargo / khaki pants, jackets, etc. In addition, to these bed linen, curtains, table linen, bags, shoes, leather garments and carpets may also be included. This competition should be judged by leading designers from home and abroad. Thereafter, local industry should be encouraged to use them for commercialization for export purposes.

18) Similarly, the 10 best innovative products, developed through R&D with the help of science and technology, may also be chosen by experts.

19) In parallel, a list of 10 most sold products in Pakistan and top 20 products sold in counties that are Pakistan's major trading partners may also be drawn in order to evaluate our position / capacity vis-a-vis these items so as to promote production of less sophisticated items amongst them. This

annual competition could be conducted in a high profile manner by TDAP and attractive awards should be given in order to encourage design and innovation amongst the younger generation of designer and Scientists.

Medium term to long term measures

To start Innovation projects (Innopolis), it is important to send a team of experts to visit "Innopolis" in few important successful countries to allow them to study their systems further and if found appropriate to seek technical assistance and funding for establishing such a project. In this regard, the Ministry of Commerce has to take a leading role in collaborating with Ministries of Industry and Science and Technology. In the beginning 10 new technologies can be identified where work can start. The next trade policy can formulate an industrial development strategy for export of hi-tech products along-with an Action Plan to achieve the set targets.

After identification of 10 technology areas, a science city based on the concept of "Innopolis" (Innovative city) can be established to upgrade technology and subsequently develop new and innovative products. In the recent past some foreign universities had agreed to set up their campuses in Pakistan, in collaboration with HEC. These universities can be asked to establish S&T development centers based in their science laboratories, for commercial applications. International collaboration is essential in the area of innovation and R&D which can be sought from countries like China and Republic of Korea. The above steps have to be overseen by Ministry of Commerce in the Government of Pakistan in collaboration with Trade Development Authority of Pakistan (TDAP), Ministry of Science and Technology (MOST), Ministry of Industries, Higher Education Commission (HEC) and other relevant organizations like Pakistan Council of Science and Industrial Research (PCSIR), Pakistan Atomic Energy Commission (PAEC), Pakistan Industrial Assistance Centre (PITAC), Pakistan Agricultural research Council (PARC) and National Science Foundation For technical assistance, the following international agencies can be joined. Additionally bilateral help from newly industrialized countries like Korea and China can also be solicited:

1) World Technolopolis Association (www.wtanet.org)

2) International Association of Science Park (IASP) (www.iasp.ws).

3) International Council of Societies of Industrial Design (ICSID) (Member of International

4) Design Alliance.

5) International Council of Graphic Design Association (ICOGRADE)

In the area of pharmaceutical it is important to Set-up Bio-equivalence Center. In order for the generic pharmaceutical products to be interchangeable and equivalent to the pioneering (originally patented) product, it must be both chemically/pharmaceutically equivalent, as well as bioequivalent.

Keeping in view the growing demand for Organic product it is essential to enact Legislation on regulating production of organic agricultural products for sale in the domestic, as well as, international markets. Simultaneously, establishing a credible certification mechanism for organic products is also important.

Hilal food market is a Trillion Dollar market for which credible/internationally accepted certification system may be taken at hand after studying systems in place in other Hilal food exporting countries.

TDAP should undertake calculation of Revealed Comparative Advantage (RCA) of our major and potential exports in order to determine our competitiveness level. Similarly Global Revealed Comparative Advantage can determine competitiveness of our products vis-à-vis that of our competitors. This will help in forging our strategy in our major markets.

Intervention matrix for policy recommendations in this study

Recommendations	Policy Issues	Specific Interventions	Prioritization Analysis
1. Need to rationalize Regulatory burden on Export Sector			
- Taxes	Revise the tariff for some defined objectives in short, medium and longer terms. These objectives may be (efficient allocation of resources, industry requirements, and competitiveness of domestic industry), sustainable and equitable development, review/revise rates, quota schemes, deletion/substitution programs a) Simplification of tariff structure b) Correction of anomalies c) Removal or reduction of cascading	• Sales Tax (on imports and domestic production/consumption) contributes the largest share, or 44%, of total share.. • At present there are multiple sales tax rates (0, 5, 7, 17, 19.5, 22%, and 3% additional tax on commercial importers). Most other countries have one or two rates and few exemptions. It should only be waived on exports. • High dependence on sales tax from petroleum, which contributes 43% of the total, is an aberration. <u>Income Tax</u> At present, there are two parallel income tax regimes in Pakistan: the Normal Tax regime and Final Tax regime (FTR). A tax reduction for one sector increases the burden on other sectors, and two regimes for income derived from different sources is not fair. At times, charging lower taxes on exports is treated as a subsidy by some importing countries, and Pakistani exports are subjected to countervailing duties for the difference between FTR and the normal tax. Although there is some use of third-party information for detecting tax evaders, its potential is not fully exploited. The NADRA database could be used more effectively. Additional third party resources that can be used for tax enforcement purposes are records of property etc. as enforcement tools and resources are available and must be leveraged.	Short, medium Long Term

