

## **Benefiting from World Trade Organization: Pakistan a Case in Point**

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### **Abstract**

World Trade Organization (WTO) develops its policy guidelines keeping in view the global environments whereby they could provide healthy business atmosphere to all communities. Since it is competitive business world which is working on joint ventures and collaborations, developed countries have an edge. They enjoy latest knowledge, technologies and skills for pursuing their business. The developing societies like Pakistan feel handicapped when come in stiff competition which is based on quality, price, packaging and conforming to international and global health standards. Then what to do, abandon it or change the methodology?

This is the basic purpose of this research. Having gone through the policy guidelines under WTO and own environments, the paper suggests rather to get advantage of tough competition and improve quality of our products and services so as to achieve global standards. In the business world of today, it is only quality backed by knowledge how to make trade succeeds. Therefore, instead of giving up or feeling discouraged, it is recommended to continue improving knowledge and quality to compete and make own place in the international market.

**Keywords:** Global Trade - Competitiveness - National Policies

**Benefiting from World Trade Organization: Pakistan a Case in Point**

**Trade and World Trade Organization: What and Why?**

Known history of trade by bartering livestock, food and tools dates back to 4000 BC. With the passage of time, increased trade volume resulted into token system as first form of commodity money (Menger, 1976, Reprint 2007). With advances in ship, rail, communication and industrialization, global trade became easier. Capital market emerged providing resources beyond the capacity of an individual for businesses. Though advance in economic globalization was disrupted by World Wars, efforts continued by industrialized world to enhance global trade. Contributions by multinational corporations and market oriented economic reforms accelerated economic globalization by increasing the integration of resources and interdependence of national, local and regional economies through cross-border free movement of services, goods and capital giving the concept of globalization (Carbaugh, 2005). It has now turned out to be a set of processes concerning multiple networks of economic, political and cultural interchanges, what we refer to as globalization or world turning into a global entity or village (United Nations

Development Policy and Analysis, 2015).

This situation created a global competition whereby nations started to protect their local industry through economic policies, trade barriers and immigration caps thus slowing down global trade growth. The situation obliged the industrialized world to free global trade through bilateral and multi-lateral trade agreements, deregulating rules and removing tariff barriers. It led to the emergence of global economic institutions like International Trade Organization, General Agreement on Trade and Tariff and World Trade Organization(WTO) to promote economic globalization by removing trade barriers and integrating economies through trade and financial flows. It is only through trade that societies have developed by sharing expertise, knowledge and commodities (Joshi, 2009).The present day fast paced economic developments are the outcome of such efforts by the industrialized nations, though interrupted by vested interests and political adversities.

### **WTO: What and What for?**

General Agreement on Trade and Tariff (GATT) was a multilateral agreement signed by 23 nations in Geneva in 1947 and took effect on January 1, 1948. Its purpose was to reduce tariff, trade barriers and remove preferences by regulating international trade for mutual benefits of societies. The original GATT text is still in WTO framework subject to alterations of GATT 1994 ([britannica.com/topic/General-Agreement-On-Tariffs-and-Trade](http://britannica.com/topic/General-Agreement-On-Tariffs-and-Trade), 2015). GATT performed well but it was applicable only on goods excluding trade in services, intellectual property rights and agriculture products which were negotiated amongst its members through various rounds of talks and settled. It was merely multilateral agreements with no institutional foundation and dispute resolution mechanism (Joshi, 2009). Contrarily, the requirement was to have a permanent institutional base with secretariat and permanent commitment. Therefore, creation of a new body became principal objective of GATT Round 1986 to 1994. A draft for WTO was approved at Ministerial Conference held at Marrakech in July 1994. Under the terms of 'Final Act, GATT was replaced by WTO on 1 January 1995 (World-Trade-Organization-WTO, 2015), with its main functions as given below in point form (Joshi, 2009).

