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Understanding the Nature of Pakistan's trade policies and testing their impact on Pakistan's trade performance

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Abstract

In recent years, the debate surrounding free trade versus protectionism has intensified, particularly as industrialized countries face increasing competition from emerging economies. This argument is of particular importance to Pakistan which faces sluggish exports growth alongside a high level of imports, resulting in multiple balance of payments crises. This study quantifies the types of trade-restricting and trade-promoting policies while assessing the depth of these policies. Both the methodology and the results will be shared with policymakers and other stakeholders to contribute to the ongoing discourse regarding the effectiveness of policies aimed at improving Pakistan's trade performance.

This study analyzed Pakistan's trade policies from 2008 to 2022 using the Global Trade Alert (GTA) database, recognized for its comprehensive coverage of crisis-era trade policies. The research evaluated the nature and extent of trade-promoting and trade-restricting policies in Pakistan and empirically tested their impact on the country's export and import performance. The findings reveal that Pakistan employs a diverse range of trade-related industrial policies. For exports, the focus is on tax incentives and tariff reductions, while import policies focus on tariffs and internal taxation. However, the study found that only certain policies significantly affect trade volumes. Import tariffs, for instance, have a notable impact on export growth while internal taxation influences import growth. Interestingly, traditional export financing mechanisms remain largely unchanged over the study period. To improve policy effectiveness, Pakistan should prioritize less administrative measures such as tariff reductions which have shown positive results.

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Additionally, the country should explore new sectors for trade financing to diversify its export base and reduce reliance on traditional industries.

To bolster exports, Pakistan should prioritize effective policies over traditional strategies. The focus should be on subsidizing credit for exporters, expanding successful programs like the State Bank of Pakistan's Temporary Economic Refinance Facility (TERF) scheme, and reducing tariffs on imported inputs. Additionally, the government should direct spending toward export-focused training and infrastructure development. Transition to cleaner energy sources is essential to align with global market demands. Moreover, enhancing demand-side measures by providing trade officers with data-driven export targets, prioritizing high-value export goods in trade agreements, and supporting firms with proven export potential will be crucial. This shift in approach can drive sustainable export growth beyond reliance on currency depreciation.

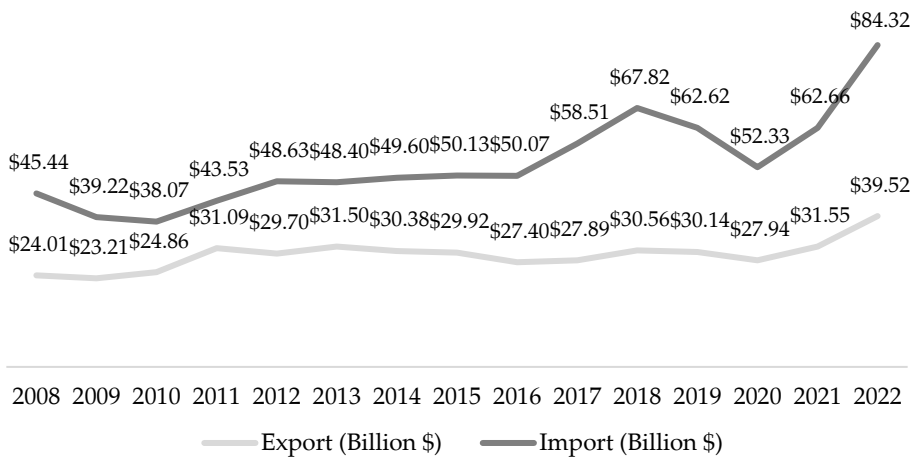
Introduction

International trade theories have evolved significantly over time, each contributing to our understanding of cross-border trade dynamics. Mercantilism, predating Adam Smith, emphasized the necessity of favorable trade balances, by exporting more and importing less. Smith's Absolute Advantage theory (1776), denotes the ability to produce goods or services more efficiently than others. Ricardo's Comparative Advantage theory (1817) refined this concept, arguing that countries have a comparative advantage in producing a good if it can do so at a lower opportunity cost than another country. The Factor Proportion theory, proposed by Ohlin in 1935, posits that a country has a comparative advantage in goods using its abundant factors of production and a disadvantage in goods using scarce factors. Lastly, Product Lifecycle theory by Vernon (1966) suggests that products start in technologically advanced countries but eventually shift production to developing countries due to lower labor costs.

International trade plays a crucial role in improving living standards across nations by facilitating access to essential resources. However, various barriers such as high shipping costs and taxes can impede trade flows. Technological advancements, particularly in information sharing, have significantly eased international trade processes. The benefits of global trade are unevenly distributed. While developed countries reap the biggest share, developing countries account for approximately 41% of trade. In contrast, less developed countries only make up less than 1% of global trade (WTO, 2017, p.5). Trade balance is a critical consideration in international commerce. When a country's imports exceeds its exports, it creates a trade deficit. This imbalance often necessitates borrowing from other nations, potentially compromising the debtor country's autonomy in decision-making.

Pakistan's strategic importance in South Asia is underscored by its significant population, nuclear capabilities, and economic standing. As the world's 25th largest economy, the 70th largest exporting nation, and the 50th largest importer, and the 5th most populous country, Pakistan plays a crucial role in regional and global affairs (CIA World Factbook-2023). However, the nation faces persistent economic challenges, particularly in its international trade balance. In the fiscal year 2022-23, Pakistan's international trade volume reached US$ 80 billion, with exports at US$ 30 billion and imports at US$ 50 billion (SBP-2023). This imbalance has resulted in a substantial trade deficit over the past decade, necessitating urgent attention from economic policymakers. This ongoing deficit has increased Pakistan's reliance on foreign debt, potentially compromising its policy autonomy. Efforts to mitigate such influences are crucial for safeguarding Pakistan's independence and autonomy.

Figure 1: Pakistan's Export and Import



Source: World Bank

Literature Review:

Trade policies play a pivotal role in shaping a country's economic landscape with recent research highlighting the significance of non-tariff measures (NTMs) alongside traditional tariffs. NTMs encompass regulations including quotas, licensing requirements, technical standards, and sanitary and phytosanitary measures. The theoretical framework for industrial policies spans several decades, with contributions from authors like Hirschman (1958), Krugman (1991), Harrison and Rodriguez-Clare (2010), Stiglitz et al. (2013), Liu (2018), and Moll (2019). Earlier empirical studies on industrial policy primarily focused on documenting the effects on industries or countries in terms of output, revenue, and growth rates (Baldwin and Krugman, 1988; Hansen et al., 2003; Head, 1994; Luzio

and Greenstein, 1995; Irwin, 2000). However, more recent research has recognized the importance of assessing impacts on productivity and cross-sector spillovers (Aghion et al., 2015; Lane, 2017).

The literature on trade policies encompasses a wide range of interventions, including export subsidies (Das et al., 2007), R&D subsidies (Hall and Van Reenen, 2000; Bloom et al., 2002; Wilson, 2009), place-based policies targeting disadvantaged geographical areas (Neumark and Simpson, 2015; Criscuolo et al., 2019), and environmental subsidies such as renewable energy subsidies (Yi et al., 2015; Aldy et al., 2018). These studies aim to understand the impacts of different policy interventions on economic outcomes and industrial development. In a study by Hoekman & Nicita (2008), the authors explore indices of trade restrictiveness and facilitation developed at the World Bank. Their analysis reveals that, despite preferential access programs, tariffs and NTMs remain significant sources of trade restrictiveness for low-income countries. Surprisingly, the value of trade preferences is often limited, as many country-pairs share similar degrees of access. Consequently, improving logistics performance and facilitating trade could substantially expand developing country trade, potentially doubling the impact of reducing remaining border barriers. Khandelwal and Atkin (2022) analyze empirical evidence regarding the impact of international trade in developing countries. They explore how trade policies interact with weak institutions, market failures, and firm distortions. This study sheds light on the challenges faced by developing nations and provides insights into potential policy responses to enhance trade effectiveness.

Easson (2001) highlights the value of tax incentives in attracting foreign direct investment (FDI). While developed countries utilize tax incentives to promote exports and research, developing nations employ them primarily to attract FDI and enhance specific sectors or regions. Moreover, Choi et al. (2021) analyze a dynamic growth model to quantify how international trade impacts the long-term growth of emerging economies, emphasizing trade policies. Their model suggests that openness to trade and eliminating trade barriers could boost annual real GDP growth by up to three percentage points over decades. Recognizing the positive relationship between international trade and economic growth is crucial. Newly industrialized economies like Korea, Singapore, China, and Thailand have witnessed rapid growth due to their engagement in global trade. This highlights the importance of effective trade policies and incentives in fostering economic development and attracting investment.

Meltiz (2004) examines the dynamics of infant industries, which operate in a competitive environment and benefit from external dynamic learning effects. In contrast, the foreign industry is mature and produces goods that are imperfect substitutes for domestic products. A government planner can protect the infant industry through domestic production subsidies, tariffs, or quotas to enhance long-term domestic welfare. The study finds that quotas often lead to higher welfare

levels than tariffs. In certain cases, the advantages of quotas can compensate for any government revenue loss associated with quota administration, including scenarios like voluntary export restraints where no revenue is collected. Additionally, quotas may even be preferred over domestic production subsidies in specific situations.

Trade policy continues to play a significant role, particularly when it intersects with other factors like technological advancements. Across various countries, there exists varying degrees of favoritism towards manufacturing industries, often at the expense of primary sectors. Notably, Argentina, Brazil, Chile, Pakistan, and the Philippines offer substantial incentives to manufacturing sectors. However, the extent of such protection varies, with Mexico, Korea, and Taiwan exhibiting relatively less bias. Such policies aim to enhance competitiveness and foster technological progress in manufacturing. However, informed economic decisions necessitate a thorough understanding of trade policy's multifaceted effects considering both short-term protection and long-term industrial development goals (Balassa, 1971).

In their influential paper, "The Effects of Trade Policy," Pinelopi K. Goldberg and Nina Pavcnik (2016) investigate the complex impacts of trade policies on economies, particularly in developing countries. Their analysis reveals that trade liberalization measures, such as tariff reductions and trade agreements, can foster economic growth by enhancing productivity and promoting efficiency gains. However, they also find that these policies may exacerbate income inequality in the short term, particularly affecting low-skilled workers and industries facing import competition. Despite potential distributional challenges, trade liberalization generally benefits consumers through lower prices and increased product variety. Goldberg and Pavcnik stress the importance of implementing complementary policies, such as investments in education and training, to mitigate the adverse effects on vulnerable workers and industries. Their research underscores the nuanced nature of trade policy effects, emphasizing the need for careful consideration of distributional consequences to maximize the benefits of globalization while minimizing its social costs. Overall, their findings indicate that while trade liberalization can drive growth, targeted support is essential for those adversely affected to ensure equitable outcomes.

Studies like Baldwin (2016) and Schiff and Winters (2003) underscore the potential of export subsidies and tax incentives to stimulate export growth, especially in developing countries with limited market access. Conversely, Feenstra (2004) and Knetter (1989) reveal the adverse effects of export restrictions, such as tariffs and quotas, which can distort markets and hinder economic efficiency. These findings emphasize the nuanced effects of policy interventions and stress the importance of strategic policy design to maximize economic benefits while mitigating potential drawbacks. Research by Rodriguez and Rodrik (2001) and Dixit and Stiglitz (1977) emphasize the potential benefits of import substitution policies in

fostering domestic industrial development and reducing reliance on foreign goods. However, studies by Bown (2011) and Broda and Weinstein (2006) highlight the detrimental effects of import restrictions, such as tariffs and quotas, which can raise consumer prices, limit product variety, and hinder economic efficiency. Together, these findings underscore the need to consider the nuanced implications of import policies for overall economic welfare and industrial competitiveness.

Data:

To create indicators for industrial policy practices, we rely on detailed textual information describing economic policies. Our approach involves utilizing the Global Trade Alert (GTA) database, which offers comprehensive data on commercial policies dating back to 2008 and continuing to the present.

The GTA initiative is ambitious in its scope, drawing on an international network of policy experts to identify government policies and credible announcements that prioritize domestic interests over foreign commercial interests (Evenett and Fritz, 2020a). Since its establishment in 2008, the GTA project has aimed to capture a wide range of measures, including detailed textual descriptions of these policies.

The GTA database, is arguably the most comprehensive collection of non-tariff measures available (Evenett, 2019) offering extensive coverage comparable to established projects from multilateral institutions such as the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization's (WTO). Its independence from country reporting compliance is a significant advantage.

The GTA database categorizes interventions into various types, including import tariffs and antidumping policies. Each country implements different state acts within these intervention types. In our analysis, we will focus on these intervention types and state acts, dividing them based on export or import policies. We will analyze data from 2008 to 2023, which consists of 8,414 observations for Pakistan, further divided between export and import policies. This extensive dataset allows for a detailed examination of Pakistan's trade policy interventions over time.

Figures 2.1 and 2.2 show the cumulative intervention types in descending order for the top 10 intervention types, based on number of state acts in each intervention type and recorded instances. Based on the dataset, import tariff emerges as the major industrial policy used by Pakistan, consisting of 216 state acts implemented 2,904 times. This finding is consistent with existing literature. Based on the number of state acts, anti-dumping policy ranks second, with 184 implementations. However, when examining recorded instances, tax-based export incentives emerge as the second most common policy, implemented 1,979 times. For this reason, our analysis

will focus on the recorded instances which provides more accurate representation of policy implementation. Figure 1.1 to 1.16 and 2.1 to 2.16 in appendix A illustrate the yearly state acts and recorded instances for each intervention type. We can observe from the yearly data that the types of industrial policies being used by Pakistan has increased over the years, so has the recorded instances for these policies. Since 2017, import tariff and tax-based export incentives have been the top two policies implemented.

The National Tariff Policy (NTP) in Pakistan recognizes the importance of imposing import tariffs to foster industrial development, enhance export growth, and improve competitiveness. Historically, tariff liberalization led to significant export expansion, with applied weighted mean tariffs decreasing from 23.1% to 8.9% between FY2000 and FY2014. However, recent trends indicate a reversal of tariff liberalization, resulting in reduced exports. While import tariffs serve resource allocation and revenue purposes, excessive tariffs can hinder industry competitiveness and create an anti-export bias.

Figure 2.1: Intervention type by number of state act (2008 to 2023)

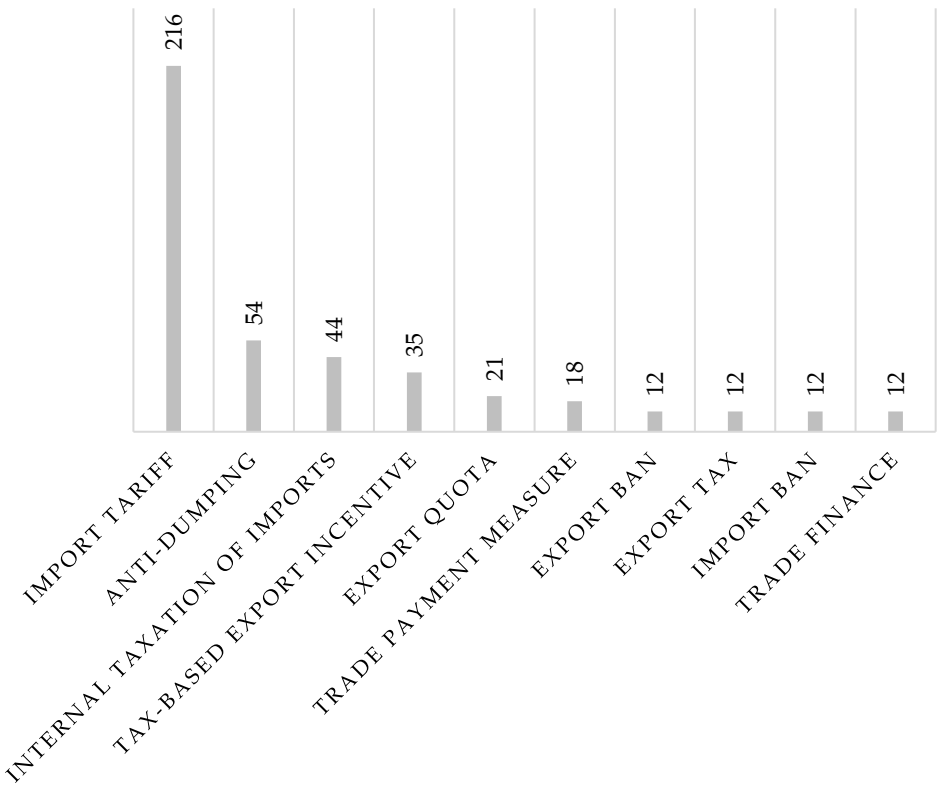
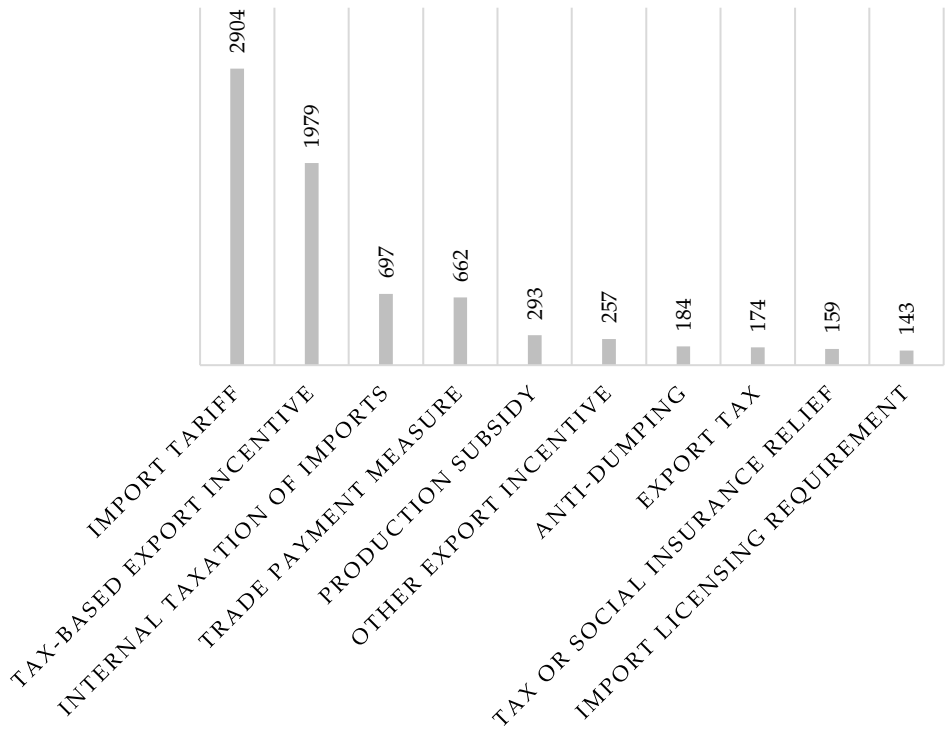


