31ST COMMON TRAINING PROGRAMME

WTO REGIME AND ITS IMPACT ON PAKISTAN

SYNDICATE NO. 1O

CIVIL SERVICES ACADEMY, LAHORE

31ST COMMON TRAINING PROGRAMME

CONTENTS

Abbreviations

Some of the abbreviations and acronyms used in the WTO:

AD, A-D	Anti-dumping measures
AMS	Aggregate measurement of support (agriculture)
APEC	Asia-Pacific Economic Cooperation
APTMA	All Pakistan Textile Mills Association
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
CBD	Convention on Biological Diversity
CTD	Committee on Trade and Development
CTE	Committee on Trade and Environment
CVD	Countervailing duty (subsidies)
DDA	Doha Development Agenda
DSB	Dispute Settlement Body
DSU	Dispute Settlement Understanding
EPB	Export Promotion Bureau
EC	European Communities
EFTA	European Free Trade Association
EU	European Union (officially European Communities in WTO)
FAO	Food and Agriculture Organization
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
HS	Harmonized Commodity Description and Coding System
ILO	International Labour Organization
IMF	International Monetary Fund
ITC	International Trade Centre
ITO	International Trade Organization
MEA	Multilateral environmental agreement
MFA	Multifibre Arrangement (replaced by ATC)
MFN	Most-favoured-nation

MTN	Multilateral trade negotiations
NTC	National Tariff Commission
NAFTA	North American Free Trade Agreement
PAPAM	Pakistan Automobile Parts Manufacturer
PIPRO	Pakistan Intellectual Property Rights Organisation
PSE	Producer subsidy equivalent (agriculture)
PSI	Pre-shipment inspection
S&D, SDT	Special and differential treatment (for developing countries)
SAARC	South Asian Association for Regional Cooperation
SBP	State Bank of Pakistan
SPS	Sanitary and phytosanitary measures
T&C	Textile and Clothing
TBT	Technical barriers to trade
TMB	Textiles Monitoring Body
TNC	Trade Negotiations Committee
TPRB	Trade Policy Review Body
TPRM	Trade Policy Review Mechanism
TRIMs	Trade-related investment measures
TRIPS	Trade-related aspects of intellectual property rights
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	UN Development Programme
UNEP	UN Environment Programme
UPOV	International Union for the Protection of New Varieties of Plants
UR	Uruguay Round
VER	Voluntary export restraint
VRA	Voluntary restraint agreement
WCO	World Customs Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Acknowledgements

It was a very unique and interesting experience to work on this syndicate report. It was indeed a very challenging task to work on a topic which is highly technical, but it has certainly given us more insight in WTO and how it may impact Pakistan. We are grateful to Civil Services Academy for providing us with the opportunity to work on a topic which is very relevant for Pakistan in the current age of globalization.

The syndicate is grateful to all the resource persons and guest speakers who took great pain and interest to apprise the syndicate about WTO. It was an honour for us to listen to and discuss the topic with these distinguished ladies and gentlemen who are experts in this field.

And lastly, we must extend our gratitude to Mr. Asim Imdad Ali, the syndicate advisor who took great personal interest and guided us through every step of the research, beginning from making us understand WTO to arranging all the guest speakers and till writing of this report.

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Research Methodology

Purpose of Research

The purpose of this research paper was to study and analyze the history, the theoretical underpinnings and the possible impact of WTO with special reference to key economic sectors of Pakistan. This report is divided into five parts. Chapter one is a brief history of WTO and some important guiding principles which form the basis of WTO. Next four chapters discuss the analysis regarding the impacts WTO might have on Industry, Textile and Clothing, Agriculture, and Services sectors respectively. In order to avoid repetition, a separate conclusion is not included at the end but each chapter closes with the conclusions and recommendations relevant for that particular sector.

Composition of Syndicate

For the purpose of this syndicate, four sub-groups were formed from within the syndicate and assigned different topics. The topics and the sub-groups formed are given below:

Sub- Group I	**Introduction to WTO and Impact of WTO in Industrial Sector**
Members	Zaid Bin Maqsood Naeem Iqbal Cheema Shahid Ali
Sub- Group II	**Impact of WTO on Textiles and Clothing Sector**
Members	Hamayoun Khan Babar Lt. Amer Sultan Farzana Altaf (Ms.) Zubaida Khanum (Ms.)
Sub- Group III	**Impact of WTO on Agriculture Sector**
Members	Iqbal Hussain Rizwan Memon Ali Umar
Sub- Group IV	**Impact of WTO on Services Sectors**
Members	Muhammad Jawad Dr. Shams-ud-Din Zia ur Rehman Shifaat Ahmad Kaleem

Methodology for Research

The main source of information data regarding WTO and Pakistan had been various publications of International and National organizations i.e. WTO, Ministry of Finance, Federal Bureau of Statistics and Export Promotion Bureau. Another major source of information was the internet especially the official site of WTO.

To analyse the data and come out with any conclusions detailed discussions were held with many resource persons and guest speakers, which proved invaluable for our purposes. The list of the guest speakers is attached at Annex 9 of the annexure.

Executive Summary

World Trade Organization stands for freer and predictable trade between countries. It aims to abolish trade distorting practices between countries such as quotas and subsidies in a phased manner. It does not however, aim at zero tariffs. WTO has GATT, GATS and TRIPs as the main agreements. Agreement on Agriculture and Agreement on Textile and Clothing come under GATT. Pakistan has been the founding member of GATT 1948 as well as WTO. This study attempts to analyze the impact of WTO on the important sectors in Pakistan i.e. Industry, Textile, Agriculture and Services.

As far as the industrial sector is concerned, at the moment Pakistan the main export of Pakistan is Textile and related products. These are discussed separately in this report. The non-textile export of Pakistan is negligible. This trend needs to be changed as no country should rely solely on the export of one or few products. On the Import side, Pakistan recently has rationalized its tariff structure to a large extent. The average tariff in Pakistan is around 17 percent with only four tariff slabs. There should not be any adverse affects on the domestic producer with the globalization as the local industry has already adjusted to the increased competition from global market. This however does not hold true for automobile industry, which still enjoys high protection and needs to become efficient if it wants to survive.

The complete integration of all textile products into the free trade environment after the phasing out of MFA under the Agreement on Textile and Clothing (ATC) on 1st January 2005 will be one of the most significant changes in the world trade regime for textiles in recent years.

The structure of Pakistan's economy finds itself heavily dependent on the textile and clothing (T&C) sector. It is because of the nature of textile industry being labor intensive and requiring less capital and technical skills. However, the Pakistan's total T&C exports in world exports are negligible. The phasing out of MFA can be very significant for Pakistan. However there are a few factors that must be taken into account before drawing any conclusion. Pakistan has never realized its full quota in US and EU. Average quota realization by Pakistan has only been around 70 %. It is either because of low production or because of low quality standards of our product making the demand less for our products in the developed rich part of the world. A quota-free trade era calls for structural and operational adjustments in the textile sector, to enable our exporters to be globally competitive. China is the biggest threat to Pakistan T&C products at present and in post ATC regime as well.

There is no consensus on the impact of the post-ATC scenario. Countries like Pakistan that was sheltered by the quota system will be forced to undertake policy reforms and export strategies aimed at increasing on competitiveness and enhancing value added production via improving process efficiency and product quality improvement that will have spill-over effects on other sectors.

As regards agriculture, Pakistan being an agrarian economy is still a net importer of food items. The Agreement on Agriculture is perhaps one of the most controversial aspects of WTO. The issues in AoA include subsidies, domestic support and market access. The developing countries and the developed world are at loggerheads over agriculture. The developing countries require an AoA that is fair just to meets both ends meet while the developing countries require that they maintain their status quo to protect their handful of farmers through subsidies and domestic support.

As far as Pakistan is concerned, Pakistan has comparative advantage in many primary commodities. But in order to fully utilize our comparative advantage, we need to focus on and solve the problems in supply side (domestic requirements). Pertaining to TRIPS, different varieties of plants and animal species and traditional pharmaceutical and herbal knowledge need to be registered to take full advantage of them. All valuable export brands like Basmati rice, varieties of mangoes, oranges, etc need to be protected under different provisions of TRIPS agreement. Furthermore we need to exploit our comparative advantage in the production of meat, dairy products, fruits, vegetables etc.

Services are the largest and most dynamic component of both developed and developing country economies. Services currently account for over 60 percent of global production and employment. It is impossible for any country to prosper today under the burden of an inefficient and expensive services infrastructure.

In Pakistan, the Services sector contributes more than half of the GDP. Services account for 45% of the labour force employed in the country. Surprisingly, the international trade of Pakistan in services, including FDI, falls next to merchandise trade. Workers' remittances account for the largest component of services and the country has a large number of expatriates throughout the world. Being a developing country, Pakistan adopted a cautious approach while making commitments in trade in services. However, the actual policy of the government is far liberal as compared to the binding commitments scheduled in GATS. Pakistan has made some horizontal commitments that apply across the board, while in six sectors specific commitments have been made. These include Business services, Construction and related engineering services, Tourism and travel related services, Health and related social services, Telecommunication services, and financial services.

Pakistan's commitments in the GATS are mostly those that require commercial presence, because it is more likely to lead to transfer of technology, employment-generation, and transfer of new management techniques. Access through commercial presence also allows the country to exercise its macroeconomic management, jurisdiction and supervision more effectively as compared to the cross border supply mode. On the other hand, financial services would require free movement of capital inflows and outflows associated with the activity liberalized, whereas commercial presence only requires free inward movement of capital. Hence, Pakistan's commitments are no different from the commitments of other developing countries.

1 Chapter One - Introduction to WTO

1.1 Introduction

The World Trade Organization (WTO) deals with the rules of trade between nations at a global or near-global level. It's an organization for liberalizing trade. It's a forum for governments to negotiate trade agreements. It's a place for them to settle trade disputes. It operates a system of trade rules. Essentially, the WTO is a place where member governments go, to try to sort out the trade problems they face with each other. The first step is to talk. The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. The bulk of the WTO's current work comes from the 1986–94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the "Doha Development Agenda" launched in 2001.

At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.

The system's overriding purpose is to help trade flow as freely as possible so long as there are no undesirable side-effects. That partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be "transparent" and predictable.

Another important side to the WTO's work is dispute settlement. Trade relations often involve conflicting interests. Agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.

1.2 History of WTO

The WTO began life on 1 January 1995, but its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system. (The second WTO ministerial meeting, held in Geneva in May 1998, included a celebration of the 50th anniversary of the system.)

It did not take long for the General Agreement to give birth to an unofficial, de facto international organization, also known informally as GATT. Over the years GATT evolved through several rounds of negotiations.

Year	Place / name	Subjects covered	Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960–1961	Geneva (Dillon Round)	Tariffs	26
1964–1967	Geneva (Kennedy Round)	Tariffs and anti-dumping measures	62
1973–1979	Geneva (Tokyo Round)	Tariffs, non-tariff measures, “framework” agreements	102
1986–1994	Geneva (Uruguay Round)	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc	123

Pildat August 2003[1].

The last and largest GATT round, was the Uruguay Round which lasted from 1986 to 1994 and led to the WTO’s creation. Whereas GATT had mainly dealt with trade in goods, the WTO and its agreements now cover trade in services, and in traded inventions, creations and designs (intellectual property).

The WTO replaced GATT as an international organization, but the General Agreement still exists as the WTO’s umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations. Trade lawyers distinguish between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994.

1.3 Import Quotas and Tariffs

Many countries use import quotas and tariffs to keep the domestic price of a product higher than world levels and thereby enable the domestic industry to enjoy higher profits than it would under free trade.

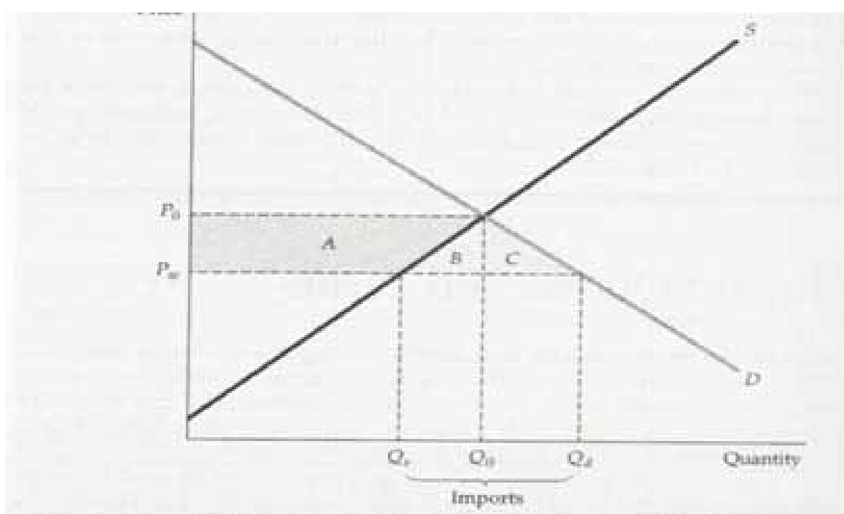


Figure A

Without a quota or tariff, a country will import a good

[1] The WTO Regime and Implications for Pakistan

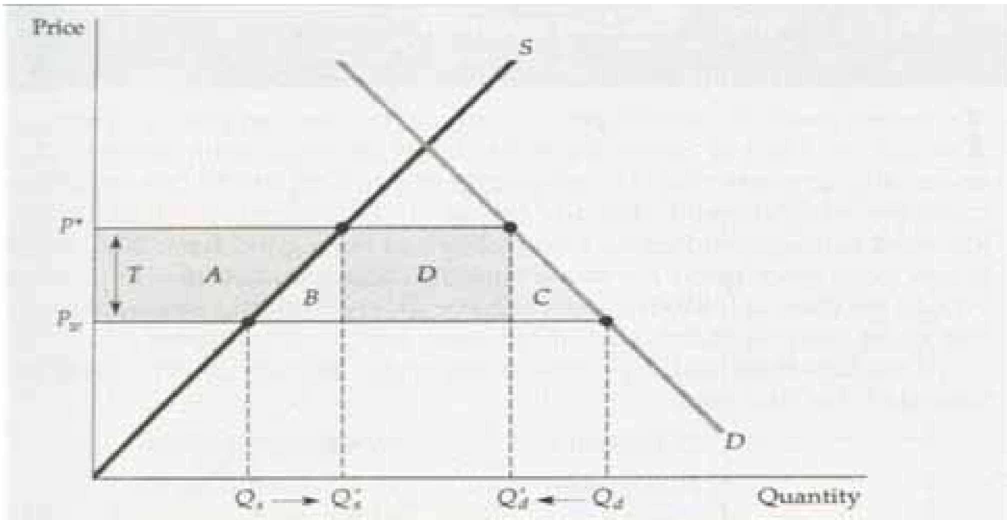
when its world price is below the market price that would prevail if there were no imports. Figure A shows this. S and D are the domestic supply and demand curves. If there were no imports, the domestic price and quantity demanded would be Po and Qo, which equate supply and demand. But the world price Pw is below Po, so domestic consumers have an incentive to purchase from abroad and will do so if imports are not restricted. How much will be imported? The domestic price will fall to the world price Pw; at this lower price, domestic production will fall to Qs, and domestic consumption will rise to Qd. Imports are then the difference between domestic consumption and domestic production, Qd – Qs.

Now suppose the government, bowing to pressures from the domestic industry, eliminates imports by imposing a quota of zero – that is, forbidding any imports. Now the domestic price will rise to Po. Consumers who still purchase the good (in quantity Qo) will pay more and will lose an amount of surplus given by trapezoid A and triangle B. Also, some consumers will no longer buy the good, so there is an additional loss of consumer surplus, given by triangle C.

On the other hand producer surplus would increase as output is higher (Qo instead of Qs) and is sold at a higher price (Po instead of Pw). So producer surplus increases by trapezoid A.

So we see that gain in producer surplus is less than loss in consumer surplus and as a whole there is a loss of B and C to the economy. Similar is the case with tariffs. The tariff would have to be equal to or greater than difference between Po and Pw to restrict all the imports. With such a high tariff there would be no imports and hence no revenue to the government, the rest of the analysis would remain the same as quotas.

But if the tariff is less than this difference, the government gains tariff revenue but still there is a dead weight loss as can be seen in Figure B.



Import Tariff or Quota (General Case)

Figure B

If a tariff of T is imposed the loss to consumer is A+B+C+D and the gain to producer is A. The total imports are Q'd – Q's and the gain to the government is D in the form of tariff revenue. B and C are still the loss to the economy as a whole and are known as dead weight loss.

1.4 Arguments for Protection

In order to justify tariffs and quotas countries present different arguments which are discussed below:

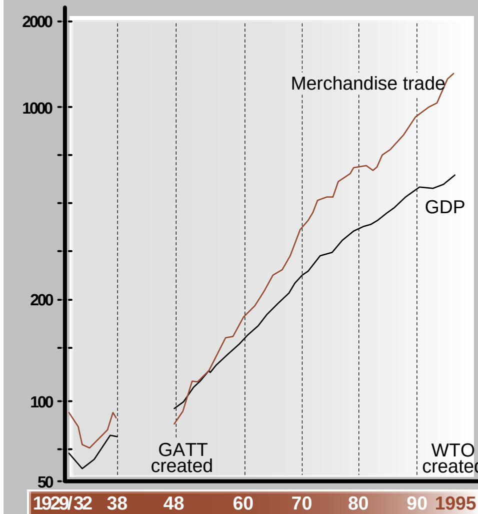
- Some countries use high tariffs and quotas to give its own industries in a new sector to develop without the threat of foreign competition. This is known as ***infant industry*** argument.
- ***Diversification of Industry*** argument says that a country should not depend on the production of few goods, rather it should diversify its production base and hence protection is required to enable diversification into those areas where that country does not have comparative advantage.
- ***Employment argument*** states that industrial development through protection increases employment in the country.
- The ***defence argument*** says that a country must encourage those industries which are necessary for the defence of the country.
- To maintain a trade surplus, it is imperative that exports are more than imports. Protectionism is a way to rectify problems in ***balance of payments***, whereby imports are restricted through high tariffs.
- Protection also becomes important against ***unfair competition***, resulting from dumping, subsidies and depreciated exchange rates.

1.5 Why a need for Free Trade

The data show a definite statistical link between freer trade and economic growth. Economic theory points to strong reasons for the link. All countries, including the poorest, have assets — human, industrial, natural, financial — which they can employ to produce goods and services for their domestic markets or to compete overseas. Economics tells us that we can benefit when these goods and services are traded. Simply put, the principle of "comparative advantage" says that countries prosper first by taking advantage of their assets in order to concentrate on what they can produce best, and then by trading these products for products that other countries produce best.

World trade and production have accelerated

Both trade and GDP fell in the late 1920s, before bottoming out in 1932. After World War II, both have risen exponentially, most of the time with trade outpacing GDP.
(1950 = 100. Trade and GDP: log scale)



Source: Understanding WTO

Success in trade is not static. The ability to compete well in particular products can shift from company to company when the market changes or new technologies make cheaper and better products possible. Producers are encouraged to adapt gradually and in a relatively painless way. They can focus on new products, find a new "niche" in their current area or expand into new areas.

Experience shows that competitiveness can also shift between whole countries. A country that may have enjoyed an advantage because of lower labour costs or because it had good supplies of some natural resources, could also become uncompetitive in some goods or services as its economy develops. However, with the stimulus of an open economy, the country can move on to become competitive in some other goods or services. This is normally a gradual process.

Comparative advantage

This is arguably the single most powerful insight into economics.
Suppose country A is better than country B at making automobiles, and country B is better than country A at making bread. It is obvious (the academics would say "trivial") that both would benefit if A specialized in automobiles, B specialized in bread and they traded their products. That is a case of absolute advantage.

But what if a country is bad at making everything? Will trade drive all producers out of business? The answer, according to Ricardo, is no. The reason is the principle of comparative advantage.

It says, countries A and B still stand to benefit from trading with each other even if A is better than B at making everything. If A is much more superior at making automobiles and only slightly superior at making bread, then A should still invest resources in what it does best — producing automobiles — and export the product to B. B should still invest in what it does best — making bread — and export that product to A, even if it is not as efficient as A. Both would still benefit from the trade. A country does not have to be best at anything to gain from trade. That is comparative advantage.

The theory dates back to classical economist David Ricardo. It is one of the most widely accepted among economists. It is also one of the most misunderstood among non-economists because it is confused with absolute advantage.
It is often claimed, for example, that some countries have no comparative advantage in anything. That is virtually impossible.

Understanding WTO[2]

Nevertheless, the temptation to ward off the challenge of competitive imports is always present. And richer governments are more likely to yield to the siren call of protectionism, for short term political gain — through subsidies, complicated red tape, and hiding behind legitimate policy objectives such as environmental preservation or consumer protection as an excuse to protect producers.

Protection ultimately leads to bloated, inefficient producers supplying consumers with outdated, unattractive products. In the end, factories close and jobs are lost despite the protection and subsidies. If other governments around the world pursue the same policies, markets contract and world economic activity is reduced. One of the objectives that governments bring to WTO negotiations is to prevent such a self-defeating and destructive drift into protectionism.

