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Pakistan's Trade Policies, Non-Tariff Measures and Concerns of Stakeholders

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Abstract

Pakistan can increase its exports by 12 billion dollars till 2024 if integration with international market is improved, and strong linkages are developed among value chains (ITC, [2020](#)). But this potential development is facing impediments due to transparency issues, imposition of non-tariff measures, ambiguous regulations at home and lack of information among both importers and exporters. This paper is dedicated to the discussion of Pakistan's trade policies, tariff structure, rules governing non-tariff measures, and discussion about the concerns of business community and other stakeholders on NTMs. Application of NTMs in Pakistan, and their shortcomings are also discussed in detail. Research uses both quantitative and qualitative approach, Pakistan's position regarding NTMs is shown empirically while concerns of business community are collected, evaluated, and presented through interviews. Then based on these discussions some recommendations are forwarded. Study shows that most of the hurdles faced by traders are home borne. If regulations are made easier at home and mutual recognition of standards is acquired with partner countries, then across the border trade can become much easier.

Keywords: economic integration, trade, non-tariff measures

JEL Classifications: C68, F15, I31

Introduction

Doing business easily is a process that starts at local levels, governments can streamline their economic mechanism, make the system digitally operated, documentation can be decreased to the level where it is only necessary, and can start hearing the voice of business community with maturity. In the wake of trade liberalization, countries have decreased

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traditional tariffs dramatically, while non-tariff measures have substantially increased, and are proving “sand in the wheel of trade”. The basic purpose of these measures is to protect the public health and environment. But International trade bodies like WTO and UNCTAD are greatly concerned about the increasing numbers of NTMs, due to their cost raising effects and restricting market entry (Fontagné *et al.*, [2015](#)). Ghodsi & Stehrer ([2016](#)) argue that the increase in the number of NTMs notified to WTO, from 1995 to 2012 was 400%. And the impact of these NTMs on trade is more than that of tariffs (UNCTAD, [2019](#)). Khan *et al.* ([2018](#)) found that if Pakistan decreases trade hurdles with major trading partners, then trade and welfare can increase considerably.

Pakistan can increase its exports by 12 billion dollars till 2024 if integration with international market is improved, and strong linkages are developed among value chains (ITC, [2020](#)), and World Bank suggests that Pakistan can become an upper middle-income country by 2047 (World-Bank, [2019](#)). But this potential development is facing impediments due to transparency issues, imposition of non-tariff measures, ambiguous regulations at home and lack of information among both importers and exporters. These issues have attained less importance in the literature on Pakistan’s trade. Though different organizations have done business surveys on the issues pertaining to business and trade in Pakistan but concerns of traders on local and international regulations specifically NTMs have not been investigated in any study so far. This paper is dedicated to the discussion of Pakistan’s trade policies, tariff structure, rules governing non-tariff measures, and then a detailed section discusses the concerns of business community and other stakeholders on NTMs, their application in Pakistan, its shortcomings and then based on these discussions some recommendations are forwarded. Objective of this study is to chalk out NTBs and local regulations which are most complicated and difficult to implement for Pakistani traders. Following sections provide details of Tariff and Non-Tariff Measures in Pakistan, Methodology adopted for empirical and qualitative analysis, results, summaries of discussions with stakeholders, recommendations, and conclusions.

Tariff Policy Trends in Pakistan

Pakistan operates its tariff regimes in the form of tariff slabs. With increase in slabs, it becomes easy to adjust maximum classes according to their capacity. In general, lowest level of slabs are applied on necessary raw

materials while semi-finished goods used as inputs in local industries are also prioritized. However, in Pakistan with every new tariff policy number of slabs has been changing. This fluctuation creates uncertainty among the traders. For example, tariff policy was operating with ten slabs in 1993, which were reduced to 6 in 2015. Tariff rate was set at 25% as its maximum limit, however extra 1% duty was levied on about half of the tariff lines. Many raw material groups were also encompassed. In 2016, slabs were reduced to 5, 20% was the maximum tariff rate, while tariff rate for lowest slab was increased to 2%, previously it was 1%. This policy changed the cost of tariff for different groups. For example, all the raw material and basic goods importers who were previously paying only 1% tariff, were now paying 2% tariff. In the same way omitting one slab, increased the tariff burden for those who were falling in the middle level slabs (MOC-Pakistan, [2016](#)).