Figure 2.2: Intervention type by recorded instances (2008 to 2023)



Categorization of data

Our data analysis comprises a two-stage categorization process to examine Pakistan's trade policies. The first stage differentiates interventions into export or import policies, allowing us to quantify their implementation over time. The second stage involves a more detailed classification, assessing whether these policies promote or restrict trade. This approach involves carefully evaluating each state act to determine its impact on trade dynamics. By doing so, we gain valuable insights into how implemented policies affect our overall trade performance. Table 1 shows some examples of export/import promoting or restricting policies.

Table 1: Categorization of data

Intervention Type	State Act	Export/Import	Promoting/Restricting
Tax-based export incentive	Pakistan: Duty drawback rates increased for certain textile products	Export	Export Promoting
Other export incentive	Pakistan: Incentive on machinery purchase for SMEs and export sectors	Export	Export Promoting
Export quota	Pakistan: Export ban on sugar replaced with quota	Export	Export Restricting
Export tax	Pakistan: Regulatory duty imposed on exports of molasses	Export	Export Restricting
Import tariff	Pakistan: Increased depreciation allowance on customs duty when importing used cars	Import	Import Promoting
Import quota	Pakistan: Temporary sugar import quota announced with a reduction of internal taxes	Import	Import Promoting
Import ban	Pakistan: Import ban on CNG cylinders and conversion kits	Import	Import Restricting
Import tariff	Pakistan: Regulatory duty increased on several products (October 2017)	Import	Import Restricting

Figure 3.1 shows the recorded instances of the export policies being implemented by Pakistan, with tax-based export incentives as the major policy, followed by other export incentives. A tax-based export incentive refers to government programs designed to encourage businesses to engage in exporting certain types of goods or services. These incentives typically involve tax benefits aimed at reducing the cost of exporting, making products more competitive in international markets. As for import policies, Figure 3.2 indicates that the major policy is import tariffs, followed by internal taxation of imports.

Figure 3.1 Export Policies (Recorded Instances) (2008 to 2023)

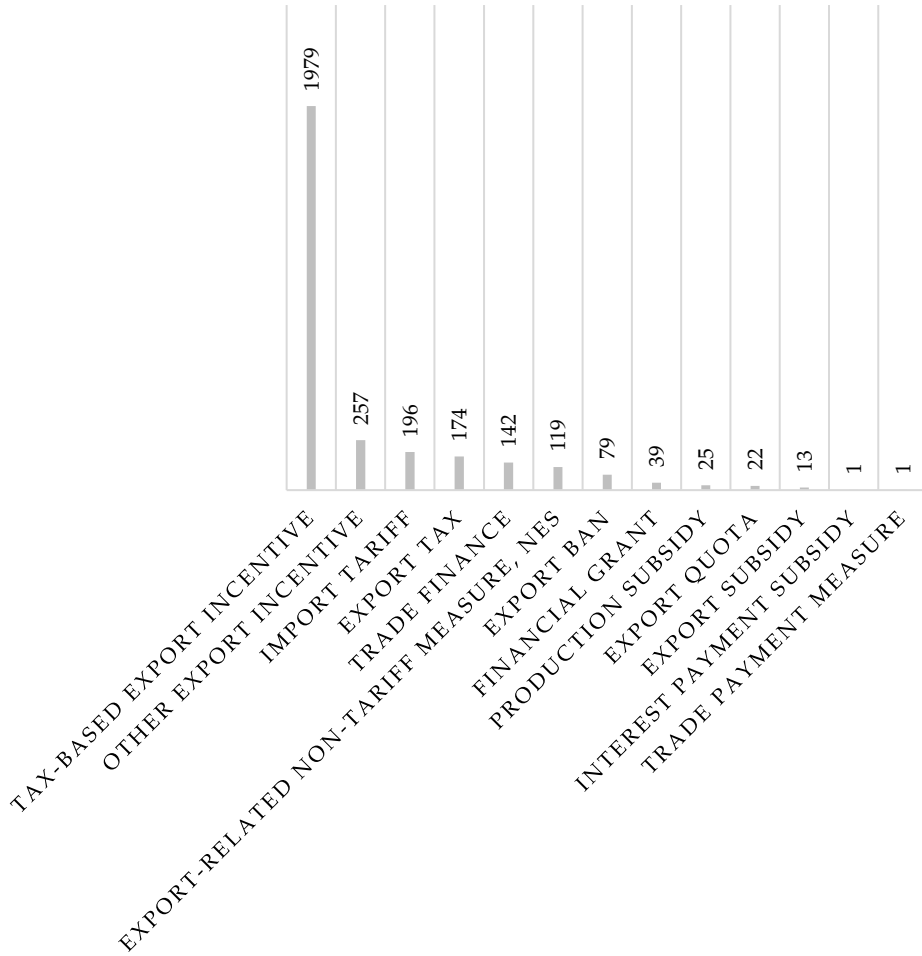
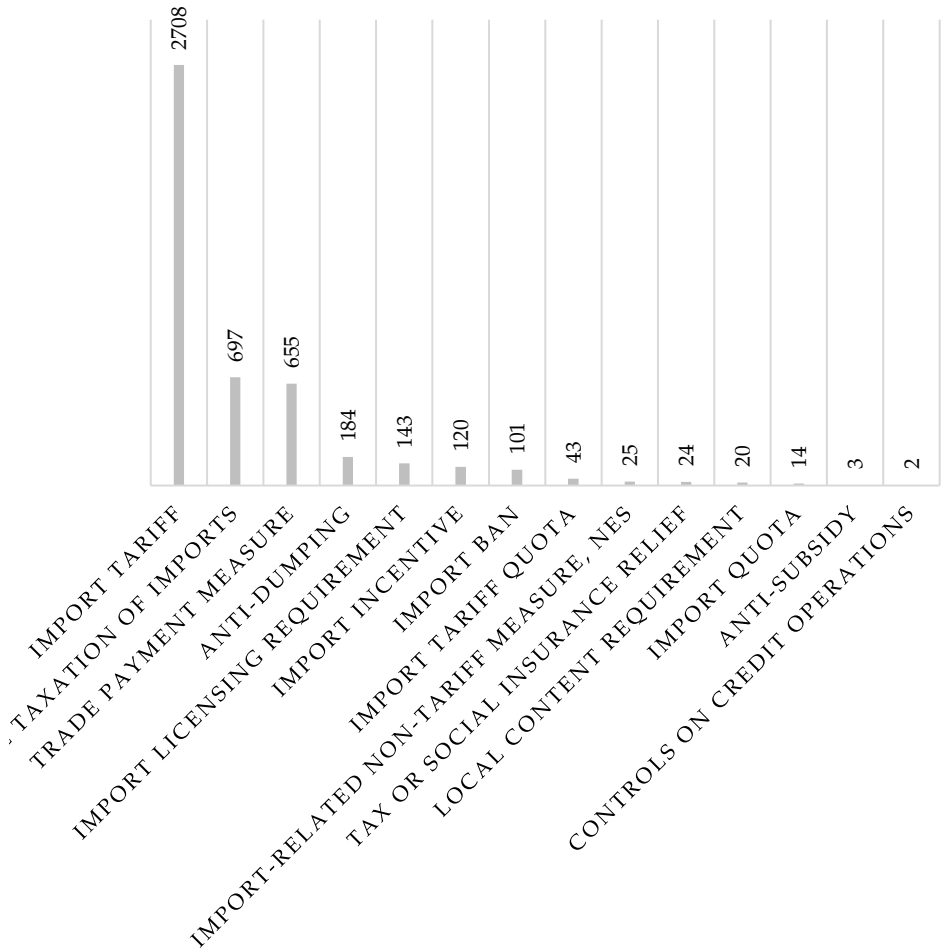


Figure 3.2 Import Policies (Recorded Instances) (2008 to 2023)



Data Descriptives:

The table consists of number of state acts implemented by intervention type for export/import promoting and restricting policies. For import tariffs, there are 187 state acts in total. Among these, 96 are categorized as import promoting polices, while 83 are categorized as import restricting policies.

Table 2: Intervention Type by Policy

	Intervention Type (Recorded Instances in brackets)	Number of State Acts Implemented	EP	ER	IP	IR
1	Anti-dumping (184)	54	0	0	15	39
2	Anti-subsidy (3)	2	0	0	1	1
3	Controls on credit operations (2)	2	0	0	2	0
4	Export ban (77)	11	2	9	0	0
5	Export quota (21)	21	16	5	0	0
6	Export subsidy (13)	8	4	4	0	0
7	Export tax (136)	11	3	8	0	0
8	Export-related non-tariff measure, nes (119)	6	3	3	0	0
9	Financial grant (39)	1	1	0	0	0
10	Import ban (99)	11	0	0	0	11
11	Import incentive (34)	1	0	0	1	0
12	Import licensing requirement (143)	5	0	0	5	0
13	Import quota (14)	7	0	0	7	0
14	Import tariff (2398)	187	9	0	96	83
15	Import-related non-tariff measure, nes (24)	7	0	0	5	2
16	Interest payment subsidy (1)	1	1	0	0	0
17	Internal taxation of imports (559)	35	0	0	23	12
18	Local content requirement (20)	1	0	0	1	0
19	Other export incentive (257)	8	8	0	0	0
20	Production subsidy (25)	1	0	1	0	0
21	Tax or social insurance relief (24)	1	0	0	1	0
22	Tax-based export incentive (1979)	35	30	5	0	0
23	Trade finance (142)	12	12	0	0	0
24	Trade payment measure (656)	17	1	0	9	7

The following table shows the specificity of state acts implemented under various policy types. Sector specific, SME or state controlled. For import tariffs, 14 state acts are sector-specific, while 16 all under all of the mentioned policy types. Notably, the majority of the state acts are not specifically targeted at firms, locations, or sectors.

Table 3:

		State Acts that are: (Recorded Instances in Brackets)					
	Intervention Type	**ALL**	**Firm Specific**	**Location Specific**	**Sector Specific**	**SMEs**	**State Controlled**
1	Anti-dumping	1 (1)	1	0	0	0	0
2	Anti-subsidy	0	0	0	0	0	0
3	Controls on credit operations	1 (1)	1	0	0	0	0
4	Export ban	0	0	0	0	0	0
5	Export quota	1 (1)	1	0	0	0	0
6	Export subsidy	0	0	0	0	0	0
7	Export tax	0	0	0	0	0	0
8	Export-related non-tariff measure, nes	0	0	0	0	0	0
9	Financial grant	0	0	0	0	0	0
10	Import ban	0	0	0	0	0	0
11	Import incentive	0	0	0	0	0	0
12	Import licensing requirement	0	0	0	0	0	0
13	Import quota	1 (1)	1	0	0	0	0
14	Import tariff	16 (270)	1 (9)	1 (9)	14 (252)	0	0
15	Import-related non-tariff measure, nes	0	0	0	0	0	1
16	Interest payment subsidy	0	0	0	0	0	0
17	Internal taxation of imports	3 (70)	2 (67)	0	1 (3)	0	0
18	Local content requirement	0	0	0	0	0	0
19	Other export incentive	1 (1)	1	0	0	0	0
20	Production subsidy	0	0	0	0	0	0
21	Tax or social insurance relief	0	0	0	0	0	0
22	Tax-based export incentive	0	0	0	0	0	0
23	Trade finance	0	0	0	0	0	0
24	Trade payment measure	1 (40)	0	0	1 (40)	0	0

Export Policies

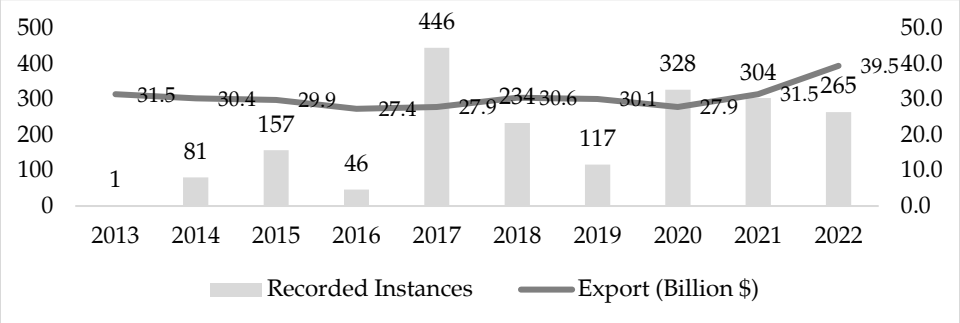
By analyzing the top five policies separately along with the Pakistan's exports, we do see some impact on exports for certain policies. Figures 4.1 to 4.5 show the data for these policies.

Tax-Based Export Incentive

The graph illustrates the trend of Tax-Based Export Incentives from 2013 to 2021. It showcases the relationship between recorded instances of these incentives and the total export value (in billions) over the specified years. By analyzing this data, we

gain insights into the effectiveness of tax incentives in promoting exports and their impact on overall trade performance. We can also observe that tax-based export incentives were used as an industrial policy after 2013.

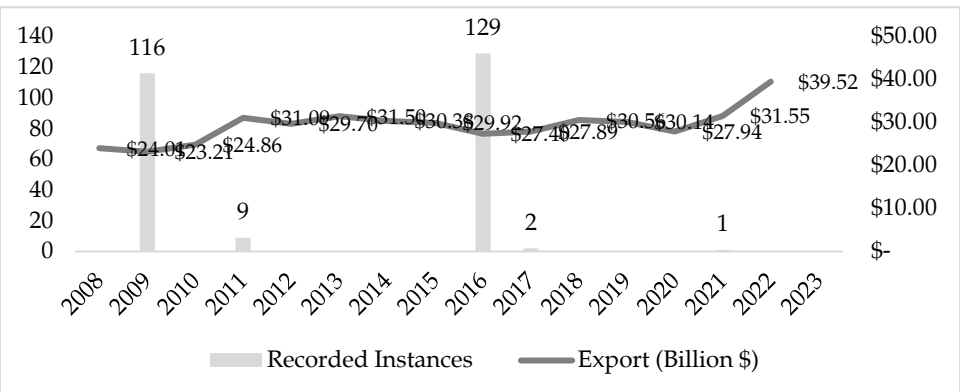
Figure 4.1 Tax – Based Export Incentive



Other Export Incentives

The upward trend reveals a positive correlation between recorded instances of export incentives and export values. As the number of export incentives increases, there is a corresponding rise in export values, highlighting the effectiveness of these policies. These incentives, including tax breaks, duty exemptions, export credit subsidies, and export processing zones, play a crucial role in supporting economic growth, maintaining competitiveness, and stimulating overall development.