1.6 Understanding the WTO

The WTO system as it has emerged from the Uruguay Round now consists of the following main substantive Agreements:

I. Multilateral Agreement on Trade in Goods including the General Agreement on Tariffs and Trade (GATT 1994) and its associated Agreements
II. General Agreement on Trade in Services (GATS)
III. Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)

The legal instruments that now form the WTO system are:

- Marrakesh Agreement Establishing the World Trade Organization
- Multilateral Agreements
    - Trade in Goods
        - General Agreement on Tariffs and Trade (GATT 1994)

[2] Understanding The WTO 2003

Associated Agreements

- Uruguay Round Protocol GATT 1994
- Agreement on Agriculture
- Agreement on the Application of Sanitary and Phytosanitary Measure (SPS)
- Agreement on Textiles and Clothing
- Agreement on Technical Barriers to Trade (TBT)
- Agreement on Trade Related Investment Measure (TRIMs)
- Agreement on Implementation of Article VI of GATT 1994 (Anti-dumping)
- Agreement on Implementation of Article VII of GATT 1994 (Customs Valuation)
- Agreement on Pre shipment Inspection (PSI)
- Agreement on Rules of Origin
- Agreement on Import Licensing Procedures
- Agreement on Subsidies and Countervailing Measures (CSM)
- Agreement on Safeguards

- Trade in Services
  - General Agreement on Trade in Services (GATS)
- Intellectual Property Rights (IPRs)
  - Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)

- Plurilateral Trade Agreements
  - Agreement on Trade in Civil Aircrafts
  - Agreement on Government Procurement

1.7 Guiding Principles of WTO

1.7.I Most Favoured Nation Treatment (MFN)

The most important and fundamental principle of WTO is non-discriminatory treatment. Any advantage, favour, privilege or immunity granted by one WTO member to another (such as lower customs duty to one) has to be granted immediately and unconditionally to all other members.

In case of goods MFN treatment applies to customs duties, other border duties and charges, rules and regulations relating to imports and exports, methods of levying customs duties and international transfers of payments for imports or exports. Customs unions and free trade agreements, on the other hand, are negotiated under a special exception to the MFN Principle (GATT Article XXIV). Such favourable treatments need not be extended to all other WTO members.

1.7.II National Treatment

The principle of national treatment implies that imported goods will be given treatment that is no less favourable than that given to domestic goods. This principle of giving same treatment to others as to one's own national is unqualified in case of goods.

1.7.III Stability and predictability through binding

The stability and predictability of trading conditions is another basic principle of the WTO. Stable and predictable conditions of access to markets promote confidence because investors and traders can plan their investments secure in the knowledge that market access conditions will not change for the worse.

This is achieved through the bindings of tariff. Tariffs on different products that are reduced or agreed to in trade negotiations are bound, that is, a country agrees that it will not levy tariffs at rates higher than those agreed to. As regards industrial products developed countries have bound tariffs on practically all products, while developing countries have bound them for more than 70 percent of their products3. Each country in its schedule of tariff concessions and commitments records bound rates of tariffs for different products.

1.7.IV Transparency

WTO rules oblige member countries to ensure transparency in their foreign trade regimes by requiring them to publish all laws, regulations, measures and administrative decisions affecting trade. The publication of laws has to be done in a manner that allows importers, exporters, consumers and investors to be aware of them. Transparency is also ensured by requiring member countries to submit periodic notification to the WTO secretariat on different aspects of the trade regime.

1.7.V Trade liberalization

One of the principles of the WTO is progressive liberalization of trade. This principle is rooted in the belief that the removal or reduction of trade barriers results in an expansion of international trade that is to the benefit of all countries.

1.8 Agreements Concerning Trade in Goods

1.8.I Agreement on Subsidies and Countervailing measures

The Uruguay Round Agreement on Subsidies and Countervailing Measures (SCM) lays down rules on the subsidies for industrial products and on countervailing duties to counteract the effects of subsidies. Subsidies are divided into three categories; prohibited subsidies, actionable subsidies and non-actionable subsidies. Export subsidies and those contingent on the use of domestic as opposed to imported products are categorized as prohibited subsidies. However, least developed countries (LDC's) and developing countries with per capita income of less than $ 1,000 are exempt from this restriction and may use prohibited subsidies. Non-actionable

[3] WTO Official web site

subsidies include those for research and development, for backward regions and for environmental regions. All the remaining subsidies are actionable subsidies.

1.8.II Agreement on Anti-Dumping

The Agreement on Anti-dumping elaborates the provisions of Article VI of GATT 1994. The GATT provides the right to the contracting parties to apply anti-dumping measures i.e. measures against imports of a product at an export price below its “normal value”, if such dumped imports caused injury to a domestic industry in the territory of the import contracting party.

1.8.III Agreement on Safeguards

Whereas the agreements on anti-dumping and SCM provide remedies for domestic producers if they are hurt by unfair imports, the Agreement on Safeguards provides remedies for domestic producers injured by fairly traded imports. It allows the use of temporary protective measures but sets rules to guard against the abuse of such measures.

1.8.IV Agreement on Trade Related Investment Measures (TRIMS)

The TRIMs Agreement identifies trade-related measures that are against the provisions of GATT, especially Article III and XI of the GATT, and prohibits the use of such measures.

TRIMs basically consists of investment incentives, such as subsidies, investment grants and allowances, priority access to credit, tax relief and exemption, tariff protection and other forms of fiscal, financial and commercial inducements for investment and performance requirements, such as local content, trade-balancing and export requirements.

The agreement recognizes that certain investment measures restrict and distort trade. It provides that no contracting party shall apply any TRIMs inconsistent with national treatment and prohibition of quantitative restrictions of the GATT.

1.8.V Agreement on Technical Barriers to Trade (TBT) and on Sanitary and Phytosanitary Measures (SPS)

The TBT and SPS Agreements do not question the right of governments to use technical regulations, standards and sanitary and phytosanitary measures for health and safety reasons. However, the agreements make provisions prohibiting the use of such measures to create unnecessary obstacles to trade.

1.8.VI Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs)

With the increasing globalization of business activities, competition, technological capabilities and the appropriations and diffusion of technology, intellectual property has emerged as a new basis of comparative advantage.

The TRIPs covers areas like copyright and related rights, trademarks, geographical indications, industrial designs, patents, the lay-out designs of Integrated circuits and disclosed information including trade secrets. The agreement sets out general provisions and basic principles, notably a national treatment commitment under which the nationals of other parties must be given treatment no less favourable than that accorded to party's own nationals with regard to the protection of intellectual property. It also contains the MFN clause which is a novelty in an international intellectual property agreement.

1.9 The State of Market Access as a Result of WTO[4]

1.9.I Reduction in Tariffs

As a result of negotiations held prior to Uruguay Round (UR), the average levels of tariff in developed countries had come down from high levels of around 40 percent to about 10 percent. This average level was further reduced in the UR by 40 percent overall. Developing and transitional economies also cut their tariffs, but by a lower figure of 30 percent. LDC's were not required to mark reduction in their tariffs on a percentage basis but were encouraged to mark token reduction in selected products.

In addition, developed countries and certain developing countries also agreed in the UR to eliminate all tariffs in certain sectors, the so called zero-for-zero sectors. These included pharmaceuticals, agricultural equipment, construction equipment, medical equipment, furniture, paper, steel and toys. As a result of these and other concessions, the proportion of industrial products entering developed countries on an MFN duty-free basis was expected to double from 22 percent to 44 percent.

1.9.II Binding on Tariffs

Another important aspect of negotiations was the progress made in binding tariffs. Virtually all imports into developed countries of both industrial and agricultural products now enter under bound rates; the proportion for developing countries and transition economies are 73 percent and 98 percent respectively. As already discussed, one of the major advantages of binding is the security of access it provides to foreign markets.

1.10 Doha Development Agenda

At the Fourth Ministerial Conference in Doha, Qatar, in November 2001 WTO member governments agreed to launch new negotiations. They also agreed to work on other issues, in particular the implementation of the present agreements. The entire package is called the Doha Development Agenda (DDA).

1.10.I Implementation-related issues and concerns

[4] Data from: *A Handbook on WTO- with Special reference to Pakistan*, KCCI

"Implementation" is short-hand for developing countries' problems in implementing the current WTO Agreements, i.e. the agreements arising from the Uruguay Round negotiations.

No area of WTO work received more attention or generated more controversy during nearly three years of hard bargaining before the Doha Ministerial Conference. Around 100 issues were raised during that period. The result was a two-pronged approach:

- More than 40 items under 12 headings were settled at or before the Doha conference, for immediate delivery.
- The vast majority of the remaining items immediately became the subject of negotiations.

This was spelt out in a separate ministerial decision on implementation, combined with paragraph 12 of the main Doha Declaration.

The implementation decision includes the following

1.10.I.a General Agreement on Tariffs and Trade (GATT)

- Balance-of-payments exception: clarifying less stringent conditions in GATT for developing countries if they restrict imports in order to protect their balance-of-payments.
- Market-access commitments: clarifying eligibility to negotiate or be consulted on quota allocation.

1.10.I.b Sanitary and phytosanitary (SPS) measures

- More time for developing countries to comply with other countries' new SPS measures
- "Reasonable interval" between publication of a country's new SPS measure and its entry into force
- Equivalence: putting into practice the principle that governments should accept that different measures used by other governments can be equivalent to their own measures for providing the same level of health protection for food, animals and plants.
- Review of the SPS Agreement
- Developing countries' participation in setting international SPS standards
- Financial and technical assistance

1.10.I.c Technical barriers to trade

- Technical assistance for least-developed countries, and reviews of technical assistance in general.
- When possible, a six-month "reasonable interval" for developing countries to adapt to new measures.

- The WTO director-general encouraged to continue efforts to help developing countries participate in setting international standards.

1.10.I.d Trade-related investment measures (TRIMs)

- The Goods Council is “to consider positively” requests from least-developed countries to extend the seven-year transition period for eliminating measures that are inconsistent with the agreement.

1.10.I.e Anti-dumping (GATT Article 6)

- No second anti-dumping investigation within a year unless circumstances have changed.
- How to put into operation a special provision for developing countries (Article 15 of the Anti-Dumping Agreement), which recognizes that developed countries must give “special regard” to the situation of developing countries when considering applying anti-dumping measures.
- Clarification sought on the time period for determining whether the volume of dumped imported products is negligible, and therefore no anti-dumping action should be taken.
- Annual reviews of the agreement’s implementation to be improved.

1.10.I.f Subsidies and countervailing measures

- Sorting out how to determine whether some developing countries meet the test of being below US$1,000 per capita GNP allowing them to pay subsidies that require the recipient to export.
- Noting proposed new rules allowing developing countries to subsidize under programmes that have “legitimate development goals” without having to face countervailing or other action.
- Review of provisions on countervailing duty investigations.
- Reaffirming that least-developed countries are exempt from the ban on export subsidies.
- Directing the Subsidies Committee to extend the transition period for certain developing countries.

1.10.I.g Trade-related aspects of intellectual property rights (TRIPS)

- “Non-violation” complaints: the unresolved question of how to deal with possible TRIPS disputes involving loss of an expected benefit even if the TRIPS Agreement has not actually been violated.
- Technology transfer to least-developed countries.

1.10.I.h Final provisions

- The WTO Director-General is to ensure that WTO technical assistance gives priority to helping developing countries implement existing WTO obligations, and to increase their capacity to participate more effectively in future negotiations.

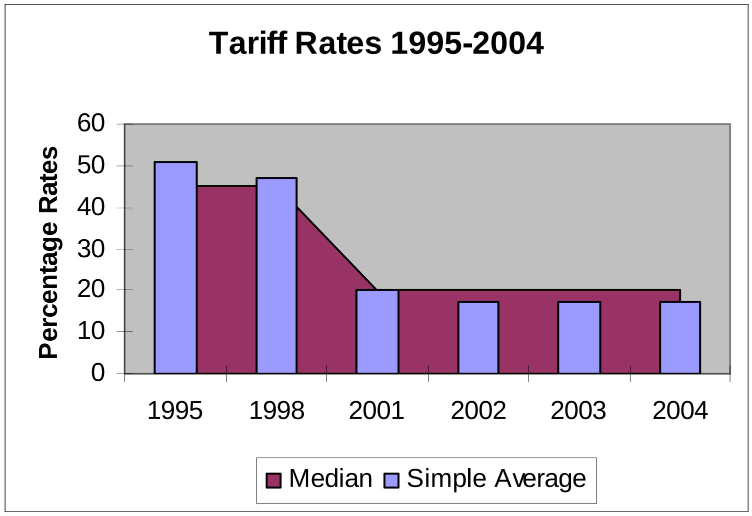
- The WTO Secretariat is to cooperate more closely with other international organizations so that technical assistance is more efficient and effective.

The implementation decision is tied into the main Doha Declaration, where ministers agreed on a future work programme to deal with unsettled implementation questions. *"Negotiations on outstanding implementation issues shall be an integral part of the Work Programme"* in the coming years, they declared.

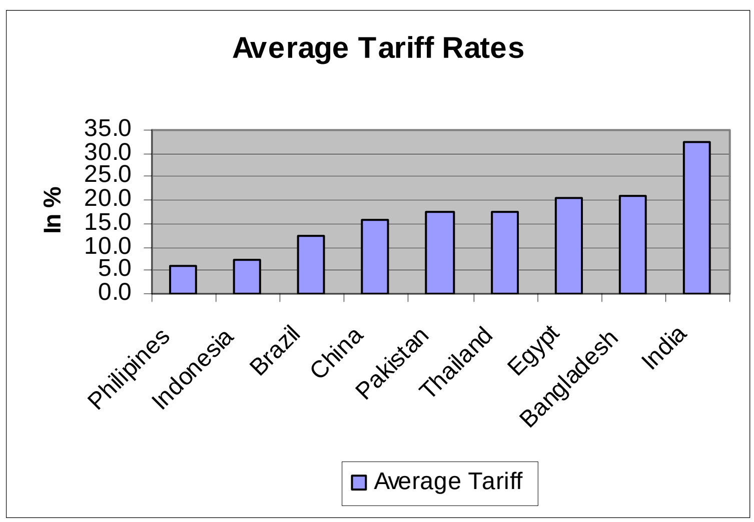
In the declaration, the ministers established a two-track approach. Those issues for which there was an agreed negotiating mandate in the declaration would be dealt with under the terms of that mandate. Those implementation issues where there is no mandate to negotiate, would be the taken up as "a matter of priority" by relevant WTO councils and committees. These bodies were to report on their progress to the Trade Negotiations Committee by the end of 2002 for "appropriate action".

2 Chapter Two - Industrial Sector

2.1 Tariff Structure in Pakistan



Pakistan has taken remarkable strides in recent years to streamline its tariff schedule and reduce barriers to international trade. In the past decade, the simple average tariff rate declined from 51 percent in 1995 to around 17 percent in 2004[5]. When measured in terms of import tariffs' effect on domestic prices, both simple and weighted average tariff rates fell by 22 percent between 1995 and 2003. This decline is large by recent historical standards: by way of comparison, high income countries reduced tariff by 3.2 percent during the Uruguay Round, all low-income countries by 8.1 percent, and other South Asian GATT members (i.e., India and Sri Lanka) by 16.5 percent[6]. The biggest decline came between 1998 and 2001, but the remarkable thing is the sustained momentum of tariff liberalization during this period.



At the regional level, Pakistan's average tariff now approaches Nepal's and Sri Lanka's- the low tariff leaders in the region. At the global level however, Pakistan continues to rank somewhat low: 109 out of 141 in terms of the average tariff rate across all goods. It ranks somewhat better in agricultural products only: 71 out of 141[7].

With a few exception i.e. automobiles, edible oil and alcoholic beverages, the tariff rates are grouped into a number of Tariff bands or slabs. During the course of the tariff liberalization program,

[5] Tariff Rationalization Study, WB
[6] J. Michael Finger, Merlinda D. Ingco and Ulrich Reincke, *The Uruguay Round: Statistics on Tariff Concessions Given and Received* (Washington: The World Bank, 1996)
[7] Tariff Rationalization Study, WB

the government has reduced the number of tariff bands. The latest tariff schedule contains four bands at tariff rates of 5, 10, 20 and 25 percent. This represents quite a change from the 1995 tariff schedule, which contained tariff bands for normal goods at 15 different levels between zero and 80 percent.

2.2 Brief Review of Industrial Sector of Pakistan

If we look at the Industrial production of Pakistan, we will see that the share of manufacturing sector in the GDP of Pakistan has been stagnant for the past around 35 years at around 17 percent in real terms. In the year 2003-04 it was 17.5 percent with large scale manufacturing contributing 11.8 percent and small scale contributing 4.3 percent respectively[8].

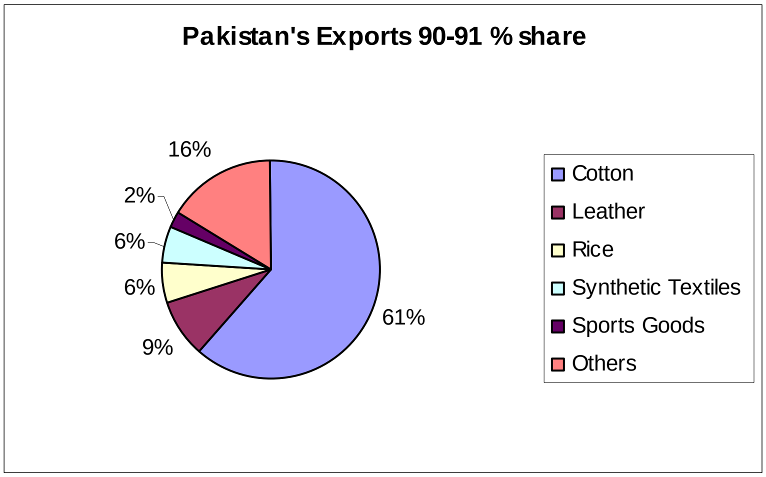


Figure 1

Similarly the share of industrial sector in the exports of Pakistan has been stagnant at around 28 percent from 90-91 to 03-04. (Figure 1 and 2)

The main reasons for the exports of Industrial sector being stagnant are: Low quality products, reliance on few exports products, few export markets and the inability of Pakistani exporter to keep with the times with the induction of new technology and reducing the cost of production.

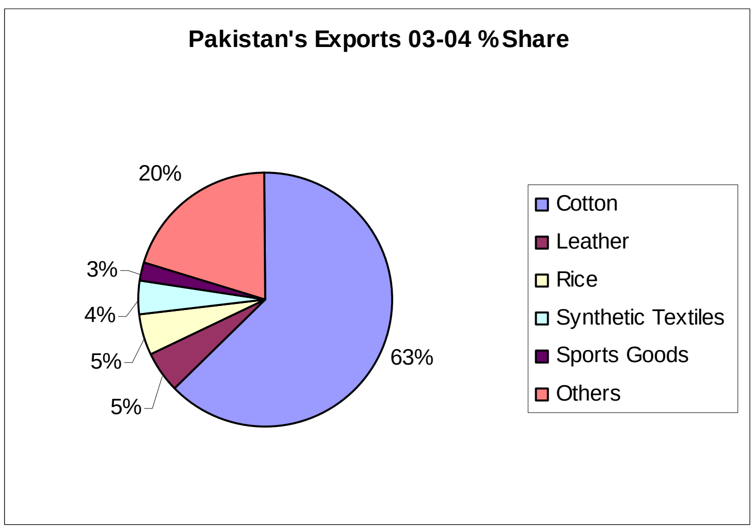


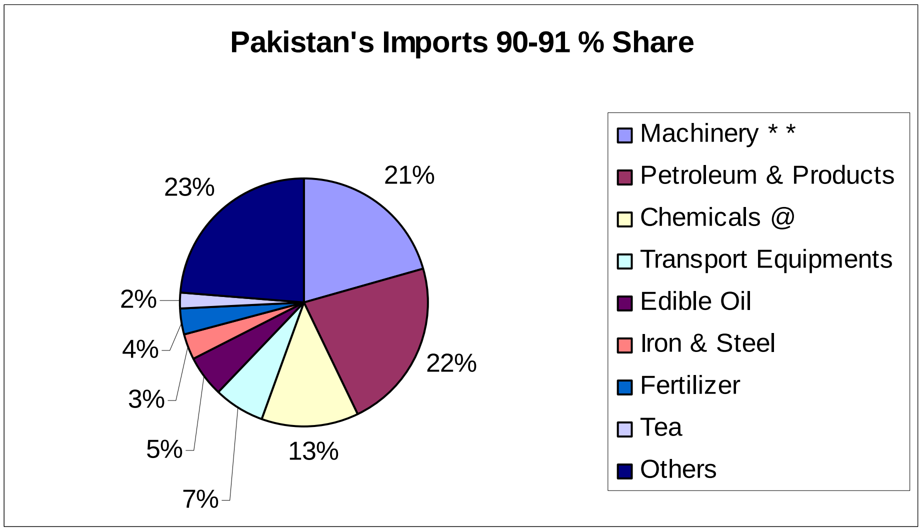
Figure 2

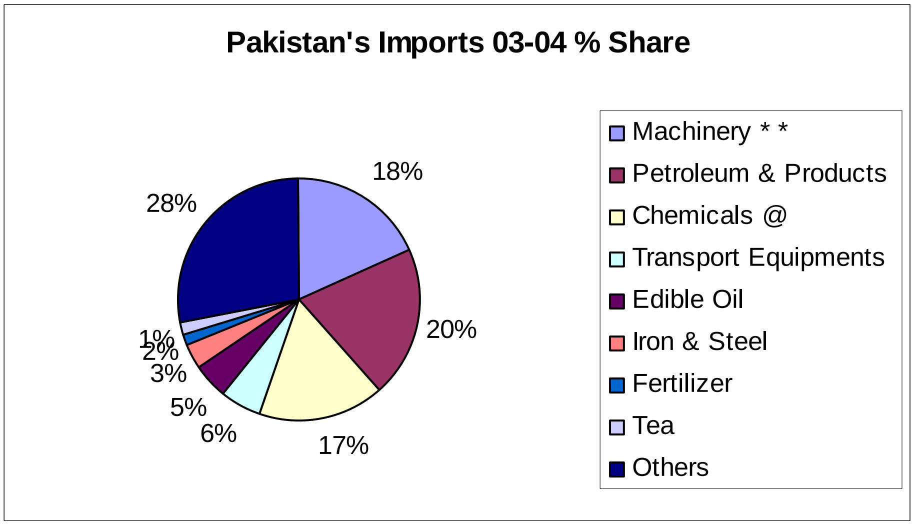
The major contributors to the export sector, in the industrial sector, excluding textiles and related products, are leather products, Sports goods, surgical equipment and carpets and rugs (Exhibit I).