This was again done in 2017 with decreasing the number of slabs from 5 to 4, though limit on maximum tariff was decreased, however slabs of 2% and 5% were merged and the new tariff rate for this slab was 3%. It means tariff was raised for those who were paying only 2% previously, though they were paying nothing before 2014. Apparently maximum tariff is reduced but now the government is generating higher revenue than before. An encouraging change was seen in 2018 when in finance act of 2018, 236 tariff lines pertaining to raw materials were given concession. In the same year further 186 tariff lines of raw materials were exempted from tariff. In 2019, more than 1600 tariff lines were exempted from tariff while extra tariff was charged on upper slabs. Currently there are four slabs of 3, 11, 16 and 20 percent (MOC-Pakistan, [2019](#)).

Non-Tariff Measures

The ultimate purpose of NTMs is to protect the citizens for health and better environment. However, these are widely being used for trade protection motives. Niu ([2018](#)) found that especially after Global Financial Crises of 2008, use of NTMs has gradually increased.

Summary of NTMs Applied by Pakistan

For Pakistan Coverage ratio is 33.12% and frequency ratio is 15.24% for imports. As far as trade restrictions are concerned, Pakistan uses bans instead, against the global practice, of delaying tactics. Pakistan has a unique negative list covering around one thousand items which is applied

to India only. Twenty categories are banned for exports which include fertilizers, animals etc. Another twenty groups are allowed to export with pre-permission. These include mostly food and raw textile items. 13 groups pertaining to animals, birds, literature are banned and cannot be imported due to religious and safety reasons. 44 other manufactured products are banned due to economic and protectionist motives. 56 groups of items including animal and plant products are almost restricted from import and a special permission from respective authorities is required.

In Pakistan, large number of products require certification from “Pakistan Standard and Quality Control Authority”. Restrictions related to ports also apply to specific countries e.g., India and Afghanistan. Other than SPS regulations, customs inspection, procedures, political reasons, security related concerns also play an important role. Under MAST classification E329 (without any economic reason) 585 groups of commodities under different HS chapters cannot be imported from India. About 80 product groups pertaining to human, plant and animal health and safety face at least one SPS measure while 186 groups of commodities face at least one type of TBT measure.

Methodology

This paper consists of both empirical and qualitative analysis. For empirical part we have used two approaches with the purpose of showing prevalence of NTMs in Pakistan in comparison with its trading partners, while for qualitative analysis traders, experts and officials are selected.

1. Using UNCTAD, WTO, ITC dataset 2018, simply prevalence of NTMs is counted at HS-6 level, and then it is reported in three main categories i.e., SPS, TBT and Others. For this purpose, UNCTAD MAST Classification (UNCTAD, [2019](#)) is utilized which contains 14 chapters ranging from A to P, Chapter P which is about export restrictions from home country is excluded. Then based on the evidence SPS and TBT are counted separately as these are mostly applied by Pakistan and other countries. Results are quoted in Table 1.
2. Another way to look at the prevalence of NTMs is the usage of indicators like coverage ratio and frequency ratio. These are discussed below.

Coverage ratio tells us about the volume of trade which consists of those commodities that face at least one type of NTM. It can be calculated as follows:

$$CR_i = \frac{\sum_{k=1}^{hs} NTM_{ik} X_{ik}}{\sum_{k=1}^{hs} X_{ik}} 100$$

Here NTM_{ik} is a dummy variable which shows the presence of any type of NTM for a specific HS-6 product k and X_{ik} is trade value of good k for country i .

$$FR_i = \frac{\sum_{k=1}^{hs} NTM_{ik} D_{ik}}{\sum_{k=1}^{hs} D_{ik}} 100$$

Here, as previously Here NTM_{ik} is a dummy variable which shows the presence of any type of NTM for a specific HS-6 product k and D_{ik} is also a dummy variable which shows if there is any trade value associated with a product k or not.

