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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 slowly growing exports but a high level of imports, which in turn has resulted in multiple balance of payments crises This study quantifies the types of trade restricting and trade promoting policies and quantify the depth of these policies. Both the methodology and the results will be shared with policymakers and other stakeholders to contribute to the debate on the success or failure of policies aimed at improving Pakistan's trade performance. This study analyzed the impact of trade policies on Pakistan's trade performance over 2008 to 2022. We have used the Global Trade Alert (GTA) database, recognized for its comprehensive coverage of crisis-era trade policies, and evaluate the nature and extent of trade enhancing and trade restricting policies in Pakistan and then empirically test the impact of these policies on Pakistan's export and import performance over this time period. We find that* Pakistan employs diverse trade-related industrial policies, emphasizing tax incentives for exports and tariff reductions, while import policies focus on tariffs and internal taxation. However, only some policies significantly affect trade volumes, like import tariffs for export growth and internal taxation for import growth. Traditional export financing remains unchanged. To enhance effectiveness, Pakistan should prioritize less administrative policies like tariff reductions and explore new sectors for trade financing. To bolster exports, Pakistan should prioritize effective policies over traditional strategies. Focus on subsidizing credit for exporters, expanding successful programs like the State Bank of Pakistan's TERF scheme, and reducing tariffs on imported inputs. Direct government spending towards export-focused training and infrastructure. Transition to cleaner energy

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Introduction

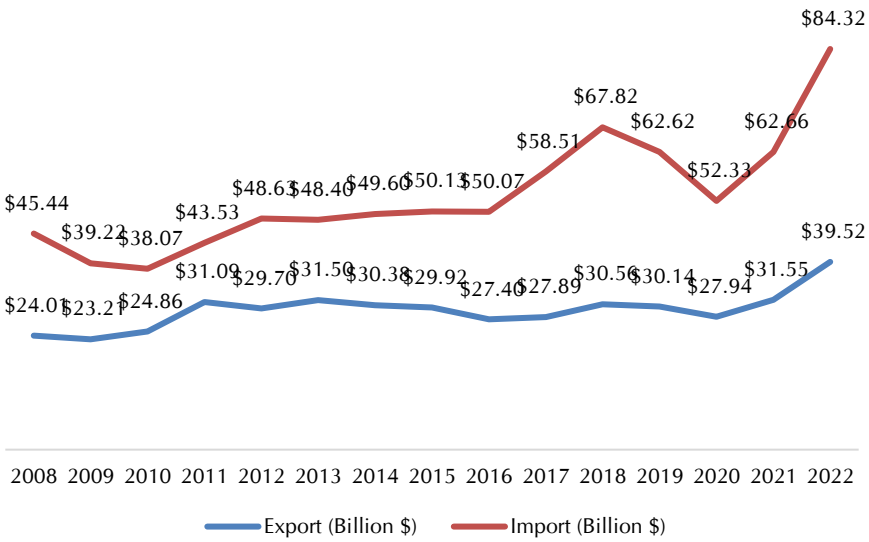
Various international trade theories support cross-border trade, including Mercantilism (prior to Smith), Absolute Advantage (Smith, 1776), Comparative Advantage (Ricardo, 1817), Factor Proportion (Ohlin, 1935), and Product Lifecycle (Vernon, 1966). Mercantilism emphasizes the necessity of favorable trade balances, meaning exporting more than importing. Absolute Advantage, associated with Smith, 1776, denotes the ability to produce goods or services more efficiently than others. Comparative Advantage, introduced by Ricardo in 1817, suggests that a country has a comparative advantage in producing a good if it can do so at a lower opportunity cost than another country. 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 in 1966 indicates that products start in technologically advanced countries but eventually shift production to developing countries due to lower labor costs.