- WTO shall facilitate Multilateral Trade Agreements and shall also provide frame-work for implementation, administration and operation of multifaceted trade agreements.
- The organization shall provide a forum for negotiations amongst concerning members for their multilateral trade relations under this Agreement.
- WTO shall govern understanding on rules and procedures leading the settlement of disputes.
- It shall administer trade policy review mechanism. With a view to achieve greater consistency in global economic policy making, it shall .

cooperate with the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and its agencies in affiliation

Fundamentally and wishfully, WTO aimed at improving living standards of people of the member countries through increasing production and trade of goods, ensuring optimum utilization of world resources, protecting global environment, accepting sustainable development, promoting world trade in a manner that benefits every country and ensuring that developing countries secure a better balance in the sharing of advantages resulting from expansion of international trade. It also included fostering economic growth, enhancing competitiveness among all trading partners, helping in global integration and increasing productivity to improve level of employment in the world. The agreement's establishing WTO states that members should conduct their trade and economic relations with a view to improve living standard of the people (World-Trade-Organization-WTO, 2015). It is based in Geneva, Switzerland along with its Secretariat and headed by a Director General. Its top level decision-making body is Ministerial Conference which is helped by General Council comprising ambassadors / delegations from member countries. Besides various councils, numerous specialized committees, working groups and parties deal with trade agreements (World Trade Organization, Information and Media Relations Division, Geneva Switzerland, 2003). WTO organizational chart and main bodies are attached as Appendix A. WTO has 161 members as on 26 January, 2016. GATT is WTO's principal rule-book for trade in goods while it has created new rules for trade in services, intellectual property, dispute settlement and trade policy reviews. WTO agreements bind members to reduce their tariffs as per rates before 1994 through multilateral negotiations and not to increase them more than bound rates (committed rate). All countries are to be given most favored nation status without discrimination.

The Uruguay Round of talks reduced agricultural trade distortions by declaring agricultural products equal to industrial products and slashed all subsidies, quota restrictions and more tariffs which were permitted under GATT (Carbaugh, 2008). All tariffs were to be cut to 36% in 6 years for developed countries and up to 24% in 10 years for developing countries commencing in 1995. Insurance firms, banks, tour operators, telecommunication companies, transport companies and hotel chains were looking to do business abroad can now appreciate the same principles of fairer and freer trade that applied to trade in goods originally. These doctrines appear in the new General Agreement on Trade in Services (GATS). Members of WTO have to make specific commitments identifying service sector, guarantees market access along with conditions or limitations if any. The intellectual property agreement of WTO is a rule for investment trade/ in creativity and ideas. The rules explain how trademarks, copyrights, , geographical names ,patents used to identify, industrial designs, products, integrated circuit layout-designs and undisclosed information such as trade secrets 'intellectual property should be secured when trade is involved.

Countries can bring disputes to WTO if their rights are infringed. Judgments by specially-appointed independent experts are based on interpretations of agreements and individual countries' commitments. It encourages countries to settle their differences through consultation. Failing, they can follow a carefully mapped out, stage-by-stage procedure that includes possibility of a ruling by a panel of experts and chance to appeal the ruling on legal grounds.

### **Pakistan in WTO between Compliance and Constraints**

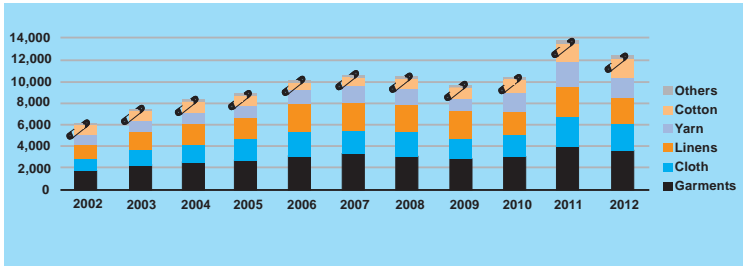
Pakistan joined WTO on its inception in 1995. Subsequently, Pakistan took all possible steps as per its bindings and carried out structural reforms including liberalization of trade and economy. By taking necessary reform initiatives, Pakistan succeeded in growing economic activities in the country. WTO's main clauses require all parties to sign accession agreements and ratify them as binding for compliance. To fulfill this condition, Pakistan completed the legal process through an act of the parliament and ratified it within three months. The confirmation was communicated to WTO Secretariat making Pakistan a full member. During WTO's Bali Ministerial Conference of December 2001, 161 members concluded negotiations on Trade Free Agreements (TFA). Pakistan became 51st member and first from South Asia to ratify TFA on 26 October 2005. Pakistan's ambassador presented Pakistan's instrument of acceptance to Director-General WTO Roberto Azevedo on 27 October 2005 (Government of Pakistan, Bureau of Statistics, May 2015). The TFA comes into practice once accepted by two-third of WTO members. Once fully materialized, it would increase exports up to 22%, creating 18 million jobs in developing countries. Its main provisions include expediting the movement, release and clearance of goods and cooperation on compliance issues. It further contains provisions for technical assistance and capacity building in countries having inadequate expertise.

