

The World Trade Organization And Pakistan Economy

**By
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Abstract

The objective of this paper is to get rationality about WTO and its effects on Pakistan economy. It is important in recognizing WTO relations in the field of International Trade, Economic Development, raising standards of living and optimal use of the World's resources in accordance with the objective of sustainable development. WTO is a step toward new economic order in International trade and Pakistan's Trade and whole economy must efficiently perform within the new system of WTO. The Government of Pakistan and whole region Governments needed to develop better linkages through more permanent set of relations to share better understanding to benefit from WTO and Trade Liberalization for the improved quality of life of the people and development.

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Introduction

The developing Countries' people have not sufficient rationality about WTO and its related issues. This is a need to increase related awareness on WTO principles and allied laws, through Seminar and Workshops, so that concerned get rationality about it. The understanding of international agreement's is essential for each and every economic agent, because it has been implemented since January 2005, concerned economic agents would have to determine the standard of Agricultural and Industrial Products as well as their Marketing and pricing.

Regarding the issue, in this paper, we have made a comprehensive review of literature on the WTO background; we have discussed the round of talks about WTO. By providing the sufficient information about WTO and its round of talks, we have made a little discussion on the WTO regarding Prospects, requirements and developing Countries. Finally, we have discussed the Pakistan economy and WTO and also few Conclusions and Policy Proposal.

Review of Literature

On the issue of World Trade Organization and its agreement's effects on World economies and particularly on Pakistan Trade and whole economy, we tried to review the available literature with comprehensive review of WTO background.

The World Trade Organization is a global trade organization which organization development embodied

on various trade liberalization steps taken place after the Second World War, like General Agreements on Tariff and Trade (GATT), Sir Kennedy Round, and Uruguay Round Agreement. Alternatively, WTO is Geneva-based reform enforce of 1995 Uruguay Round Agreement, replaces GATT. The main objective of WTO is to oversee the Trade agreement and settle trade disputes.

If we overview the history, in international economic relationships as in domestic affairs, the Second World War provided a radically new approach. It was appreciated that there would need to be a high degree of co-operation between Nations if the pre-war stagnation of World Trade would not to be repeated. The objective was to be a balanced expansion of international trade, which would lead to rising World living standards. In this regard there were "Trade Negotiations Round" known as "Kennedy Round". A series of round of negotiations, which led to the signing of the General Agreement of Tariffs and Trade designed to reduce trade barriers on a multilateral basis. The first round of negotiation took place in 1947 and the "Kennedy round" was the sixth in the series. It was started in 1964 and was concluded in July, 1967. This round was distinguished by the earlier ones in that its aim was straight percentage tariff reductions right across the board rather than item-by-item agreement. Moreover, an international body set-up in 1947 to probe into the ways and means of reducing tariffs on internationally traded goods and services. Between 1947 and 1962, GATT held seven conferences but met with only moderate success. Its major success was achieved in 1967, during the Kennedy Round talks when tariffs on primary commodities

were drastically slashed and then in 1994 with the signing of the Uruguay Round agreement. The latest of the GATT negotiations, started in Uruguay in 1986 and designed to promote international free trade. The final act of the Uruguay Round Agreement that was signed in April, 1994 and become effective in 1995 after passage by 124 national legislatures substantially reduced tariff and non-tariff trade barriers in many sectors. It also established a new World Trade Organization (WTO) to replace the 47-year-old GATT. Now Global Trade reform known as the Geneva based WTO, which oversee the trade agreement and settle trade disputes. The three major provision of the new accord, from the perspective of Third World Nations, are the following:

1. Developing Countries will cut tariffs on manufactures by an average of 40% in five equal annual reductions. Tariffs will be eliminated in 10 major sectors (beer, construction, paper, pharmaceuticals, steel and toys). Developing Countries in turn agreed to not raise tariffs.
2. Trade in agricultural products will come under the authority of the WTO and be progressively liberalized.
3. For textiles and apparel, the Multi-Fiber Arrangement (MFA), which has long panelized exports of developing countries, will be phased out by 2005, with most of the reductions taking effect toward the end of the period.