International trade helps countries get the resources they need to make life better for their people. But things like high shipping costs and taxes can make it harder to trade. Luckily, new technologies for sharing information have made it much easier to trade with other countries. International trade doesn't benefit all countries equally. Developed countries get the biggest share, followed by developing countries with about 41%. But less developed countries only make up less than 1% of global trade (WTO, 2017, p.5). Another important thing to consider is trade balance. When a country imports more than it exports, it creates a trade deficit. This means the country has to borrow money from other countries, which can put it in a position where it has to follow their rules even if it goes against its own interests.

Pakistan holds significant importance globally, situated strategically in South Asia. It ranks as the 5th most populous country and possesses nuclear capabilities. Economically, it stands as the 25th largest economy

globally, the 70th largest exporting nation, and the 50th largest importer (CIA World Factbook-2023). In the fiscal year 2022-23, Pakistan's international trade volume totaled US$ 80 billion, with exports at US$ 30 billion and imports at US$ 50 billion (SBP-2023). However, Pakistan has faced with a persistent trade deficit over the past decade, necessitating urgent attention from economic policymakers. This ongoing deficit increases reliance on foreign debts, potentially compromising the nation's sovereignty by subjecting it to foreign influence on policy matters. 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. While tariffs have traditionally been a focus, recent research emphasizes the significance of non-tariff measures (NTMs) alongside. NTMs encompass a wide range of regulations, including quotas, licensing requirements, technical standards, and sanitary and phytosanitary measures. There exists a significant theoretical body of work on industrial policies, spanning various authors and decades, including 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).

In addition to industrial policy, there is a related literature analyzing various trade policies. This includes studies on 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 continue to be 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 have substantial positive effects on expanding developing country trade, potentially doubling the impact of reducing remaining border barriers. Khandelwal and Atkin (2022) analyze the 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. The study sheds light on the challenges faced by developing nations and provides insights into policy responses.

Easson (2001) highlights the value of tax incentives in attracting foreign direct investment (FDI). While developed countries use tax incentives to promote exports and research, developing nations employ them 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. Their focus is on trade policies. The 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.

Regarding the infant industries it has been found by Mwltiz (2004) that they operate in competitive environment and benefits from dynamic learning effects external to firms. In contrast, the foreign industry is mature and produces a good that imperfectly substitutes for the domestic product. A government planner can protect the infant industry through domestic production subsidies, tariffs, or quotas to enhance long-term domestic welfare. Quotas lead to higher welfare levels than tariffs. In certain cases, the dominance of quotas compensates for any government revenue loss associated with quota administration, including scenarios like voluntary export restraints where no revenue is collected. In similar situations, quotas may even be preferred over domestic production subsidies.

Trade policy continues to play a significant role, particularly when it intersects with other factors like technological advancements. Across various countries, there exists varying discrimination in favor of manufacturing industries, often at the cost of primary activities. 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 favoritism. Informed economic decisions necessitate a thorough understanding of trade policy's effects.(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. Through their analysis, they reveal 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.

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. The findings emphasize the nuanced effects of policy interventions and underscore the importance of strategic policy design to maximize economic benefits while mitigating potential drawbacks. Studies such as Rodriguez and Rodrik (2001) and Dixit and Stiglitz (1977) emphasize the potential benefits of import substitution policies in fostering domestic industrial development and reducing dependence on foreign goods. Conversely, research by Bown (2011) and Broda and Weinstein (2006) highlights the detrimental effects of import restrictions such as tariffs and quotas, which can raise consumer prices, limit product variety, and hinder economic efficiency. The findings underscore the importance of considering 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 up 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, due to its extensive coverage, is arguably the most comprehensive collection of non-tariff measures available (Evenett, 2019). Its coverage is comparable to longer-standing projects from multilateral institutions such as the United Nations Conference on Trade and Development (UNCTAD) database and the World Trade

Organization's (WTO) surveillance projects. A significant advantage of the GTA is its independence; it does not rely on compliance from reporting countries.

The GTA database categorizes interventions into various types, such as import tariffs and antidumping policies. Each country imposes 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 be analyzing data from 2008 to 2023, which consists of 8,414 observations for Pakistan, which we have further divided among export and import policies.