Figure 4.2 Other Export Incentive

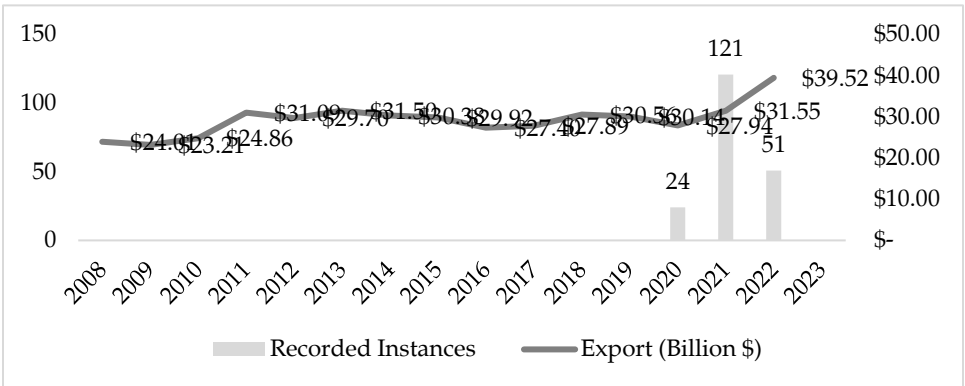


Import Tariff for exports.

This visual representation highlights the positive correlation between increased import tariffs and rising export values, emphasizing the impact of tariffs on exports.

An example of a state act for this policy is Pakistan's duty drawback amended on the exports of pharmaceutical products which was implemented to support the export sector by reimbursing customs duties on exported goods, thereby enhancing competitiveness in international markets.

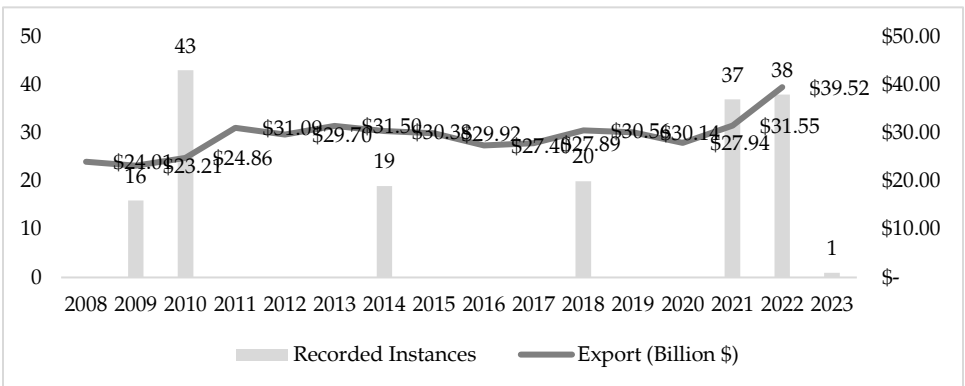
Figure 4.3 Import Tariff



Export Tax

Export taxes have not been implemented continuously over the years. The highest recorded instance for this policy was 43 in 2010, followed by 38 in 2022. From the graph, we can see that the increase in export taxes leads to a somewhat increased value of exports, suggesting that while export taxes can create revenue for the government, they may also influence export dynamics by affecting the pricing and availability of goods in international markets.

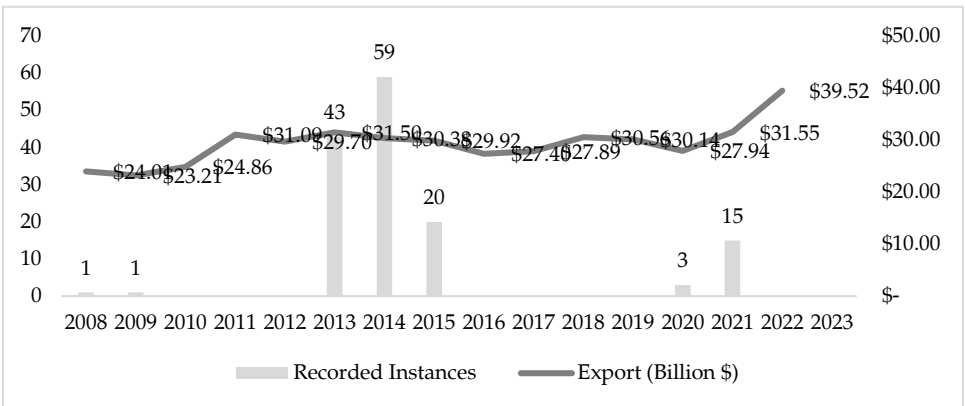
Figure 4.4 Export Tax



Trade Finance

Trade finance represents the financial instruments and products used by companies to facilitate international trade and commerce. It acts as a bridge between importers and exporters, ensuring smooth transactions. By introducing a third party, trade finance mitigates payment and supply risks. Exporters receive receivables or payment according to the agreement, while importers may be extended credit to fulfill trade orders. Various parties, including banks, trade finance companies, insurers, and export credit agencies, participate in trade finance. Unlike conventional financing, trade finance is tailored to address unique risks associated with international trade, such as currency fluctuations, political instability, non-payment issues, and creditworthiness. From the table, we cannot determine any relationship between trade finance and the export value. However, over the years, the use of trade finance as a policy for trade has reduced.

Figure 4.5 Trade Finance

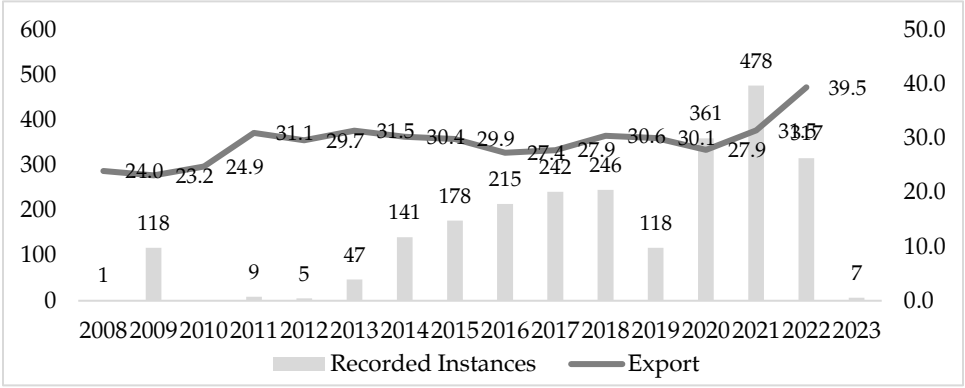


Export Promoting Policies

Export-promoting policies, including subsidies and tax incentives, play a crucial role in driving export growth and enhancing economic competitiveness. These measures aim to stimulate exports, particularly in developing economies, by reducing costs and incentivizing businesses to enter foreign markets. Additionally, trade agreements provide valuable frameworks for expanding market access and reducing trade barriers, thereby facilitating export-led growth strategies.

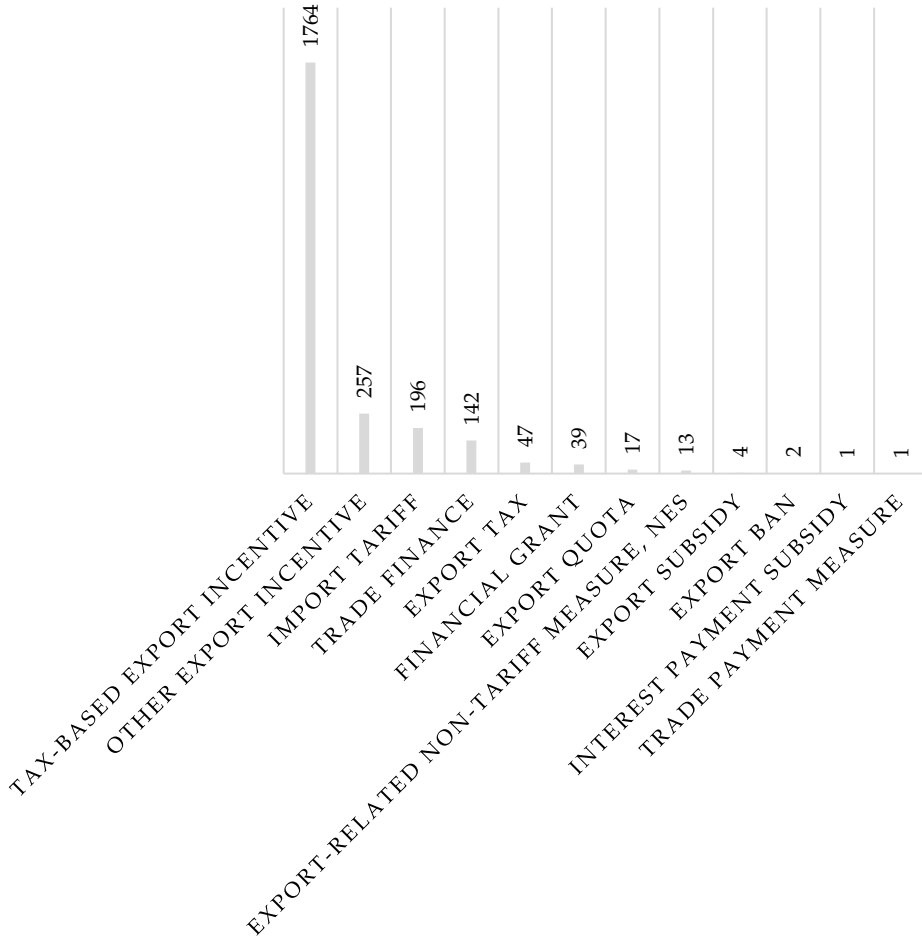
The following figure shows the recorded instances of the export-promoting policies on a yearly basis. If we compare it with the export values for Pakistan, we do see a relationship between the exports and the recorded instances in the recent years.

Figure 5.1: Export Promoting Policies (Yearly)



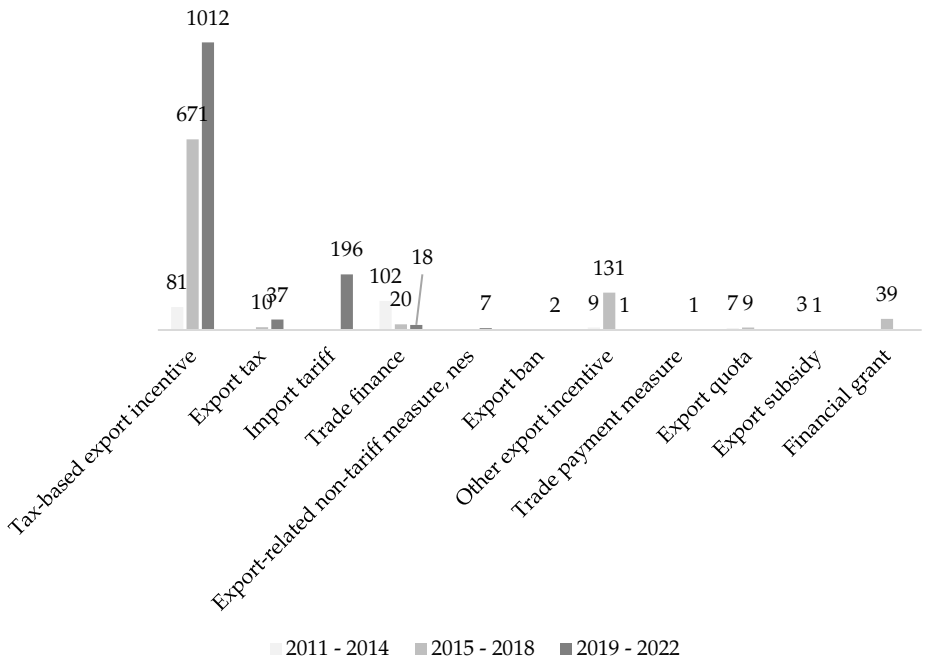
The most common export promoting policy used by Pakistan is tax-based export incentive, followed by other export incentives. Tax-based export incentives are frequently employed by developing countries as a key export promotion policy. Research by Schiff and Winters (2003) underscores the effectiveness of export tax incentives in stimulating export growth, particularly in economies with limited market access.

Figure 5.2: Export Promoting policies.



To analyze what type of policies have been used in different time periods we have divided the years into three brackets: 2011 to 2014, 2015 to 2018 and 2019 to 2022. By using these backets, we observe that the use of tax-based export incentives and export taxes as policy measures has become more popular over the years. While the use of import tariffs as an export-promoting policy has gained popularity in recent years. In contrast, other policies mentioned in the figures have been used occasionally, with a relatively low number of implementations.

Figure 5.3: Export Promoting Policies (Time Bracket)



Export Restricting Policies

Export-restricting policies are governmental measures designed to limit or control the export of certain goods or services from a country. These policies can take various forms, such as tariffs, quotas, or outright export bans, and are typically implemented for reasons ranging from protecting domestic industries to ensuring food security or managing natural resources. Importantly, while export restrictions may provide short-term benefits for specific sectors or objectives, they can also have broader economic implications, including trade disruptions, reduced competitiveness, and potential retaliation from trading partners. As such, careful consideration of the trade-offs involved is necessary when implementing export-restricting policies.

The following figure shows the export-restricting policies on a yearly basis along with the export value for Pakistan. It appears that there is no relationship between the export-restricting policies and the export value. The major amount of export-restricting policies that were implemented occurred in 2017. Referring to Figure 5.4, we can see that the most common types of export-restricting policies implemented by Pakistan are tax-based export incentives and export-related non-tariff measures.

Figure 5.4: Export Restricting Policies (Yearly)

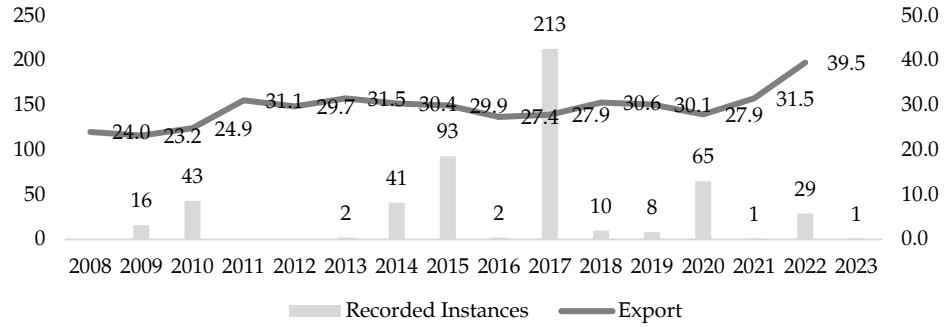
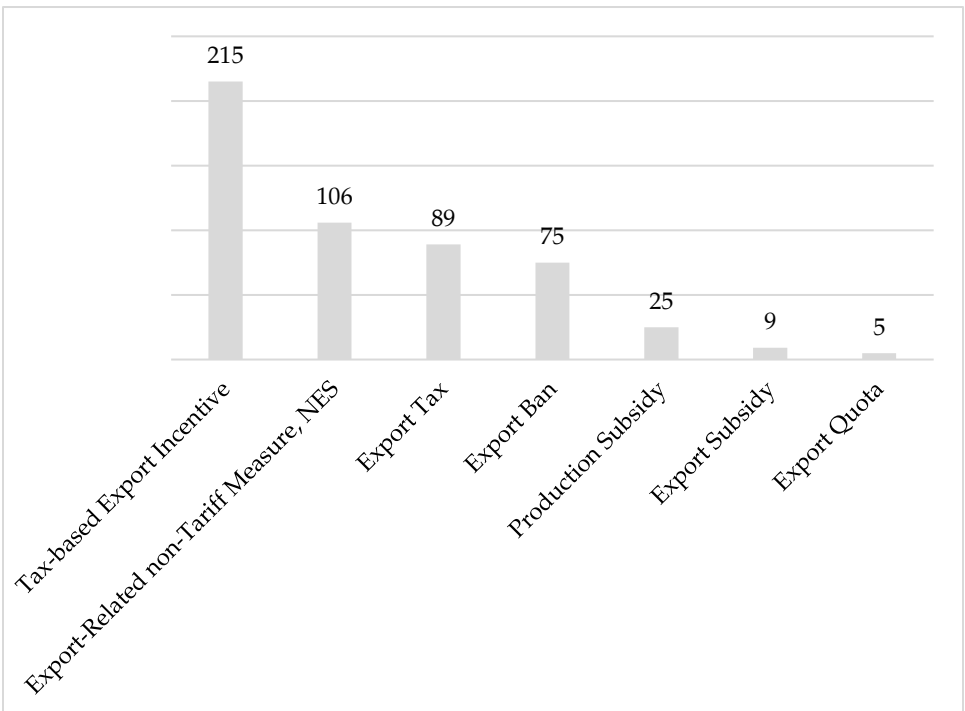
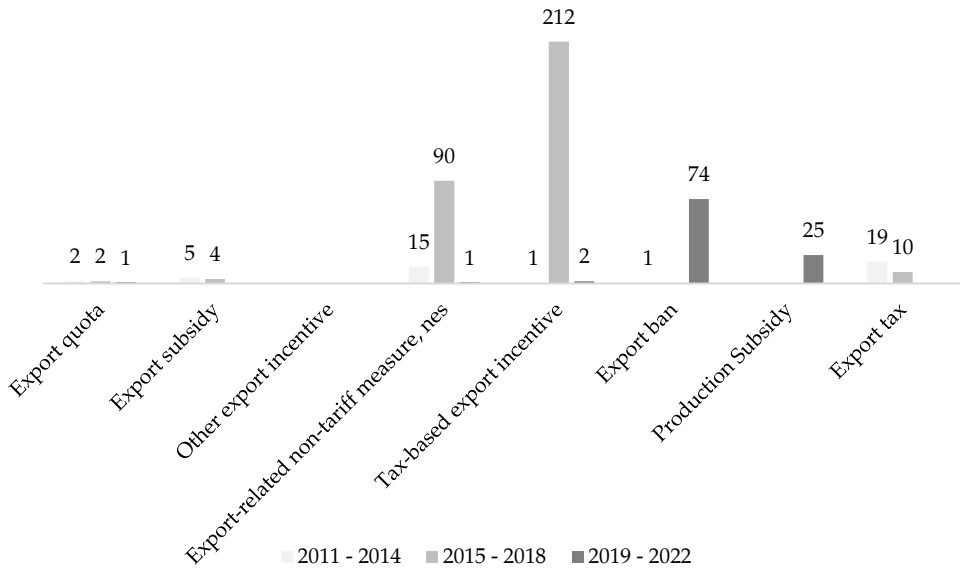


Figure 5.5: Export Restricting Policies



Dividing the data into three brackets, we can conclude that major export-restricting policies were implemented between 2015 to 2018. During the time bracket of 2019 to 2022, the major policies implemented were export ban and production subsidies.