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Further, The GATT accord is expected to reduce tariffs around the World by an average of about 40%. This agreement has also introduced new patent and copyright protection laws for intellectual property.

A.F. Chishti and Malik (2001)

The paper presents a Theory-based graphical analysis, which may be further used for a complete empirical study of the pros and cons WTO's Trade Liberalization for Pakistan economy with specific emphasis on sustained growth of agricultural sector and poverty alleviation in Pakistan.

Social Policy and Development Centre, Annual Review (2004)

The potential for exploiting foreign demand for Pakistan's exports exists, the supply dimension relating to competitiveness means that the goods a country places for export on the World Market Command and edge, in price and quality, over those produced by its competitors. Competitiveness can be enhanced with lower per unit costs, which can be attained with lower factor and non-factor input costs relative to the World export price and/or higher productivity, that is, producers have the ability to obtain higher output for a given exchange rate and, import tariff, can also affect competitiveness in important ways.

Mahbub-ul-Haq, Human Development Centre (2001)

Many Countries in South Asia confronted by Lagging growth rates and external payments crises, the majority of these Countries adopted a more outward-oriented development strategy. South Asia's attempts to integrate more closely into the World economy.

Pakistan Institute of Development Economics (2001)

The WTO's agreement on agriculture, which was established as a result of the 1986-94 Uruguay Round Talks, requires, for both developed and developing countries, to initiate a process of reforms in their agrarian economies with the objective of establishing a fair and market oriented agricultural trading system through multilateral trade negotiations.

Guler (2001)

Raised some prediction of the concerns of developing Countries and reported that, even after the five-year implementation of the WTO Agreement, the developing countries could not observe any improvement in their position. In trade, despite the liberalization process, areas of export interest to developing countries, particularly agriculture and textile and clothing, remained heavily protected. Capital markets in developing countries were opened up, whereas labour markets in the developed countries were still being protected. Many developing countries felt that, while they had made

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progress in liberalizing their own markets, developed countries were quite slow in this respect. Without consolidating their liberalization process, the developed countries were rather concerned to expand WTO agreements to include additional and new forms of economic activities such as labour standards, trade investment issues, genetically modified products, electronic commerce, and so on.

FAO (2000)

Reviewing the implementation in the OECD countries, pointed out that, despite reduced AMS levels, total support to agriculture was not declined. Analyses had shown that, not all policies exempt from reduction commitments, were indeed production and trade neutral, as often assumed. To the extent these exempt policies distorted production and trade, the overall positive impact of lower AMS support was undermined.

Chaudhry (2001)

Commenting on the impact of WTO negotiations on agriculture in Pakistan, opined that the reform programme under WTO could help Pakistan to raise agricultural production substantially provided Pakistan ensure World level commodity prices, replace government intervention with regulate private marketing system, improve efficiency of input delivery systems, invest in market infrastructure for exports and undertake steps to ensure quality exports. He further argued that Pakistan had considerable potential in export of leather and leathe, spices, flowers plants and

tropical nuts and fruits where developed countries had promised to reduce tariffs. However, being a net importer of staple foods, Pakistan would face rising food import prices as a result of reduction in agricultural support and export subsidies. The benefits to Pakistan "would accrue only if (a) agreements are fully implemented by all the countries in letter and spirit; (b) sanitary and phytosanitary measures anti-dumping and labour laws, environmental protection and quality standards are not misused to restrict trade; and (c) benefits from technological break through are not restricted to the developed world.

Niaz and Salam (2001)

Elaborated on Pakistan's support price Policy and mentioned that AMS is case of Pakistan's position. **Niaz** (2001) further reported that the analysis of import/ export prices for important agricultural commodities for the last 3-5 years had been considerably below their corresponding border process. He argued that, in view of the recent development in economic policy and WTO commitments, there was "a need to develop further indigenous competence, expertise and institutional capacity to address the emerging policy issues. The policy makers must have before them well analysed facts and figures giving different options for decision making".