WTO agreements also required members' central government standardization bodies to accept and comply Code of Good Practices for preparation, adoption and application of standards. Pakistan Standards and Quality Control Authority accepted this code and enquiry points have been notified. It demanded removal of restrictions on foreign investment by year 2000. Subsequently, Pakistan made requisite laws and complied with regulations within stipulated time frame. Resultantly, Patents Ordinance-2000 was formulated protecting products for 20 years. Intellectual Property Organization of Pakistan (IPO-Pakistan) was established on 8th April 2005 under Cabinet Division for efficient intellectual property management. The Trade Marks Registry, Copyright Office and Patent & Design Office were integrated. Legislation of Trademark Ordinance-2001 catered for domestic and international obligations protecting interest of trademark owners and providing them legal framework. Pakistan has notified Ministry for Food, Agriculture and Livestock and their relevant departments accordingly (Economic Survey of Pakistan, 2014/2015). Pakistan has been following policy of deregulation under WTO. Deregulation and liberalization of telecom

sector has increased choices at competitive and affordable rates. Overall Pakistan has maintained an effective and well-defined regulatory regime consistent with international practices by deregulating various sectors of economy.

Pakistan is an agrarian country. Its industrial setup, major exports and foreign exchange earnings come from agricultural sector. One of the major industries i.e. textile is also agriculture based and shares 20.9% to GDP generating 65% exports. Pakistan traditionally enjoys competitiveness in agriculture sector due to availability of raw material and cheap labor (Aziz, 2009). Under WTO, Pakistan liberalized economy and reduced tariffs on imports which increased its quantum. On the contrary, envisaged benefits in agriculture, textile and services sectors have not been observed as envisaged. It is also worth mentioning that certain steps were required by Pakistan to prepare local industry in line with global competition, transparency, improved management and standardization. This has not happened resulting into overall low revenues vis-à-vis exports and ever expanding current account deficit. Pakistan's economy is under pressure compelling the Government to impose direct taxes to compensate revenue shortfalls further deteriorating plight of capital. It was expected that by following WTO policies, in global trade Pakistan would face no restriction, quotas or barriers. Consequently, Pakistan's major exports would receive a significant boost. As the tariffs were being applied twice by exporting and importing states, it was expected that tariffs would reduce both by importers as well as by exporters giving a double benefit to trade. Accordingly, Pakistani exports will get an overall advantage. Moreover, after Agreement on Textile and Clothing, it was calculated that Pakistan's textile exports will increase by 48.8 percent to EU, 82 percent to US and 89.9 percent to Canada from 1995 to 2005 (Government of Pakistan, Bureau of Statistics, June 2015). In case of clothing, Pakistan's exports were expected to grow up to 70.8 percent to EU, 87.7 percent to US and 82.6 percent to Canada. However, none has been achieved in its entirety.

The spirit of WTO regime was free trade without quotas, restrictions and subsidies giving an edge in agriculture, textile, fabric and leather sectors to developing countries like Pakistan. However, the developed countries made this edge ineffective by imposing additional taxes, subsidies, anti-dumping duties and various quotas. Though these restrictions are being litigated in Dispute Settlement Committees, but progress is slow. Both United States and European Union are giving annual farm subsidies up to US \$ 20 and €39 billion respectively at the cost of developing countries contrary to WTO regime by exploiting loopholes. Though Pakistani exports have increased moderately as indicated below but far less than expected. The textile exports increased to US \$13.1, 14.5 and 13.476 billion during 2012 to 2014-15 respectively but far lower than expected (Economic Survey of Pakistan 2014/2015). On the contrary, imports have increased exponentially during the same regime which has put the national economy under tremendous pressure.

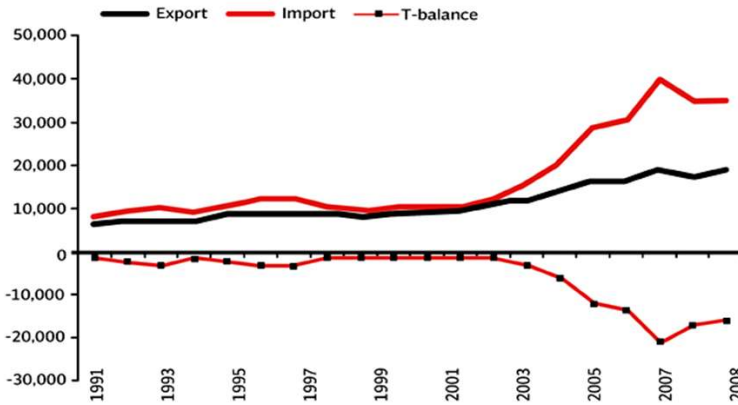


Growth in Pakistan textile exports (US \$ Millions)  
(<http://globalfarmer.com.au/2014/06/farming-future-hands>)