[8] Economic Survey 2003-04

As regards the Imports of goods is concerned, the major products are machinery, transport equipment, chemicals, petroleum products, edible oil and fertilizer (Exhibit III). If we look at the imports of Pakistan, we find that most of the imports are raw material for further production and hence the demand for these is inelastic.

Looking at the trends in the composition of Imports from the period 90-91 to 03-04, we see that the composition of Imports has been more or less constant. (Figures below)





2.3 Implications of WTO on Industrial Sector

The following section would analyse the possible opportunities and threats to the major exports (excluding textiles and related products) and imports under the WTO regime.

2.3.I Exports

In the exports sector, the analysis of four major products would be carried out i.e. leather products, sports goods, surgical equipment and Carpets and Rugs.

2.3.I.a Leather Products

The share of leather products in the exports of Pakistan has been declining over the period 1990-91 to 2003-04 from 9.1 percent in 90-91 to 5.3 percent in 03-04. However in rupee terms the exports have risen (Exhibit V).

As far as the implications of WTO are concerned, the TBT and SPS can have significant impact on Pakistan's ability to increase the exports in this sector. Particularly the environmental issues related with the leather industry in Pakistan could have significant negative effects on our exports. Another problem could be related to the quality of our leather exports. If the Pakistani exporter does not improve the quality of the product, the current competitive advantage that Pakistan has in this field could quickly fade away.

2.3.I.b Sports Goods

The share of sports goods in the export proceeds has been more or less constant in the period under review. Though again in rupee terms the exports have risen (Exhibit VI).

More or less Pakistan faces the same challenges in the export of sports goods as it does in the export of leather products. Failure to keep up with the technological advances has already created a big dent in the export of footballs and if the exporter of sports goods does not appreciate the need of technological advancement, the share is certain to fall further.

2.3.I.c Surgical Equipment

In the case of surgical instruments also the share in the exports has been constant at around 1.3 percent with a moderate change in rupee terms (Exhibit VII).

2.3.I.d Carpets and Rugs

The share of carpets and rugs in total exports has been around 2 percent with a rise to 3.16 percent in 2000-01 while in rupee terms the export proceeds have shown an increase till 2000-01 and then there has been a decrease even in rupee terms (Exhibit VIII).

In the overall case of export industry of Pakistan some peculiarities can be identified by looking at the exports of our major products:

a) Pakistan is exporting mainly very traditional products which cannot fetch good price in international market.
b) The share of Non-Textile products in the export is stagnant over the last two decades or so.
c) WTO has been in operation since January 1995 and Pakistan being a founding member is its rules since then, but there have been no drastic changes in its export profile over that period.

From the above it can be clearly seen that the problem with the industrial exports of Pakistan have nothing to do with WTO, but it is the supply side[9] constraints that are hampering the exports of our country. While it is true that TBT and SPS might have some adverse effects on the already small non textile exports of Pakistan, but that again is a supply side problem that could be overcome with proper planning.

2.3.II Imports

In the imports sector the analysis would be carried out for major imports which are chemicals, vegetable oil, machinery, electrical goods, fertilizer, transport equipment and petroleum products. The unique feature about the imports of Pakistan is that all the major imports into Pakistan are used as inputs into other industrial or agricultural activities and hence their demand is inelastic[10]. This fact makes Pakistan very vulnerable to the international prices and supply conditions. Furthermore this inelasticity has externalities on the internal economy of the country.

2.3.II.a Chemicals

The share of chemicals in the total imports of Pakistan is around 10-12%. The average tariff rate is 5% on chemicals and its products. The imports of chemicals have grown in Rs. term as well over the period in study(Exhibit IX). As far as WTO and its impact on chemical industry is concerned, no adverse affects are expected mainly because of two reasons:

i. The tariff is already very low.
ii. The bound tariffs are much higher than applied tariff rates.

This holds true for practically all the imports into Pakistan, barring automobiles and its parts.

2.3.II.b Vegetable oil

The share of vegetable oil in the import bill is constant around 5-6% with some peaks in between. The total import bill on this head has almost doubled in the period 93-94 to 03-04 (Exhibit X). No negative affect of any kind is expected in the era of WTO in this sector as well because the tariff rates in this industry are already zero.

2.3.II.c Fertilizer

The share of fertilizer in the total imports has declined from 3.10 % in 93-94 to around 2% in 03-04, although in rupee terms the import bill has increased (Exhibit XI). In case of fertilizer as well the trade has been liberalized to a great extent and the tariff rate is 5%. The local industry has already adjusted to foreign competition and no grave threat is anticipated with further liberalization.

2.3.II.d Machinery Electrical and Non Electrical

The shares of both electrical and non electrical machinery have declined in the past ten years though in rupee terms the import bill has increased (Exhibits XII and XIII). The

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[9] *The ability and the expertise of Pakistan to be able to produce and supply quality products.*
[10] Inelastic demand is that which is not affected to a large extent with changes in Price

tariff rates for machinery range between 5% and 25%. The decreasing share in imports and somewhat higher tariff rates indicate that the government is pursuing an import substitution policy in these sectors. Although these sectors are enjoying somewhat higher protection but no real threat is perceived in these sectors with greater globalization because the bound rates committed by Pakistan are higher than the rates being applied at the moment.

2.3.II.e Petroleum Products

In recent years petroleum products form the major share of imports and stand around 25% in 03-04. Exhibit XIV shows the total imports of petroleum products from the period 93-94 to 03-04. Tariff rates on fuels are 5% while on lubricants and other related products it ranges between 20%-25%.

2.3.II.f Transport Equipment

Transport industry is one particular industry that the Government of Pakistan is trying to establish under protection of tariffs. The tariff rates for transport equipment start from 35% and go as high as 200% for some vehicles. The share in imports has gone down but the absolute value of imports has shown an increase (Exhibit XV).

Source: PAPAM

Vehicle	Type	CKD	CBU	S.T
Cars	upto 1000 cc	35%	100%	15%
	1001-1300 cc	35%	120%	15%
	1301-1800 cc	35%	150%	15%
	1801-2999 cc	35%	250%	15%
LCV		30%	60%	15%
Trucks		30%	60%	15%
Buses		15%	60%	15%
Tractors		0%	35%	15%
Motorcycles		30%	105%	15%

The government of Pakistan established the deletion programme in the industry in order to avoid heavy imports in the automobile sector on the one hand and on the other, to promote local vendor industry. Pushed by the deletion policies of the Government, the localized content of various units kept on increasing each year un-till 1985 when certain unfavorable decisions affected industrialization and the localization deletion came to standstill during the next 7-8 years. Had the original deletion programme been followed, Pakistan could become self sufficient in producing a Pakistani Car by the year 1988.

Under the TRIMs agreement Pakistan could not continue the deletion programme after January 01, 2000. But Pakistan requested for an extension and got and extension of two years. Currently, Pakistan is still continuing with the deletion programme and its application for a further extension is pending with WTO.

If Pakistan is not guaranteed further extension then the local vendor and automobile would be unable to compete with the international market. In this case there is a real threat of de-industrialization in this sector.

2.4 Conclusion and Recommendations

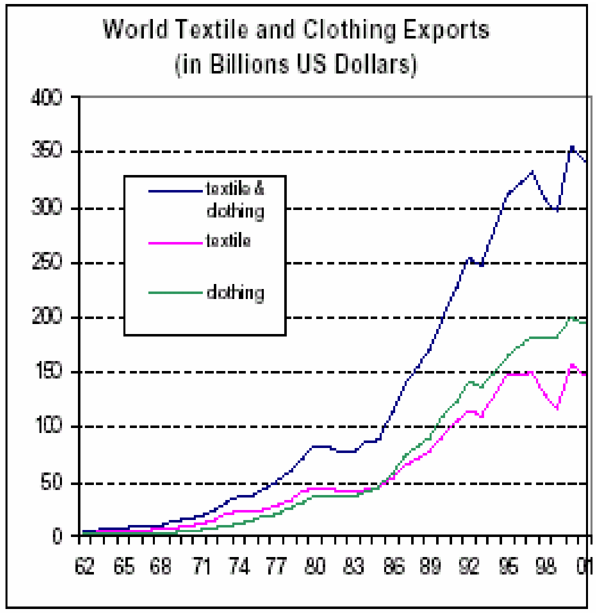
WTO is a reality and it is here and here to stay. Pakistan is a signatory to the WTO and cannot keep its eyes shut to the realities. What Pakistan needs to do is to make the best of a given situation and try and develop a strategy to get maximum benefit from globalization and WTO.

- The local industry now cannot be protected with the use of quotas or very high tariffs. The government needs to build a very strong network of Anti-dumping and countervailing duties to protect the local industry against the onslaught of unfair foreign competition.
- The developing countries including Pakistan face problems in hiring law firms to advice on WTO related issues, which is a constraining factor in seeking relief from Dispute Settlement Body (DSU). This underscores the need to train local lawyers with WTO expertise.
- Our survival lies in enhancing credibility through adoption of international quality standards, but Pakistan has a long way to go in obtaining certification of ISO’s and other standards. A proper policy is required in this direction which should involve both public and private quarters to address this issue.
- Special policies are needed for sectors which are working under deletion programme such as automobiles and engineering goods so that they could become efficient in shortest possible time.
- Detailed studies should be undertaken to ascertain the impact on trade of Pakistan
  - Due to accession of China to WTO.
  - Due to enlargement of EU.
  - Due to bilateral agreements in which countries of our interest are also involved.

3 Chapter Three- Textile and Clothing Sector

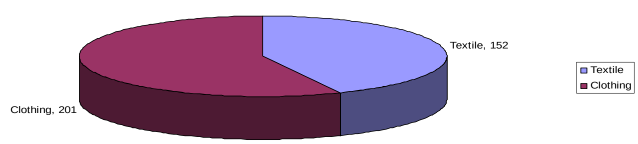
3.1 World Textile and Clothing (T&C) Trade

World's trade in T&C grew from $6 billion in 1962 to $342 billion in 2001. Figure 1 shows a substantial increase in the global figures of T&C over the years[11].

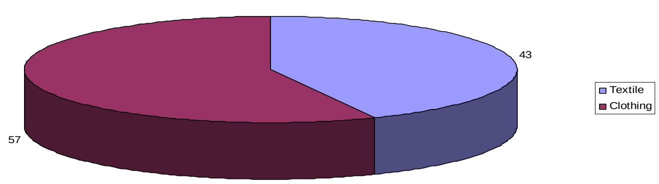


Trade in T&C grew faster than total world trade in the period prior to 1974 , its share in world trade leveling off till 1985 before increasing again until 1994.Between 1994 and 1998 the share of T&C in world trade declined gradually , jumping up slightly in 1999 before again in the recent years. It is because of the above mentioned fact that the share of T&C in the total merchandise trade fell. In the year 2004 global trade in T&C is $353 billion, which accounts for nearly 6 percent of the total merchandise trade. Itself T&C seems a FALLING STAR in global trade as compared to other sectors as engineering sector yet, of this total of $353 billion, the share of textile is $152 billion, while that of clothing is $ 201 billion.

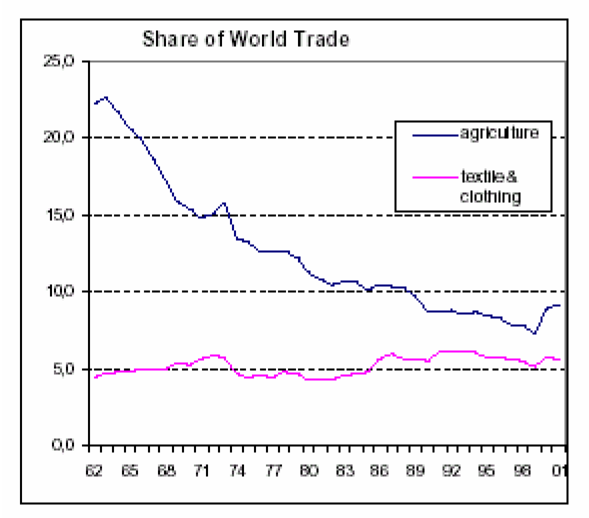
Global Trade in T&C 2004(Billion $)



Global Trade in T&C % share



11 . UNDP's Report "Impact of post-ATC Environment on Pakistan's Textile Trade" November 2003



Source : UNDP

The above charts show that the trade with in T&C is inclined towards clothing as bigger chunk of T&C nearly 60% amounted to clothing sector. So the future potential market is that of Clothing.

Additionally, Man-made fibres have progressively increased in share of all fibres globally. The % rise in the share of Synthetics since fifties is given in Table1 .

Year	Cotton	Wool	MMF	Total
1952	73%	10.3	16.69	100%
1960	43%	43.2	13.62	100%
1970	55.6	6.91	37.51	100%
1980	48.7	5.54	45.793	100%
1990	47.7	3.74	48.54	100%

Table1 **Source: Cotton World Statistics, ICAC Oct 02**

The share of man-made fibres in total fibre consumption in the world increased from 49% to 58% in 1998.

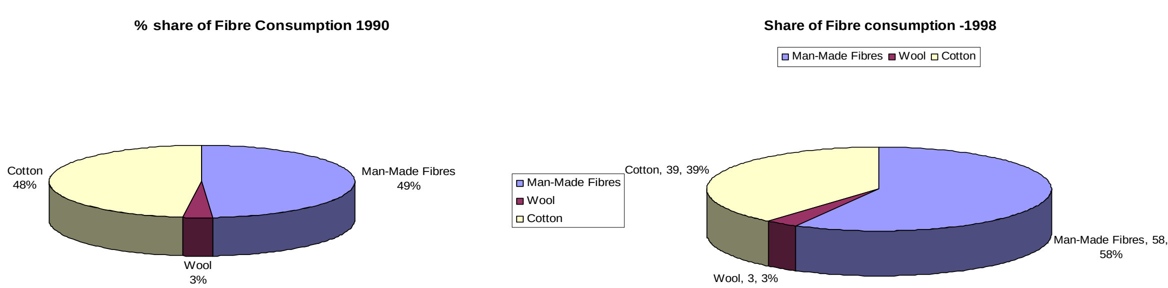


Fig 3 **Source: Textile Vision 2005**

Throughout the world the nature of textile and clothing sector is labor intensive, and requires relatively little skills and capital investment. The T&C industry is of immense importance to Pakistan and other developing countries of the region as it provides an alternative to advance early stages of industrialization with high potential of employment generation and export expansion. It has traditionally been the stepping-stone towards industrialization. It has eventually become a "sunset" industry in those countries which have reached a higher level of income. The sector not only forms a significant share of GDP and foreign exchange earnings, but it also contributes to human development objectives such as(female) employment , diffusion of knowledge and technology and generation of revenue.

3.2 T&C Sector out of GATT 1947

T&C clothing was virtually taken out of the ambit of GATT through the 'Short Term'(1960) and the 'Long Term'(1962-73) cotton arrangement and the subsequent Multi- Fibre arrangement (MFA) of 1974.[12]

"Just seven years after its inception, the United States fired the first significant shot across GATT's nascent bow. In 1955, the US compelled Japan to "voluntarily" restrain its exports of cotton fabrics and clothing, which had risen to levels exceeding the prewar peak. The US restrictions on Japanese exports were soon followed by similar undertakings by the UK, which extracted voluntary restraints on exports from Hong Kong , India and Pakistan in the late 1950s."

Centre for Trade Policy studies, Washington, October 2003.

3.3 The Cotton Arrangements (1961-1973)

Developed Countries in the decade of 50s faced a threat of closure of production facilities in the sector leading to serious social problems. Hence in 1960, an agreement to allow selective safeguard action was formed which was a fundamental departure from GATT regime. In 1961 a Short Term Agreement was signed which was followed by the Long Term Cotton Arrangement. It was a 5 year pact consisting of bilaterally agreed quotas and unilateral safeguards. It was renewed in 1976 and 1970.

3.4 The Multifibre Arrangement (1974-1994)

MFA (like the Cotton arrangements) provided rules for the imposition of quotas, either through bilateral agreements or unilateral actions. It extended the coverage of the restrictions on textiles and clothing from cotton products to wool and man-made fiber products. Under this agreement the developed countries were required to enhance their quotas at the growth rate of 1% to 6%. MFA was used almost exclusively by the developed countries to protect themselves against imports from developing countries.

MFA had 44 members which were less than half of the GATT members but accounted for most members with an interest in textiles and clothing trade.

[12] DAWN Economic& Business Review Sep27-Oct3,2004

By 1994, MFA members were four importers (The US,EU, Canada and Norway) and some 30 developing exporting countries with a total of 1300 T&C bilateral importing quotas which were negotiated bilaterally at short intervals often every year or so. Additionally the growth rate of 6% in quotas was sharply reduced in practice. The Multifibre Arrangement was a major departure from the basic GATT rules and particularly the principle of non-discrimination.

MFA terminated on 31st December 1994 at the end of Uruguay Round upon the entry into force of the WTO and its Agreement on Textiles and Clothing (ATC) on 1 January 1995.

3.4.I Effects of the MFA

The garment industry was flourished in the developing countries using quota as an instrument for market access. Additionally relocation of textile and clothing industry took place towards less restricted or unrestricted exporters like Bangladesh. This shift in production and export activity led to more wide spread restrictions on the part of developed countries. It is because the more oversupply and the more restrictions demanded by the producers at stake. This also led to the industrialization in the countries which gained advantage because of the quota system under MFA rather than because of their comparative advantage in T&C. Also under the MFA, export rights became scarce and generated rents for internationally competitive suppliers. Hence most of the rents generated under the MFA accrued to developing country exporters.

"What began as shortsighted, GATT-subversive ploy by rich countries to insulate their textile and apparel industries from developing-country competition actually made matter worse for the intended beneficiaries. It encouraged world wide capacity growth as industries budded in places not yet restricted , which intensified import competition and price deflation, which in turn begat progressive expansion of the web of restriction to address the growing problem….World supply did not contract. World prices did not rise. Rather , supply expanded and prices fell as more and more unrestricted countries began producing textiles and clothing for export to rich markets.…….. Today's muddled landscape is a direct result of the original sin of the 1950s."

Centre for Trade Policy studies, Washington, October 2003.

3.4.II MFA…..a complete Failure

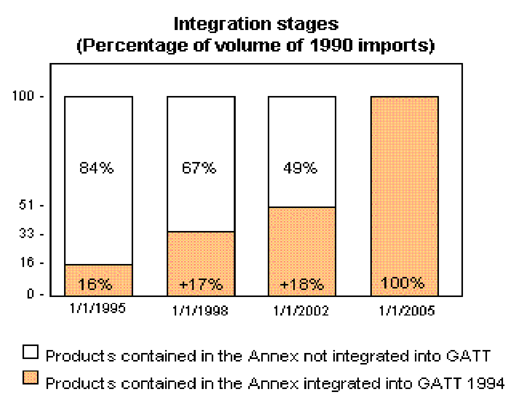
- ✓ Did not protect jobs in developed countries.
- ✓ Loss of consumer surplus in importing countries.
- ✓ Producers had to purchase quota rights (corruption).
- ✓ Production decisions based on quota restriction not on optimal economic considerations.
- ✓ Led to oversupply and depressed world prices: loss to producers.

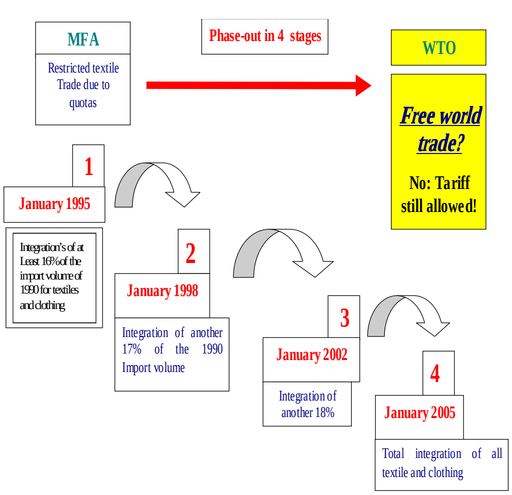
3.5 The WTO Agreement on Textiles and Clothing (ATC) 1995-2004

The ATC is a transitional instrument, built on the following key elements: (a) the product coverage, basically encompassing yarns, fabrics, made-up textile products and clothing; (b) a programme for the progressive integration of these textile and clothing products into GATT 1994 rules; (c) a liberalization process to progressively enlarge existing quotas (until they are removed) by increasing annual growth rates at each stage; (d) a special safeguard mechanism to deal with new cases of serious damage or threat thereof to domestic producers during the transition period; (e) establishment of a Textiles Monitoring Body ("TMB") to supervise the implementation of the Agreement and ensure that the rules are faithfully followed; and (f) other provisions, including rules on circumvention of the quotas, their administration, treatment of non-MFA restrictions, and commitments undertaken elsewhere under the WTO's agreements and procedures affecting this sector.

The ***product coverage***, listed in the Annex to the ATC, covers all products which were subject to MFA or MFA-type quotas in at least one importing country.

The ***integration process*** is laid down in ATC Article 2 and stipulates how Members shall integrate the products listed in the Annex into the rules of GATT 1994 over the 10-year period. This process is to be carried out progressively in three stages (3 years, 4 years, 3 years) with all products standing integrated at the end of the 10-year period. The first stage began on 1 January 1995 with the integration by Members of products representing not less than 16 per cent of that Member's total 1990 imports of all the products in the Annex. At stage 2, on 1 January 1998, not less than a further 17 per cent was integrated. At stage 3, on 1 January 2002, not less than a further 18 per cent will be integrated. Finally at the end, on 1 January 2005, all remaining products (amounting up to 49 per cent of 1990 imports into a Member) will stand integrated and the Agreement terminates. Each importing Member decides itself which products it will integrate at each stage to reach these thresholds. The only constraint is that the integration list must encompass products from each of the four groupings: tops and yarns, fabrics, made-up textile products and clothing.