Syed Akbar Zaidi (1999)

The pattern and nature of foreign trade gives a fairly good indication of the pattern and nature of the

economies that enter into trade agreements. Over time, the pattern of trade often changes, as countries move from exporting primary products to finished manufactured goods, and their imports change from consumer goods to machinery. Pakistan's foreign trade pattern follows such a sequence.

Export Promotion Bureau of Pakistan (1995)

On January 1 1995, a new organization came into existence - The World Trade Organization (WTO). This new organization replaces the GATT and will supervise and oversee the most ambitious global trade accord ever.

Mahbub-ul-Haq Human Development Centre (2001)

The rapid expansion of World Trade during the last fifty years is a direct outcome of trade liberalization efforts as well as the evolution of a legal framework governing trade between countries. The establishment of GATT in 1947 had started this process of trade liberalization. There were a series of rounds of trade negotiations. In 1995, there was Uruguay Round. Following the conclusion of the Uruguay Round of trade negotiations, World Trade Organization (WTO) was established to settle trade disputes among nations. All previous round had facilitated the expansion of trade flows from the manufactured goods only, as tariff and non-tariff barriers were gradually reduced for the imports of such goods. The Uruguay Round had extended the scope of trade to include agriculture and services. Of special interest in this context is the treatment given to new aspects of trade such as

Trade Related Investment Measures (TRIMS) as well as Trade Related Intellectual Property Rights (TRIPS). The rule based trading system with a broader coverage of commodities and services has come to be known as the New International Trading Order.

The rapid increase in trade has become the driving force in the globalization process. The phenomenal increase in World Trade flows has been beneficial to many countries participating in trade. World exports had increased from US Dollar 61 billion in 1950 to Dollar 315 billion in 1980 to Dollar 3447 billion in 1990 and Dollar 6344 billion in 1998. The share of World exports in World GDP has also increased over time rising from 6 percent in 1950 to 16 percent in 1992 and to 24 percent in 1998. The developing countries including South Asia have also played a key role in the global expansion of trade. The share of exports from developing countries in total World exports increased from 23 percent in 1991 to 31 per cent in 1998. It should, however be noted, that South Asia had barely managed to increase the share of its exports in GDP, i.e., by only 1.5 per cent from 8.2 per cent in 1991 to 9.7 per cent in 1998. The key players in the developing World in this context have been East and South East Asia, which had increased the percentage of their merchandise trade in GDP from 40 per cent to 60 per cent between mid 1980s and 1994 (Nayyar 1998, World Bank 2000 and 2001).

The composition of World Trade has also changed in at least three fundamental ways. The share of primary commodities in exports has fallen while that of manufactured goods especially of higher value products

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has risen. Intra-firm and intra-industry trade has emerged as a key factor in the global trade expansion. Trade in services has outpaced the trade in goods. The sustained growth in trade and the nature of its composition have opened new opportunities for countries to capture the benefits from globalization. In South Asia, only India seems to have been able to take advantage of this opportunity.

Round of Talks about WTO

The WTO base is the GATT. It was established in 1995 with the objective that it oversee the trade agreement and settle trade disputes. The description of its round of talks as follows.

Mexico, Cancun Round (2003)

It was a Ministerial Conference. The main issue was the removal of farm subsidies.

Geneva Round (2004)

There was 147 member states in a five days conference. The World Bank says "The Round, Whose conclusion could still be years away, could lift more than half a billion people out of poverty through increased trade and boost global growth".

In the Geneva agreement on the sensitive issue of agriculture opened the way for a similar understanding in industrial goods trade and development issues, areas in which the WTO was seeking a framework accord to serve

as a basis for future more detailed negotiations as part of the Doha Round.

Doha Round

In five days discussion in Geneva (2004), the World Trade Organization's 147 member states formally agreed on a framework laying down guidelines for the Organization's Doha Round. The Doha Round firmly back on track a series of contentious trade issues, ranging from farm reform to the launch of negotiations on a new customs code---

Prospect, Requirement and Developing Countries

No country has progressed without being part of global system and globalization is unstoppable as the basic desire of people is to prosper through trade. Various countries and regions need to do a lot to reach the level of economic development of other countries and regions. As for the issues concerned the prospects for South Asia and Developing countries. The people of South Asia needed to develop better linkages through more permanent set of relations to share better understanding to benefit from WTO and Trade liberalization for the progress and prosperity of the region. There is a need to improve south Asian countries industry to enhance efficiency and quality for meeting the challenges of globalization. For globalization regional trade co-operation is necessary.