Figure 2.1 and 2.2 shows 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- number of times each state act is implemented. Based on the data set we find out that import tariff is the major industrial policy used by Pakistan, which consists of 216 state acts that are implemented 2,904 times. This is consistent with the literature. Based on the number of states acts the second most common policy used by Pakistan is anti-dumping policy, but when we look at the number of times the policies were implemented, they come out to be 184. Based on the recorded instances the second most common policy that is used by Pakistan is Tax - based export incentives, with policies being implemented 1,979 times. For this reason, in our analysis the focus will be on the recorded instances rather than the number of state policies being implemented as the recorded instance provides a true picture. Figure 1.1 to 1.16 and 2.1 to 2.16 in appendix A shows the yearly state acts and the 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 the top two policies implemented by Pakistan have been Import tariff and Tax-based export incentive. 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)

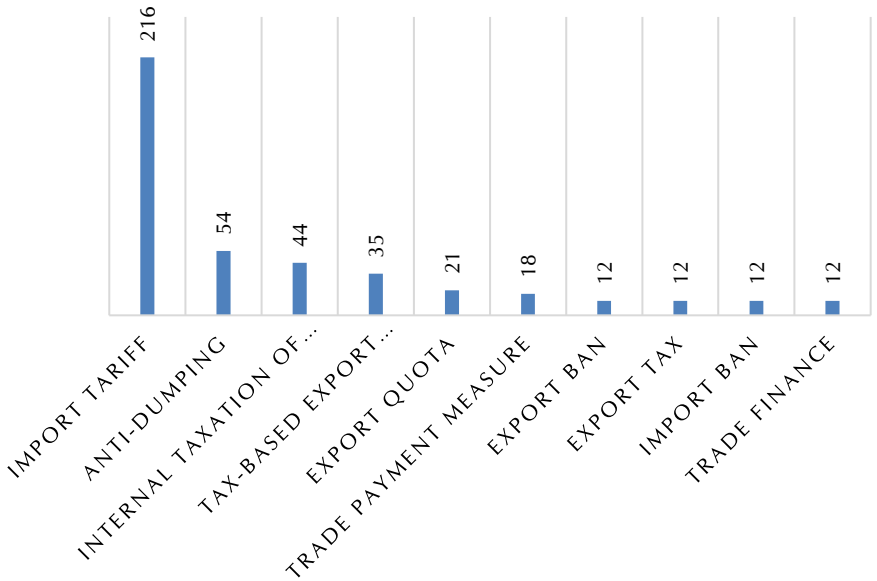
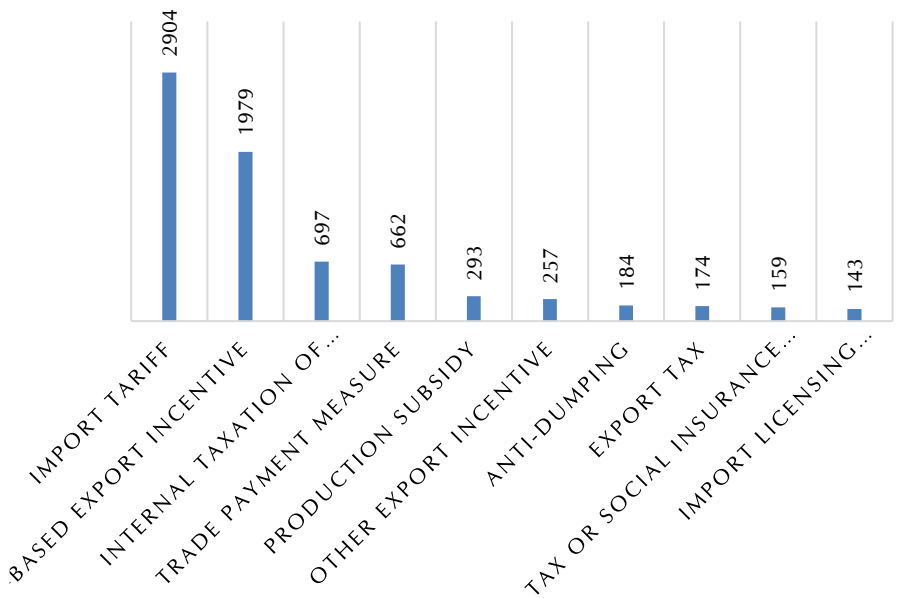