These prevalence indicators are calculated using the NTM dataset of UNCTAD, WTO, ICT (2018), while data on trade for year 2018 is taken from WITS.

3. Second part of the paper consists of qualitative analysis. For this purpose, based upon random sampling, trading companies are selected and then telephonic & face to face interviews are conducted. In the second step experts and officials of concerned departments are also interviewed. These interviews were mostly open ended due to the complexity of the issue. Detail of companies, experts, stakeholders, questionnaires used are given in the Appendix.

Results and Discussion

This section provides results of quantitative and qualitative analysis. In the subsequent subsection, empirical results are discussed which based on the methodology in previous section while the following subsection provides the summary of qualitative results in subheadings.

Prevalence of NTMs: Some Empirics

This section provides the prevalence of NTMs in Pakistan and in partner countries with the help of some empirics. Table 1 shows the number of Non-Tariff Measures applied by countries in three categories. We see that China has applied highest number of NTMs with a total of 78500 notifications sent to WTO. Category of NTMs used the most is TBT, which is applied to almost all the trading items being imported to China. This is also a reason of world highest trade surplus accumulated by China over the years. Table also verifies the concerns of stakeholders about the application of NTMs by

USA, Europe, and other developed countries. These countries are using SPS measures on Agriculture related sectors resulting in Agri-exports restrictions on countries like Pakistan. Table also shows that developed countries are applying NTMs much higher than the world average. However, NTMs applied by Pakistan are much lesser in number than these countries. Pakistan's NTM dynamics are very complicated which are discussed in the coming sections.

Table 1

Application of NTMs by Pakistan and its Trading Partners at HS-6 Level

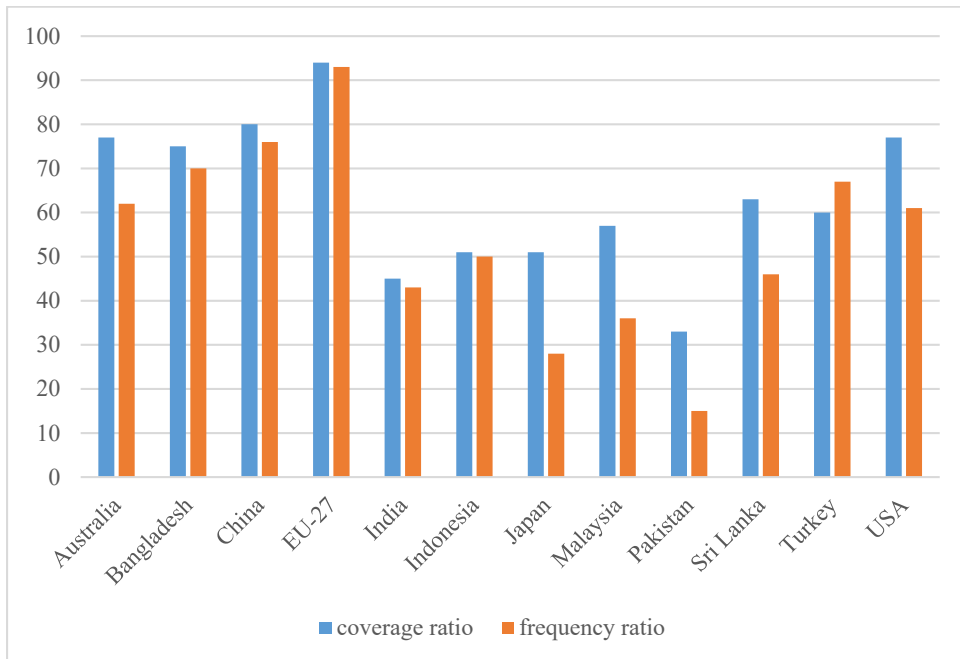
Country	SPS	TBT	Other	Total
China	17916	38623	21961	78500
USA	21715	33317	15178	70210
EU-27	21251	18145	19784	59180
Australia	21546	16555	18035	56136
India	12633	26851	3897	43381
Turkey	11105	16890	8610	36605
World Average	9970	13172	13183	36325
Viet Nam	11706	10713	13141	35560
Kuwait	6689	7683	19940	34312
Egypt	6799	13975	12351	33125
Japan	6536	15947	9058	31541
Indonesia	12633	7852	10082	30567
New Zealand	8229	9824	12344	30397
Pakistan	2576	12093	3329	17998
Singapore	7523	5980	4458	17961
Brunei	7799	4901	5242	17942
Oman	6078	4191	7548	17817
Nepal	1162	9704	3310	14176
Malaysia	5049	6209	1744	13002