It is worth mentioning that WTO required standards in food, agricultural products and plants which have been exploitable and acted as non-tariff barriers for developing countries. The developed countries employ public standards to restrict agricultural and food imports to protect domestic farmers and food companies proving argument of 'standards as protection in disguise'. On the other hand, compliance to quality standards under WTO requires huge investments to upgrade infrastructure, institutional, technical and scientific capacity for food quality and safety management which is beyond the financial capacity of developing countries like Pakistan. After phasing out of Multi Fiber Agreement in 1995, textile trade increased due to removal of quota regime making Pakistan second-largest exporter of combed cotton yarn to United States. Seeing this scenario, United States imposed quota again on Pakistan. Then Pakistan sued the case in WTO dispute settlement mechanism and won it on 16 August 2001. Though restrictions were removed in November 2001 after about 5 years but Pakistan faced quotas restrictions during litigation period.

Similarly, under WTO 'Patent Certification' of all products based on DNA testing and geographical indications is required which has become a problem for Pakistan. Inadequacies in analytical and human resource capacity, coupled with financial limitations, developing countries such as Pakistan face difficulties in meeting these requirements. WTO has no mechanism to enforce laws on member states if required. It is a significant weakness in the organization which is exploited by the developed world against interests of developing countries. The developed countries impose significant political and diplomatic influence over weaker states to get their votes in crucial negotiations and get decisions in their favor. Despite the inflated claims by key players since the inception of trade liberalization, trade distortions and restrictions continue in one form or the other. Countries seek 'Free Trade Agreements' to increase market access for exports and to enhance competitiveness. Pakistan Business Council's analysis concludes that Pakistan has failed to negotiate favorable terms for its exports while negotiating 'Free Trade Agreement' (FTAs) with China, Malaysia and Indonesia (Asian Development Bank, Pakistan Trade, 2015). Exponential increase in

imports versus modest increase in exports has resulted into ever increasing budget deficit. The figure below reflects year wise imports, exports in horizontal line while amount in millions of US \$ on vertical line. The gap between imports and exports represents the trade deficit which remained under control till 2003-4, but has expanded dangerously afterwards post joining WTO.



Imports, Exports and Trade Balance in millions of \$ US  
(Ministry of Finance Economic Survey available at )

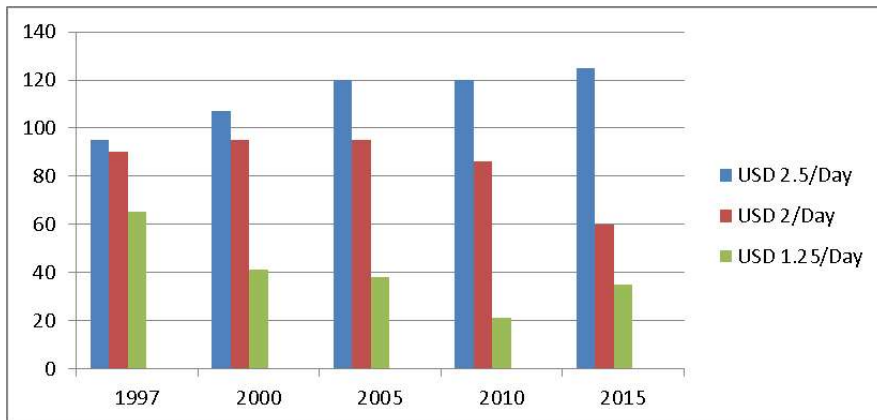
<http://tribune.com.pk/story/604636/rising-imports-stagnant-exports-sign-of-structurally-weak-economy>

This tremendous increase in trade deficit is being adjusted by heavy public and foreign borrowings increasing public debt as shown below. Currently the highest liability of our national budget is foreign debt repayment putting heavy toll on the national economy and resulting in inflation, unemployment, economic instability and public unrest.