Figure 2.2: Intervention type by recorded instances (2008 to 2023)



Categorization of data

Our data analysis comprises a two-stage categorization process. Initially, we differentiate interventions based on whether they fall under export or import policies. This enables us to quantify the number of export and import policies implemented by Pakistan over the years. Subsequently, we conduct a more detailed examination by classifying the data according to whether these export or import policies actively promote trade or impose restrictions. To achieve this, we carefully assess each state's act individually, evaluating its influence on trade dynamics. Through this comprehensive approach, we gain valuable insights into whether the implemented policies significantly impact our overall trade performance. Table 1 shows some of the 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. The major policy being Tax-based export incentive, followed by other export incentives. A **tax-based export incentive** refers to government programs or policies designed to encourage businesses to engage in exporting certain types of goods or services. These incentives are typically related to tax benefits and aim to reduce the cost of exporting, making products more competitive in international markets. As for import policies (figure 3.2) the major policy is import tariffs followed by internal taxation of imports.

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

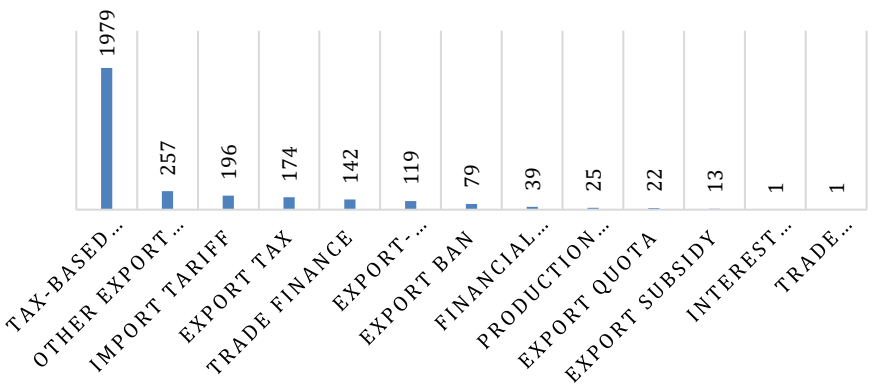
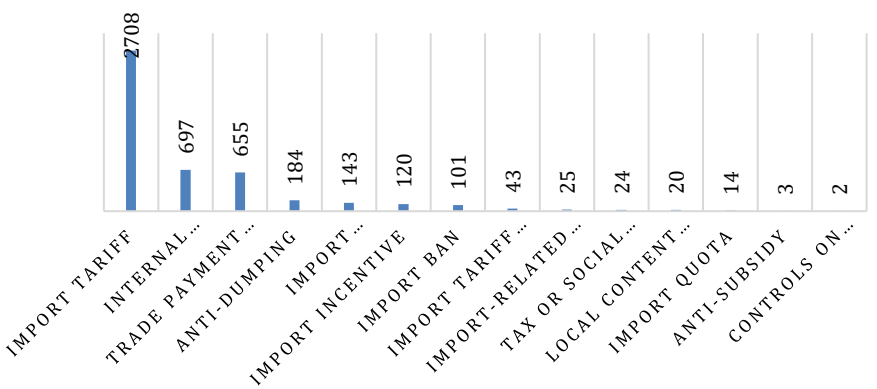


Figure 3.2 Import Policies (Recorded Instances) (2008 to 2023)



Data Descriptives:

The table consists of number of state acts implemented by intervention type for export/import promoting and restricting policy. There are 187 state acts under import traffic out of which 96 are categorized as import promoting polices and 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 whether the state act implemented is firm specific, location specific. Sector specific, SME or state controlled. For import tariff 14 state acts are sector specific and 16 are all of the policy types mentioned. Most of the state acts are not firm, location or sector specific.