Source: Table is arranged with the help of NTMs dataset of ITC, WTO, UNCTAD (2018)

Figure 1 provides the details of frequency ratio and coverage ratio of Pakistan and its trading partners. These ratios are calculated using the database of UNCTAD and ITC for 2018. The ratios provide another way for looking at the prevalence of Non-Tariff Measures. Figure also testifies the results in Table 1, as both ratios for China, and developed countries are much higher than developing countries. Pakistan exhibits the lowest frequency and coverage ratios among the sample countries.

Figure 1

Coverage Ratio and Frequency Ratio of Pakistan and its Partners



Qualitative Analysis: Listening the Voices of Stakeholders

This section provides the second part of our results and mainly includes the findings of our discussions with traders, business community, experts from academia, and officials of different government portfolios.

Issues Faced by the Traders due to Current Tariff Regime

The basic motive of tariffs, the revenue collection, has caused many market distortions, and has eroded competitiveness. The higher tariff on raw materials is increasing the cost of production beyond the capacity of

industrialists. This is also the reason of declining share of manufacturing sector in the national income of Pakistan. Intuitively, higher tariffs on trade means that local market is being protected, therefore, traders take it easy to involve in such activities which are locally oriented, hence, naturally an export bias has been created. Businessmen find themselves confused due to slab structure and overlapping of duties and regulations. This is also a cause for increased cross border smuggling, misquoting, and mis-invoicing.

Business Community's General View of NTMs

Discussions with business community reveals that more than half of them feel uneasy due to cumbersome procedures, lengthy documentation, wait time, certifications, and testing requirements. Much of these problems are due to ineffectiveness of Pakistani regulatory systems. Non-tariff measures affect importers and exporters in different ways, intensity of these effects is sector specific also. Most affected sector is agriculture and its sub sectors. Agriculture sector exporters face difficulties while exporting fruits, vegetables, and food due to strict SPS measures imposed by partners specially in Europe and Middle East. They deem European standards as more restrict and cumbersome to fulfil. Traders feel easier while trading with UAE, Oman, Germany, and UK.

Technical Measures Biggest Hurdle

Conformity assessments due to technical measures (SPS, TBT) are the biggest hurdle faced by the exporters in Pakistan. They are of the view that lengthy procedures, high costs and administrative inefficiencies are even bigger challenge than the conformity itself. Laboratories in Pakistan lack the required infrastructure and staff is not well trained, as a result, exporters get certifications and sampling testing process in foreign laboratories which again creates extra time wastage. In this study we have identified three major categories of NTMs, namely, SPS, TBT and Others. Business community is supporting this categorization by saying that SPS and TBT measures are proving the biggest challenge due to related conformity requirements, while other measures like price controls, border related procedures, rules of origins are relatively less challenging in nature.

Domestic Regulatory Problems

Both exporters and importers found complaining about the domestic procedures, while for a larger number, local procedures are even creating more hurdles. The major problems concerning domestic challenges relate

to inspections before exporting, certifications required for exports. Traders related to manufacturing sector and agriculture sector face most of these hurdles, this issue is less important for small business entities.