The former MFA quotas, when carried over into the ATC on 1 January 1995, represented the starting point for an automatic liberalization process set out in Article 2[13], paragraphs 12-16. The former MFA growth rates applicable to each of these quotas were increased on 1 January 1995 by a factor of 16 per cent for the first stage of the Agreement and the new growth rate was applied annually. The stage 1 growth rate was further increased by a factor of 25 per cent for the second stage on 1 January 1998; and will be increased by a further 27 per cent for the last stage beginning 1 January 2002. To illustrate this process, a 6 per cent growth rate under the MFA in 1994 became 6.9 per cent under the ATC and applied each year 1995/96/97; then it was increased to 8.7 per cent for each year 1998/99/2000/01; and then will be increased to 11.05 per cent for 2002/3/4.

Article 3 deals with quantitative restrictions (or measures with similar effect) other than those under the MFA. Members which had such restrictions in place, which could not be justified under a GATT provision, were required either to bring them into conformity with GATT rules or phase them out within the ten year transitional period, according to a plan to be submitted by the restraining Member to the Textiles Monitoring Body. There is no obligation to eliminate restrictions that are permitted under GATT rules.

A key aspect of the ATC is the provision in Article 6 for a special transitional safeguard mechanism intended to protect Members against damaging surges in imports during the transition period from products which have not yet been integrated into GATT and which are not already under quota. This clause is based on a two-tiered approach - first, the importing Member must determine that total imports of a specific product are causing serious damage, or actual threat thereof, to its domestic industry and second, it must then decide to which individual Member(s) this serious damage can be attributed. Specific criteria and procedures are set out for each step.

Article 5 of the ATC contains rules and procedures concerning circumvention of the quotas through transshipment, re-routing, false declaration of origin, or falsification of official documents. These require, inter alia, consultation and full cooperation in the investigation of such practices by Members concerned. When sufficient evidence is available, possible recourse might include the denial of entry of goods. There is also a provision whereby all Members should establish, consistent with their domestic laws and procedures, the necessary legal provisions and/or administrative procedures to address and take action against circumvention.

Provisions relating to the commitments undertaken in all areas of the Uruguay Round as they relate to textiles and clothing require that all Members “shall take such actions as may be necessary” to abide by these rules and disciplines so as to achieve improved market access, to ensure the application of fair and equitable trading conditions and to avoid discrimination against textiles and clothing imports (Article 7).

The Textiles Monitoring Body has been established to supervise the implementation of the ATC and to examine all measures taken under it, to ensure that they are in conformity

[13] For summary on ATC please sea Annex 2

with the rules. It is a quasi-judicial, standing body which consists of a Chairman and ten TMB members, discharging their function on an ad personam basis and taking all decisions by consensus. The ten members are appointed by WTO Member governments according to an agreed grouping of WTO Members into constituencies. There can be rotation within the constituencies. These characteristics make the TMB a unique institution within the WTO framework.

3.6 Critical Issues in ATC

Developed importing countries have fulfilled their ATC commitments by integrating more than the required imports volume into GATT? WTO rules. But they were able to do so without dismantling most of the existing quotas and by using the non-quota products from the lists. Table A shows that out of 1325 original quotas, only 219 have been eliminated in the first seven years of integration process and consequently the remaining 1106 (approximately 83% of the original number in 1995) would have to be removed during the remaining years.

Table A: **Number of Quotas Eliminated in First Two Stages**

WTO Member	Total no. of T&C Quotas	Stage 1&2	Early Elimination	Total Eliminated Quotas
USA	757	45	11	56
EU	219	55	0	55
Canada	295	54	0	54
Norway	54	3	51	54

Source: **Council of Trade in Goods, 2002**

Although the required percentages of products to be integrated had generally been met , the integration program had been constructed in such a way that the products being integrated were not products that would be commercially meaningful for poor countries, e.g., ties , tents, etc.. Developing countries expected progressive liberalization in all the four groups indicated earlier including T&C during the life of the ATC. Contrary to their expectations, developed countries have mostly integrated low value-added yarns, fabrics and textile made-ups, which are also imported from developed countries. Table B illustrates this aspect.

Table B: **Back-loading**

	Percentage of imports			
	Volume			Value
	Yarns, fabrics and Made-ups	Clothing	Total	Total
USA	29.34	3.9	33.24	17.35
Canada	32.24	1.38	33.62	29.74
EU	31.91	2.47	34.38	21.62

3.6.I Tariffs Peaks and Escalation

As non-tariff barriers decline relatively high tariff peaks in T&C appear. For the Quad (except Japan) , average tariffs for T&C products are considerably higher than the overall simple average. With increased competition a 1% tariff difference can loose a large order. The EU has a tariff of 12.5% whereas in the USA it varies between 0-30%. In the USA Clothes and shoes constitute 6.7%of the value of the US imports but account for almost 50% of all tariff revenue collected. While non-tariff barriers are expected to be phased out by 1st Jan,2005, tariff peaks and escalation in this sector will most likely continue to be barriers to market access.

" Some developing countries are expected to face welfare losses from textile trade liberalization as the improved access to developed countries markets would in their cases not compensate for the loss in quota rents. These losses would be more wide spread and pronounced , if the textiles market liberalization would consist of eliminating quotas, but leaving tariffs unchanged."[14]

3.6.II Misuse of Safeguards

Many developing countries consider that these safeguards have been used in a large number of cases and had , in several cases, been found to be unjustified.

" In 87% cases developing countries were targets of such measures."[15]

In this regard, US government placed quota restrictions on imports of combed cotton from Pakistan in 1999. Pakistan challenged and won and in 2001 the USA removed it. This amounts to a manifestation of protectionism and has a serious impact on the implementation process, distorting trade flows.

3.6.III ATC more restrictive?

" In the run-up to implementation of the ATC , the US used the last renegotiation of bilateral agreements to achieve reductions in annual growth rates(of quotas). The resulting deceleration of quota growth , combined with increases in consumer demand, has made the ATC more restrictive on remaining quotas than would have been the case under the MFA."[16]

3.7 Decision of 14 November 2001 Doha Ministerial Conference

In Doha Ministerial Conference, ministers reaffirm their governments' commitment to "full and faithful" implementation of the Agreement on Textiles and Clothing. They referred in particular to three concerns: The agreement's provisions on the early integration of products into normal GATT rules and the elimination of quotas. The ministers agreed that these provisions should be "effectively" used. Anti-dumping actions

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[14] **'Liberalizing Trade in Textiles and Clothing : A survey of quantitative studies,OECD,2003'**

[15] **Centre for Trade Policy Studies, Washington, October 2003.**

[16] Centre for Trade Policy Studies, Washington, Oct,2003.

on developing countries' textiles and clothing exports, when those exports were previously restricted by quotas under the agreement. The ministers agreed that for two years after the sector is fully integrated into GATT rules (i.e. 2005–2006) their governments will exercise "particular consideration" before initiating anti-dumping investigations on these products. Determining where a textiles or clothing product is made, an important issue when, for example, quotas apply to products from particular countries. The ministers agreed to give the WTO's Committee on Rules of Origin a role in this. Their governments will notify any changes in their rules of origin for these products to the committee, which may decide to examine the changes.

3.8 Textile and Clothing (T&C) Sector- Major Concentration in Pakistan's Exports

The structure of Pakistan's economy finds itself heavily dependent on the textile and clothing (T&C) sector which accounts for 66.7% (including synthetic textiles) of the total export earnings of the country in year 2004[17]. Exhibit XXI in the appendix and fig 4 below show that the % share ranging between 60-67% of the total exports has been nearly constant since 1990 .The sector employs 25 million people and accounts for 9% of the GDP.

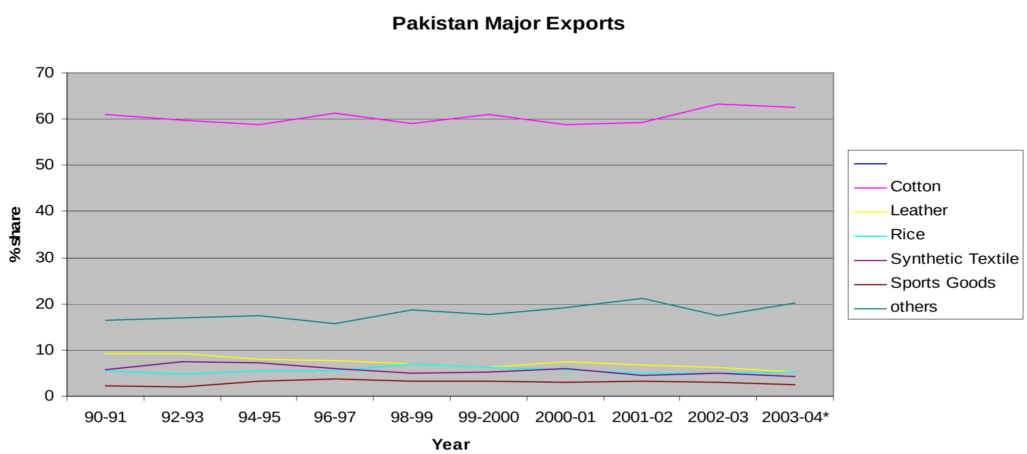
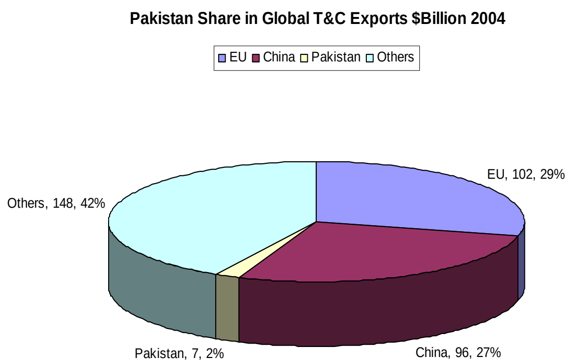


Fig 4
Source: Economic Survey

3.9 Pakistan T&C Vis-à-vis Global T&C

Pakistan in Textile and clothing at nearly $ 7 billion and 66 percent of total exports accounts for nearly 2 percent of global T&C exports. Of this total, the share of textile is 69 percent, while that of clothing is 31percent.

[17] Economic Survey 2003-04



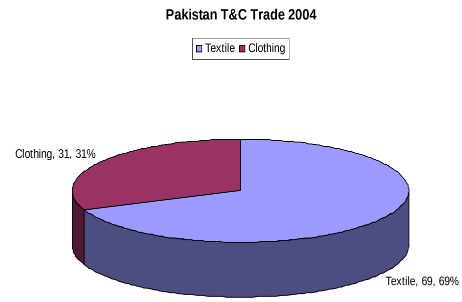


Fig5 Source: EPB

The above figures show that in global T&C exports (which constitute nearly 6% ($353 billion) of global exports) Pakistan accounts for the 2% ($7billion) in the year 2004. Also contrary to the global trend Pakistan's exports more in textile (69%) rather than in clothing (31%) which is a global trend.18

However, unlike other countries Pakistan has failed to diversify its exports and still a major chunk of exports depends on cotton production and associated textile industry. Such a high degree of concentration of exports in a few items is a major source of instability in export earnings. A poor cotton crop would thus seriously affect total export proceeds as has been the case in the past.

3.10 Structure of the Industry

Enterprises in this sector consist of spinning, weaving, processing and finishing, knitted fabrics and clothing, woven garments, and woolen spinning, weaving and garments. Textile enterprises include vertically integrated units, large enterprises dealing in exclusively knitting and woven garments, and small factories involved in finishing, dyeing and knitwear operations. Exhibit XXII and XXIII in the Annex provide the quantitative figures of the key areas with in textiles and clothing sector in Pakistan. However one must keep in mind the strengths and weaknesses of Pakistani T&C sector which will reveal true comparative advantage Pakistan has in T&C before analyzing any implication for its T&C sector.

3.10.I Strengths of Pakistan's Textile :

- Production of best quality of Cotton fibre.
- Low labor cost. (Exhibit XX).
- Availability of skilled workforce and other raw materials.
- Better cotton yield per hectare.
- Substantial investments under BMR/Greenfield projects.

[18] From article " Pakistan Knitting its way in the global textile and clothing sector" in "Export Times" May 2004.

3.10.II Weaknesses of Pakistan's Textile

- Demand and supply gap of Cotton.
- Cotton contamination.
- Low labor productivity.
- High energy cost and subsequently high input cost.
- Lack of R&D.
- Narrow product and market base.
- Lack of coordination and synergy between the public and private sector.

3.10.III Image

"low quality, low price, non-consistent and unreliable suppliers."

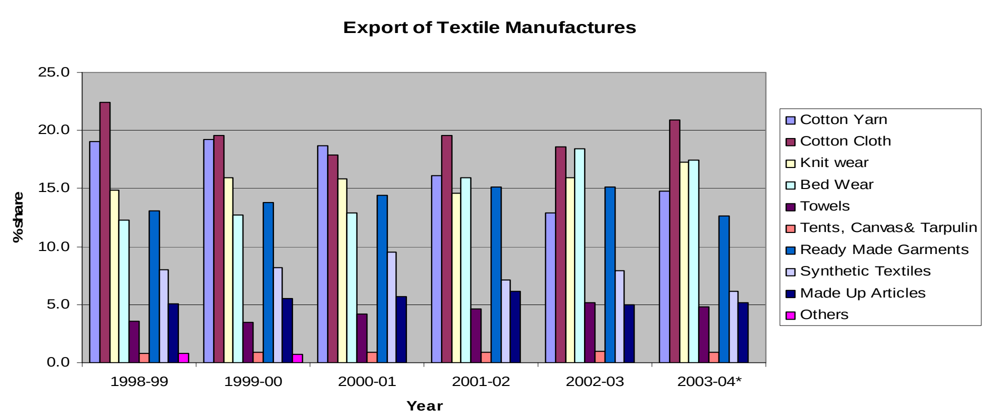
Textile Vision 2005

For potential importers, Pakistani importers are not the preferred suppliers because of products and quality of cotton, delivery times, non-eco friendly textile and lack of innovative ideas.

3.10.IV Towards Value Addition

Exports of textile manufactures are going structural transformation from low to higher value added items. Exhibit XXIV in Annex shows that within the exports of textile manufacture, the share of cotton Yarn and Cotton Cloth, representing raw material exports has declined from 19 percent to 14.8 percent and 22.4 percent to 20.9 percent respectively during the last six years19. On the other hand the shares of knit wear, bed wear and towels, representing value added exports showed a significant increase from 14.9 percent to 17.3 percent, 12.3 percent to 17.4 percent and 3.6 percent to 4.8 percent respectively20. The remaining items of exports (ready made garments, made-up articles) did not show any appreciable improvement. However, the export share of synthetic textiles showed a decline from 8.0 to 6.1of synthetic textiles showed a decline from 8.0 6.1 percent during this period.

Fig 6 Source: Economic Survey 2004



[19] Economic Survey 2003-04
[20] Economic Survey 2003-04

Exhibit XXV and Exhibit XVI in the Annex show the shift of industry towards more manufactured goods. The changing composition of exports as per exhibit XVI suggests that Pakistan is no longer a country that relies heavily on the Primary Commodities for foreign exchange. Similarly Exhibit XXVI and exhibit XVII in the Annex shows that big chunk of textile exports in thousands rupees is accounted for made up articles. Also Exhibit XXVII and exhibit XVIII also show that ready made garments and hosiery has rising bar graph for the last decade.

This is the areas Pakistan has to concentrate in post ATC regime if Pakistan wants to gain the advantage of freer trade after Jan1, 2005. The value addition is the royal road if Pakistan actually wants to materialize its comparative advantage in textiles and clothing.

3.10.V Market Access- Direction of Exports in Post Quota Regime.

Pakistan trades with a large number of countries but its exports are highly concentrated in just a few of them namely the USA, the UK, Germany and Japan as depicted in exhibit XIX.

The EU and the USA are those quota countries who are Pakistan's largest buyers and whose share in exports is 21 and 24% respectively. The other two quota countries in Pakistan's global T&C – Turkey and Canada – have a percentage share of 1.5 and 0.91%. The total value of exports to quota countries is to the tune of $5 billion which is nearly 71 % of total exports of $7 billion in T&C.

The ATC provides for the complete phasing out of the quantitative restrictions on the export of T&C products by December 31, 2004. Currently these quantitative restrictions are applied by the EU, USA, Canada, and Turkey on T&C exports from many developing countries. This consequently restricts market access. Starting January 1, 2005 however , quota restrictions are completely lifted and the market access to the economies of the EU and North America will certainly increase.

Since the two largest markets for T&C exports are the quota countries the removal of quantitative restrictions will give greater access to Pakistani products. However, there are a few factors that must be taken into account before drawing any conclusions about a likely increase in Pakistan's market share.

- **Quota Underutilization:**
  Pakistan has never realized its full quota in these two markets. Average quota realization by Pakistan has only been around 70 %. [21]It is either because of low production or because of low quality standards of our product making the demand less for our products in the developed rich part of the world.

[21] Export Promotion Bureau

Quota Utilization Pakistan (%)

Region	Quota Utilization			
Year	1999	2000	2001	2002
USA	88.04	85.91	84.32	85.17
EU	78.01	78.56	78.22	76.45
Canada	67.64	73.88	79.62	74.38
Turkey	12.91	43.94	32.43	46.7
Total	73.96	76.65	74.32	75.31

It is being widely predicted that countries failing to realize their full quota may find it difficult to secure a significant increase in their market share. It is because in the post quota regime the market access for exports of other developing countries to the USA and EU will also increase. This means our exports will face greater competition.

- **Supply side Issues and Chinese Threat**

The lifting of quotas will transform the T&C market from a seller to a buyer market and increase price competition. Additionally, T&C exports will face challenges like social compliance, environmental standards, contamination of cotton, security related issues and non-tariff barriers. Thus price competition and quality compliance will drive the future T&C export market and Pakistan can only enhance its share in the global T&C market in post quota regime by focusing on the above mentioned areas.
China at present is the largest supplier of US textile imports, accounting for nearly 16 percent of US textile imports whereas India's share is 8% and Pakistan ranks fourth with 7% share in US textile imports. Similarly the percentage of Chinese clothing exports to the US market is over 15% and worth $ 10 billion. While Pakistan's share in clothing exports is just nearly 1.5% which is half of Bangladesh share.

China is also the largest supplier of EU textile imports among developing nations followed by Turkey, India and Pakistan. The incestuous intra EU trade amounts to about 63% of EU imports. China's share is slightly less than 5%. The share of Pakistan and India is 3.5 and 2.4% respectively.

As for EU clothing imports, China again has the largest share, outside EU itself, which is 11.5%. The other major suppliers include Turkey, India and Bangladesh. Both India and Bangladesh export in excess of $ 2.5 billion each to the EU. Pakistan's clothing exports to the EU only rake in $ 1 billion. Another important fact is the percentage of export similarity for Pakistan's textile and Clothing Exports to the USA with the China's T&C export which is 24.3% for all textile products and 27.2% for all made up articles. Similarly for the EU the percentage is 14% and 27% respectively.22

With the removal of quota restrictions, the share of developing countries in EU and the USA imports will increase. But which country will grab a bigger piece of the pie? Thanks to economies of scale and a highly subsidized economy that allows Chinese products to be more price competitive, China stands a better chance than any other country.

The EU and the USA, attracted by the World's largest market , may give China special treatment. However, unlike other developing countries, China will face quantitative

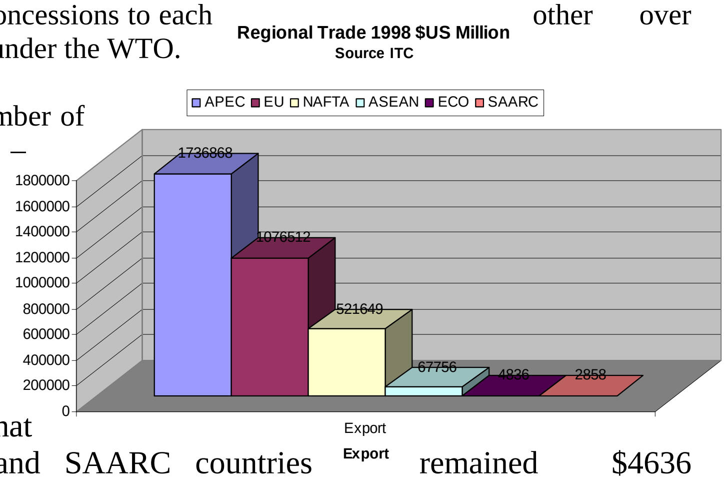
[22] From article " Pakistan Knitting its way in the global textile and clothing sector" in "Export Times" May 2004.

restrictions till the end of 2007. This will give some breathing room to other developing economies like India and Pakistan.

Secondly, as the price competition intensifies, profits will be squeezed and marginal exporters may be forced to quit. Hence the developing countries like Bangladesh which are not subject to quota restrictions because of being LDC might lose their market share. Exporters enjoying the economies of scale are likely to be the major beneficiaries

➢ **Regional Trading Agreement (RTAs)**

One of the major weaknesses of Pakistan is that it is not a member of any vibrant regional organization. This has been hailed as an era of regional alliances (RTAs) and the members of a RA give tariff concessions to each other over and above their commitments under the WTO.



Even though Pakistan is a member of two RTAs- SAARC and ECO – the trade performance has so far been dismal amongst the members as shown in the fig 8 below.

In 1998 the trade amongst the APEC countries accounted for $1736868 million while for that matter the trade among ECO and SAARC countries remained $4636 million and $2858 million respectively[23]. What a sorry figure indeed.