Figure 5.6: Export Restricting Policies (Time Bracket)



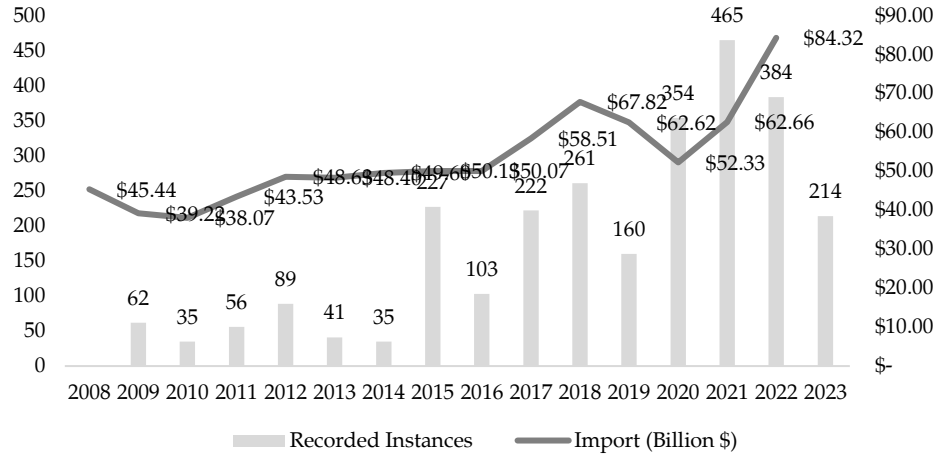
Import Policies

By analyzing the top five policies separately along with Pakistan's imports, we see some impact on the imports for certain policies. Figures 6.1 to 6.5 illustrate the data for these policies.

Import Tariff

Import tariff has been used in Pakistan as a policy measure since 2009, with fluctuations in the recorded instances over the years. However, it has recently gained momentum.

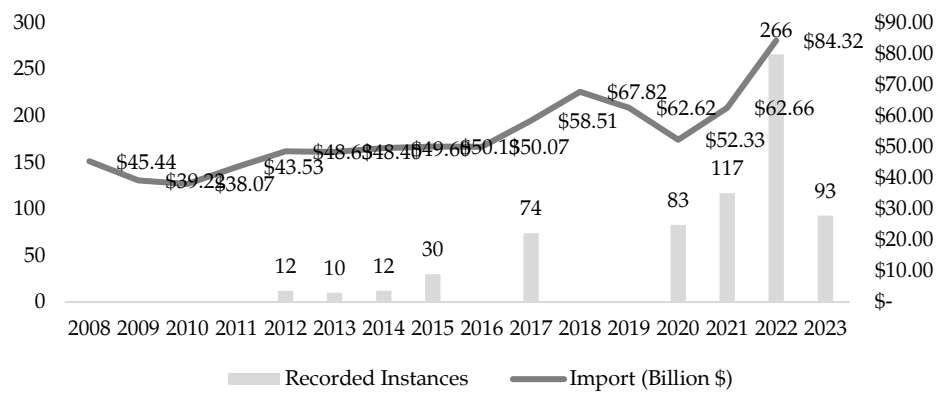
Figure 6.1 Import Tariff



Internal Taxation of Imports

Internal taxation of imports refers to taxes or charges levied within a country's borders specifically on imported goods. These taxes impact the cost and competitiveness of imported products in the domestic market. Article III of the General Agreement on Tariffs and Trade (GATT) ensures that imported goods are not subject to discriminatory treatment compared to domestic products. It prohibits using internal taxes or charges to protect domestic production, emphasizing fairness and non-discrimination in international trade agreements. The use of internal taxation of imports as a policy measure has increased over the recent years.

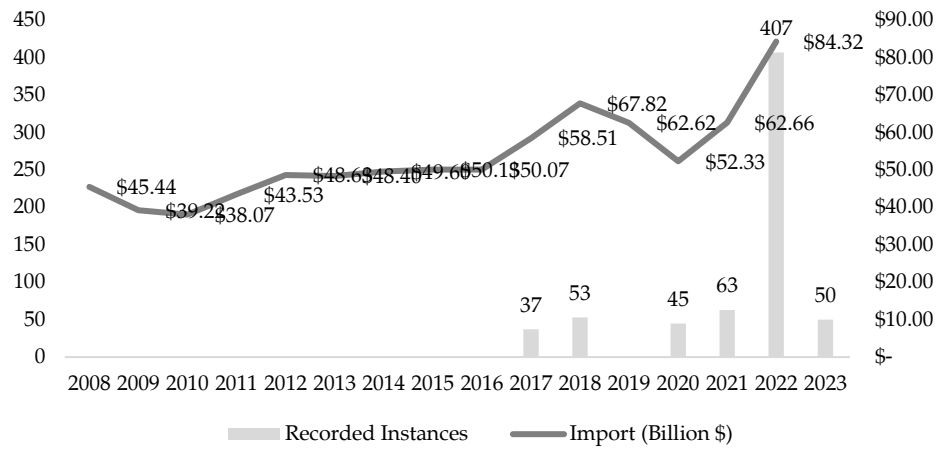
Figure 6.2 Internal taxation of imports



Trade Payment Measure

From the illustration, we can imply that as the trade payment measures increase, the import value of Pakistan also increases.

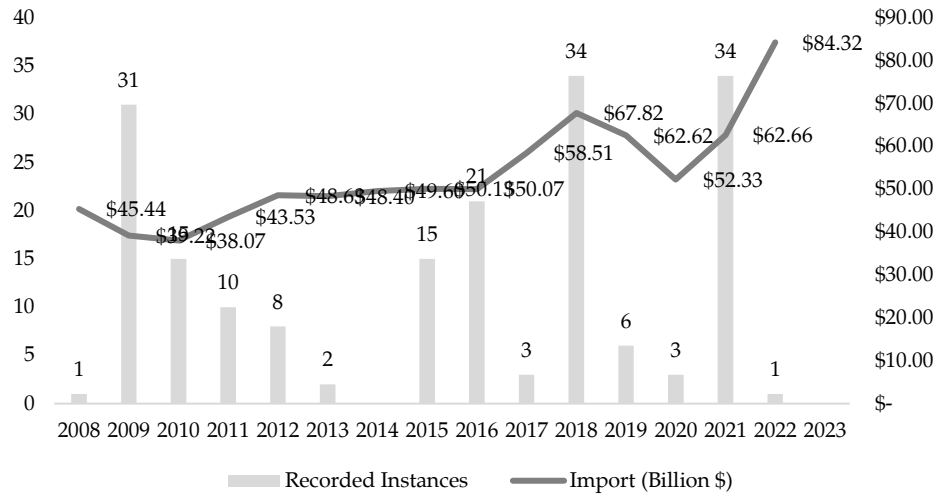
Figure 6.3 Trade Payment Measure



Anti-dumping

Anti-dumping duties are protectionist tariffs imposed by a domestic government on foreign imports believed to be priced below fair market value. The process of dumping occurs when a company exports a product at a significantly lower price than it normally charges in its home market. The rationale behind anti-dumping duties is to protect the domestic economy by preventing products from undercutting local businesses and the overall economy. However, these tariffs can also lead to higher prices for domestic consumers. There is considerable fluctuation in the imposition of anti-dumping policies.

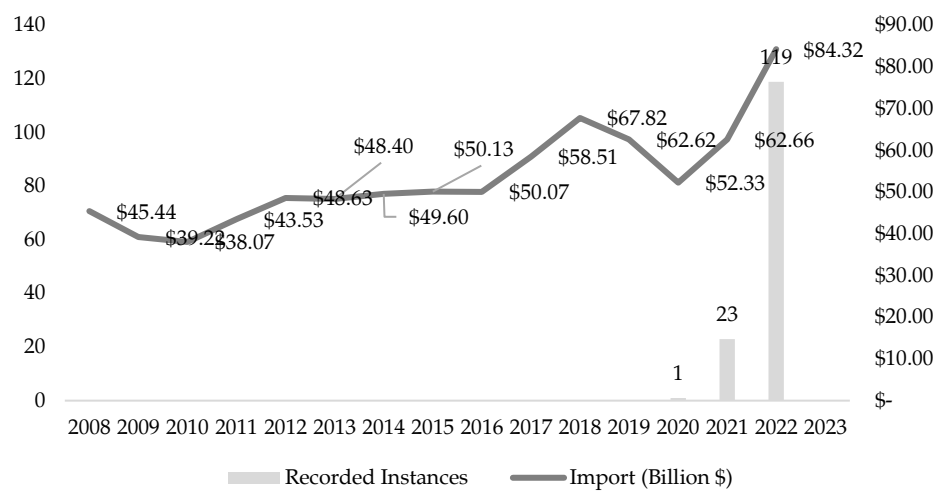
Figure 6.4 Anti-dumping policies



Import Licensing Requirement

From the graph, we can assess that import licensing requirement has been used as a policy measure quite recently.

Figure 6.5 Import Licensing Requirement



Import Promoting Policies

Import-promoting policies are strategies employed by governments to encourage and facilitate the import of goods and services into a country. These policies aim to enhance economic efficiency, promote consumer choice, and stimulate domestic industries by providing access to foreign inputs, technologies, and resources. Import-promoting measures can include tariff reductions, import quotas, free trade agreements, and streamlined customs procedures. By lowering barriers to imports, governments seek to promote competition, drive innovation, and improve the availability and affordability of goods for consumers.

Import-promoting policies are often implemented as part of broader trade liberalization efforts aimed at integrating economies into the global marketplace and maximizing welfare gains from international trade. The figure below shows the number of recorded instances for import promoting policies over the years alongside the import value of Pakistan. We observe a relationship between the recorded instances and import value.

Figure 7.1: Import Promoting Policies (yearly)

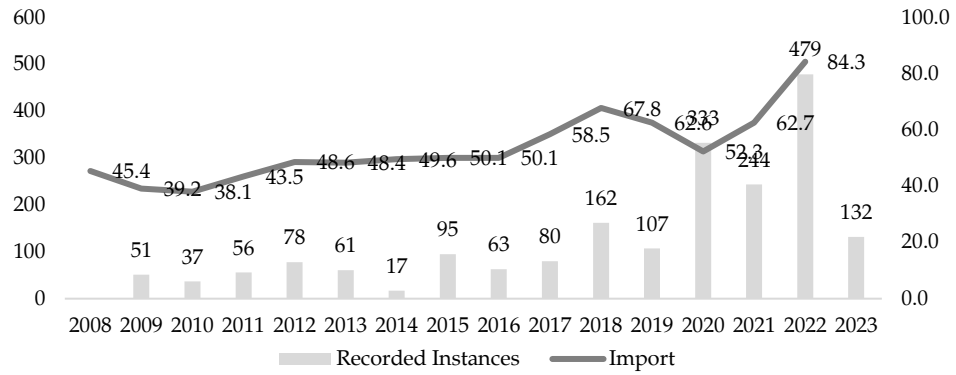
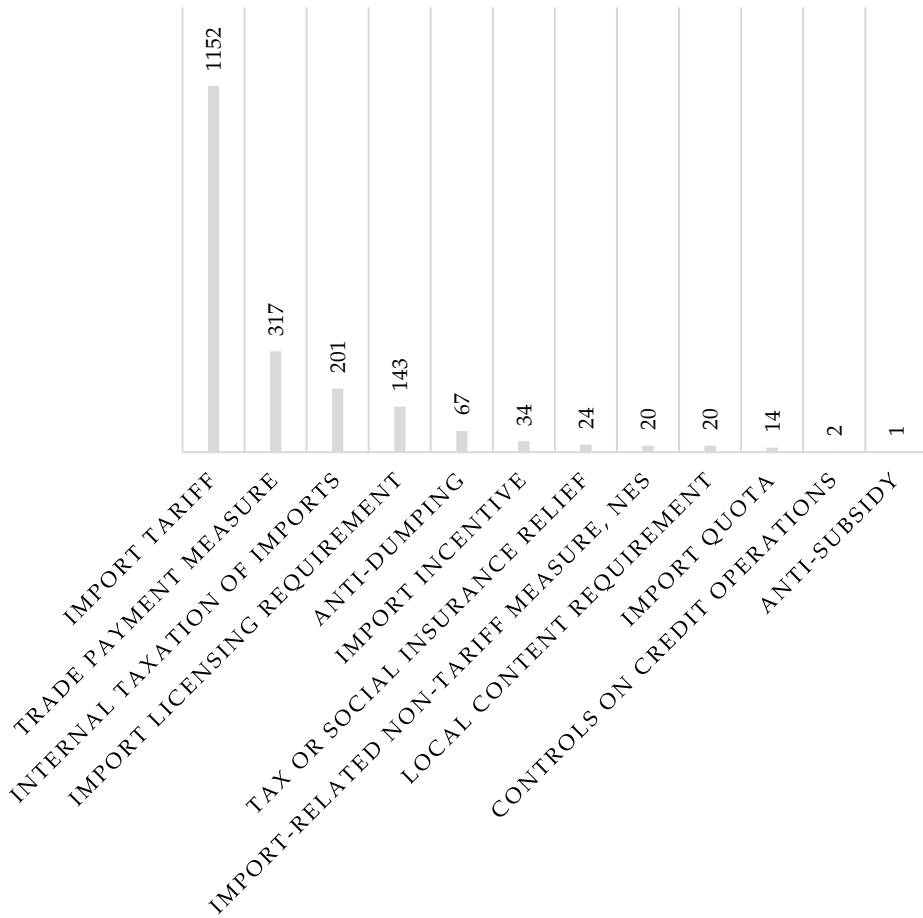
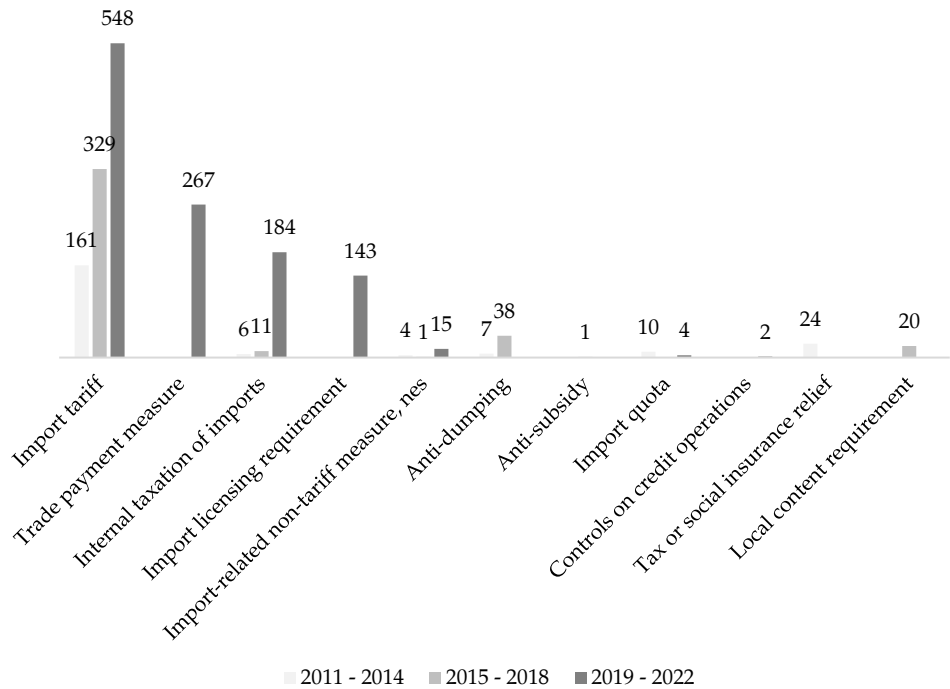


Figure 7.2: Import Promoting Policies



The figure below shows that the use of import tariffs as a policy measure has increased over the years. During the period from 2019 to 2022, new import promoting policies have been implemented extensively, including trade payment measuress, internal taxation of imports and import licensing requirements.