Procedural Hurdles

Procedural hurdles appeared the biggest issue during discussions with importers and exporters. Complexity of documentation, lack of information, overlapping jurisdictions of state and sub state level organizations, and wastage of time during this process are highly challenging. Due to such delays many a times they are unable to export perishable goods. Procedures for perishable goods like fruits and vegetables are much easier in countries like Viet Nam and Bangladesh, and this the reason for their considerable access to European markets. While in Pakistan due to lengthy procedures exporters can only do such business with nearby countries.

Problems Faced by Agri-exporters

Biggest challenges facing sector, in terms of NTMs is the agriculture sector of Pakistan. Exporters of fruits, vegetables, dry fruits, cereals, processed food, whether small or larger enterprises, equally face the burdensome problems due to conformity requirements. They complained about the accreditation of their local standards as par with European standards, the biggest market for such exported items. According to the exporters along with foreign standards, local requirements make the problem more severe. In Europe, Germany and UK are those countries which impose more severe requirements for the Pakistani Agri-products. Share of European Union in Pakistani Agri-exports is only about 10% while the associated obstacles are more problematic than any other partner. Therefore, Viet Nam, Bangladesh and Philippine like countries have more share in EU markets than Pakistan, though their relative distance to EU markets is greater than that of Pakistan. In the same way, Gulf countries especially Saudi Arabia and UAE are more tough destinations if their share in Pakistani Agri-exports is considered. Pakistani traders face less difficulties in SAARC and China regions. In Pakistan PCSIR is the concerned body which issues such certificates, first, it takes too much time to get the required certificate from the body which hampers the quality of exported goods, second, many a times these are not accepted in several destination markets. Meat products, under SPS measures, require the tests for antibiotic particles. Exporters complain that Pakistani laboratories

results are not recognized in the world market due to their unreliability. Pakistan has not signed mutual recognition agreements with partners that is another reason for the unacceptability of their certificates.

Textile Sector

Textile & wearing apparel is the largest exporting sector of Pakistan. Exporters related to this sector mostly faces challenges in complying with the standards of foreign markets. In Pakistan, for the most part of this sector is operating in traditional ways with older technologies, while importing countries require the fabric, towels, gloves and carpets to be prepared with new technologies so these are iodized free. They can produce with in use technologies but for exporting they need testing certificates which are issued in foreign countries. Further such certificates are issued for a specific shipment. Exporters demand the establishment of such accredited laboratories locally.

Traders Concerns about Government Bodies and Officials

Business community is greatly concerned about the role of government bodies and officials in Pakistan. These issues are summarized in following sub-headings.

Information Disseminating Bodies in Pakistan

Government of Pakistan has appointed Pakistan Standards and Quality Control Authority to provide information and procedures relating to TBT measures. But this information is limited in nature and often it is not updated. In the same way SMEDA is also assigned with to disseminate information regarding all measures to the small businesses. However, information provided is not up to the mark and sometimes it lacks the basic knowledge also. Other ministerial websites and authorities also face the same issues.

Import Problems Related to Finance

Both importers and exporters are unhappy with the financing procedure in Pakistan. Specially after the strict steps in the wakes of FATF pressure, banks are much reluctant and demand several documents for advance payments in case of imports. Exporters need raw materials to be imported from abroad, exporter in foreign country demands advance payment, so the lengthy procedure hampers the import requirements of these exporters. In the same way in case of exports, payments are sent to the Pakistani banks

which again require cumbersome documents related to the transaction for the release of this payment.