Recommendations	Policy Issues	Specific Interventions	Prioritization Analysis
2. Increasing Competiveness through Policy Reforms			
-Monetary Policy	Fluctuating Exchange Rates Limited access to finance Crowding out of the private sector	Establishment of EXIM Bank Establishment of Export Insurance Corporation/Company	Medium and Long Term
-Fiscal Policy	Simplification of the tariff structure Expansion of the direct taxes and reduction of complexity in the tax system Shift from indirect taxes to direct taxes	National Tax Reform Commission or Task force may be constituted to simplify the tax system in Pakistan. Recommendations of the FTO Advisory Committee could serve as a basis of further work by the above proposed Commission. National Tariff Commission may be strengthened	Medium and Long Term
-Industrial Policy	a. Protectionist industrial policies b. Non-emphasis on value-added sectors c. Anti-export bias and pro-textile bias d. High degree of government involvement in most markets ranging from agriculture to manufacturing, from retail to transport and from trading to construction. e. Lack of a transparent and competitive market. Government regulation is not organized or informed by research, leading to contradictory and cumbersome regulation. f. Lack of clarity in government policy – importing commodity one year, buying from the local market next year, allowing imports then disallowing—creates opportunities for rent-seeking at the expense of the consumer.	Pakistan needs to take a less intrusive and a more facilitative approach to industrial policy. The role of industrial policy must be such that it enables an environment in which broad-based innovation is encouraged in all sectors rather than favoring certain sectors based on political and not economic rational. There is an urgent need for further deregulation; the private sector will also have to realize that six decades of subsidies and tax incentives must go if true entrepreneurship and innovation is to be promoted. Institutions responsible for bringing about competitive markets should be given autonomy; these include the Competition Commission of Pakistan, Securities and Exchange Commission of Pakistan and the State Bank. In order to promote across the board openness in trade and investment,	Medium and Long Term

		non-tariff barriers including import controls imposed by entities such as the Engineering Development Board and Federal Board of Revenue must be revisited.	
-Science & Technology Policy	The national industrial base both in private and public sector does not make any investment in technology or their workforce or executive development, lacks visionary leadership, and is non-competitive. Universities have been unsuccessful in solving industry problems and lack credibility with industry participants. National R&D center centers have not produced any significant technology commercialization success story. The public policies have not delivered the desired economic results. There are no venture capital investments available as R&D endeavors have yet to be undertaken.	Through various economic development programs that prepared a pathway towards knowledge economy such as: Productivity Enhancement Programs. Quality Enhancement Programs. Value addition programs through enhanced design and better manufacturing technologies. University-Industry linkages developed over time through meaningful working relationships and credible performance based on knowledge sharing. Improve IPR protection and Enforcement Following initiatives are needed: -Launching of Technology Foresight Exercise Establishment of R&D Clusters Establishing Design Forums	Medium and Long Term
-Labour Policy	Restrictive labour regulations governing maximum hours, overtime conditions, length of temporary contracts, remuneration rates, and welfare contributions. The discretionary approach of provincial inspectors, labour tribunals, and wage authorities in enforcing requirements and adjudicating disputes adds considerable uncertainty to labour market outcomes. The informal nature of the labour market stifles incentives and retards investment in workers' skills, both by the employer and the worker himself. Devolution of the Labour Ministry and non-implementation of the Labour Policy Consolidation of the Labour Laws/Non Compliance of International Labour Conventions resulting in	Strong need for labour market reforms: a good start by codifying antiquated legislation and starting the process of liberalizing the market. Completion of the legislative reform agenda focusing first on reforming the 14 laws governing labour welfare To have a comprehensive Human Resource Development Strategy. To revive the export strategy as envisaged in 'Labour Policy 2010' by the MHRD To start the "Decent Work Practices" Program To deal with the post	Medium and Long Term

	banning of exports Manpower Export	devolution situation and to adhere to GSP+ requirements, enhanced coordination between all stakeholders at country level is needed. Advanced capacity building and awareness campaigns need to be launched Creation of dedicated country-level monitoring unit Sector-level monitoring through a public-private stakeholder body comprising professional bodies chambers and government departments Enhanced number of judicial commissions for reporting Creation of a panel of trade consultants and legal experts advise on GSP+ conditionality	
-Investment Policy	Strengthen War on terror Improve Law and order Reform economic policies Eliminate complexity in tax structure Solve Energy crises Improve business environment	Consistency in the economic policies Simplified Tax structure: /concessions to foreign investment. In order to provide a unified and uniform procedure for the import of duty-free items all 'temporary importation schemes' notified vide SRO 492(I)/2009 and other schemes like DTRE may be merged Effective Legal System: Foreign investors in Pakistan also have to cope with a complex legal situation. Laws based on different legal systems are applied independently. Uncertainty is exacerbated by the practice of issuing Special Regulatory Orders (SROs) that can amend or alter existing laws. Alternate Dispute Settlement Mechanism Export Oriented Investors must be encouraged	Medium and Long Term