3.11 Tariffs in the Post MFA Phase

Another domain which will certainly affect Pakistan T&C exports is Tariffs. Although quota restrictions will be removed in 2005, MFN tariffs on T&C will remain. These are not likely to be reduced in the future, given the political sensitivity of theses industries and the restructuring and adjustment problems associated with these industries in developed countries. Although the average tariff in developed countries have come down from 6.3% during the Pre Uruguay Round to about 3.8% on average for manufactured goods , MFN tariffs for T&C and particularly on the apparels continue to remain high.

Average tariff on T&C products in both US and EU have tended to go up in line with the stage of processing to protect the high value added items in both countries. The US MFN rates on selected apparels range are as high on average as 19%, on cotton yarn 7% and woven cotton fabrics is 10%. The comparable figures for EU are around 12% for apparels, 4% on cotton yarn and 8% on woven cotton fabrics.

[23] Source : International Trade Center (ITC).

3.12 Preferential Trade In T&C

GSP: GSP is the scheme by which developed – especially US and EU provide preferential market access to goods from eligible developing countries. Preferential access can either mean quota-free status, and/or market access at preferential tariffs as compared to MFN rate or duty free status for goods from eligible countries. The GSP status in both the US and EU are based on income criteria specified in terms of per capita income and Pakistan completely fulfils that criteria.

US GSP has product criteria as well, specifying which products are eligible for GSP status. T&C products are specifically prohibited in US. Additionally the US GSP expired in 2001 and has not been renewed.

The EU GSP system has been in effect since 1971 and is of importance to Pakistan. EU has an income category for GSP eligibility and Pakistan fulfils that and EU has a product criterion as well and the extent of GSP benefit varies across products. Products are classified as sensitive (numbering 3300) and non-sensitive (numbering 3700) for the sake of GSP preferences. T&C is in the sensitive products range. For non sensitive items in EU there is no quota and duty free access while there are preferential tariffs as compared to the MFN rate for sensitive products. Pakistan has been accruing the benefits of this scheme for the last so many years and is likely to enjoy in the time to come. However the GSP benefits can be denied in EU on two conditions a) Under the **Exclusion principle** i.e. when a country's per capita income will exceeds the level specified and b) under the **Graduation Principle** i.e. if a sector in a beneficiary country is presumed to have achieved a certain level of competition.

3.13 Implementation Issues

It is difficult to actually forecast the performance of Pakistani textile in post quota regime because the optimism Pakistan had at the time of agreement on T&C in 1994 for phasing out of textile quota restrictions under MFA since 1974 faded significantly with the unsatisfactory actual implementation of the agreement during the past four years. Following aspects in this regard are worth noting:

- Since the integration has been programmed in four stages and since technically the importers have been given discretion to decide which products to integrate at each of the first three stages, the nature of the integration actually made by the major T&C importing countries in the first two stages has been such to include items which are either commercially insignificant or not constrained under the MFA (i.e. non-quota items).

  "In the first stage, the mandatory integration of 16 % of 1990 import volumes was attained without any restricted item being integrated except for work-gloves by one country. Likewise, an evaluation of the products integrated in the second stage reveals little meaningful enhancement for market access for developing countries. At the beginning of 1998 (i.e. the second stage), when a third of the 1990 import volumes of textiles and clothing had been integrated into GATT discipline, only about 7% of items restricted under the MFA had been integrated".[24]

[24] UNCTAD Report (1998) Pg 70

The country/region specific details of 7% (6.77% to be precise) given in the same report reveal 2.32% for Canada, 3.15% for EU and 1.30% for USA. In the case of Pakistan, it is worthwhile to note that no item previously under quota has been included in the first stage of integration and that the integration in respect of high value-added textile items which are of special interest to Pakistan has been postponed for the tail-end stage, a phenomenon being termed as "End-Loading". It means that it will not be before 2005 that Pakistan sees its quota restrictions phased out.

- Imports of textile goods are also being protected by the industrial countries, especially the US, through more restrictive Rules of Origin.(ROR). This kind of ROR being against the provisions of the ATC will definitely disrupt trade in T&C.
- The transitional safeguard mechanism provided under Article 6 of the ATC provides for new discriminatory restrictions if T&C imports from a specific country mount to such increased quantity as to such increased quantity as to cause serious damage to the importing country's domestic industry. Since the lobby of textile protectionism is one of the strongest in the industrial countries, it is not surprising that this provision is being extensively misused by these countries for curbing textile imports.
- No progress has been made on the ATC provision (Article 1) for taking positive measures which reflect particular interest of the cotton producing exporting countries under which Pakistan would have been a definite beneficiary.

3.14 FORECASTING

Determining the overall impact of the quota regime on any country is extremely difficult. At the final product level, a great deal depends on whether the country exports most of its production to restricted markets. Those that depend heavily on the restricted markets are likely to lose more from declining prices (as in post quota regime supply will be increased) than they gain from increase in prices on the unrestricted markets. Conversely, countries whose exports are directed mainly to unrestricted markets either because their quotas are small or because their comparative advantage is particularly strong- are more likely to gain from the increase in prices on world markets following abolition of quotas.

Year	T&C	Textiles only
1991	47.9	38.7
1992	46.9	38
1993	51.6	39.1
1994	53	38.8
1995	50.4	37.2
1996	51.1	40
1997	55.7	43.7
1998	61.7	50.1
1999	62.3	49.7
2000	61.1	49.9
2001	61.3	50.1
2002	62.1	52.4

Source: The World Bank Report

Table[25]. shows the share of Pakistan's exports of T&C directed to restricted markets of the USA, EU , Canada and Norway. The exhibit based on the data in the table below shows that Pakistan exported less than half of its products to restricted markets in 1991. Since then, the share of its exports going to restricted markets has grown, either because the quotas have grown or because Pakistan's competitive strength in unrestricted market has fallen. However the share directed to the restricted markets was still only 60% of total exports of T&C and barely above 50% for textile products alone.

[25]. The World Bank Report "Implications For Pakistan Of Abolishing Textile And Clothing Export Quotas" April 30,2004

If Pakistani exports were strongly directed towards the unrestricted markets and were unable to send a small fraction of its exports to restricted markets, we could be reasonably confident that it would experience short –run gains from abolition of quotas. Conversely, if it were able to send almost all of its exports to the restricted markets we could be reasonably confident that it would lose from quota abolition. Pakistan's intermediate status mean that we can not be sure of the impact of quota abolition without a formal quantitative analysis that can take into account the gains or losses in the market for final goods, and the gains in the market for the intermediate and raw materials.

3.14.I Trade Policy of Pakistan 2004 Review[26]

The following steps have been proposed in the Trade Policy 2004 for the up gradation and promotion of Pakistan T&C sector: It has been decided to heir outlets in Dubai, London and New York promoting the image and exports of Pakistani products. A scheme has been launched to enable exporters to acquire/franchise foreign brand name. The export promotion bureau will help exporters obtain bank finance at economical mark up rates. To encourage exports of non – traditional products and exports to new markets the government is providing a 25% freight subsidy on exports. Two special export zones, in Karachi and the other in the Punjab will be established with modern infrastructure. These will cater primarily to the textile sector. Three garments cities has been proposed to be built in Karachi, Lahore and Faisalabad for providing one window facility for the SMEs which would only be fro value added textile sectors. The import of used /second hand machinery will be allowed, irrespective of its import status on completion of overseas projects by Pakistani companies. Overseas Pakistanis are allowed to send goods, which are permitted for, import from their own foreign exchange earnings abroad without any involvement of letters of credit.

3.14.II Textile Vision 2005[27]

A long term Textile Vision has been created to serve as a broad target to revamp the textile industry of the country. The defined objective is: An open, market driven, innovative & dynamic textile sector which is: Internationally Integrated, globally

[26] From Trade Policy of Pakistan 2004
[27] "Textile Vision 2005"

competitive and fully equipped to exploit the opportunities created by the MFA phase out and which enables Pakistan to be amongst the top five textiles exporting countries in Asia.

Textile Targets 2006-07

Textile Exports (Billion $)	13.0
Cotton Consumption (Million Bales)	15.00
MMF consumption (Million Tonnes)	1.00
Spindles (Million)	15.00
Shutless/Airjet Looms	35,000.00
World Ranking in clothing Exports from others	Top twenty

3.15 Recommendations

Encashment of strengths and addressing weaknesses of Pakistani T&C sector are the recommendations by the prudent management of the available resources. However following are the broader but realistic proposals have been highlighted:

- **Productivity Enhancement**

  Raising productivity is key to reaping the benefits from the abolition of the MFA. As the future global market will be of Clothing Pakistan has to concentrate on more value addition. The World Bank has worked out that an increase in productivity of 20% in textiles and garments would increase overall national welfare in Pakistan by over US $ 400 million per year.[28] However the mechanisms by means of which the above mentioned target can be achieved are:

  - **Improving Process Efficiency:** If large gains in process efficiency are to be achieved it is important that efficiency improvements be focused on the areas where cost are relatively large in Pakistan. Table below provide an indication of the cost structure of the apparel and textile industries in four key countries.

Composition of Cash Costs in Apparel and Textile Production(%)

	PAKISTAN		Bangladesh		India		China
	Apparel	Textiles	Apparel	Textiles	Apparel	Textiles	Apparel
Materials	56.1	82.4	75.4	64.2	47.8	39.3	74.8
Electricity	3.5	3.9	0.7	1.9	0.9	6.4	0.0
Other Energy	0.9	0.9	0.5	1.4	0.9	5.6	2.9
Wages	13.9	4.6	11.6	5.6	11.3	11.2	13.7
Benefits	0.4	0.2	2.0	2.6	0.8	0.9	0.0
Transport	3.7	2.7	0.9	0.5	28.4	4.3	1.0
Interest/Rent	13.1	3.8	4.6	13.5	4.0	16.4	2.6
Sales&G.A	7.2	1.2	2.0	3.5	2.3	7.4	0.0
Other Costs	1.1	0.3	2.3	6.6	3.6	8.5	5.1

Source: World Bank Investment Climate Assessment Surveys, 2001/2

[28] Will Martin's Report of WB regarding Quota Abolition and its impact on Pakistan April 30,2004.Page 19

- **Product Quality Improvement:** Augmenting the quality of the products is not only effective for enhancing the production but it is also a must to perform exceptionally well in the clothing sector. In the post ATC era of high competition among the developing countries in the market of USA and the EU , the issues of social compliance and other non tariff barriers and the provision of various safe guard mechanisms quality will be the only driving factor. The table below compares the unit value of exports to the US for exports of textiles in the categories that both Pakistan and China exported to the US in 2002. This suggests that there is enormous scope for Pakistan's exporters to achieve much higher prices for their outputs.

Ratio of China's Export unit value to Pakistan's in the US market 2002[29]

-	Ratio	
Other Cotton Manufacture	2.4	
Other Furnishing	1.0	
Bed spreads/Quilts	6.0	
Cotton Sheets	1.9	
Pile Towels	2.4	
All Textiles	2.1	

❖ **Diversification Of the Industry and finding niche markets**

The adverse impact of the competition in the post ATC era can be softened by the diversification of the textile and clothing industry in many of the products in which Pakistan specializes such as men's knit shirts being much less important to competing countries and finding niche markets which are not very strict on social compliance issues for such products.

❖ **Investment Opportunities**

Investment friendly regime is also a must for any textile sector to thrive. Investment in both the forms foreign and domestic is the need of the time in T&C sector of Pakistan. Apart from the problems of electricity supply , Government processes and low productivity of labor following two key areas must be addressed :

- **Law and Order:** No investment will take place if the investor feels that his investment will be at threat because of the security problem. So it needs to be improved in our country.
- **Infrastructure:** Improvement of the national infrastructure, especially communications, energy resources and human resource development.

[29] **Source: The World Bank Report April 30,2004**

- **Promote Regional Trade Agreements (RTA's) & FTA's**
  As already mentioned regional trading is an effective tool to enhance the trade of the participant countries of any agreement. Pakistan should look forward to become the member of any potential trading bloc.
- **Buyer Driven Commodity Chain**
  A commodity chain refers to a whole range of activities involved in the design , production and marketing of a product. Contrary to the Producer-driven chain which are usually found in capital and technological-intensive industries, the Buyer-driven chain is common in labor intensive , consumer goods industries such as garments , footwear and toys. In such a chain, large retailers and brand manufacturers play the main role in setting up decentralized production networks in developing countries. As garments is a labor intensive activity Pakistan has a comparative advantage of cheap labor and can be encashed by attracting the global brands lie Levis, Banana Republic etc..
- **Public-Private Interaction**
  Most of the trade policies in the past was made in isolation by the governments. Now almost the trend has been changed and a lot of input is being taken from the private sector while formulating national policies yet GOP should take initiatives in not only creating awareness among the stake holders but also provide technical education and R&D facilities with the collaboration of private sector. Private sector is willing to invest with the govt. provided its gains are assured by the government.[30]

3.16 Conclusion

Worldwide trends in T&C reveal that clothing and textile made-ups represent the growing segment of world T&C. The highly competitive market after the full implementation of ATC will be the market of value added product. Pakistan's T&C trend is reversed to that of the global trend with major share still coming from the exports of textiles rather than clothing. Keeping this aspect in view and the tough competition after Jan 1, 2005 with the average quality level of Pakistan's clothing exports, it is generally speculated that Pakistan will gain in Textile sector as compared to Clothing sector which is more vulnerable in the post ATC era.

It is hard to predict the actual implication of quota abolition with out intensive quantitative analysis of each product because of the intermediate level (60%) of Pakistan T&C exports to restricted markets. However the optimism Pakistan has at the ending of MFA can not be fully exploited because of already underutilization of the quotas, improper implementation of the four stages by the developed world, constrained production of Pakistan and tough competition because of the entrance of other developing countries which have nearly the same comparative advantages in T&C as Pakistan has. So the switching from a seller to buyer market will bring benefits to the countries which will be better prepared in terms of high qualitative production, products diversification and having more niche markets, infrastructure and every other thing affecting the process

[30] Reference to Lecture delivered by Ex-Chairman APTMA

efficiency and the product quality. Pakistan has to equip herself in these areas in order to reap the benefits of multilateral trading system. The importance of RTAs and FTAs can never be underestimated in the global trade scenario. This is also a big weakness in the context of Pakistan that it is member of those RTAs which has a meager contribution in global trade.

The global T&C market in the post ATC scenario will drive the inefficient and sick textile units towards more efficiency and may expedite the transformation from low value addition to high value addition already in the process. Yes, threat to those inefficient and orthodox textile units who are not getting synchronized with the global competitive standards. Also even for the domestic textile industry Pakistan can take advantages of safeguard mechanism, non trade barriers and imposition of tariffs at lengths as there will be a freer trade not free trade in the post ATC era.

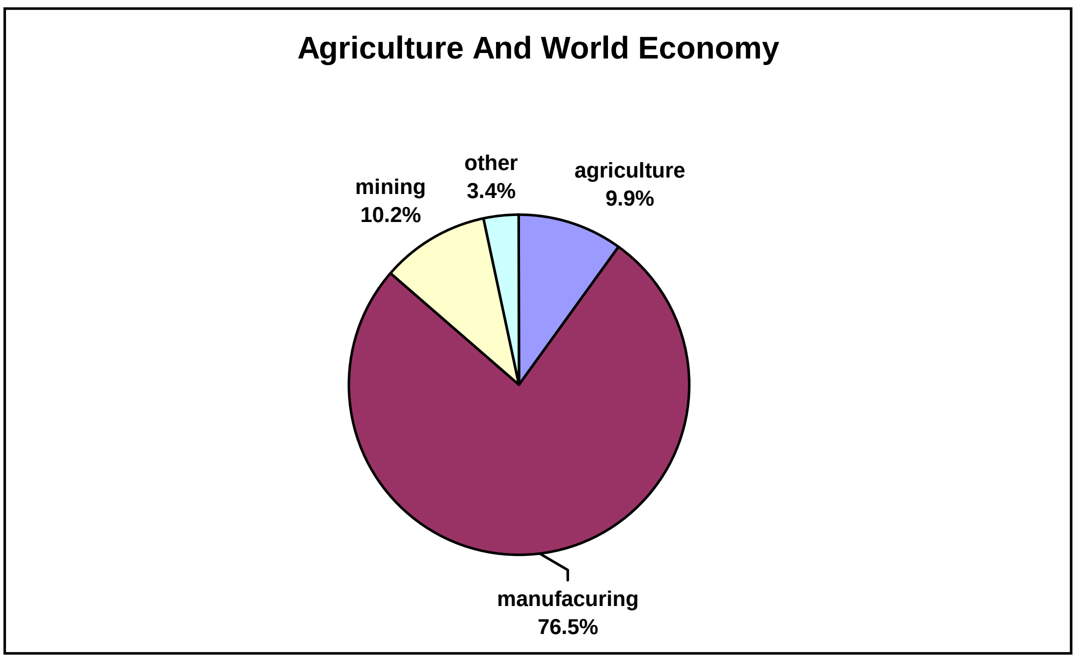
4 Chapter Four - Agriculture Sector

4.1 Introduction

The agreement defines agriculture products (in its Annexure 1) with reference to the harmonized system of product classification- the definition covers not only basic agricultural products such as bread, butter and meat, as well as all processed agricultural products such as chocolate and sausages. The coverage also includes wines, spirits and tobacco products, fibers such as cotton, wool, silk, and raw animal skins destined for leather production. Fish and fish products are not included, nor are forestry products.

4.2 World Trade In Agriculture Sector:

While the volume of the agricultural exports has substantially increased over recent decades, its rate of growth has lagged behind that of manufactures, resulting in a steady decline in agriculture's share in the world merchandise trade. In 1999, agricultural trade accounted for 9.9 per cent[31] of total merchandise with respect to world (Exhibit XXVIII), agriculture is still ahead of sectors such as mining products, automotive products, chemicals, textiles and clothing or iron and steel. Among the agricultural goods traded internationally, food products make up almost 80 per cent of the total. The other main category of agricultural products is raw materials. Since the mid 1980s, trade in processed and other high value agricultural products has been expanding much faster than trade in the basic primary products such as cereals.



Source: www.wto.org

Two types of agricultural products are traded internationally with different practices and severe market distortion. Temperate products which include grain, meat, dairy etc enter

[31] Source: WTO 2003

developed market with heavy taxes thereby protecting their domestic market. Where as tropical products which include tea, coffee, bananas, orange, cocoa beans etc. enter developed market either duty-free or at a low tax rates Table 1.

Table-1[32]

Average tariff on temperate products in major OECD countries	
Dairy	116%
Livestock	82%
Grains	78%
Average tariff on Tropical products in major OECD countries	
Cocoa Beans	0%
Coffee	0%
Oranges	3%

4.3 Background to URAoA:

Planners for the post-second World War reconstruction and economic cooperation set up the International Trade Organization (ITO) to oversee the operation of a multilateral code of trade conduct. Trade issues then included tariffs, quantitative restrictions, state-trading entities, export subsidies and preferential arrangements, and the possibility of special regime for trade in commodities (of concern to developing countries). Politics prevented the ITO's establishment, but its commercial policy provisions provided the framework for discussing global trade. The 1947 Geneva trade conference resulted in trade accord- the GATT 1947- signed by 23 contracting Parties (countries). The features of the agreement- its limited mandate, qualified legal obligations, rudimentary dispute settlement mechanism, improvised institutional arrangements in Geneva, and unsatisfactory arrangements for agricultural trade- were to stay with the GATT for the next 47 years.

Protectionism and discrimination are key features of international trade in agriculture products. Governments have always used various measures to assist or subsidize agriculture both in domestic production and in the trade of agricultural goods. Trade policy instruments such as domestic subsidies on products and inputs, export subsidies, import barriers, quantitative restrictions and non-tariff barriers have dealt with the disposal of surplus production associated with the cyclical nature of agricultural production, instability and inadequacy of agricultural prices and earnings, and access to domestic markets. In addition agricultural trade policies have been shaped by major

[32] This Far and No Farther? Nudging agricultural Reforms forward's jostling and Hathaway, institute of international economics, march 2004 And FAO, September 2003

political and economic developments: the 1930 Global Depression and the collapse in agricultural prices, the Second World War and the regulation of the agri-food sector with price controls etc.

The Uruguay Round produced the first multilateral agreement dedicated to the sector. It was a significant first step towards order, fair competition and a less distorted sector.

4.4 THE WTO REGIME ON AGRICULTURE

The WTO regime on agriculture comprises the Agreement on Agriculture (AoA), the Sanitary and Phytosanitary (SPS) Measures, the Technical Barriers to Trade (TBT) and TRIPs, which are all inter-linked to each other.

4.5 The Agreement on Agriculture

In 1995, the year that the WTO was established, the first effective rules governing international trade in agriculture and food were introduced. Following the Uruguay Round negotiations, all agricultural products were brought under multilateral trade rules by the WTO's Agreement on Agriculture. The Agreement is made up of three 'pillars': market access, export competition and domestic support. All WTO members, except least developed countries (LDCs), were required to make commitments in all these areas in order to liberalize agricultural trade.
Box 1 below: The Three Pillars

4.5.I Market access

The most important commitments are:
• Developed and developing countries to convert all non-tariff barriers into simple tariffs (a process known as tariffication[33]).
• Developed countries to reduce import tariffs by 36%[34] (across the board) over a six year period with a minimum 15% tariff reduction for any one product.
• Developing countries to reduce import tariffs by 24%[35] (across the board) over a ten year period with a minimum 10% tariff reduction for any one product.

4.5.II Export competition

The commitments are:
• For developed countries, the value and volume of export subsidies to be reduced by 36%[3] and 24% respectively from the base period 1986- 1990 over a six year period.

[33] Conversion of quotas into comparable tariffs
[34] www.wto.org
[35] ibid

• For developing countries, the value and volume of export subsidies to be reduced by 24%[4] and 10% respectively from the base period 1986- 1990 over a ten year period.