Figure 7.3: Import Promoting (Time Bracket)



Import Restricting Policies

Import-restricting policies are government interventions designed to limit or control the inflow of foreign goods and services into a country. These policies are implemented through various measures such as tariffs, quotas, import licensing requirements, and trade embargoes. Import restrictions are often motivated by the desire to protect domestic industries from foreign competition, safeguard national security interests, or address trade imbalances.

However, while import restrictions may provide short-term relief for domestic producers, they can also lead to higher prices for consumers, reduced product variety, and inefficiencies in resource allocation. Moreover, import restrictions may provoke retaliation from trading partners and hinder overall economic growth by disrupting global supply chains. Therefore, policymakers must carefully consider the trade-offs involved in implementing import-restricting policies to ensure they align with broader economic objectives and international trade obligations.

From the graph below, we can see that during recent years, the use of import restriction policies has increased. We also observe a lag effect in the imposition of these policies.

Figure 7.4: Import Restricting (Yearly)

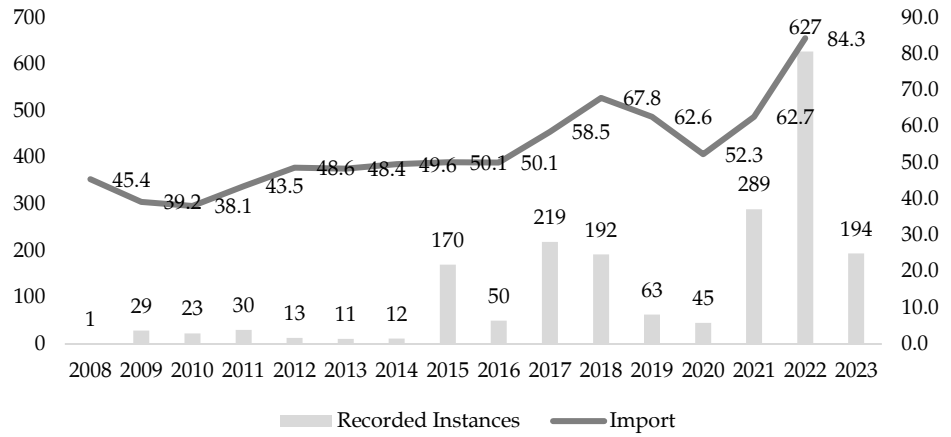
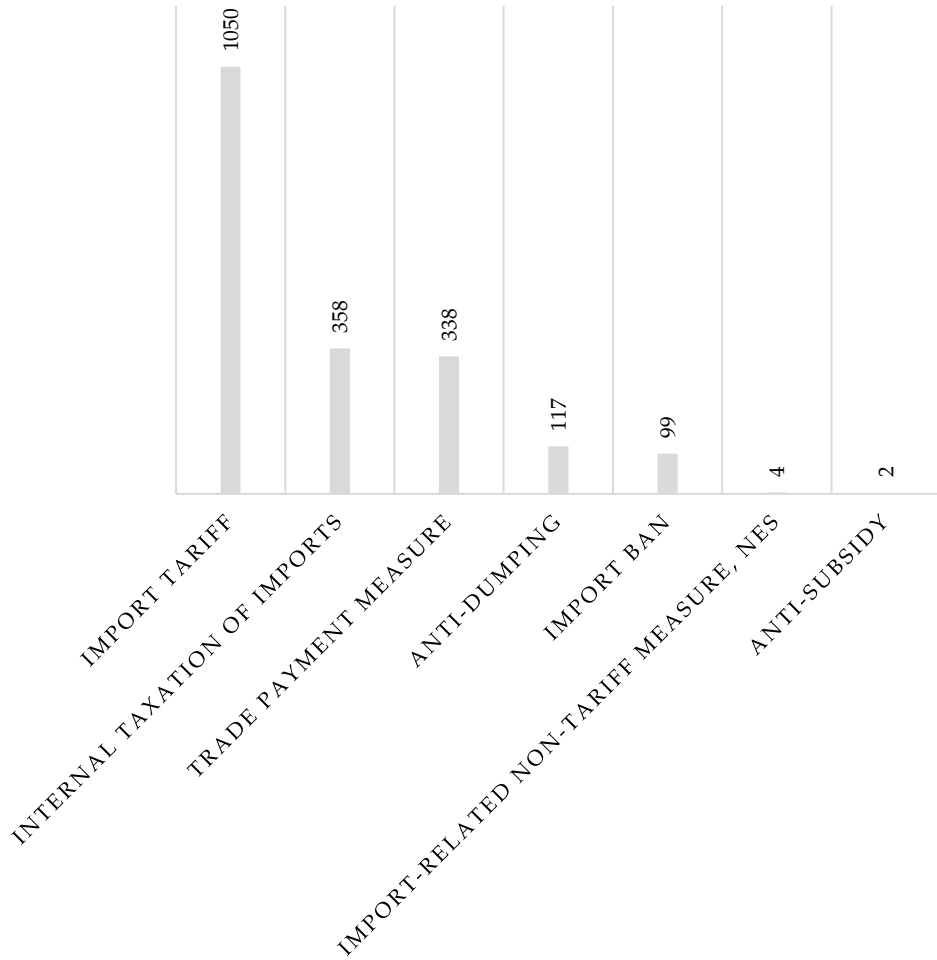
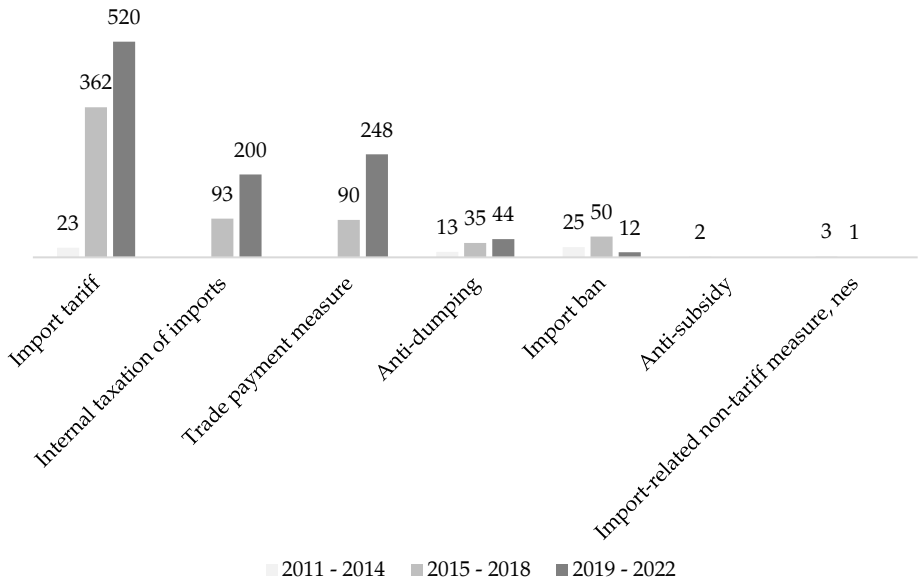


Figure 7.5: Import Restricting



The use of import tariff, internal taxation of imports and trade payment measure as an import restriction policy measure has increased drastically during 2019 to 2022.

Figure 7.6: Import Restricting (Time Bracket)



Recommendation:

Rationalizing Import Tariffs:

The existing tariff system in Pakistan is perceived as restrictive and unfavorable to economic expansion, particularly for industries that depend on imported capital goods and raw materials. High tariffs on these essential inputs increase production costs, reducing the competitiveness of local products in the international market. To prevent unforeseen market disruptions and allow industries sufficient time to adjust to new competitive conditions, a progressive reduction plan with predetermined timetables is proposed to systematically lower these tariffs. This policy should concentrate on lowering tariffs in a manner that is consistent with Pakistan's larger economic strategy, ensuring that tariff reductions support the expansion of industries deemed strategically important to national interests,

Promoting Export-Oriented Industrial Policies

Pakistan has to find and invest in industries with a significant comparative advantage or great potential for value addition if it wants to develop a strong export industry. For instance, Pakistan's agricultural and textile industries have long been its mainstays, but they now need to be modernized and integrated into international value chains. By offering targeted assistance, such as financial incentives for research and development, subsidies for adopting cutting-edge technologies, and special

economic zones with amenities and regulatory frameworks catered to these industries' requirements, the government can promote the growth of these sectors. Pakistan may boost its export numbers and trade balance by fostering an atmosphere that encourages industry growth.

Enhancing Export Incentives

Providing Pakistan with export incentives that work is essential for improving its trade performance. To assist exporters more effectively, existing programs like tax breaks and the Duty Drawback Scheme should be improved and expanded. For example, simplifying the process for exporters to claim duty deductions would encourage more participation in this incentive and lower their operating costs. Additionally, direct subsidies for technological advancements could help local producers meet international standards and enhance their competitiveness in global markets. Such incentives not only support current exporters but also attract new ones, making the export industry more vibrant.

Strengthening Trade Facilitation Measures

The main goal of trade facilitation measures is to increase the effectiveness and streamline the import and export procedures. The current logistical constraints impeding Pakistan's trading potential might be greatly reduced by improving port facilities and customs efficiencies. Modern methods for cargo handling and customs clearance can cut down on the time that items spend in transit, thereby reducing expenses and enhancing supply chain predictability. The efficiency of trade procedures can be further improved by using international best practices and providing customs officials with training. These upgrades are essential for increasing Pakistan's appeal as a trading partner and enabling easier market access and departure.

By addressing these areas comprehensively, Pakistan can develop a trade environment that is not only conducive to growth but also resilient enough to adapt to global economic changes. This strategic approach to trade policy can help Pakistan capitalize on its geographic and economic strengths, turning the challenges of today's global trade environment into opportunities for growth and development.

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Appendix A

Number of state acts and recorded instances by intervention type on a yearly basis

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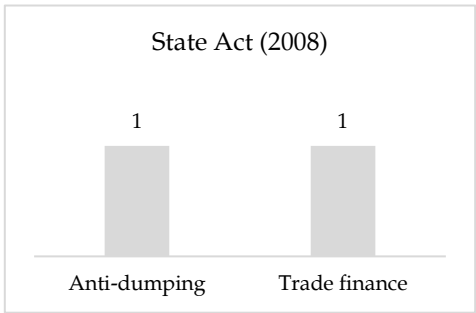
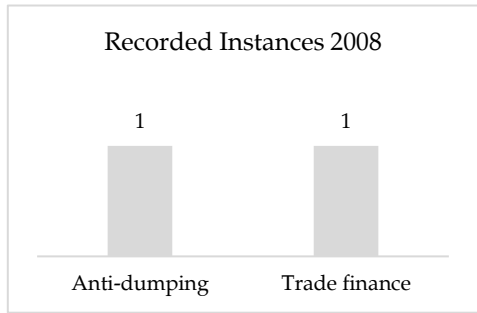


Figure 2.1



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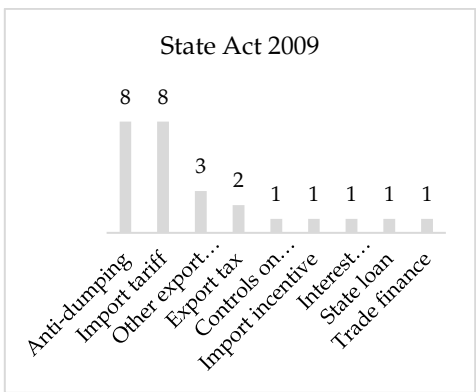

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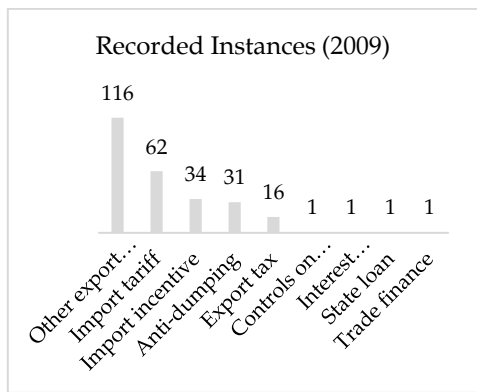
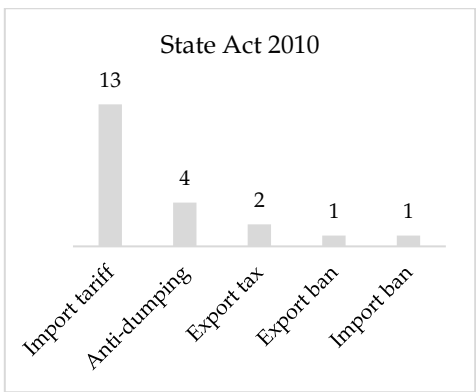


Figure 1.3



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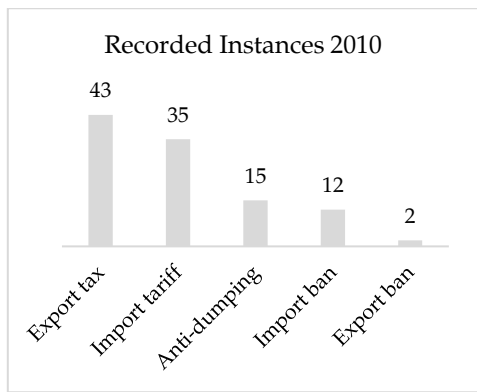

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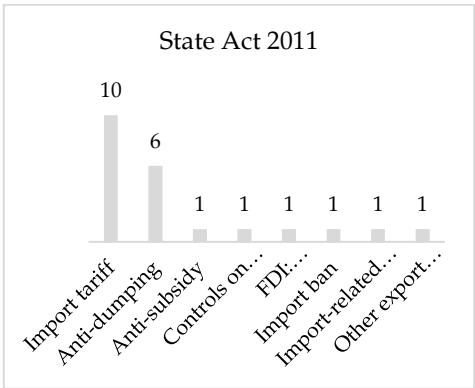

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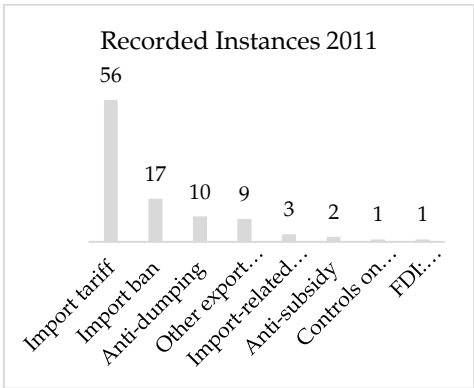

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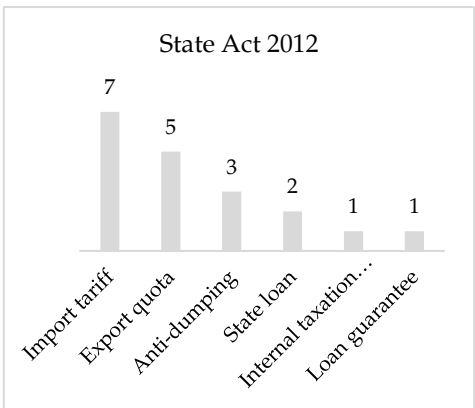

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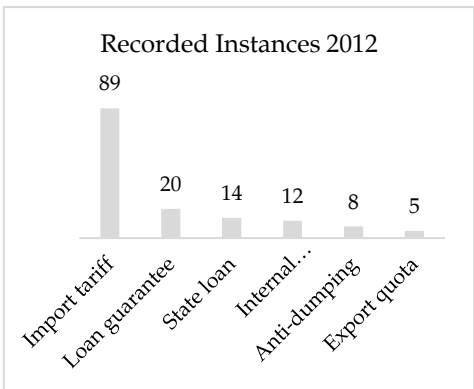

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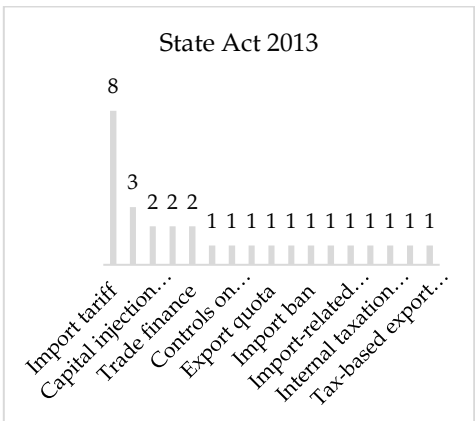