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

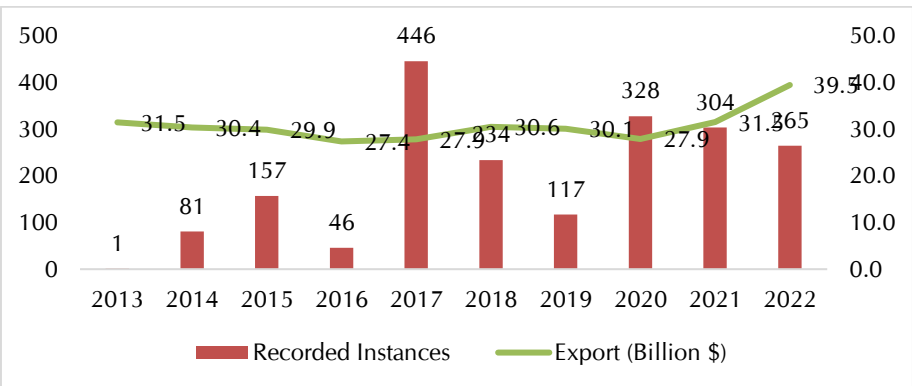
Export Policies

By analyzing the top five policies separately along with the Pakistan's export, we do see some impact on the exports for some of the policies. Figures 4.1 to 4.5 show us 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 was used as an industrial policy after 2013.

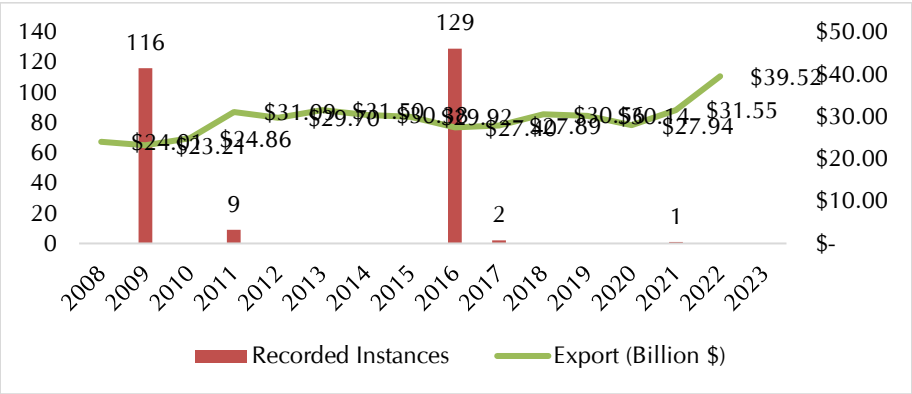
Figure 4.1 Tax – Based Export Incentive



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.

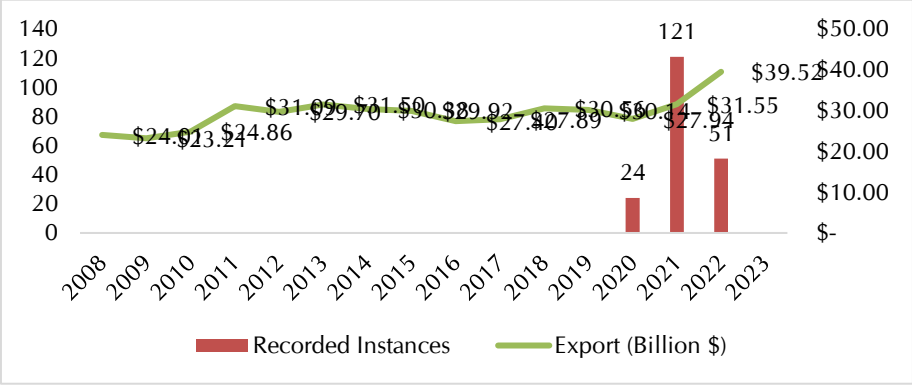
Figure 4.2 Other Export Incentive



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. Example of a state act for this policy is Pakistan: Duty drawback amended on the exports of pharmaceutical products.