4.5.III Domestic Support

All forms of domestic support are subject to rules. The WTO classifies domestic subsidies into three categories known as the Amber, Blue and Green Boxes.

Only the Amber Box is subject to reduction commitments as follows:
• For developed countries, a 20% reduction in Total AMS (Amber Box) over six years commencing 1995 from a base period 1986-1988.
• For developing countries, a 13% reduction in Total AMS (Amber Box) over ten years commencing 1995 from a base period 1986-1988.

4.6 WTO Domestic Subsidy Boxes

The WTO classifies subsidies into three categories:
Box 1

Amber Box: all domestic subsidies – such as market price support - that are considered to distort production and trade. Subsidies in this category are expressed in terms of a "Total Aggregate Measurement of Support" (Total AMS) which includes all supports in one single figure. Amber Box subsidies are subject to WTO reduction commitments.

Blue Box: subsidy payments that are directly linked to acreage or animal numbers, but under schemes which also limit production by imposing production quotas or requiring farmers to set-aside part of their land. These are deemed by WTO rules to be 'partially decoupled' from production and are not subject to WTO reduction commitments. In the EU, they are commonly known as direct payments.

Green Box: subsidies that are deemed not to distort trade, or at most cause minimal distortion and are not subject to WTO reduction commitments.
For the EU and US one of the most important allowable subsidies in this category is decoupled support paid directly to producers. Such support should not relate to current production levels or prices. It can also be given on condition that no production shall be required in order to receive such payments.

[3] ibid
[4] ibid

4.7 An unequal agreement (Analysis)

Since it came into force, the AoA has demonstrated several weaknesses. These can be categorized under two broad headings - design related issues and implementation related issues.

4.7.I Design related issues

4.7.I.a No recognition of differences in agricultural systems

The Agreement fails to recognize the fundamental differences between agricultural systems in developed and developing countries and uses a one-size fits-all approach. It ignores, for example, the fact that agriculture is the main source of livelihood for the majority of the population in developing countries and that the sector is a major contributor to national income (see Table 2 below).

While LDCs are exempt from reduction commitments, the AoA affords very limited special and differential treatment (S&DT) to developing countries. Rather than ensuring the flexibility to implement trade policies that are consistent with their development objectives, these provisions amount to little more than providing additional time to implement agreements. The AoA fails to discriminate between the different needs of diverse developing countries and provides no guarantee of food security. In contrast, the way subsidies are classified, the provision of special safeguards (SSG) and the Peace Clause, all work in favor of producers in developed countries.

Table 2 Some key differences between the agriculture systems in developed and developing countries.[36]

Parameters	*Developed Countries*	*Developing Countries (including least developed countries)*
Nature of Agriculture System	Commercial /Export Oriented	Subsistence
Share of GDP	3%	26%
Contribution to foreign exchange	8.3%	27%
Population engaged in agriculture	4%	70%
Market orientation	Strong	Weak
Administrative capacity	High	Low

[36] Figures taken from Green, D. and Priyadarshi, S. (2001) Proposal for a 'Development Box' in the WTO Agreement on Agriculture, CAFOD and South Centre, October and Kaukab, R., (2002) Presentation at Agriculture and WTO Seminar, Ministry of Commerce, Government of Pakistan, Islamabad, August 2002

4.7.I.b Subsidies: boxing in the AoA

There are a number of exceptions to the domestic subsidy reduction commitments outlined above.

The first exception is contained in the Blue Box. During the Uruguay round, the EU and other developed countries argued that reductions in Amber Box subsidies would have a detrimental impact on farmers. Blue Box subsidies were introduced to offset this impact. On the grounds that supposedly they are only partially linked to production, they are exempt from reduction commitments (Article 6.5).

The second exception is the de-minimis level of support (Article 6.4). For developed countries this exempts market price support if, in any year, the aggregate value of this support does not exceed 5% of the total value of the production of that product. It also exempts non-product specific domestic support, such as input subsidies, if their value is less than 5% of the value of total agricultural production. For developing countries, the de- minimis level is 10%.

The third exception (Article 6.2) concerns subsidies for development purposes in developing countries. These are measures of assistance, whether direct or indirect, designed to encourage agricultural and rural development.

The fourth exception (Annex 2) is contained in the Green Box. This allows subsidies that are deemed to have no, or at most minimal, trade-distorting effects.

Unfortunately, given their complex administrative requirements and the fact that few developing countries have the financial resources to provide large subsidies, it is producers in developed countries that gain most from these exceptions.

4.7.I.c Special safeguards (SSG)

The special safeguard (SSG) provision was introduced to allow countries to impose additional duties in order to protect them from sudden import surges in terms of volumes or low prices. However, in order to qualify for SSG, countries had to have non-tariff barriers (quantitative restrictions on imports) in place at the time tariffication took place under the Uruguay Round. Only 22 developing countries had non-tariff barriers that enabled them to qualify. In contrast, 16 developed and eastern European countries qualified. It is pertinent to note that out of the total number of SSG products (6072) that are available to all 38 countries; only 31.8 % products (1930) are available to developing countries as against 68.2 % (4142) to developed countries. Of these, the EU can use SSG against 539 products, the US against 189 products, Canada against 150 products, Australia against 10 products and Switzerland against an astounding 961 products.

4.7.II Implementation related issues

Design related issues have resulted in the unfair implementation of the AoA. Developed countries continue to subsidize their agriculture and food exports very heavily while simultaneously protecting their producers by manipulating tariffs and employing tariff peaks and tariff escalation.

4.7.II.a No reduction in subsidies

Since the AoA came into effect, developed countries in the early 1990s have been juggling the way that subsidies are provided in order to avoid reduction commitments. The EU has progressively moved domestic subsidies from the Amber Box to the Blue and Green Boxes. As can be seen in Table 3 below, the majority of US subsidies already fall under Green Box provisions. The net result of transferring subsidies into different Boxes is that between 1999 and 2001, developed countries' support to agriculture was some 9% higher in nominal terms than during 1986-88.

Table 3 Subsidy levels for selected countries ($ millions)[37]

	Year	AMS	Blue Box	Green Box	De Minimis	Export Subsidies
EU	1999/00	47874(69446)	19787	19926	308	5968
USA	1999	16862(19899)	0	49749	7435	147
JAPAN	1999	6572(36,359)	817	23,601	290	-
BRAZIL	97/98	74 (893)	0	298	94	-
INDIA	97/98	0 (0)	0	75	98	-
PAKISTAN	99/2000	0(0)	0	5	0	-

Figures in brackets indicate bound levels

4.7.II.b Agreement on Sanitary and Phytosanitary Measures

This agreement concerns the application of sanitary and phytosanitary measures - in other words food safety and animal and plant health regulations. The agreement recognises that governments have the right to take sanitary and phytosanitary measures but that they should be applied only to the extent necessary to protect human, animal or plant life or health and should not arbitrarily or unjustifiably discriminate between Members where identical or similar conditions prevail.

In order to harmonize sanitary and phytosanitary measures on as wide a basis as possible, Members are encouraged to base their measures on international standards, guidelines and recommendations where they exist. However, Members may maintain or introduce measures which result in higher standards if there is scientific justification or as a

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[37] See Soren, F., Jensen, K., Lind, P., Melgaard, P. and Yu, W. (2003) Note on the Harbinson Draft on Modalities in the WTO Agriculture Negotiations. Agricultural Policy
Research Division, Danish Research Institute of Food Economics, 11th March. Fredericksberg, Denmark

consequence of consistent risk decisions based on an appropriate risk assessment. The Agreement spells out procedures and criteria for the assessment of risk and the determination of appropriate levels of sanitary or phytosanitary protection.

4.7.II.c Technical Barriers to Trade (TBT) Agreement

The TBT Agreement covers technical regulations, standards and conformity assessment procedures. Technical regulations are mandatory requirements of governments designed to fulfill certain legitimate objectives. The TBT Agreement provides an open-ended list of such legitimate objectives, which include the prevention of deceptive practices, protection of human and animal health, and protection of the environment. The aim of the TBT Agreement is to ensure that technical requirements, including packaging, marketing and labeling requirements, and procedures for assessment of conformity with technical regulations and standards do not in themselves create unnecessary obstacles to international trade.

The TBT Agreement has five main principles, namely:
· Non discrimination
· Harmonization
· Avoidance of unnecessary obstacles to trade
· Equivalence of technical requirements and
· Transparency

4.7.II.d Trade Related Intellectual Property Rights

The rights of creators of innovative or artistic work are known as intellectual property rights. They include copyright (which protects the rights of authors of books and other artistic creations), patents (which protect the rights of investors) and industrial designs (which protect rights to ornamental designs). They also cover trademarks and other signs that traders use to distinguish their products from those of others.

The Agreement on Trade-Related Aspects of Intellectual Property obliged WTO Members to provide minimum standards of protection. These included uniform periods for patent and copyright protection, provisions of protection for both products, and the processes involved in manufacturing these products, protection of geographical indications etc. The common element in the provisions of the TRIPS Agreement is that protection available under various international agreements has been codified in the one agreement, in certain cases this protection has been strengthened (especially in the areas of patents), and most importantly, intellectual property rights are subject to the WTO dispute settlement mechanism.

4.8 The Doha Agenda

At the Fourth Ministerial Conference in Doha, Qatar, in November 2001 WTO member governments agreed to launch new negotiations. They also agreed to work on other issues, in particular the implementation of the present agreements. The entire package is called the Doha Development Agenda (DDA).

Negotiations on agriculture began in early 2000, under Article 20 of the WTO Agriculture Agreement. By November 2001 and the Doha Ministerial Conference, 121 governments had submitted a large number of negotiating proposals.

These negotiations have continued, but now with the mandate given by the Doha Declaration, which also includes a series of deadlines. The declaration builds on the work already undertaken, confirms and elaborates the objectives, and sets a timetable. Agriculture is now part of the single undertaking in which virtually all the linked negotiations are to end by 1 January 2005.

The declaration reconfirms the long-term objective already agreed in the present WTO Agreement: to establish a fair and market-oriented trading system through a programme of fundamental reform. The programme encompasses strengthened rules, and specific commitments on government support and protection for agriculture. The purpose is to correct and prevent restrictions and distortions in world agricultural markets.

Without prejudging the outcome, member governments commit themselves to comprehensive negotiations aimed at:

- market access: substantial reductions
- exports subsidies: reductions of, with a view to phasing out, all forms of these
- domestic support: substantial reductions for supports that distort trade

The declaration makes special and differential treatment for developing countries integral throughout the negotiations, both in countries' new commitments and in any relevant new or revised rules and disciplines. It says the outcome should be effective in practice and should enable developing countries to meet their needs, in particular in food security and rural development.

The ministers also take note of the non-trade concerns (such as environmental protection, food security, rural development, etc) reflected in the negotiating proposals already submitted. They confirm that the negotiations will take these into account, as provided for in the Agriculture Agreement.

4.8.I Sanitary and phytosanitary (SPS) measures

- More time for developing countries to comply with other countries' new SPS measures
- "Reasonable interval" between publication of a country's new SPS measure and its entry into force
- Equivalence: putting into practice the principle that government should accept that different measures used by other governments can be equivalent to their own

measures for providing the same level of health protection for food, animals and plants.

- ♦ Review of the SPS Agreement
- ♦ Developing countries' participation in setting international SPS standards
- ♦ Financial and technical assistance

4.9 The July Package and Agriculture

After protracted negotiations, the General Council of the WTO adopted a decision known as the July Package on the 31st July 2004. The agreed package focuses on five areas of the Doha Declaration, namely, agriculture, non-agricultural market access (NAMA or industrial access market), development issues, trade facilitation and services. The framework for future agriculture negotiations, adopted as a separate Annex, was widely seen as the main breakthrough .The Group of Five Interested Parties (FIPs) that comprises the US, EU, Brazil, India and Australia, played a leading role and eventually agreed on a text that formed the basis for the final agreement. Members also agreed to make discussions on the sectoral initiative on cotton an integral part of the agriculture negotiations rather than treating the issue on a separate track.

Annex A on agriculture simply lays down the basic pillars (market access, domestic support and export competition) and a framework for conducting future talks. Negotiations on modalities of substance, much of which has been left undetermined, will be a real challenge that Member States have yet to confront. On Market Access, the language of the Decision reveals slightly more flexibility and stronger language in favour of developing countries when compared to earlier texts. The text retains the tiered formula which classifies tariffs into various bands for subsequent reduction from bound rates, the higher tariffs being cut more than lower ones.

The actual modalities remain subject to negotiation. The language only vaguely provides for "substantial improvement in market access" for all products, mentioning that "substantial overall tariff reductions will be achieved as a final result from negotiations". Although important compromises were achieved regarding sensitive products (more beneficial for developed countries) and special products (more beneficial for developing countries), much has yet to be determined. The Doha Declaration called for "substantial reductions in trade-distorting domestic support". The Annex text accommodates both developed and developing country interests, particularly with regard to Blue Box and the 'de-minimis' payments of the Amber Box, major sticking points in the negotiations. The text includes concrete targets, at least for overall domestic support reduction and a cap for permitted Blue Box levels. Language on Green Box (decoupled subsidies) remains largely unchanged from previous negotiations, only requiring a more transparent process for designating green box subsidies. Of particular interest is that national "support for subsistence and resource-poor farmers" is recognized as being important.

The Doha Declaration called for "reduction of, with a view to phasing out, all forms of export subsidies". The Annex provides for significantly stronger language on Export

Competition in favour of developing countries. In addition to providing for a "credible end-date"(although yet to be agreed upon) for the elimination of export subsidies, it also includes within its ambit export credits and credit guarantees or insurance programmes.

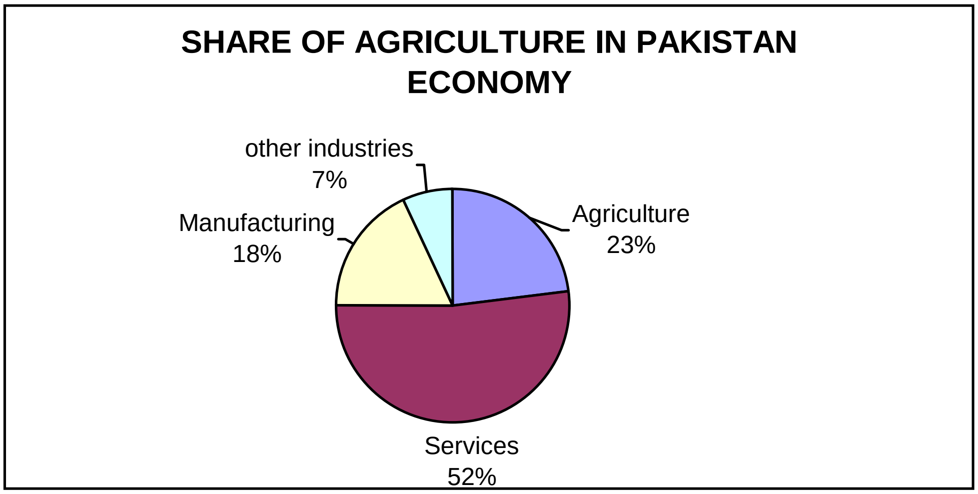
4.10 Brief Review of Agriculture Sector of Pakistan

Agriculture is a major economic activity in Pakistan. It employs half the country’s labour force and generates nearly a fourth of the gross national product. So far the agricultural strategy of a Pakistan has successfully met the food requirements of a rapidly growing population and has played a pivotal role in earning foreign exchange through the export of rice and cotton. Crop production is well diversified, with more than half the area devoted to cereals, one fifth to cash crops, and the rest to fodder, pulses, vegetables and fruits. Of 22 million hectares of cultivable land, 18 million are irrigated and 4 million are rain fed, almost 60 percent of this land is found in the Punjab and about 30 percent in the Sindh. The irrigated plains are used mainly for the production of cotton, rice, and sugarcane, while wheat is the main crop in the rain-fed areas. Mixed crop-livestock farming dominates agriculture in most mountain regions. Livestock are of considerable economic importance, accounting for almost 30 percent of agricultural GDP and more than 10 percent of the country’s foreign exchange earnings. Raw cotton, cotton waste, rice and fruit account for roughly 94% of total agriculture exports.

Agriculture’s contribution in Pakistan’s economy

Year	GDP share (%)	Employment share(Rs) million	Total Export (Rs) million	Direct Agriculture exports (Rs) million	Indirect Agriculture exports (Rs) million
1951/2	48.7	N/A	922	818	N/A
1961/62	4208	60	543	351.6	43.7
1971/2	37.6	57	3371	1385	1299
1981/2	28.7	53	26270	7974	10073
1991/2	26.1	48	171728	33251	210327
2003/4	23.3	42	700000	60000	531000

Source: Federal Bureau of Statistics



Source: Economic Survey 2003-04

4.11 Pakistan's Current performance and future Requirements for the major Export Crops/Products [38]

4.11.I Cotton

Cotton with worldwide share of 1 %39 is major export of Pakistan. Total export of cotton fluctuated markedly from year to year in both the pre-UR and post-UR periods. Between 1987 to 2004, average annual cotton exports fell from 270 million dollars to 100 million dollars. This decline was due to domestic reasons such as pest attack (leaf curl virus) and not due to market access. Indeed, abundant land availability, favourable climate and low labour costs enable Pakistan to be the third lowest cost producer of cotton. Accordingly, the prospect for growth in this is promising. However, we need to increase productivity, since our current capacity is 10 million bales annually whereas textile sector and other consumption require production of about 12 to 15 million bales annually. Cotton quality also needs to be improved to be able to compete in the international market where the standards are going to be most crucial in future trade.

4.11.II Rice

Rice is the major traditional export of Pakistan, with a worldwide share of 9%[40]. Pakistan produces two types of rice varieties, and both are exported. Basmati rice has its traditional market, but it faces some competition with Indian basmati rice. The export of coarse rice faces competition from other low-priced competitive countries. But it is still exported to Asian and African countries. Total rice exports have increased by 80% from 1987 to 2004 from 240 to 432 million dollars. However, exports to industrialized countries have not increased owing to lack of improvement in market access where SPS and TRIPS issues undermine our ability to penetrate these markets. Efforts are required to

[38] Economic Survey 2003-04
[39] ibid
[40] ibid

meet these standards. Recently it has been reported that EU will allow Pakistani Basmati Super variety to be imported on condition of DNA testing.

4.11.III Fruits and Vegetables

Exports of fruits and vegetables have increased by 70% since the last Uruguay Round (1995 onwards) from 39 to 66 million dollars[41]. However, many of developed countries have SPS standards that Pakistani products do not meet. These SPS and TBT measures threaten future ability to continue the increase in our exports. Accordingly, we need to take measures to meet these standards at the earliest.

4.11.IV Other Items

Other agriculture items that Pakistan can focus for exports include leather, meat, and milk/ milk products. Wheat can also become exportable item provided our agriculture sector can increase output. This in turn will depend on whether we allow farmers to get market prices or not.

4.11.V Imports:

Despite being an agricultural country, Pakistan has had to import a huge amount of foodstuff every year. Its import bill has increased in the post-UR period. Because of its persistent dependence on the import of essential items Pakistan has been classified by the WTO as a net food importing developing country. Edible oil and wheat are the two largest imported products in Pakistan following tea, sugar, pulses and milk.

4.12 PAKISTAN`S COMMITMENTS AND COMPLIANCE REGARDING AoA, SPS, TBT AND TRIPS

4.12.I Agreement on Agriculture

Pakistan has made following commitments in various areas relating AoA.

As far as tarrification and reduction and binding of tariffs are concerned, Pakistan was not under any reduction commitments in tariffs and was only required to bind its tariffs at a ceiling level .It has bound its tariffs for agricultural products at 100-150 percent level.

In case of serious difficulties faced by any member pertaining to sudden rise in import volumes or in case of falling prices of a certain import of agriculture product, a special agriculture safeguard could be applied to certain products. But Pakistan has not reserved any SSG (special agriculture safeguard) for it.

[41] Official WTO site: www.wto.org

Pertaining to domestic support in the form of various subsidies, Pakistan declared no amber box domestic support during the base period and hence is not under any reduction commitments. But it can use this support only upto de minimis level.

Pakistan did not provide any export subsidies during base period and hence did not make any reduction commitments. Due to this reason Pakistan cannot provide any export subsidy now.

4.12.II TECHNICAL BARRIERS TO TRADE(TBT)

There is no obligatory requirement for specific legislation. The agreement requires that Members' central government standardization bodies accept and comply with the Code of Good Practices, for the preparation ,adoption and application of standards .Pakistan Standards Institute (now Pakistan Standards and Quality Control Authority)has accepted this code . Similarly enquiry points have been notified.

4.12.III TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS)

Five laws / amendments have been promulgated to provide intellectual property protection under TRIPS standards. Patents Ordinance, 2000 is the first legislation in this list, which provides for the protection to processes as well as products for twenty years. The Ministry of Food and Agriculture is presently involved in the preparation and vetting of a law which would provide for a sui-generis system of protection of plant varieties in order to comply with article 27.3 b of the TRIPs agreement.

Second legislation in this concern is Trademark Ordinance 2001, which caters for domestic requirements and international obligation. It protects the interest of trademark owners and gives a legal framework for its enforcement .It also addresses new areas like service mark, domain names, collective marks, certification marks , well known marks and geographical indications.

4.12.IV AGREEMENT ON SANITARY AND PHYTOSANITARY MEASURES (SPS)

The members were required to notify to the WTO enquiry points and notifying authority for SPS measures. Pakistan has notified MINFAL (Ministry for food, livestock and agriculture) and their relevant line departments as these points.
There is no particular obligation of legislation; however if we change our laws and regulations in this area those would have to be notified.

MINFAL is in the process of revising and strengthening existing laws pertaining to quarantine, plant protection etc. If we take certain SPS measures for any imports then this has to be notified accordingly.