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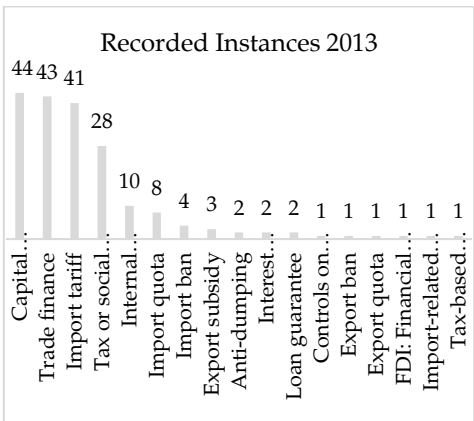

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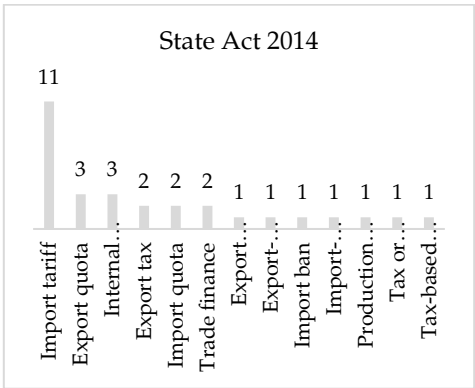

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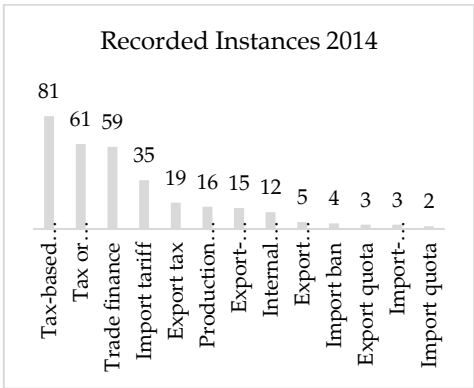

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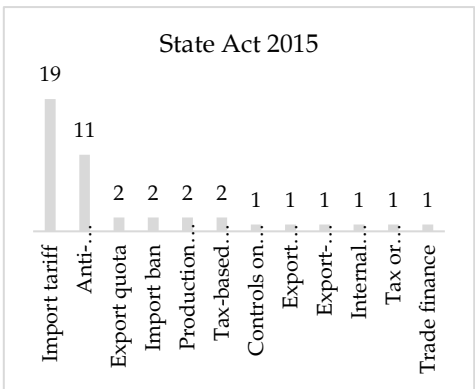

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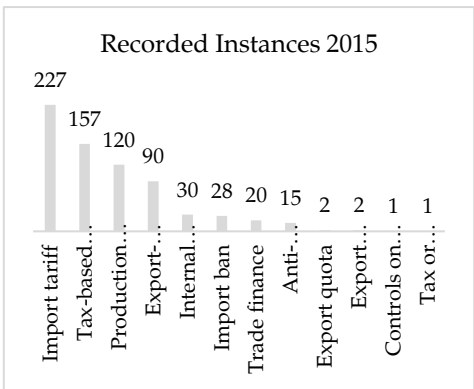

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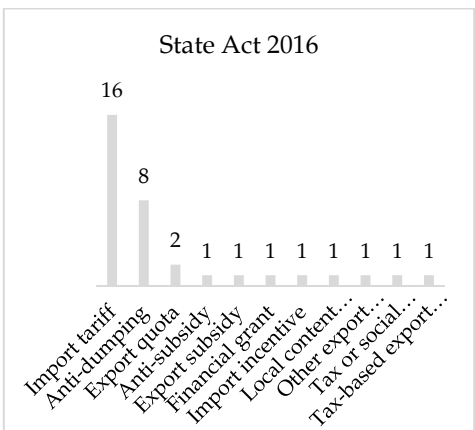

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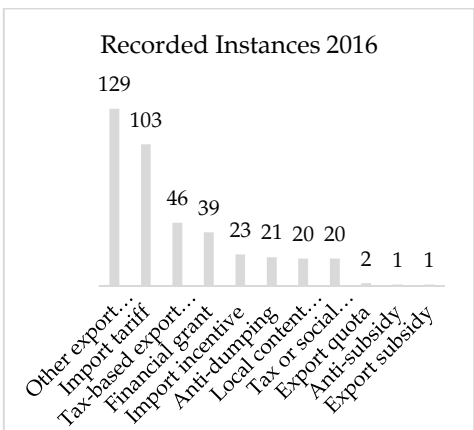

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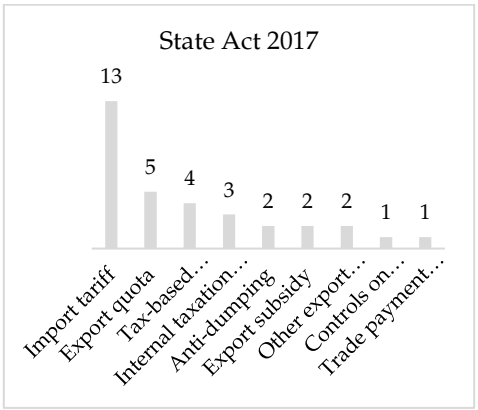

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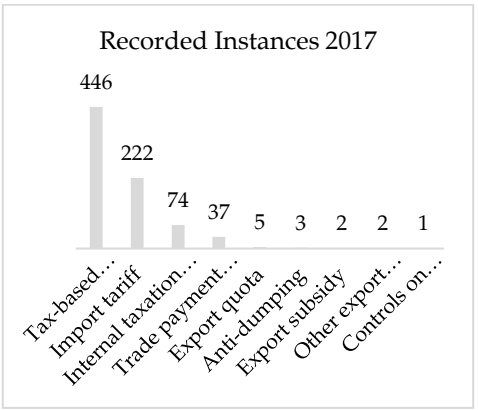

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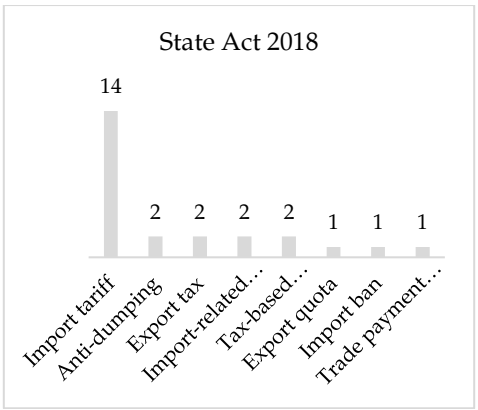

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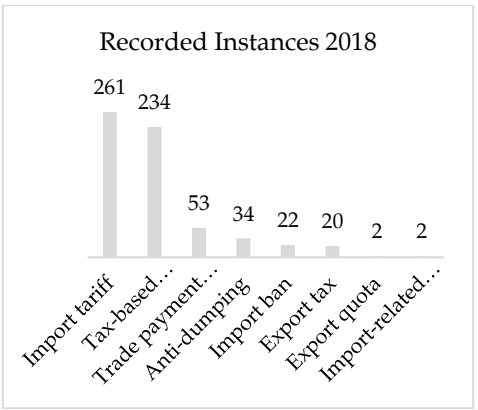

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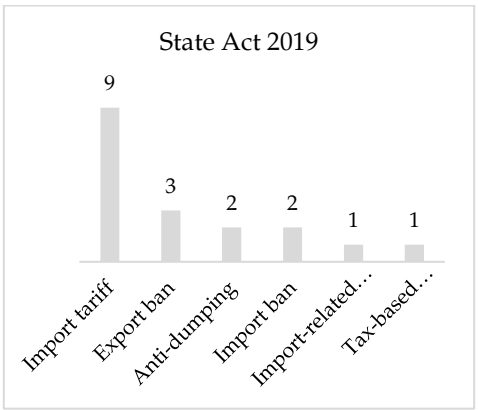

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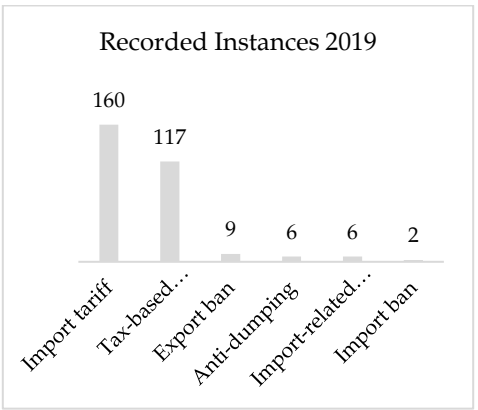

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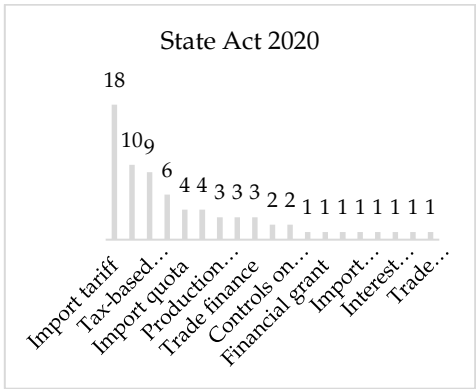

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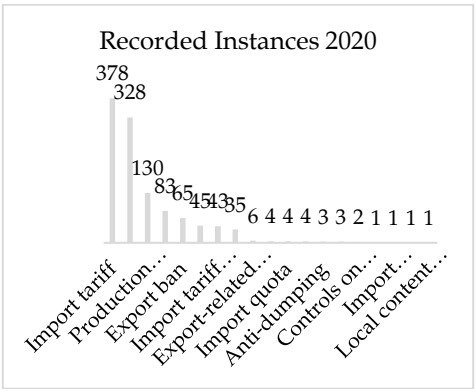

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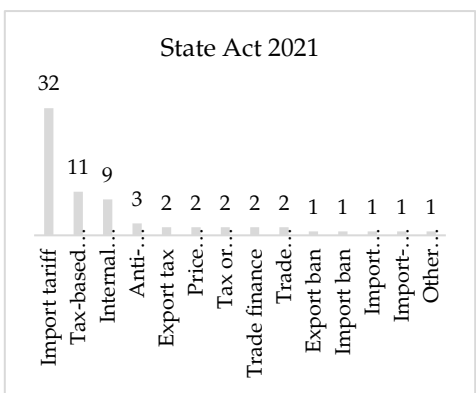

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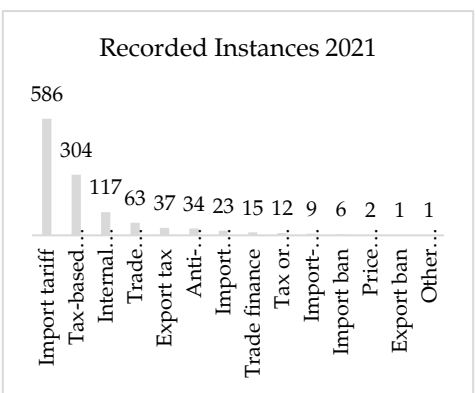

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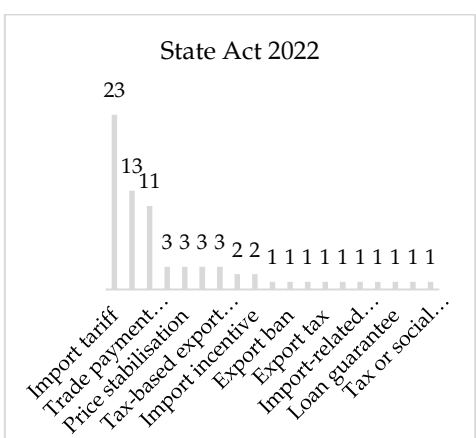


Figure 2.15

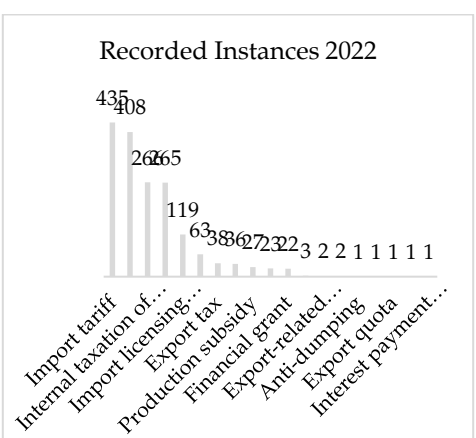
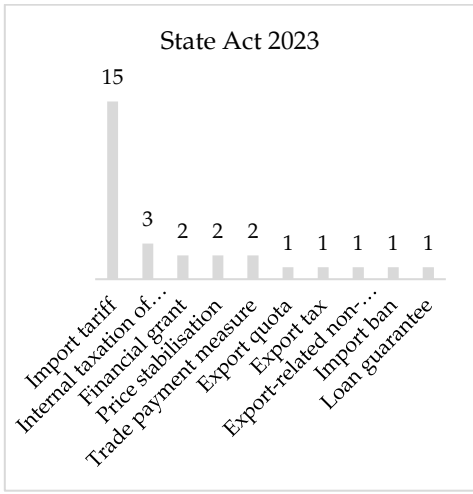


Figure 1.16



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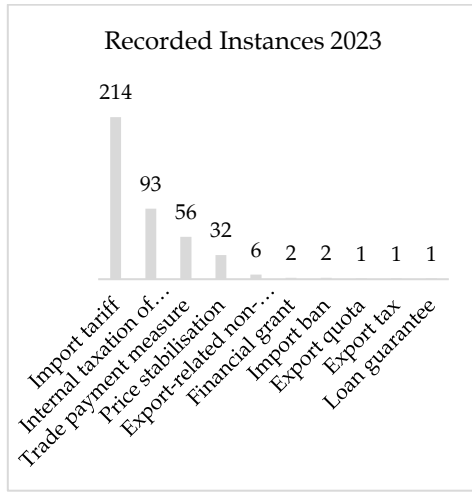
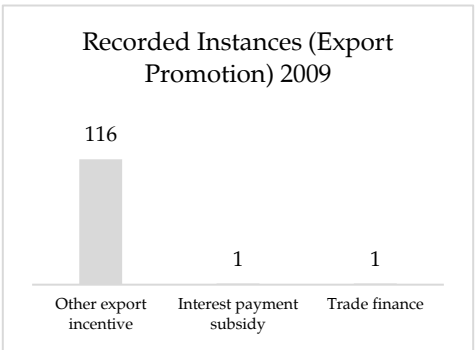


Appendix B

Export Promoting Policies on a yearly basis

Figure 3.1

Figure 3.2



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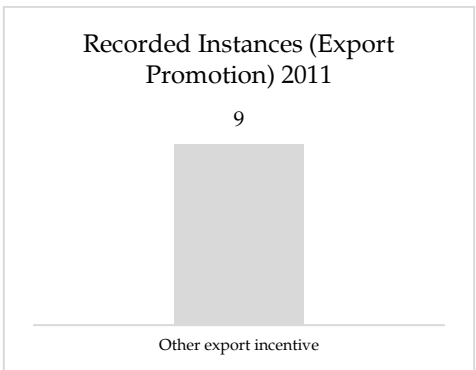

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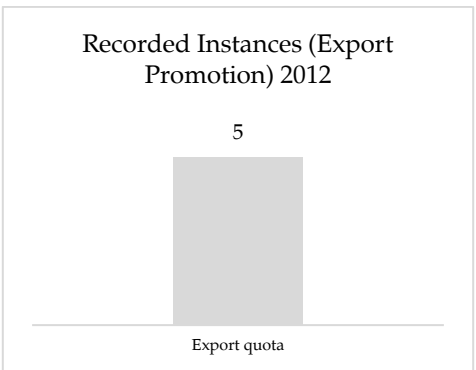

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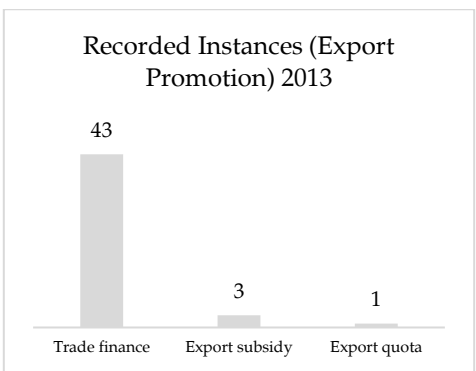

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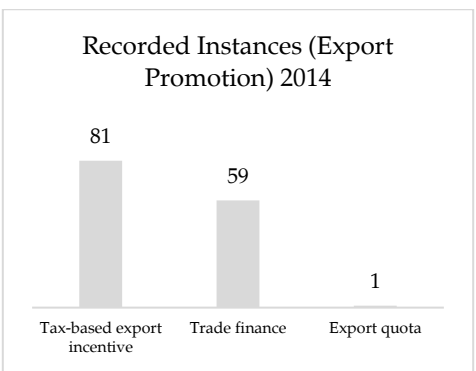
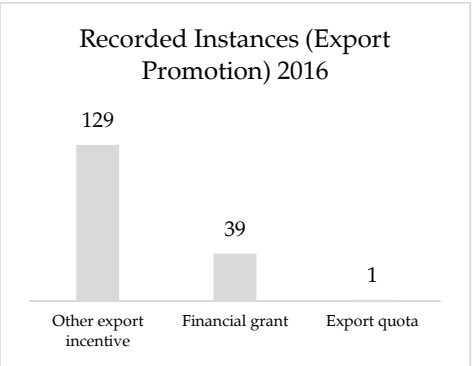