Figure 4.3 Import Tariff

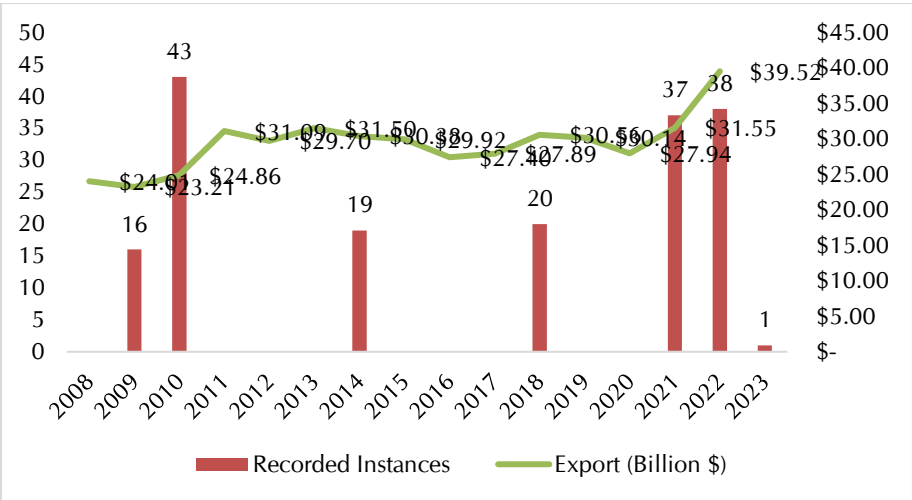


Export Tax

Export tax 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 lead to somewhat increase in the value of exports.

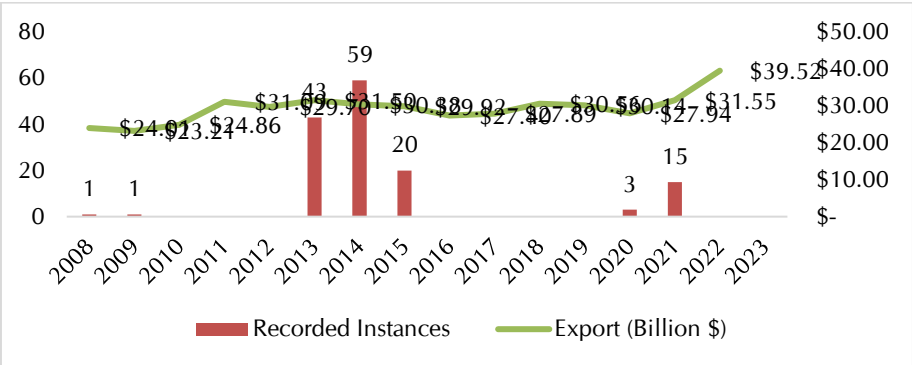
Figure 4.4 Export Tax



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. But over the years the use of trade finance as a policy for trade has reduced.

Figure 4.5 Trade Finance

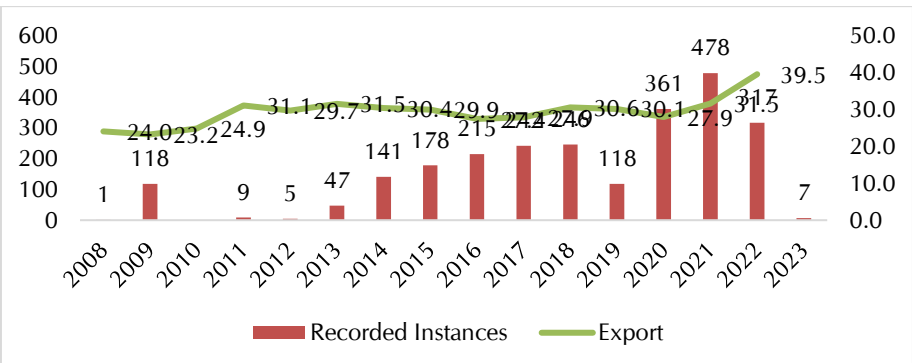


Export Promoting Policies

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.