WTO one goal should be to help productive capacity in developing countries. Developing countries should find ways for better utilization of their resources. If developing countries mobilize their resources within the framework of WTO, the outcome could be in their interest. For the smooth flow of trade, non-tariff barriers should be adjusted and this is possible with better understanding for world economic development.

Pakistan and WTO

Pakistan's Trade Performance over five decades remained satisfactory. In this regard we have various measures (GDP growth, Trade/GDP, Exports/GDP, current account balance/GDP and Exchange rate, Rs. US\$ to access performance. From WTO point of view, there is considerable scope for Pakistan's trade to expand. This can be seen from a comparison of the country's trade orientation relative to major Asian export destinations.

In this paper we are unable to discuss all exports items scope within WTO. We are taking one-export item i-e textiles and clothing. The removal of worldwide quotas on imports of textiles and clothing by the end of 2004 has raised questions about Pakistan's ability to retain and possibly expand its market share in the world textile and clothing trade. Textiles command a dominating presence in the country's economy, in particular with respect to employment and incomes. Cotton is the most important cash crop in the agriculture sector. Textiles, apparel and related products account for nearly three-quarters of exports. As such there is an urgent need to study the

potential effects of this development on Pakistan's export trade, and to determine the prospects for the textile industry in the post-2004, quota-free World trading environment. Pakistan's world market share of textile exports went up from 3.8 to 4.2 percent during 1995-2003. We should be clear that competitiveness mean that the goods a country places for export on the world market command and edge, in price and quality, over those produced by its competitors.

Regarding recent W.T.O Geneva conference and its effects on Pakistan economy. Pakistan raised several issues of vital concern to the country. To a deal in global trade talks, particularly in agriculture, the G20 developing countries including Pakistan, India and Brazil have resisted. According to the commerce minister (Mr. Humayun Akhtar Khan) "there were two issues of vital concerns of Pakistan. The first is related to a demand by the European Union regarding agricultural subsidies and the other was the rich countries have maintained a huge list of the sensitive products. The Minister told the G20 group that since these sensitive products are not proposed to be subjected to normal tariff reductions, it would mean that there would be no increase in market access for Pakistan." Since Pakistan has no access to tariff rate quotes in developed countries, and since such goods covered almost 25 per cent of their tariff lines, any acceptance by the WTO of a large list of sensitive products is against the trade gain of developing countries like Pakistan. The second major issue of concern to Pakistan and the other G20 Countries was in the area of reduction of domestic agricultural subsidies. The effects of

WTO on Pakistan economy point of view, we can analyse it at four levels i-e consumer, Producer, trade and government. For such analysis we need complete data and appropriate technique for the analysis. In an usual statement we can say that with in the WTO, the Pakistan has become an exporter of the commodities, we have comparative advantage and an importer of products in which comparative disadvantage. Due to competition consumer will enjoy by paying low price. Competitive producer will gain from WTO and it would make losses for some producer, which shall producing higher than competitive price. Through the abolition of price support policy would produce gains for the exportable commodities for the society as a whole, it would incur some losses to the producers.

Conclusions

We have drawn the following conclusions.

1. Within the WTO regime, Pakistan has become an exporter of the commodities in which, we have comparative advantage and an importer of products in which comparative disadvantage (recent Textile boom is one of the justification).
2. Competitiveness means that the goods a country places for export on the world market command an edge in price and quality , over those produced by the competitors.
3. Pakistan's World market share of textile exports went up from 3.8 to 4.2 per cent during 1995-2003.

4. The potential for expanding trade, particularly exports clearly exists, including for textile and apparel exports in the post-2004 environment.
5. The potential lies in enhancing the competitiveness of Pakistan's manufacturing sector through reduction of unit costs. Improvements in the domestic economy, in terms of enhancing productivity and reducing the high costs of production etc. An effort toward competition is necessary and require government legal support.

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