Rebates Scheme

Occasionally Pakistani government announces duty rebate schemes for exporters with the purpose of boosting exports. More recently FBR issues to notifications¹ relating to this duty drawback. However, exporters do not find it helping as there are many issues in the channelization of these payments. They think that process is complicated and opportunity cost of wasted time is much more than the rebate itself. At the time of rebate claim, a long list of information is demanded which is usually impossible to furnish. Further, many departments at national level are involved in the process that is why, the process becomes lengthier, and traders are unable to get the updates regarding their claims. It has been a practice that trade associations were involved for the validation of the claims made by the traders. Now the role of associations is vanished, claims are sent to State Banks through scheduled banks and hence validation of documents becomes more difficult. Normal period for such rebates ranges from 3 years to 5 years, which effects the cashflow of companies.

Transportation Facilities

According to the estimates² in Pakistan more than 90% cargo is transmitted through road channels. National Logistic Cell is the sole company operating in Pakistan. This is such a monopoly which lacks the required infrastructure and trucks to fulfil the needs of the economy. Delays due to transportation cause damage to the quality and quantity of goods. Some traders use private cargo facilities which costs them very high.

Official Stance

In contradiction with the stance of traders, customs officials and officials at ministry of commerce argue that government wants to focus on exports to check the chances of money laundering. One reason for this ascertain is the fact, according to the officials, that traders misquote the invoices. When they export from Pakistan the invoices are undervalued,

¹ Notification No 1(42-B) TID/18-TR II Duty drawback Order 2018-21 for garments, home textiles and processed fabrics.

S.R.O., 711(I)/2018. Local taxes and Levies Drawback (Non-Textile) order, 2018-21.

² ITC (2015). Road freight transport sector and emerging competitive dynamics.

these shipments are sent to a transit country, then from there these are sent to actual destination with original invoices. Due to this discrepancy exchange remittance to Pakistan decrease while there is a strong reason to believe that this channel can be utilized by money launderers. Consequently, customs officials must work vigilantly, delay in verification is part of this extra care, and traders are asked to provide and prove the original market value of their shipments.

About the damages to the packaging during the inspection process is defended with the reason that many exporters use low standard packaging, wooden boxes, and such packaging which is in contradiction with SPS measures. Further there is redressal mechanism available to listen and redress the complains of the traders. On the delay, customs officials are of the view that they can only clear any consignment once it has got clearance from the antinarcotic force officials. Due to unavailability of sophisticated scanners, which can detect the narcotics hidden in the packaging, it takes time to check and clear the shipments.

Conclusion and Recommendations

Study specifically focuses on the imposition of non-tariff measures in Pakistan and finds that number of coverage of NTMs is considerably low as compared to peer countries however it is based on a complicated structure which is creating compliance issues for traders and businesses. Hence on the basis of this analysis following recommendations are forwarded for policy.

These recommendations are based on the discussions with officials, businessmen and experts from academia and research.

Transparency of Information

One major problem revealed during discussions with traders was the unavailability of information and unawareness about NTMs among exporters and importers. It is proposed to establish an easily accessible portal, which should gather all possible information and guidance for the traders, this portal must guide them on the process and procedure involved, documents required, bans or restrictions imposed on certain goods, concessions to and from the partner countries, details about getting certificates and testing of the shipments, internationally recognized laboratories working in Pakistan, and accredited laboratories of the nearest countries.

Further this mechanism should develop an alert system, where trader can get latest information through SMS on subscription, this is especially important for small businesses. Further this mechanism should get feedback from the traders on new standards and on the currently in work standards. Further, consultation with business, both small and large, must be institutionalized.

Expenditure on Testing must be Considered as Investment

Experts are of the view that Pakistani manufacturers cum exporters consider conformity expenditure as extra cost, though internationally in big playing markets it is considered as an investment. So, Pakistani exporters must think that this cost can make them internationally more competitive. To address this issue seminars and workshops must be arranged under the public sector, exporters must get aware of the real issue and attached benefits.