Pakistan's Foreign Debt in Millions of \$ US  
(<http://www.pakistantoday.com.pk/2015/07/17/business/pakistans-trade-deficit-widens-to-22b-in-fy15>)

Poverty is not a new phenomenon in Pakistan as every third Pakistani lives below or at poverty line, there are many reasons for that, trade difficulties are the major contributors. Accordingly, to a study about 59 million population of this country subsist below poverty line i.e. 2 US \$ a day. According to World Bank report (World Development Indicators 2011), 21 percent Pakistanis live below \$ 1.25 per day and a larger numbers live under two dollars a day. The reasons for lagging behind in development and fighting poverty are internal and external economic challenges comprising less revenues, more expenditures, ever increasing public debt, high inflation and natural disasters. The main issue is limited exports and unchecked imports. This results into low economic growth, wide spreadunemployment resulting in radicalism, intolerance and extremism in the society. Details of overall poverty situation in Pakistan over the years is shown below.



Pakistan's Population on Poverty Line in Millions  
 (<http://www.dailytimes.com.pk/opinion/14-Jun-2014/rising-poverty-in-pakistan>)

### Then What to Do? Let us be Realistic

#### Need Based and Business Centered Compliance to WTO:

Pakistan has taken all necessary steps for compliance to WTO which includes putting in place regulations, liberalization process and smoothening up of trade policies. Yet she has not been able to reap the benefits of WTO's policies. The deteriorating situation warrants a reality check. The fact remains that powerful nations control WTO who have economic influence over developing countries. Therefore, these states exploit the system in their favor and get favorable decisions and delay or expedite processes as per their requirements. You see this is part of world politics which is full of regional, racial and religious prejudices. It has been part of human history and no manmade mechanism can undo it. Every nation aspires for its own benefits and to gain the optimum for the people. Abiding by the human values and ethics is morality. Businesses do not recognize morality in trading; it opts for maximum profits. So what are options left to Pakistan with respect



to WTO which is based on certain tangible laws and policies? Laws are made on tangibles not based on spiritual and unquantifiable moralities. Pakistan cannot bring in new legislation into WTO. So the only option is to look for enhancing trade to the optimum while remaining within the system. WTO's compliance should be based on prior planning for economic gains only. As there are no fix rules in business, there should be no fixation in compliance to WTO. That is possible when Pakistan has its own business policy based on a single factor i.e. market competitiveness. While turning to reality check, the first policy point, the Pakistan business must understand is getting rid of expectations from other nations. Businesses recognize only the language of profits and losses. We need to be selective towards compliance of WTO's guidelines. The focal point of our trade policy should be maximization of trade and within that compliance of WTO policies.

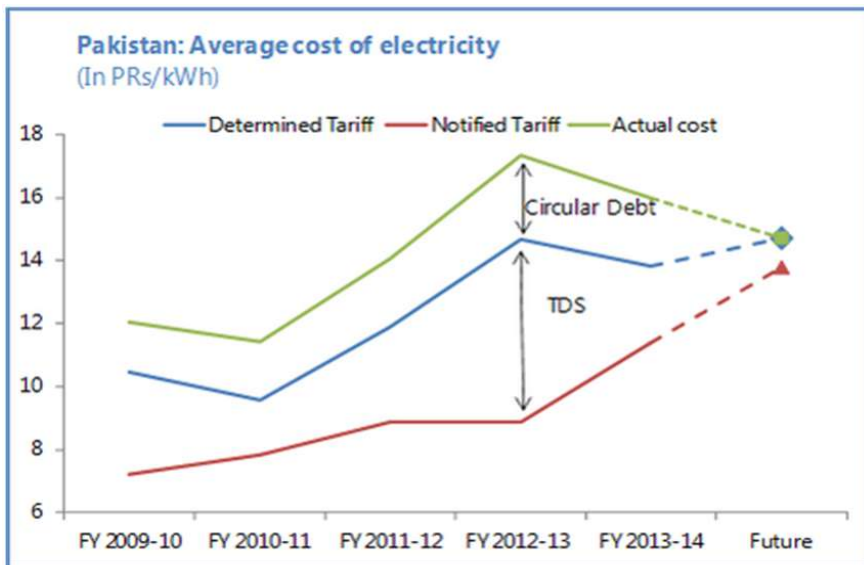
### **Make Economic Policy Pivotal to all other Policies:**