4.12.IV.a Problems in Meeting SPS Requirements in Exporting Agricultural and Food Products from Pakistan[42]

1. Insufficient access to scientific/technical expertise.
2. Incompatibility of SPS requirements with domestic production/marketing channels.
3. Poor access to financial resources.
4. Insufficient time permitted for compliance.
5. Limitations in administrative arrangements for SPS requirements.
6. Poor awareness of SPS requirements amongst government officials.
7. Poor awareness of SPS requirements within agriculture and food industry.
8. Poor access to information on SPS requirements.

4.13 Impact on Pakistan

The overall result of agricultural liberalization and implementation of the AoA is not positive for the developing countries. Although, liberalization of trade in agriculture under the Uruguay Round is estimated to produce a possible net welfare gains for the low income Asian region in the amount of $1.3 billion, the region remains a net importer of food after the Uruguay Round liberalization. While there was little change in the volume exported, in the post UR period in agricultural exports, food imports were rising rapidly in most cases. These countries were not able to raise their exports due, amongst other factors, to supply side constraints, thus deteriorating balance of payment situation. While the concentration of farms led to an increased productivity and competitiveness, in the absence of safety nets, this process has marginalized small farmers and has added to unemployment and poverty.

The UR negotiations did result in some liberalization for non-traditional products. Tariffs, in the developed markets, were reduced by 36%43 on fruits and vegetables and by 48% on flowers and other agricultural products (44% in Europe). Pakistan needs to diversify its exports of agriculture by exporting such horticultural/floricultural products to these markets. However to take full advantage of these potential opportunities, Pakistan requires to introduce policies to further attract investment in packing and marketing facilities and in transportation of these products. The area has been given special attention in the 2000-01Trade policy and many incentives have been announced aimed at market penetration and product up-gradation.

[42] Source: WTO 2003
[43] ibid

The result of the AoA on rice and wheat were considered to have mixed effects on Pakistan. The agreement to reduce subsidies on rice and cotton maintained by the US, the EU Japan and Korea could result in increased market access for Pakistan's exports. However, Pakistan would have to switch production to rice varieties popular in Southeast Asia, as they are currently not produced in Pakistan.

In case of Pakistan, while applied tariffs on most agricultural products have fallen since the early 1990s these tariffs remain relatively high for commodities classified as 'essential' such as edible oils and oil seed. High ceiling bindings for most products, under their Uruguay Round commitments place India, Pakistan and Bangladesh with the highest bound rates among WTO members. Although progress has been achieved on the export side by removing export controls however restrictions still apply for commodities such as sugar in India and cotton in Pakistan.

4.14 Implications of SPS measures for Pakistan

4.14.I Economic dependency

SPS measures can effectively force exporters in Pakistan and various institutions that represent them, into very specific production and trading methods. To service export trade, firms in Pakistan will have to implement specific systems (such as HACCP), or sign up to particular quality assurance schemes that would add significantly to their costs.

This potentially beneficial improvement in quality management may further cause problems for Pakistan if the export market is closed for any particular reason (such as the loss of a contract or reduction in demand), and traders may be compelled to revert to local markets or nearby export opportunities. The alternative markets available to Pakistan are however of relatively lower value, and may not cover the extra fixed costs that may have been put into servicing the higher value developed country export trade.

4.14.II Quality of products in the domestic market

The issue of product quality in the domestic market has an important bearing on its export to developed country markets. There are several examples of products that do not meet the required SPS standards for exports, being sold in local markets. Given the circumstances of rejection of products from the export trade, this might seriously threaten the welfare of local consumers. Naturally this will depend on how local SPS standards are applied, but there are widespread complaints of products with high levels of contamination appearing on local markets in Pakistan.

4.14.III Enhanced Export potential

Once exporters from Pakistan have met SPS standards as applied by other countries, it may be possible for them to widen their export base, and supply to a range of different markets. As noted earlier, a number of developed countries have relatively higher SPS standards and as a result, higher export potential. Exacting SPS requirements will actually benefit exporters in Pakistan and offer them an important source of competitive advantage. Associated with this they can also exploit the fact that their products (for example rice and fruits), are by definition organic. If this is coupled with rigid SPS standards and reliable conformity assessment procedures, traders in Pakistan can benefit by serving growing market segments in developed country markets. Extensive production methods may also appeal to an increasingly environmentally aware world market provided such claims are associated with high quality standards.

4.15 Recommendations

4.15.I Long Term

1. <u>Support of agriculture sector</u> through use of permissible subsidies, removal of agriculture income tax, improve farm to market roads, ensure adequate water supply, educate farmers on output enhance techniques, move from subsistence to commercial farming.
2. <u>Encourage agriculture research</u> to improve seed quality, patent product, make use of TRIMS.
3. <u>Restructure agriculture</u> to a demand responsive high value agriculture while keeping in view food security, equity and justice in distribution of the benefits.

4.15.II Short/ Medium Term

1. <u>Improve inputs</u>: provide better seeds, fertilizers, machinery, desalination plants, tube wells.
2. <u>Diversify</u> out put to various crops so that economy is not subjected to fluctuations in prices of new crops like cotton and wheat.
3. <u>Improve standards</u> to avoid action under SPS, TBT etc. by improving and upgrading quality of products.
4. <u>Upgrade systems</u> for storage, packing grading, procurement and delivery system technologies so as to comply with international standards.
5. <u>Ensure awareness</u> of WTO policy and implications, especially in rural areas through intensive awareness schemes using radio and television as well as direct outreach programmes.

4.16 Conclusion

Pakistan has comparative advantage in many primary commodities and there are some upward trends in exports of primary commodities. But in order to fully utilize our comparative advantage, we need to focus on and solve the problems in supply side (domestic requirements). It is imperative for reaping the probable fruits from the WTO regime. It is not in the interest of developed countries not to fully allow developing countries to benefit from their comparative advantage. That's why the implementation of AoA has not been fully done. And that's why Cancun conference has failed. Full implementation and improved and stricter rules on agriculture are beneficial to us.

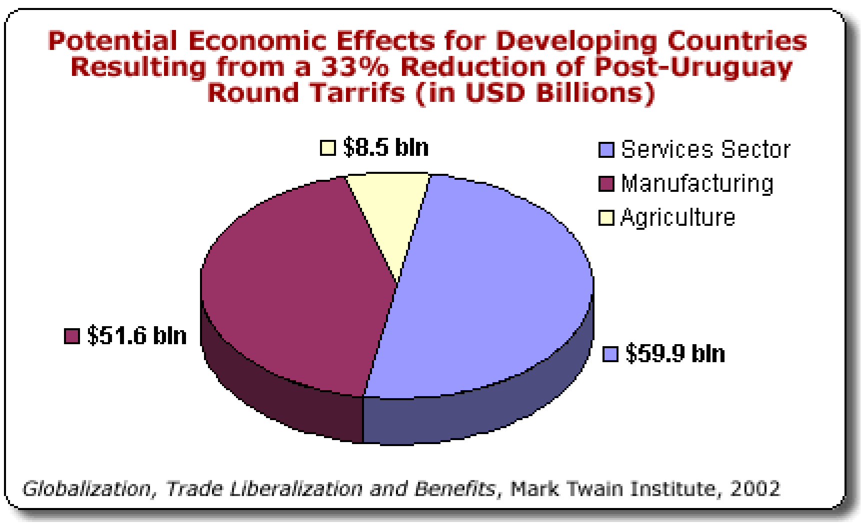
Pertaining to TRIPs, different varieties of plants and animal species and traditional pharmaceutical and herbal knowledge need to be registered to take full advantage of them. All valuable export brands like Basmati rice, varieties of mangoes, oranges, etc need to be protected under different provisions of TRIPs agreement. Furthermore we need to exploit our comparative advantage in the production of meat, dairy products, fruits, vegetables etc.

As far as demand side is concerned much more is needed to be done in order to secure cuts in the tariffs of developed countries in order to capture the tariff peaks and escalations for increased market access. Subsidies given by the developed countries need to be drastically reduced which they have been insisting vehemently so far. Even the green box subsidies of developed countries are distorting world trade in agriculture by increasing production and hence depressing world prices are given by the developed countries which is great disadvantage for countries like us. Besides export subsides given by them also need elimination. Misuse of SPS and TBT measures need to be checked.

5 Chapter Five - Services Sector

5.1 Service Sectors in the world economy

The services sector is the largest and fastest-growing sector of the world economy, providing more than 60% of GDP in many countries, and an even larger share of employment. Services trade represented over one third of total trade in goods and services in 2000. Services are critical to competitiveness as inputs for other sectors' outputs. Lower cost and better services substantially reduce costs of production as well as cost and speed to market. According to the World Travel and Tourism Council, tourism is the world's largest employer, accounting for one in ten workers worldwide.



Service sector trade is increasingly recognized as a critical component of economic growth:

- Services have been the fastest growing component of the global economy for the past decade
- Total measurable trade in services (as defined under GATS), represents 7.6% of world output, and currently stands at US $2.3 trillion

Service sector trade has large potential for developing countries, and the growing internationalization of services creates opportunity for developing new sources of export growth[44].

5.2 The need for liberalization of Services

It is the need of the day that Services Sector is liberalized. The following six key benefits amply justify it:

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[44]. TRADE ENHANCEMENT FOR THE SERVICES SECTOR (TESS).
The USAID/EGAT/OEG bureau created TESS in recognition of the growing role services play in economic development.

1. Economic performance An efficient services infrastructure is a precondition for economic success. Services, such as telecommunications, banking, insurance and transport supply strategically important inputs for all sectors, goods and services. Without the spur of competition they are unlikely to excel in this role – to the detriment of overall economic efficiency and growth. An increasing number of Governments thus rely on an open and transparent environment for the provision of services.

2. Development Access to world-class services helps exporters and producers in developing countries to capitalize on their competitive strength, whatever the goods and services they are selling. A number of developing countries have also been able, building on foreign investment and expertise, to advance in international services markets – from tourism and construction to software development and health care. Services liberalization has thus become a key element of many development strategies.

3. Consumer savings There is strong evidence in many services, not least telecoms that liberalization leads to lower prices, better quality and wider choice for consumers. Such benefits, in turn, work their way through the economic system and help to improve supply conditions for many other products. Thus, even if some prices rise during liberalization, for example the cost of local calls, this tends to be outweighed by price reductions and quality gains elsewhere. Moreover, governments remain perfectly able under the GATS, even in a fully liberalized environment, to apply universal-service obligations and similar measures on social policy grounds.

4. Faster innovation Countries with liberalized services markets have seen greater product and process innovation. The explosive growth of the Internet in the US is in marked contrast to its slower take-off in many Continental European countries that have been more hesitant to embrace telecom reform. Similar contrasts can be drawn in financial services and information technology.

5. Greater transparency and predictability A country's commitments in its WTO services schedule amount to a legally binding guarantee that foreign firms will be allowed to supply their services under stable conditions. This gives everyone with a stake in the sector—producers, investors, workers and users—a clear idea of the rules of the game. They are able to plan for the future with greater certainty, which encourages long-term investment.

6. Technology transfer Services commitments at the WTO help to encourage foreign direct investment (FDI). Such FDI typically brings with it new skills and technologies that spill over into the wider economy in various ways. Domestic employees learn the new skills (and spread them when they leave the firm). Domestic firms adopt the new techniques. And firms in other sectors that use services-sector inputs such as telecom and finance benefit too[45].

[45] www.wto.org

5.3 The General Agreement on Trade in Services (GATS)

The General Agreement on Trade in Services (GATS) is among the World Trade Organization's most important agreements. The accord, which came into force in January 1995, is the first and only set of multilateral rules covering international trade in services. The Governments themselves have negotiated it, and it sets the framework within which firms and individuals can operate. The GATS has two parts: the framework agreement containing the general rules and disciplines; and the national "schedules" which list individual countries' specific commitments on access to their domestic markets by foreign suppliers. (See full text of general agreement on Annex 4). GATS is intended to trade expansion "under conditions of transparency and progressive liberalization and as a means of promoting the economic growth of all trading partners and the development of developing countries[46]."

5.4 Doha Agenda

Negotiations on services were already almost two years old when they were incorporated into the new Doha agenda.

The WTO General Agreement on Trade in Services (GATS) commits member governments to undertake negotiations on specific issues and to enter into successive rounds of negotiations to progressively liberalize trade in services. The first round had to start no later than five years from 1995.Accordingly, the services negotiations started officially in early 2000 under the Council for Trade in Services. In March 2001, the Services Council fulfilled a key element in the negotiating mandate by establishing the negotiating guidelines and procedures. The Doha Declaration endorses the work already done, reaffirms the negotiating guidelines and procedures, and establishes some key elements of the timetable including, most importantly, the deadline for the conclusion of the negotiations as part of a single undertaking. The following is the Work Program for the Services Sector as declared in Doha Declaration:

> "*The negotiations on trade in services shall be conducted with a view to promoting the economic growth of all trading partners and the development of developing and least-developed countries. Participants shall submit initial requests for specific commitments by 30 June 2002 and initial offers by 31 March 2003.*"

5.5 'July package'

The text of the General Council's decision on the Doha Agenda work Programme (the "July package"), agreed on 1 August 2004, containing frameworks and other agreements designed to focus the negotiations and raise them to a new level. In the services sector:

"*The General Council takes note of the report to the TNC by the Special Session of the Council for Trade in Services and reaffirms Members' commitment to progress in this area of the negotiations in line with the Doha mandate. The Council adopts the recommendations agreed by the Special Session,*

[46] Preamble of GATS

set out in Annex C to this document, on the basis of which further progress in the services negotiations will be pursued. Revised offers should be tabled by May 2005."

In these negotiations no concrete decision was reached regarding trade in services.

5.6 Definition of Services Trade and Modes of Supply

The definition of services trade under the GATS is four-pronged, depending on the territorial presence of the supplier and the consumer at the time of the transaction. Pursuant to Article I: 2, the GATS covers services supplied

a. From the territory of one Member into the territory of any other Member
(Mode 1 — Cross border trade);

b. In the territory of one Member to the service consumer of any other Member
(Mode 2 — Consumption abroad);

c. By a service supplier of one Member, through commercial presence, in the territory of any other Member
(Mode 3 — Commercial presence); and

d. by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member
(Mode 4 — Presence of natural persons).

<u>Box A</u> below gives examples of the four modes of supply.

The above definition is significantly broader than the balance of payments (BOP) concept of services trade. While the BOP focuses on residency rather than nationality — i.e. a service is being exported if it is traded between residents and non-residents — certain transactions falling under the GATS, in particular in the case of mode 3, typically involve only residents of the country concerned.

Commercial linkages may exist among all four modes of supply. For example, a foreign company established under mode 3 in country A may employ nationals from country B (mode 4) to export services cross-border into countries B, C etc. Similarly, business visits into A (mode 4) may prove necessary to complement cross-border supplies into that country (mode 1) or to upgrade the capacity of a locally established office (mode 3)[47].

[47] www.wto.org

Box A: Examples of the four Modes of Supply (from the perspective of an "importing" country A)

Mode 1: Cross-border

A user in country A receives services from abroad through its telecommunications or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training, or architectural drawings.

Mode 2: Consumption abroad

Nationals of A have moved abroad as tourists, students, or patients to consume the respective services.

Mode 3: Commercial presence

The service is provided within A by a locally established affiliate, subsidiary, or representative office of a foreign-owned and — controlled company (bank, hotel group, construction company, etc.).

Mode 4: Movement of natural persons

A foreign national provides a service within A as an independent supplier (e.g., consultant, health worker) or employee of a service supplier (e.g. consultancy firm, hospital, construction company).

5.7 Schedules of commitment

Each WTO Member lists in its national schedule those services for which it wishes to guarantee access to foreign suppliers. All commitments apply on a non-discriminatory basis to all other Members. There is complete freedom to choose which services to commit. In addition to the services committed, the schedules limit the degree to which foreign services providers can operate in the market. For example, a country making a commitment to allow foreign banks to operate in its territory may limit the number of banking licenses to be granted (a market access limitation). It might also fix a limit on the number of branches a foreign bank may open (a national treatment limitation)[48].

5.8 Sectors covered under the GATS

To structure their commitments, WTO Members have generally used a classification system comprised of 12 main service sectors. These are the following:

1. Business services (including professional services and computer services).
2. Communication services.
3. Construction and related engineering services.
4. Distribution services.
5. Educational services.
6. Environmental services.
7. Financial services (including insurance and banking).

[48] A page of schedule of specific commitments of Pakistan is attached as Annex 8

8. Health-related and social services.
9. Tourism and travel-related services.
10. Recreational, cultural and sporting services.
11. Transport services.
12. Other services not included elsewhere.

These sectors are further subdivided into a total of some 160 sub-sectors (see Annex 5 for detail of sub-sectors) Under this classification system, any service sector may be included in a Member's schedule of commitments with specific market access and national treatment obligations. Each WTO Member has submitted such a schedule under the GATS.

5.9 Exempted Services

The GATS applies in principle to all service sectors, with two exceptions.

Article I (3) of the GATS excludes "services supplied in the exercise of governmental authority". These are services that are supplied neither on a commercial basis nor in competition with other suppliers. Cases in point are social security schemes and any other public service, such as health or education, which is provided at non-market conditions.

Further, the Annex on Air Transport Services exempts from coverage measures affecting air traffic rights and services directly related to the exercise of such rights[49].

5.10 Role and Responsibilities of Member Governments

Given the regulatory intensity of many service activities and the range of sectors involved, proper co-ordination and information across agencies and government levels is critical for at least three purposes:

i. Ensuring awareness of the types of GATS-related measures falling under a ministry or agency's jurisdiction.

ii. Ensuring that each ministry/agency has properly identified and analyzed — against the background of existing GATS obligations, including specific commitments — its current use of measures.

iii. Ensuring that, in preparing new measures, relevant GATS obligations — including notification requirements — are taken into account and complied with.

As noted before, apart from specific commitments, there are in principle two types of legal obligations under the Agreement: unconditional obligations that apply across all

[49] www.wto.org

services covered by GATS, and conditional obligations that apply only to sectors where specific commitments have been made.

A. Obligations in all sectors falling under the GATS ("unconditional"):

- Ensure compliance with MFN requirement (Article II)
- Publish all measures pertaining to or affecting the operation of GATS (Article III:1)
- Institute legal complaints mechanisms for affected suppliers (Article VI:2)
- Ensure that recognition measures are compatible with the provisions of Article VII
- Prevent monopolies from undermining the MFN requirement (Article VIII:1)
- Consult with other Members, upon request, on business practices that may restrain competition (Article IX:2)

B. Obligations in sectors in which GATS commitments have been undertaken ("conditional"):

- Notify any new laws, regulations etc. that significantly affect trade (Article III:3)
- Administer regulations in a reasonable, objective, and impartial manner (Article VI:1)
- Prevent licensing and qualification requirements and technical standards from nullifying or impairing commitments (relevant criteria are specified in Article VI:5)
- Prevent monopolies from undermining commitments (Article VIII:1 and 2)
- Ensure absence of restrictions on payments and transfers (Article XI:1)

5.11 GATT Vs GATS

As with the GATT agreement, GATS consists of three parts: 1) the basic rules, 2) annexes dealing with specific sectors, and 3) schedules listing the individual commitments of member countries as to which markets they will open to foreign service providers. Just as with GATT, these schedules will be the subject of a continuing process of further liberalization.

The basic rules of GATS embody similar concepts as in GATT, such as *Article II: Most-Favored Nation (MFN) Treatment* (i.e. if a member allows foreign involvement in one of its services market then it must allow it equally to all members) and *Article XVII: National Treatment* (i.e. foreign service providers allowed in should be treated at least as well as domestic ones). Note that due to the newness of GATS, members were permitted to list temporary withdrawals from the MFN rule, such as to allow for already existing agreements where one country had promised to give another preferential treatment. These exceptions will generally last for 10 years.

Additionally, the national treatment rule currently only applies if a member has made a specific commitment to allow foreigners equal access to a particular market, and limitations were allowed (such as a country giving access to foreign banks to operate within its territory, but not allowing them to open as many branches as domestic banks). Other basic rules include *Article V: Economic Integration* which allows for regional agreements like NAFTA (similar to GATT Article XXIV) and *Article XIV: General Exceptions* allowing GATS rules to be broken if it is "necessary to protect human, animal or plant life or health" (similar to GATT Article XX)[50].

NOTE: a few case studies have been added as **Annex 6**, regarding the GATS growing role in disputes.

5.12 Critical areas of GATS

GATS poses many problems to the developing and poor countries as well as their citizens. Some services are not just commodities that can be left to the market, with access dependent on income. Instead they are essential to human well being. Such services include health, education and sanitation. Governments should, we argue, have a responsibility to ensure universal access to such services. The service sector also includes utilities essential to the development of the economy, like telecommunications. Core WTO principles require governments to treat foreign firms at least as well as domestic ones, and to treat all foreign suppliers equally. Yet GATS rules extend beyond this, restricting government's ability to make rules even if they apply to both domestic and foreign firms. Governments will pay a high price in losing the right to regulate, a loss which has substantial implications for democratic planning.

The GATS imposes constraints, however, on the use of unnecessarily restrictive or discriminatory requirements in scheduled sectors." But herein lies the crux of the problem: who decides what is 'reasonable' and what is 'unnecessarily restrictive'? Not democratically elected representatives but trade 'experts'. Governments need to retain the right to regulate if they are to govern responsibly. This includes the ability to implement not just regulations to ensure that the market operates smoothly, which GATS allows, but also regulations designed to meet the social, political and environmental goals that citizens and their governments aspire to.