Figure 3.6

Figure 3.7



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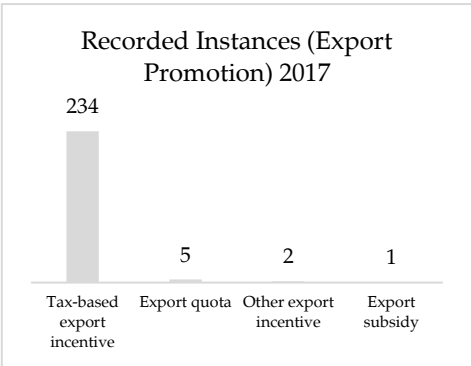

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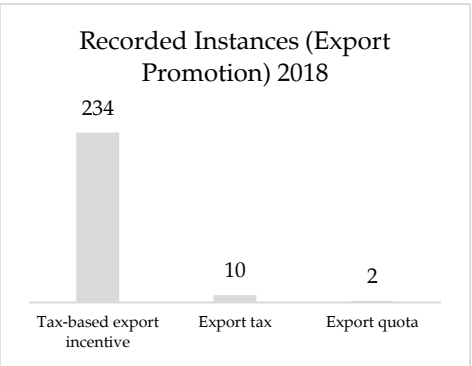

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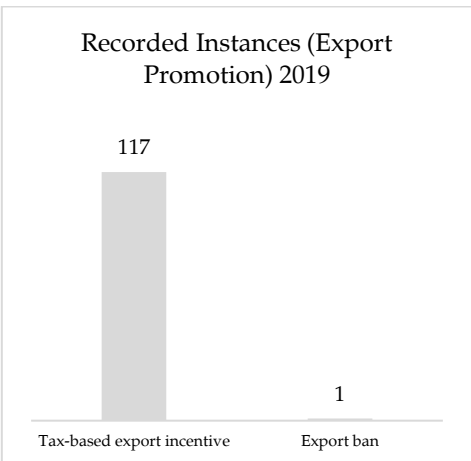

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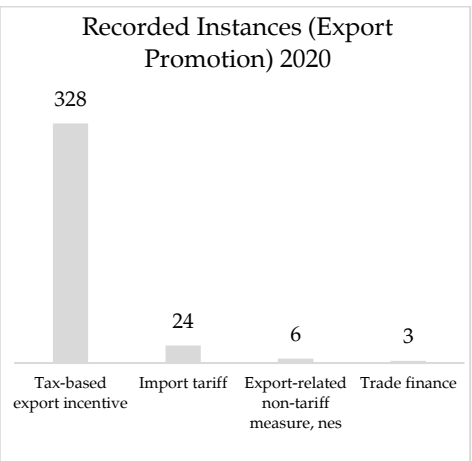

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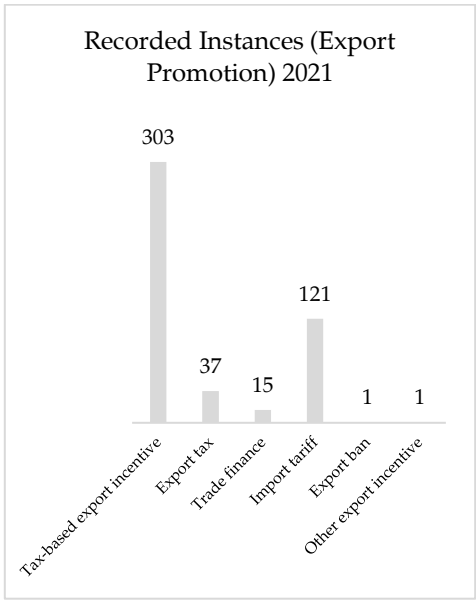

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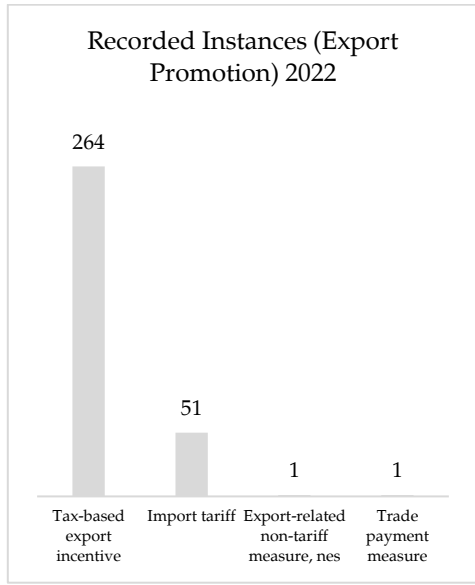

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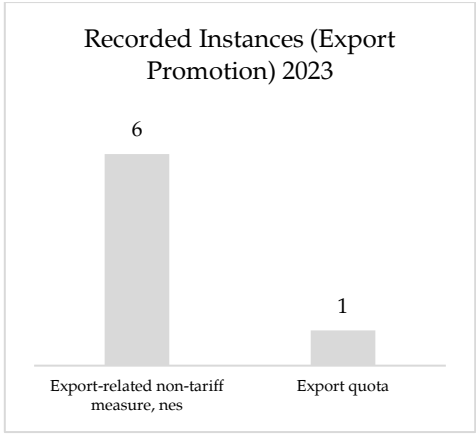
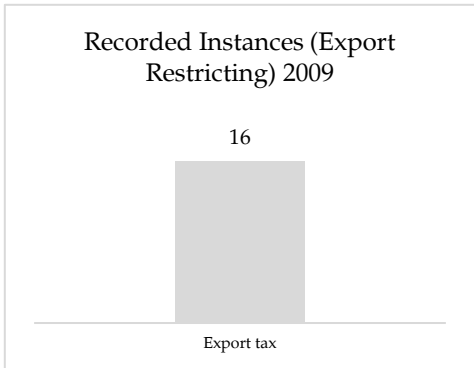


Export Restricting policies on a yearly basis

Figure 4.1



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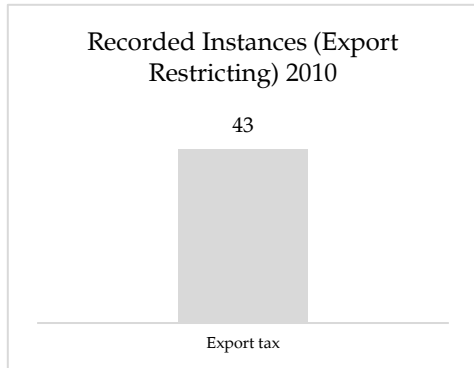

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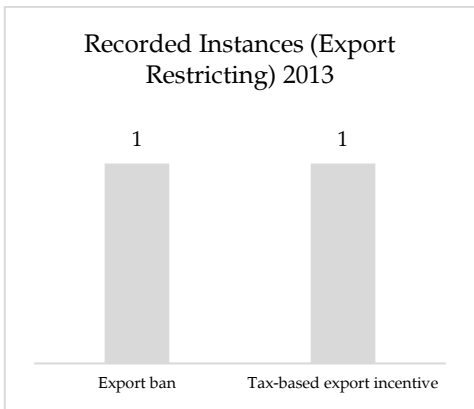

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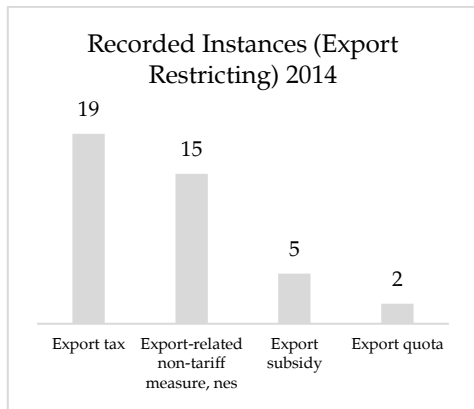

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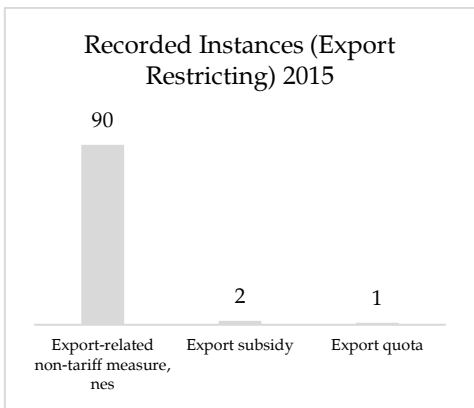

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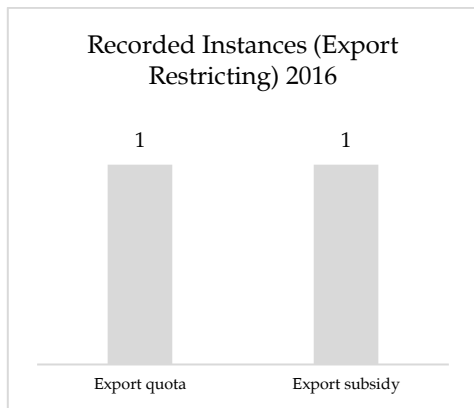

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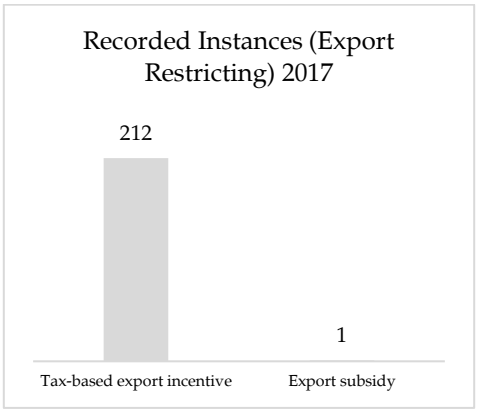

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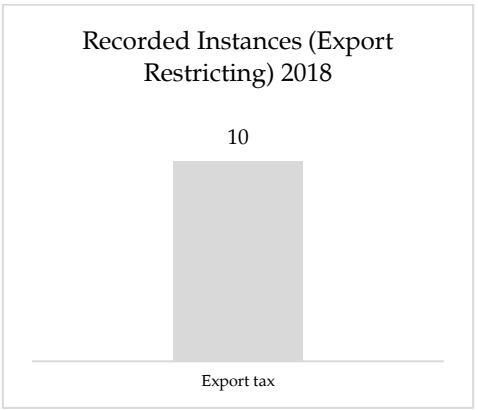

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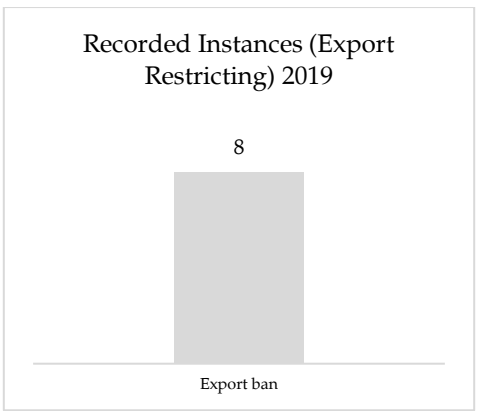

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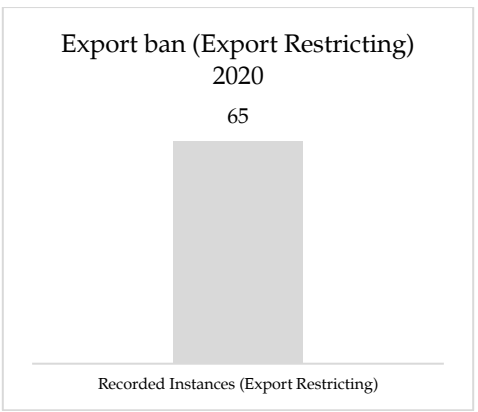

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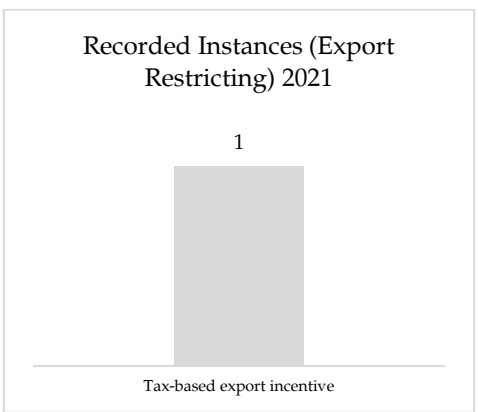

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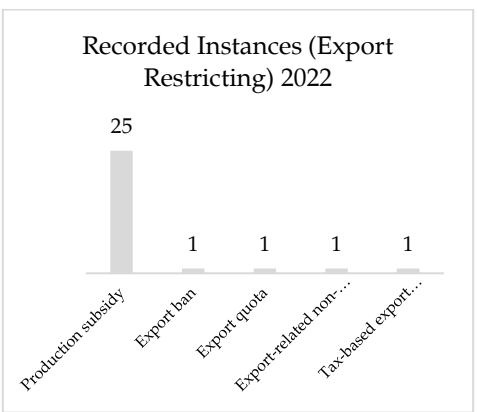

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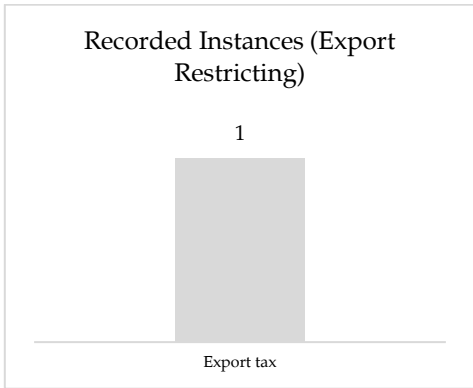

Import Promoting Policies on a yearly basis.

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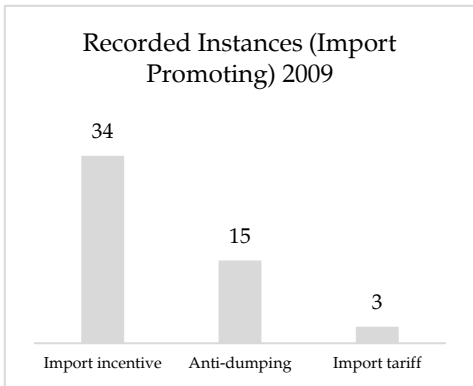

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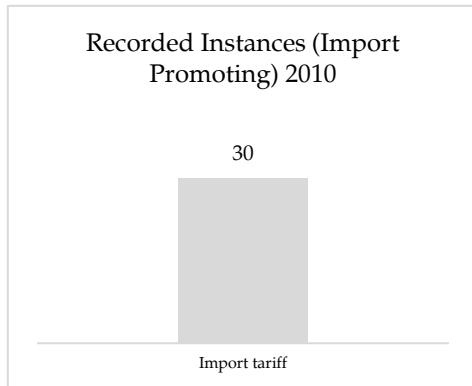

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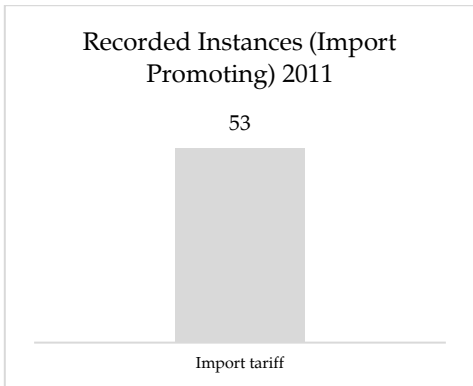

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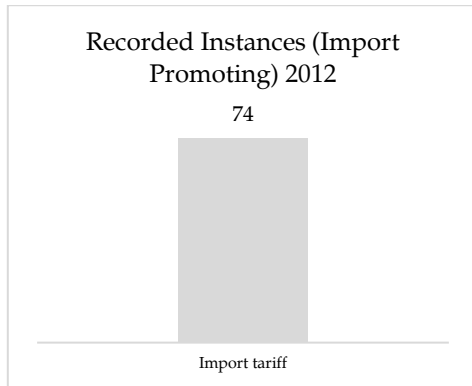

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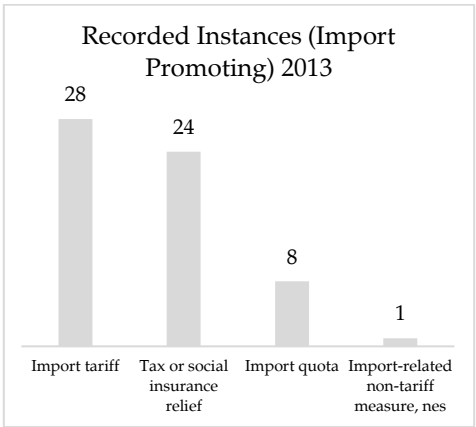