Economy is always influenced by politics which remains the focal point of all human activities. Balanced political system and activities inside the country provide internal cohesion, development of peaceful society and law abiding citizens. The kind of environments created therein encourage economic activities and businesses which reciprocate to strengthening peace and further developments. Similarly, political posturing with the outside world create business environments for mutual benefits. In Pakistan's case the policies are standalone activities of various ministries developed through the syndrome of tunnel visions. Contrarily in the modern business world, economic policy is pivotal to all others. It is like your foreign policy, defense policy, media policy, ideology and diplomacy all should converge on economics. Pakistan with a strong defense posturing and sizeable market of about 200 million people should develop policies converging on economics that would make its place under WTO more sustainable. Law and order situation prevalent in a country is byproduct of economic prosperity which is derivative of businesses of goods and services. Therefore, convergence of national policies on economics is the fundamental requirement of prevailing environments in Pakistan.

### **Manufacturing of Multi Quality Products:**

No country can run a successful business without manufacturing. Multi quality products cover market diversity according to purchasing power of the customers. This is what Chinese are doing in manufacturing; they have different standards for developed and developing countries. Pakistan need to adopt an effective segmentation strategy for marketing such goods and services. However, that is possible when we achieve uninterrupted power supply assurance which is essential fuel for industries. Power outages and breakdowns have negative impacts on manufacturing in Pakistan for the last about a decade. According to a survey in 2011, out of 2000 factories in Punjab, 800 factories had been closed losing 4.1 million jobs. Our cost of production has soared too high to compete in the world. On the average,

per unit electricity cost in Pakistan has increased from Rs. 12 in 2010 to Rs. 18 in 2013 as shown in the table below exponentially increasing cost of production. Interrupted power supply has two adverse impacts on manufacturing. One, it negates diversity in manufacturing; you cannot think of experimenting for multi-quality products rather focus on essentials only. Secondly, when interruptions are less your productions increase so you complete the orders before time and then have idle time. When interruptions are more, productions decrease, then you fall short of meeting timeline of orders; consequently, you at loss of market credibility

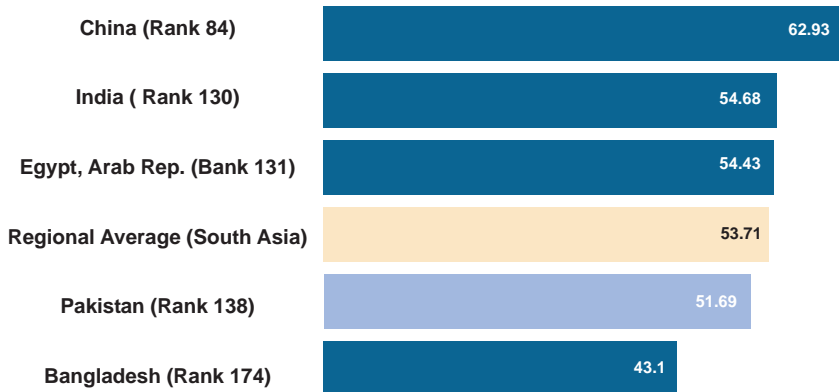


Year wise electricity cost in Pakistan  
(Doing Business 2016-Economy Profile-Pakistan available at  
/Reports/Subnational-Reports/~//media/giawb/doing%  
20business/documents/profiles/country/PAK)

### Legal Hiccups in Setting Business:

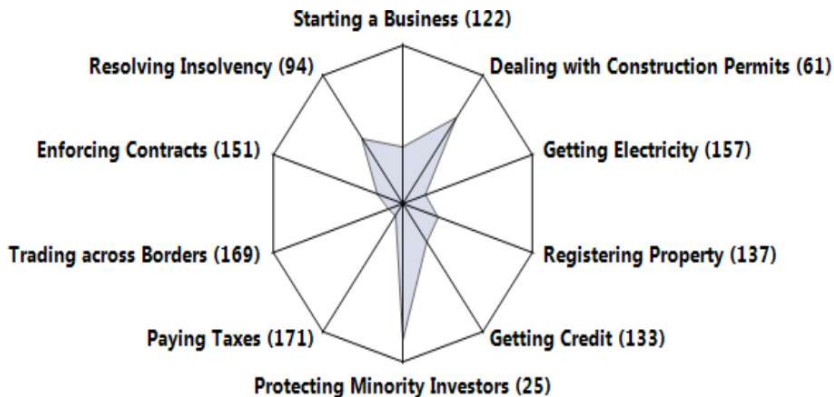
The extent of difficulty of doing business in Pakistan can be imagined by the fact that 40 regulatory bodies have to be consulted to open business in Pakistan and a businessman has to get 'No Objection Certificate' from 20 different agencies. It takes many months or at times more than year to complete formalities, whereas in Singapore, you can start business within 6 days through one window operation. As per 'Economist Intelligence Unit' in business environment rankings, Pakistan ranked 74 out of 82 assessed countries in 2014/2015. Business environment in Pakistan has gone extremely bad in last 10 years on the pretext of security dilemmas. Here investors who start their business in less than eighteen months are considered lucky. They also have to live up with administrative procedures taking up about fifteen