Recommendations	Policy Issues	Specific Interventions	Prioritization Analysis
3. Domestic commerce			
	• Registration requirements of firms • Availability of Human Capital • Financing by Banks • Governance issues like Contract enforcement, corruption and extortion • Regulatory environment • Law and order situation • Lack of business ethics	The newly established Domestic Commerce Wing of MOC should play lead role in mitigating the difficulties. Legal changes should be brought to ease regulatory environment by the Parliament/Government. SBP should encourage banks to ease access to Finance/loans. Educational syllabus should be tailored for human resource development to cater for the needs of this sector. There is a need to improving logistics (the national transportation system).	Medium and Long Term

Recommendations	Policy Issues	Specific Interventions	Prioritization Analysis
4.Trade in Services			
	• The MOC needs to play a central role on Trade in Services • There is a need to devise a methodology for collection of export data/statistics on Services • There is a need for a central authority to promote and develop export in Services • The lack of TDAP sponsored participation in related trade fairs needs to be addressed • There is a need to consider sponsoring trade delegations on trade in services by TDAP, similar to those for goods.	The MOC should establish a services wing and act as focal point for promotion of Trade in Services as for trade in Goods. There are 11 major sectors that fall under the ambit of Trade in Services, which are further divided in 155 sub-sectors. Each WTO Member has made binding commitments on liberalizing each sub-sector in the four modes, i.e., i) consumption abroad, ii) cross border consumption, iii) commercial presence and iv) movement of natural persons. After establishing an institutional mechanism under the MOC a comprehensive study may be instituted to identify export opportunities in different markets for the services sector. In order to regulate	Medium and Long Term

		import and export of services the Government in collabouration with professional organizations like PEC, SBP, SECP, Manpower Division, PMDC and may establish Regulations and also work on issues like mutual recognition of degrees and accreditation requirements. It is recommended that: - Trade in Services policy should be in made a part of Trade Policy - TDAP should play a more active role and develop a new incentive package	

Recommendations	Policy Issues	Specific Interventions	Prioritization Analysis
5.TRIPS Agreement			
	TRIPS being a trade related issue needs to be dealt with in the MOC The existing Trade Mark Law is not a cognizable offence and therefore, contains inadequate/weak provisions for purposes of its enforcement The Trade Mark Law is not included in the FIA schedule of offences and therefore is effectively out of their jurisdiction/purview. There is a lack of awareness on TRIPS among enforcement agencies and general public A huge loss accrues to the Government exchequer as no duty is paid by manufacturers of fake and counterfeit products FDI is shy as Investors are apprehensive that their Rights could easily be infringed due to weak IPR laws and their enforcement	A Trade-related IPR wing should be established in MOC as enforcement of IPRs is Pakistan's obligation. Work needs to be carried out on strengthening Trade Mark Law to make it cognizable. This may be undertaken in conjunction with IPO Pakistan and Justice Division. Trade Mark offences should be included in the FIA schedule of offences TDAP should be mandated to run awareness campaign on the importance of protection of IPRs	Immediate and Medium Term

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The International Trade Centre implemented the Trade Policy Capacity Building Component of the European Union funded TRTA II programme. It is aimed at the Ministry of Commerce and Government of Pakistan in developing a coherent trade policy and attendant regulations for export competitiveness. Specifically, it will aim to reinforce the skills of government officers working in trade related ministries and implementing agencies on issues related to trade policy, commercial diplomacy and regulatory reform. The main way in which to achieve this through the institutional capacity building of key local training institutes, which is intended to have an immediate effect on the capacity of government officers working on trade policy issues.

In addition, Component 1 promotes comprehensive, regular and well informed public-private dialogue among the government, private sector and civil society for trade policy development, monitoring and evaluation. To promote local ownership and legitimacy of the dialogue, a steering committee comprising equal representation of the public and private sectors has been established with the formal approval of the Ministry of Commerce of Pakistan. Its mandate is to oversee the planning, implementation and monitoring of public-private dialogue on key issues. To better inform the public-private dialogue process, research studies are commission and internationally peer reviewed before dissemination to stakeholders.

The targeted interventions of Component 1 to achieve these goals constitute the following:

Result for Component 1: Coherent trade policy and regulatory reform for export competiveness

1. The Pakistan Institute for Trade and Development (PITAD) institutional capacity is strengthened.
2. PITAD's and other research institutes' expertise on trade policy strengthened.
3. Government officers' capacity on specific trade policy and international trade negotiations strengthened.
4. Research studies contributing to the development of a national export strategy conducted.
5. Public-private dialogue for a coherent national export strategy is fostered.

International Trade Centre

For further information about the ITC implemented Component 1 and the TRTA-II programme visit: **http://trtapakistan.org**