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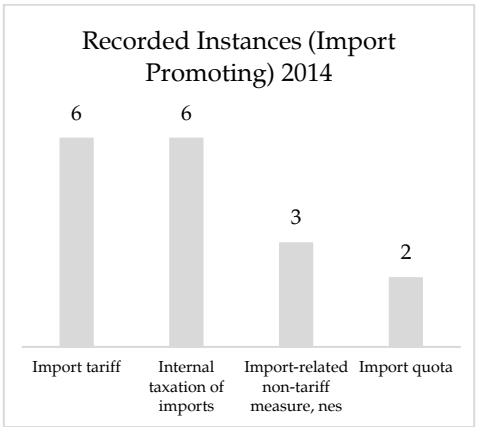
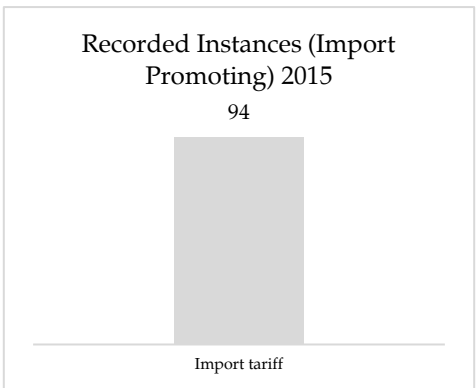


Figure 5.6



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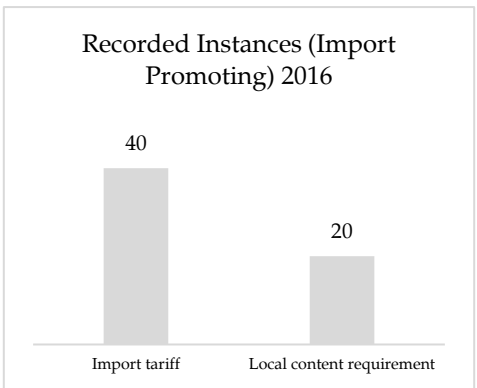

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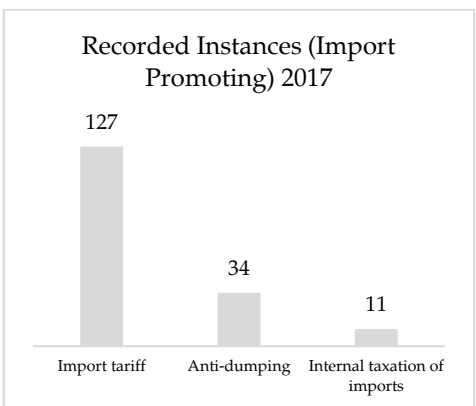
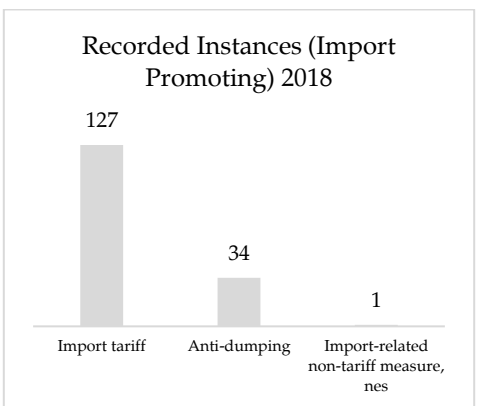


Figure 5.9



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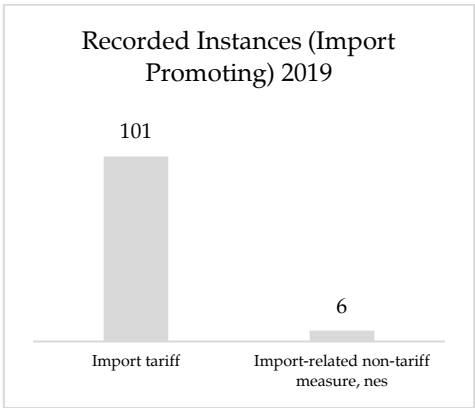

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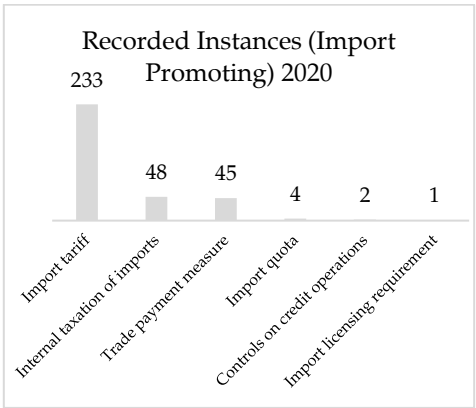

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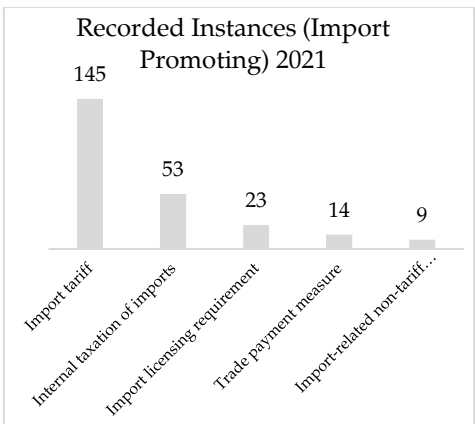

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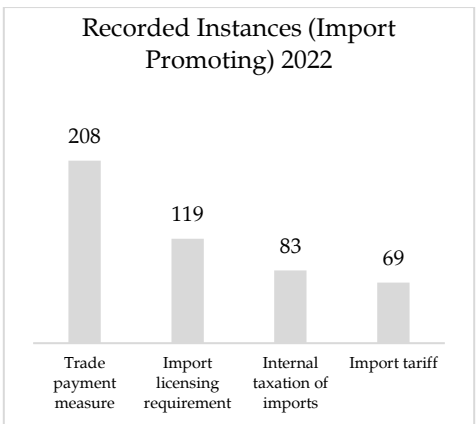

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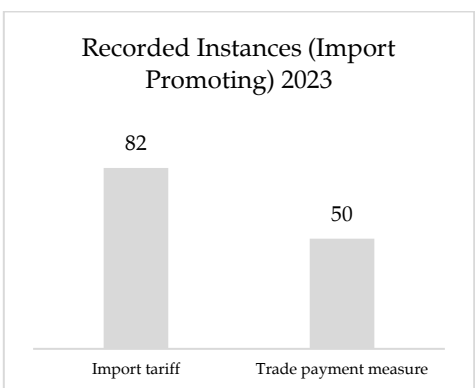

Import Restricting Policies on a yearly basis.

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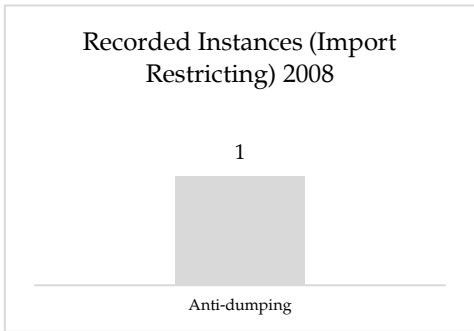


Figure 6.2

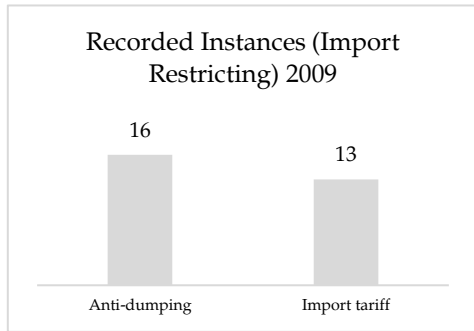
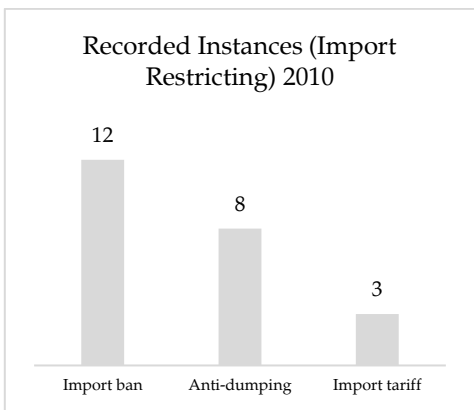


Figure 6.3



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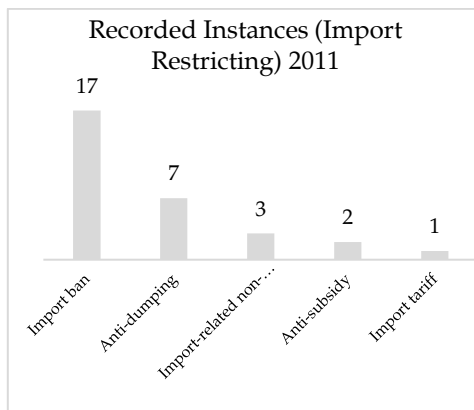

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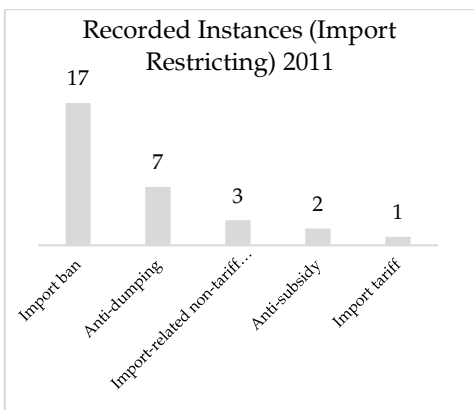

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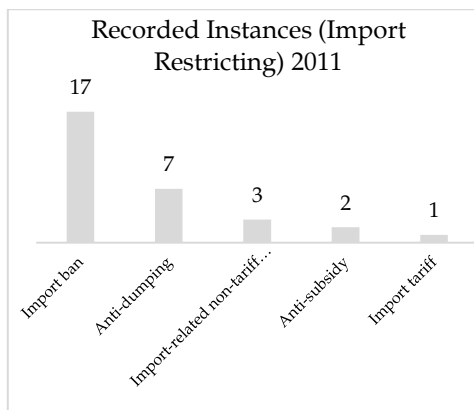

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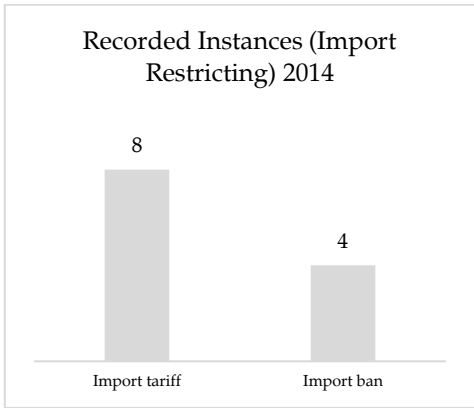

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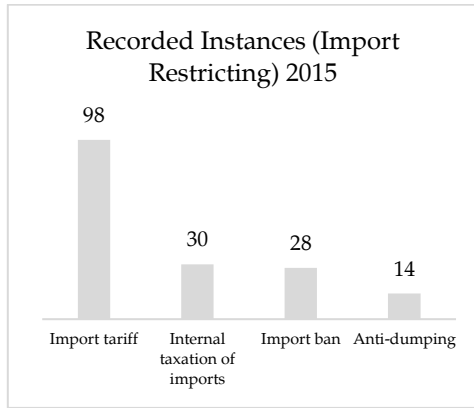


Figure 6.9

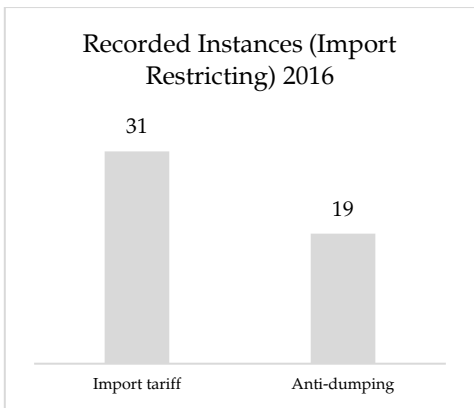
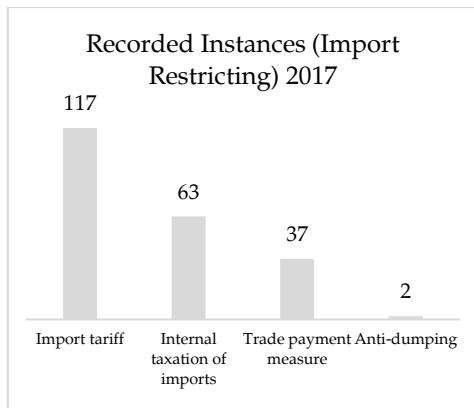


Figure 6.10



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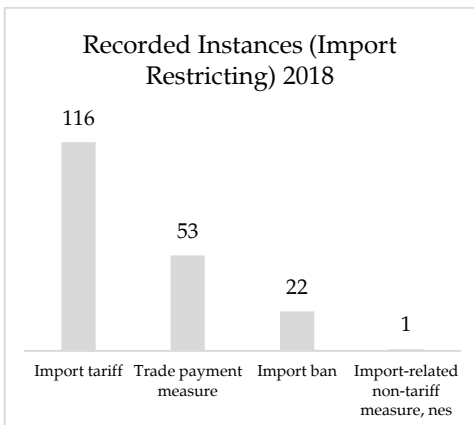
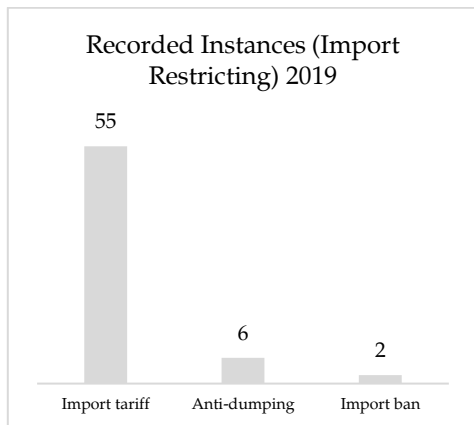


Figure 6.12



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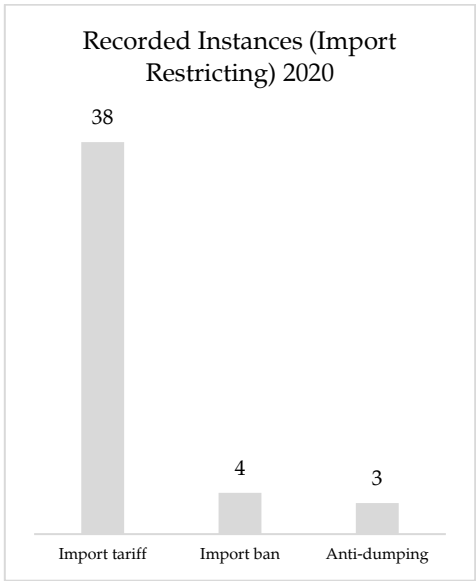
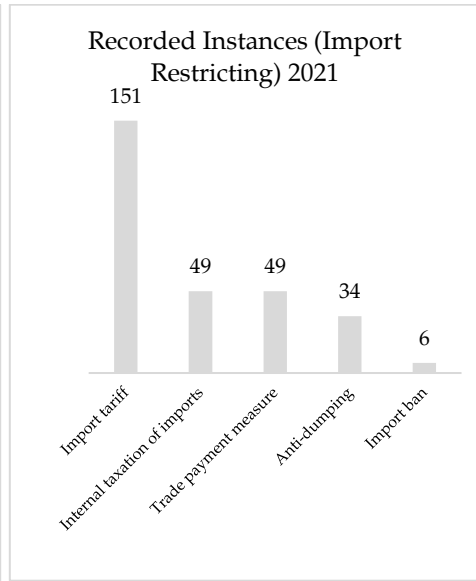


Figure 6.14



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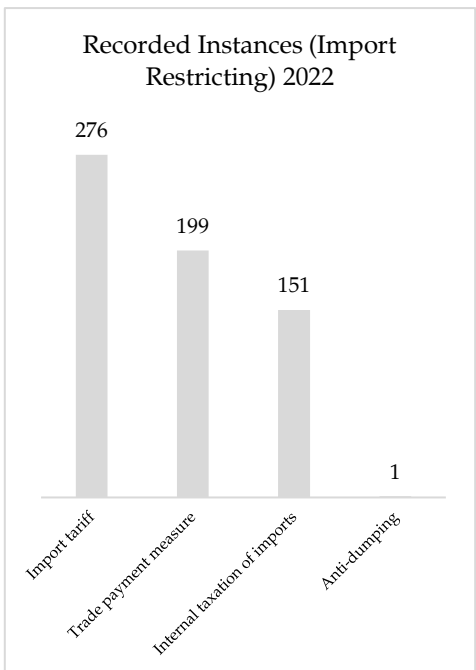

Figure 6.16