per cent of their revenues. Therefore, the overall standing of Pakistan in doing business is not good. As per World Bank Report of 2016, Pakistan is ranked 138 amongst 189 countries shown in the comparative graph below.



### Overall Ranking in Doing Business in Pakistan

(Doing Business 2016-Economy Profile-Pakistan available at [/Reports/Subnational-Reports/~media/giawb/doing%20business/documents/profiles/country/PAK](#))



### Ranking in Starting Business in Pakistan

(Doing Business 2016-Economy Profile-Pakistan available at [/Reports/Subnational-Reports/~media/giawb/doing%20business/documents/profiles/country/PAK](#))

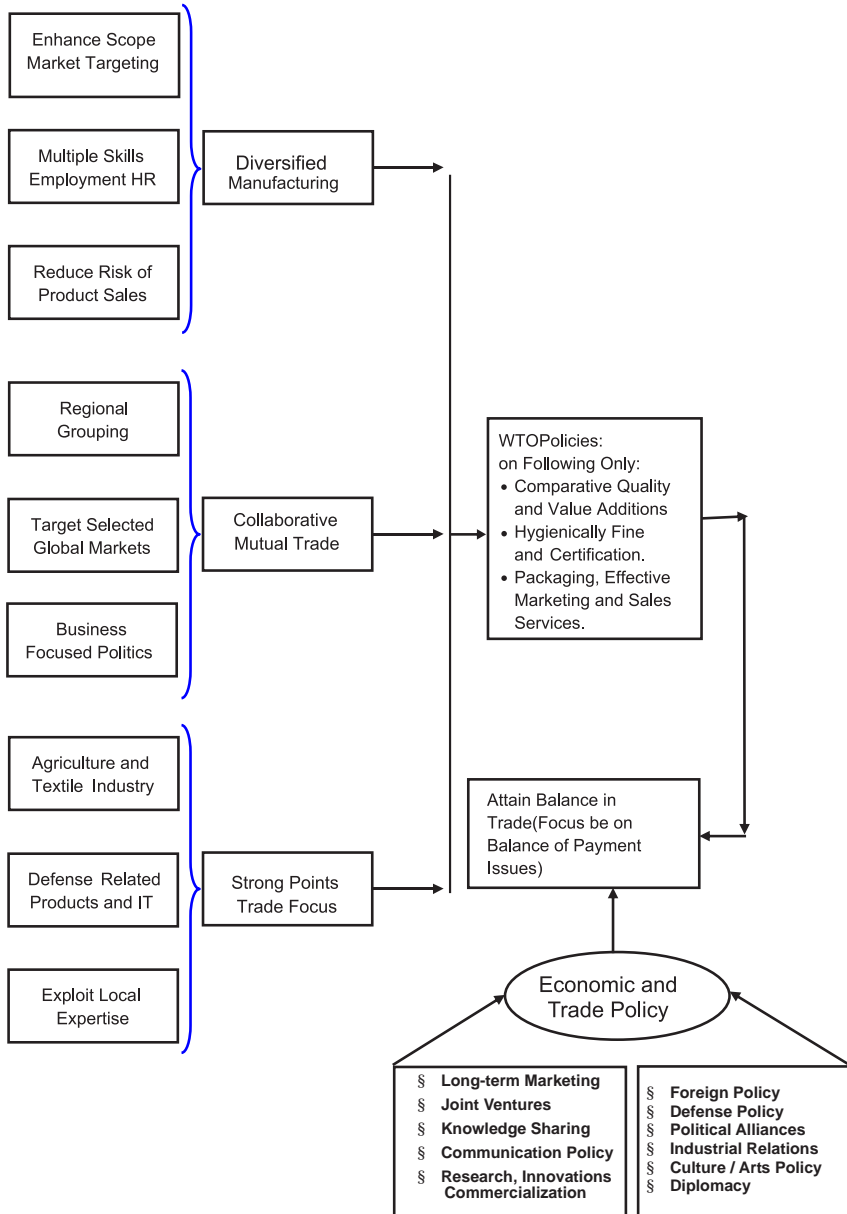
Business environment includes all internal and external factors affecting a company's functions, employees, customers, supply and demand, sense of security, competition, technology, laws, market, social and trends. In nutshell, it means ease to do business. Pakistan definitely requires to simplify business procedures, make long lasting rules, improve security situation and make fair taxation system to create conducive business environment.