Upgradation of Standardization Bodies Locally

A major concern of the business is related to the low quality of Pakistani certifications and testings. That is why, Pakistani certificates are not generally accepted in the importing markets. It is recommended that the quality and services structure must be improved. These bodies complain about the unavailability of proper budget as the basic reason of low service quality. Government and relevant ministries must show their commitment in this regard. It is also necessary to hire right person for the right job, staff must be adequately trained, number of workforces must commensurate the workload so that unnecessary delays can be avoided. Further, an overseeing body must be established to keep an eye over the work of laboratories. Government must foster to transform the paper-based system of certification into digital system, accompanied with a tracking mechanism so that traders can get information about their sample testing without any hustle and bustle. Further, federal, and provincial level departments must work in coordination.

It is highly needed to establish a mechanism for testing of pesticides and fertilizers whether locally produced or imported. Pakistan's most NTMs affected sector is the agriculture sector, and the major obstacle to its exports stem from the issue of maximum residue limit. Pakistani labs test pesticides and fertilizers with only traditional technologies, which are unable to capture the new variants. Scientific research is needed and upgraded technologies must be adopted so that instead of consignment certification

in the final round of export process, pesticides can be detected for maximum residue limits in the early stage of checking. This will help farmers in choosing only those pesticides and fertilizers which do not damage the quality of vegetables and fruits.

Mutual Recognition

Pakistani exporters face another big challenge due to unacceptability of Pakistani standards and certificates in markets of Europe, America, and many other Asian countries. Government must take steps to negotiate with trading partners on the mutual recognition of standards. Mutual recognition means that two countries accept the standards applied in each of them, and if trader gets certificate from any of these two countries, then it will be acceptable to both. For example, Bangladesh needs every food consignment imported to be tested by country's atomic energy agency for the presence of radioactive particles. Pakistan can make agreement on mutual recognition with Bangladesh on testing for radioactive particles at home. In the same, India needs to test every imported food from SAARC countries to be tested at central food laboratories, again we can negotiate with India over the recognition of standards mutually.

But mutual recognition is only possible when Pakistan enhances its local capacity for standardization and sample testing, and, quality of certifications is improved, accredited from international bodies and transparency is assured.

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Appendix

This appendix provides the methodology used for qualitative part of the paper. For this purpose, survey of exporting and importing companies is conducted using random sampling. Here, only goods are included while services trade is not part of this research. As a starting point, we have identified those sectors which have greater share in exports and imports. These sectors include textile, textile related sectors, agriculture, leather, processed food, surgical equipment, sugar, fisheries, livestock, plastic and fiber, light and heavy manufacturing, edible oil, cereals, coffee and tea and others. Minerals including fuels are excluded due to their entirely different trade dynamics.

Using lists of Securities and Exchange Commission of Pakistan, Pakistan Stock Exchange, and ministry of commerce we constructed a dataset of companies involved in international trade. Then based on sectoral weights we have selected companies through random sampling. Through this process we were able to get a list of 200 companies. These companies were contacted through telephone and email; survey consent could be taken only from 102 companies. Finally, when interviews started only 71 companies were able to complete the questionnaire and participate in the telephonic interviews.

The questionnaire used to structure the detailed interviews consists of three parts. Part 1 covers the characteristics of the company, number of employees, turnover and share of exports in total sale, share of imports in total raw materials and related questions. Part 2 contains the questions about import and export related activities of the company, details of trading partners and products. Part 3 includes questions about the problems faced due to specific NTMs, government regulations at home, issues related to specific trade and regulatory bodies. Respondents were also allowed to give details of the issues and problems that were not covered in the questionnaire.

Finally, after concluding findings of these interviews, we were able to pinpoint the problems and issues faced by the traders. Business community have lot of concerns about government officials and respective bodies. These issues and grievances were put before the respective officials of Ministry of Commerce, Ministry of Finance, Trade Development Authority of Pakistan, Federal Board of Revenue, PCSIR and Port authorities. Through these discussions we recorded the official stance, some further

problems were also highlighted, and some inefficiencies of trading firms were also reported. In the final stage of survey, detailed discussions were conducted with trade experts in academia and research, problems highlighted by both sides and some supposed remedies were also discussed which helped us frame the recommendations of this paper.