[50] WTO and its Multilateral Trade Agreements, by: Keith Ferguson (published in Economic Justice/Globalization)

As far as the myth of the transfer of technology is concerned, foreign firms tend to be reluctant to hand over their know–how to local, potential competitors. Some US financial service suppliers operating in Africa and Asia have stipulated in their employees' contracts that staff cannot join a rival domestic firm for a fixed period of time once they have left the US firm. This ensures that there is no spillover of skills and certainly no technology transfer. As early as 1987, European GATS negotiators acknowledged that developing countries would only benefit from the agreement if service providers were obliged to transfer technology - but they also recognized that this would be almost impossible to enforce and implicitly acknowledged that technology transfer to developing countries, much needed if they are to grow economically, was unlikely to happen.

If poorer groups in society are to benefit at all from foreign investment, it is most likely to be through the creation of income-earning employment. Jobs should be forthcoming when local business is stimulated but, as pointed out above, this doesn't always happen. Moreover, the take-over of previously state-owned enterprises often leads to redundancies. Indeed, foreign firms often claim that they will increase efficiency and productivity levels when they buy up state enterprises, but one of the main ways they do so is by getting rid of staff rather than by increasing production or capacity, which in turn leads to improved quality and lower costs for consumers.

The results of service liberalization for developing countries and the poorer people within them, have been, at best, mixed. Many developing countries have little to gain from the process because they do not have service exporters or strong regulatory bodies to oversee the process[51].

5.13 PAKISTAN AND THE GATS

5.13.I Share of Services in the Economy of Pakistan

Services play an important role in the economy of Pakistan. They contribute more than half of GDP and account for around 45% of the total labour force employed in the country. The services are placed under six broad sectors in the national accounts for the purpose of calculating sectoral GDP in Pakistan. Their combined share in GDP has remained around 52-53% on average in the 90s and these have recorded a combined growth of 4.5 per year during this period. Individual sectoral share in GDP and growth rate during the 90s are given in the table below which shows that the wholesale and retail trade sectors claims the highest share followed, in descending order, transport, storage & communication, public administration & defense, ownership of dwellings, construction and finance & insurance. The remaining services have been grouped under "other services" whose share is slightly bigger than that of public administration & defense .In

[51] World Development Movement (WDM) Report.

the case of ownership of dwellings and "other services", the national accounts estimation methodology assumed the growth at constant rate. In the case of other sectors the growth has fluctuated for year-to-year and wide variations have been observed in growth across the sectors.

TABLE 1: SHARE OF SERVICES SECTOR IN GDP (%, REAL)[52]								
	1994/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02
Services	49.3	48.5	49.5	48.6	49	49.1	50.2	50.9
Construction	4.0	3.9	3.8	3.7	3.4	3.5	3.4	3.3
Electricity, Gas, and Water	4.0	4.2	4.0	4.2	4.7	4.4	3.8	3.6
Wholesale and Retail Trade	16.3	16.2	16.1	15.4	15.2	14.9	15.3	15.1
Transport, Storage, and Communication	10.2	9.6	9.8	10.2	10.3	10.2	10.5	10.1
Finance and Insurance	2.5	2.7	2.9	2.2	2.5	2.3	2.3	2.3
Ownership of Dwellings	5.6	5.5	5.7	5.8	5.9	5.9	6.1	6.2
Public administration and Defense	6.4	6.2	6.3	6.2	6.1	6.5	6.4	7.3
Other	8.2	8.2	8.6	8.9	9.1	9.3	9.6	9.9

5.13.II Share of Services sector in total employment

Between 1995 and 2000, the sector's share in total employment remained stable at around 42.7%. Wholesale and retail trade, and transport, storage, and communications have been by far the leading service activities in Pakistan; other important service activities were public services, ownership of dwellings, distribution of electricity, gas and water, and construction (Table 2 below). Between 1995/96 and 2000/01, exports of non-factor services dropped by about 46% to US$1.0 billion; in 2000/01, exports of commercial services represented 13.6% of total exports of goods and non-factor services. During the same period, imports, largely consisting of shipment services, fell by more than 45% to US$1.8 billion. "Other services" refer to inflows/outflows relating to the operation of missions/representations (foreign in Pakistan, Pakistani abroad), royalties, bank commissions and charges, technical/legal fees, and sundry insurance payments.

[52] Economic Survey 2001-02

TABLE 2: SHARE OF SERVICES SECTOR IN TOTAL EMPLOYMENT (%)						
	1995	1996	1997	1998	1999	2000
Services	42.7	42.7	44.7	42.6	42.6	42.6
Electricity, gas, and water	0.8	0.8	1.0	0.7	0.7	0.7
Construction	7.2	7.2	6.8	6.3	6.3	6.3
Transport	5.1	5.1	5.7	5.5	5.5	5.5
Commerce	14.5	14.5	14.6	13.9	13.9	13.9
Other	15.1	15.1	16.6	16.3	16.3	16.3
Source: WTO TPR Pakistan 2001-02						

The international trade of Pakistan in services including FDI falls next to merchandise trade in importance for Pakistan. Merchandise trade has remained in the red throughout the history of Pakistan except for two years. Contrary to that the services account (net) has remained surplus and that has helped the country to meet major part of the merchandise gap. If one looks at the components of the services, it is found that the country's payments were much higher than its receipts in the account of shipment as well as in the account of travel. However, its receipts have exceeded payments in the account of other transportation. Workers' remittances account for the largest component of services and the country had exported a large number of workers. That has been fetching huge amounts of foreign exchange. These are shown under unrequited private transfers. Similarly, the 90's foreign direct investment (FDI) had become a big item in 90's with the launching of liberalization reforms in the country. Nevertheless, the payment against the account of foreign direct investment (FDI) made by Pakistani abroad as remained an insignificant amount[53].

5.13.III GATS and Pakistan

Pakistan is a founding member of the GATT and it has actively participated in all eight rounds of multilateral negotiations. Despite its initial reservations on the inclusion of some non-traditional areas in the Punta del Esta mandate of September 1986, the country had made its contribution in the successful conclusion of the Uruguay Round Agreement (URA) and on 15th April 1994 it was one of the 125 member governments who signed the Marrakash deal that established the WTO. It had remained associated with the Singapore and the Geneva WTO Ministerial Conferences as well as with on going multilateral negotiations in some areas to complete the requirements of the URA.

On the other hand the World Bank, the IMF, the FAO, the ADB and other multilateral agencies and aid donor's Clubs have established collaboration with the WTO while on the other hand these were (and are still) often involved in consultative process by Pakistan in formulating its macro-economic and sectoral policies. During the UR period Pakistan had independently undertaken implementing structural reforms that inter alia

[53] Dr. Mushtaq Ahmad, Pakistan And Gats: An Assessment Of Policies And Future Prospects.

aimed at fast integration of its economy into global economic system and its liberalization. Despite high socio-economic cost these reforms are being vigorously implemented even in the post URA period**.**

5.13.IV Pakistan's commitments in trade in Services

Pakistan adopted a cautious approach while making commitments in trade in services on market access, national treatment & MFN treatment. This was guided by a number of considerations, for instance Pakistan like many developing countries found that the GATS allows the capital of developed countries through Mode 3 greater market access in the developing countries through Mode 4 is restricted. Services Sector in Pakistan like many other developing countries is far less developed compared to that of developed countries, and hence when the free trade opens in services the country will be the loser on the basis of comparative advantage principle.

Pakistan made comprehensive initial commitments. These commitments were in the form of conditional offer and were made after consultation with the interested member countries, and taking into consideration the request made by them. Pakistan specified that its offer was conditional subject to the extent and nature of the commitments made by other participants, particularly in the sectors/sub-sectors and mode of supply of interest to Pakistan (in particular the "movement of national persons")[54].

5.13.V Pakistan's schedule of commitments

The schedule of specific commitments of Pakistan comprises the following sectors:

5.13.VI HORIZONTAL COMMITMENTS:

All sectors are included in this schedule, and these are applied across the board:

- Commercial presence subject to incorporation in Pakistan
- Foreign equity limited to 51%
- Representative offices allowed for a few services, subject to the condition that all expenses of such offices shall be met by remittances from abroad. Their activities restricted to liaison work or of representing the interest of parent company abroad.
- Acquisition of land by non-Pakistani entities subject to authorization on a case-by-case basis.
- Natural persons up to a maximum of 50%[55] of manager, specialists, etc.

5.13.VII SECTOR SPECIFIC COMMITMENTS:

1. Business Services
2. Communication Services
3. Construction and related engineering services

[54] Pakistan and the GATS by Dr. Mushtaq Ahmed

[55] Asaf Ghafoor, Director Export Promotion Bureau, Lahore

4. Financial Services
5. Health and related social services
6. Tourism and Travel related social services

See Annex 7 for detail of the sectors/sub-sectors

5.14 TELECOMMUNICATION SECTOR

Effective telecommunications provide a low-cost channel for searching, gathering and exchanging information that, in turn, is a key input in all economic activities. Hardly any business today can operate without telecommunications. For many industries the telephone is the primary point of selling, and the Internet is an increasingly important channel for marketing, and for sales for some industries. Telecommunications networks provide the supporting infrastructure for such information flows and for Internet access.

During the past few decades, technological progress in the telecommunications sector has been remarkable and there has been a rapid diffusion of technology as well. It is now possible for countries that have lagged in economic and technological development to switch to the most recent technologies at relatively low costs of adoption. In Africa, for example, 95 per cent of mobile lines were GSM in 2001, well above the world average of 70 per cent.

Telecommunications are a network industry and as such the value of the network for each customer increases with the size of the network. Because of this and because of economies of scale, the industry was considered a natural monopoly in the past. Recent technological developments have, however, reduced the importance of economies of scale and made vertical disintegration and competition possible. As a consequence, most countries have carried out regulatory reforms, often including privatization of state monopolies and the introduction of competition in some or all market segments. Regulatory reforms in the sector have contributed to further innovations, diffusion of technology and a substantial reduction in the cost of telecommunication services.

5.14.I GATS and Telecommunication

Cross-border trade in services (GATS Mode 1) largely depends on telecommunications as the channel for transactions. A study of the impact of the Internet on US trade in services found that trading partners' Internet penetration had a significant impact on US imports of business, professional and technical services. But no significant relationship between Internet penetration and US exports of services was found (Freund and Weinhold, 2002). A possible explanation is that it is often the customer (importer) who determines the mode of supply and communication.

As already indicated, competition is crucial for a desirable outcome of reforms in the telecommunication sector, and trade liberalization is one measure to this effect. An analysis of the relation between service supply and the extent to which foreign entry is restricted finds that the more restricted is foreign entry, the lower the mobile telephone density.71 It is also worth noting that the more open market-based mobile services have produced a narrower international digital gap than the state-controlled fixed-line services. As a result, in several countries, including some of the poorest countries in the world, households and businesses have better access to mobile services than to fixed line services[56].

5.14.II *Pakistan's Commitments in Telecom Sector*

Pakistan has made the following commitments in the Telecom Sector:

- Pakistan has restricted the market access, particularly for the Mode 1 and in some cases for Mode 3.
- All services to be provided in Pakistan shall require a license from the regulatory authority.
- The confidentiality of international total accounting rate (TAR) shall be maintained.
- Bilateral agreements on accounting rates shall be in accordance with ITU Guidelines.
- Up to 100 % foreign investment on licensed services permitted.

Pakistan has specified in attachment to its schedule, the rules and procedures, the transparency of its regulations, inter-connection and numbering, competition safeguards standards and tariff regime.

5.14.III Pakistan's Compliance in the Telecom sector:

Pakistan has been following the policy of deregulation under the direction of the IFIs, regardless of its commitments under GATS. The deregulation policy of the government of Pakistan regarding telecommunication sector has been helpful in the opening of the telecommunication sector. The Policy has:

Increased service choice for customers of telecommunication services at competitive and affordable rates. Promoted infrastructure development, especially infrastructure that will increase tele-density and the spread of telecommunication services in all market segments (including voice, data and cellular etc). Increased private investment in the telecommunication sector and encourage local telecom manufacturing / service industry. Accelerated expansion of telecommunication infrastructure to extend telecommunication services to un-served and under-served areas. Liberalized the telecommunication sector by encouraging fair competition amongst

[56] Yousaf Haroon

service providers. Maintained an effective and well-defined regulatory regime that is consistent with international best practices, and; maintained consistency with Pakistan's IT and Internet promotion policy of low prices for bandwidth to make Internet access affordable. Safeguarded Pakistan's national and security interests.

5.14.IV Implications of deregulation

After December this year, PTCL will lose its monopoly over fixed line telephony; analysts say they do not expect any serious threat to PTCL for at least a year after that. The company's massive sunk costs in infrastructure will be hard to top by any new operator that would be required to match the PTCL network. But analysts say PTCL can't put its feet up right now. Competition for PTCL's public switch telephone network may be restricted to payphones and prepaid calling cards, but future competition for PTCL's telephony system would be wireless, especially fixed wireless or wireless local loop. The pieces will all fall into place in the next twelve months when exact revenue growth potential of the sector will become apparent.

But the real test will come from the cellular phone industry for PTCL. PTCL may already have a head start since it has influenced the PTA's decision to withdraw the Rs 2,000 tax levied on new connections. PTA, which is a subsidy of PTCL, also plans to expand its operations and by the end of the year U-fone is likely to milk the tax exemption to offer 175,000 new connections, which would increase its customer base from 100,000 connections to 275,000 connections. There is very little possibility that any other mobile phone company, like Mobilink, Paktel and, Instaphone will be capable of offering so many connections because they simply don't have the capacity. If this is true then PTCL might succeed, even after privatization and in the face of stiff competition, to get new customers hooked.

5.15 Pakistan's Commitments in Financial Services

Pakistan has stated in the opening of the paragraph of the schedule of specific commitments in financial services that its commitments laid down in the schedule are subject to the availability of similar commitments from large number of countries of significance to Pakistan, and for these reasons, Pakistan does not consider itself to be prevented from adopting or enforcing non-discriminatory measures aiming at protecting the soundness and integrity of Banking and Insurance industry. The schedule covers the financial services categories of Insurance and Insurance related Services; Financial Services excluding Insurance (Banking, Leasing, Asset-Management, Financial & Investment Advisory Services and provision and Transfer of financial information and data). In respect of the two modes, cross border supply and consumption abroad, Pakistan has made no binding commitments.

Pakistan generally permits foreign investment in services, subject to provisions including a minimum initial capital investment of $300,000. Foreign investors may hold up to a 100% equity stake at the outset. However, repatriation of profits is restricted to a maximum of 60% of total equity or profits, and 40% of equity must be held by Pakistani investors within five years of the initial investment. Foreign investment not meeting these requirements are still permitted, but are not guaranteed repatriation of profits.

Investment policy also allows foreign investors and other non-manufacturing sectors (including international food franchises) to remit technical fees and royalties, although conditions apply. In information technology services, including software development, foreign investors may hold a 100% equity stake. Investors in this field are not subject to the requirements for minimum initial investment and 40% Pakistani equity within five years.

5.15.I Insurance

The Pakistani government has opened the Insurance market as one of its financial sector reforms. Foreign investors are allowed to hold a 100% equity (subject to the requirement to establish 40% Pakistani equity in five years) share of companies operating in the life and general insurance sectors. They are, however, required to bring in a minimum of $2M in foreign capital and raise an equal amount in equity in local market. There are no restriction on the repatriation of profit and capital investment made in the in this sector can be repatriated with the permission of the SBP. Pakistan does not regulate insurance premiums. The government issued a new insurance law in 2000, raising capital adequacy standards and enhancing policy-holding protections.

Pakistan has allowed a maximum of 25% foreign share holding in existing life insurance companies. It has permitted 51% foreign equity in new life insurance companies.

5.15.II Banking

The government improved its financial services commitments in the WTO Financial Services Agreement in December 1997. These commitments grant the right to establish new banks, as well as grandfathering acquired rights of established foreign banks and foreign securities firms. The State Bank of Pakistan has changed its branch licensing policy, and has eliminated restrictions on the number of branches for foreign banks. Currently foreign banks, like local banks, have to submit an annual branch expansion plan to the SBP for approval. The SBP approves new branch openings based on the bank’s net worth, adequacy of its capital structure, future earning prospects, credit disciplines, and the needs of the local population. Foreign brokers, like their Pakistani counterparts, must register with the Securities & Exchange Commission of Pakistan.

5.15.III Some other Commitments

- Foreign banks have been allowed to undertake business by setting up locally incorporated subsidiary with 49% foreign equity.
- Other eligibility criteria including minimum capital requirement, is the same as domestic commercial banks.

- Foreign banks are allowed up to 3 branches at the place of their choice.
- Investment in shares of existing domestic banks is permitted to foreign nationals/IFIs for trading purposes.
- Representation of foreign nationals on the board of directors has been allowed in proportion to their share holdings.
- Employment of foreign nationals in banks and financial institutions operating in Pakistan require prior clearance of SBP.
- Foreign banks are allowed to setup joint ventures with local persons with equity participation up to 51%.
- Transmission of permissible funds, including foreign currency, can be effected through authorized banking channels.
- All commercial banks are required to be members of the clearing system operated/approved by SBP.
- Foreign leasing companies are permitted to setup subsidiary leasing business with maximum total share holding of 51%.
- Foreign licensed entities are allowed to undertake portfolio management services by setting up locally incorporated subsidiaries with 51%share holding.
- Prior written permission is required by SBP for any person holding more than 5%of paid up capital of any bank/FI.

5.15.IV Pakistan's MFN Exemptions

- Foreign Service providers are granted license on the basis of reciprocity.
- Favorable treatment of institutions set up to undertake Islamic financing
- Separate regulations have been chalked out for banks which undertake treasury functions for other government schemes.
- Favorable treatment of FIs, which have been setup under the framework of economic cooperation organization (ECO).

5.16 OPPORTUNITIES VERSUS THREATS

Empirical evidence shows that threats from liberalization are mostly short term in nature. Acknowledging weaknesses in the domestic financial sector and devising reforms to eradicate them can successfully mitigate these. Benefits accruing from free trade require greater degree of competitiveness. Financial liberalization is a global reality and its full benefits can be reaped through prudent sequencing of liberalization process and accompanying macro economic and regulatory measures.

5.16.I Opportunities

Increased competition leads to macroeconomic development, and reform and restructuring of domestic entities. Also facilitates reduction in unit cost by promoting economies of scale. Opening of foreign markets for domestic banks becomes easier. It provides consumers with a wide choice of financial services and allows faster access to more advance and higher quality services and transfer of technology and managerial skills.

5.16.II Possible threats

Financial liberalization would lead to liberalization of capital account that can result in flight of capital. Domestic service providers may lose their comparative advantage. Fast pace liberalization would lead to imbalances and mismanagement and reduction in market share of domestic entities. Skilled human resource is attracted towards foreign institutions. Liberalization may attract investors of dubious background.

5.16.III Mitigation of threats

It would increase competitiveness through tighter cost controls and improving quality of service. Service, a people oriented sector, hence developing of human resources is vital for competing with Foreign Service providers. Liberalization does not mean no checks and balances. It is important to have sound regulations and controls in place for banking sector it means a more proactive role by SBP. In addition to Pakistan’s commitment further liberalization has taken place over the years. The branch mode of entry by a foreign constituent is no longer allowed.

The preferences for joint venture subsidiary, with foreign equity participation limited to 49%. The banks from ECO countries and other regional bodies such as SAARC would be given preferential treatment in this regard. Foreign banks are allowed to operate up to 50branches. ATM’s installed in non branch locations are not treated as a separate branch. All prudential regulation is uniformly applicable to foreign banks as well as local banks. There is no discrimination. In addition to authorized banks, license exchange companies are also allowed to transmit permissible funds. Commercial banks are allowed to undertake leasing business, provided it should not be its major line of business. Recently guidelines for derivative businesses would be introduced for banks including foreign banks.

5.17 Conclusion

Negotiations on the GATS agreement will continue, regardless of what happens within wider negotiations on all the World Trade Organization agreements. The impact of GATS could be substantial, a sentiment shared not just by NGOs but also by corporations and the WTO itself. It is substantial because the services sector is growing so rapidly and because the agreement, in practice, covers investment as well as cross-border trade. The potential costs are high: governments will undoubtedly lose some of their ability to regulate, not just in promoting domestic over foreign firms, but also over domestic commercial activity itself. The potential benefits, particularly to developing countries, are low.

Pakistan has embarked upon structural reforms since the early 90s. Under the reform policy measures of the regulation and de-control, privatization, financial restructuring, foreign exchange adjustment and liberal mobility of capital has been pursued in real as well as services sector. The country has included six sectors (partially) in its schedule of sectors specific commitments. These commitments reveal that the country has allowed some access in services sector. Many developments and changes have taken place in regulation, investment and trade in services during as well as after the URA In Pakistan and some of them as part of implementation of its GATS obligations. Pakistan cannot gainfully compete in services with developed countries and the trade liberalization measures taken by the developed countries had little effect on Pakistan's economy.

Future prospects or gains for Pakistan under the GATS lie in the movement of natural persons (mode 4 Service Supply) because the country has surplus labour. Unfortunately, Mode 4 has been given discriminatory treatment compared to the other three modes of services supply in the member countries' sectors specific commitments. Three barriers in the way of freer mobility of natural persons include the use of ENTs, multiple qualifications and licensing regulations, and non-transparent visa and work permit regimes. These barriers have to be removed to ensure the benefits of the GATS through liberalization of trade and services under mode 4.

Apart from removing these barriers to movement of natural persons, the issues which have to be addressed for further liberalization of trade in services and enhancing the prospective benefits of the GATS under future negotiation include consolidation and stock-taking of the results of the multi-lateral negotiations, fixing specific time-frame and specific indicators for meeting the GATS obligations, monitoring of gains from the GATS for the member countries, preferential treatment of developing countries, and financial and technical assistance for building know-how and institutional capacity o0f developing countries enabling them to effectively participate in the implementation of the GATS and its future negotiations. Resolution of these issues would go a long way towards realizing the cherished goals of the GATS, especially for a developing country like Pakistan.

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