**Focusing on Strong Points:**

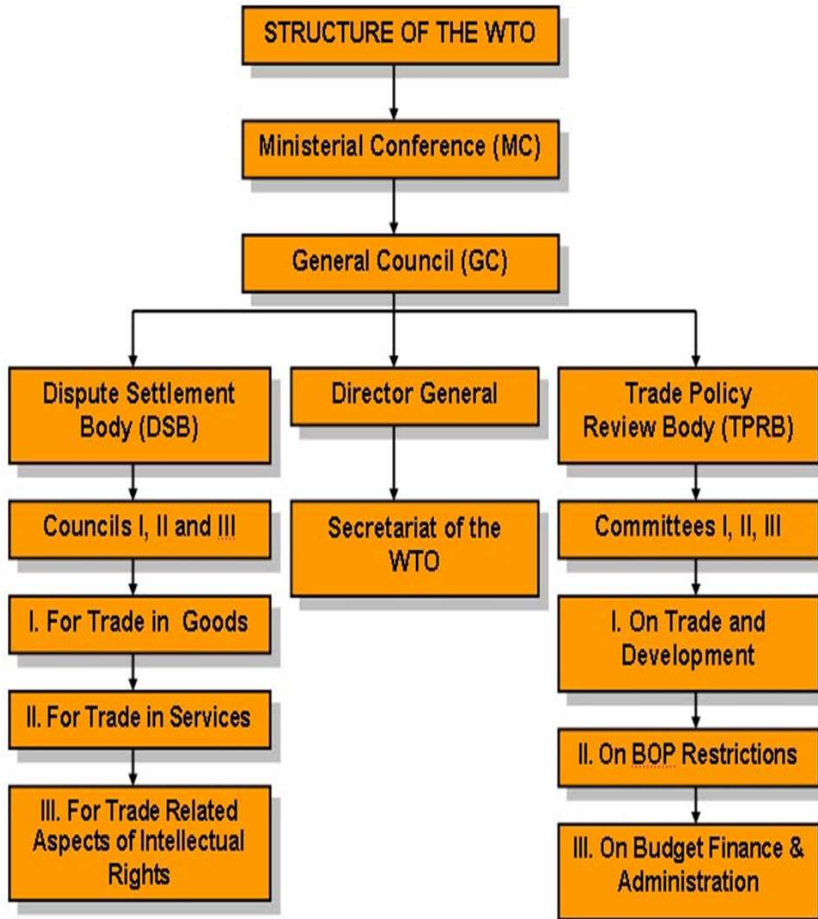
Pakistan's economy is predominantly based on agriculture and textiles. Overall 66.7% population is directly or indirectly depending on agriculture sector which contributes 21.09% to GDP and employs 45% of labor force. Agriculture being backward adversely affects the entire economy. There is a need to rejuvenate this sector and diversify industrial sector and exports and in turn the entire national economy. Pakistan is at 6th number amongst most populous nations. This huge source of manpower needs skill to multiply the outputs starting from agriculture to industries. Lack of skills turns large segment of the society into a source of deprivation, frustration and radicalization which creates law and order situation. With multiplied skills, the society can achieve tremendous diversification in manufacturing and services. This is possible when Trade Development Authority of Pakistan reduces the distance with corporate sector / business community.

**Proposed Model of Trade for Pakistan**

Keeping in view the preceding discussion, a proposed model for developing trade is given on the next page below. Its main focus is to reduce the gap between imports and exports and that is possible only when we have balance trade. Other national policies especially the political alliances and defense policy of the country should be developed with economics and trade in view. This is one thinking process, there can be many variants to that, the bottom line remains survival of developing nations within global policies. Progress and development in isolation is not possible under the given environments. Instead of changing others, let us appraise to change ourselves in economics and trade. All our educational pursuits would require to be aligned in the same direction.



## Organizational Structure of WTO



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