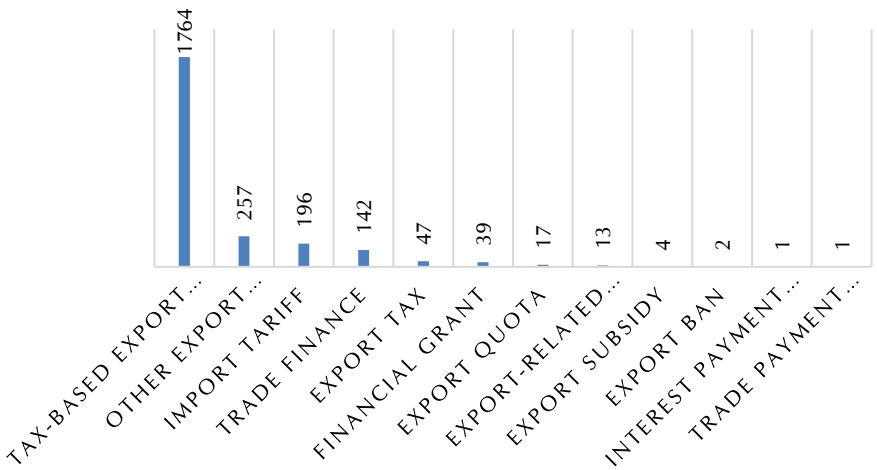
The following figure shows the recorded instances of the export promoting policies on a yearly basis. If we compare it with the export values for Pakistan, we do see a relationship between the exports and the recorded instances in the recent years.

Figure 5.1 :Export Promoting Policies (Yearly)



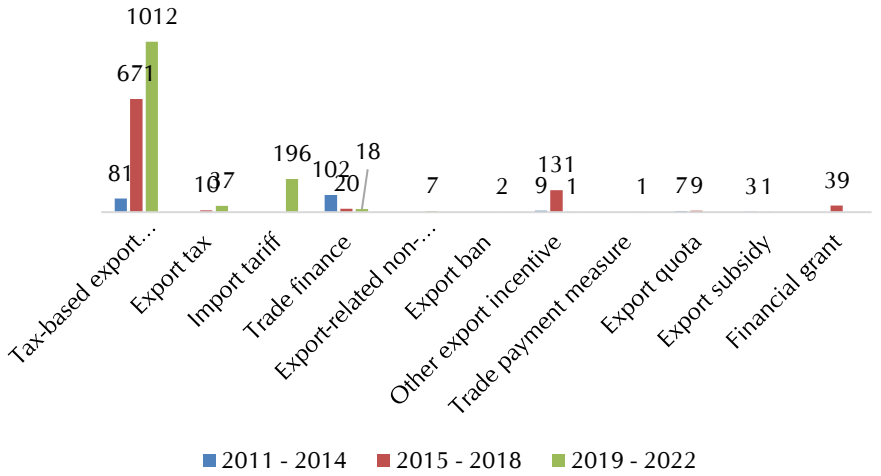
The most common export promoting policy used by Pakistan is Tax -based export incentive followed by other export incentives. Tax-based export incentives are frequently employed by developing countries as a key export promotion policy. Research by Schiff and Winters (2003) underscores the effectiveness 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 see what type policies have been most common in Pakistan. The use of Tax-based export incentive and export tax as a policy measure has become more popular over the years. While the use of import tariff as ab export promoting policy has become popular in recent years. While for the other policies mentioned in the figure they have been used occasionally and the number of times these policies have been implemented has been quite low.

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. We cant see any relationship between the export restricting policies and the export value. The major amount of export restricting policies that were implemented were in 2017. Referring to figure 5.4 we can see that the most common type of export restricting policies implemented by Pakistan are tax-based export incentive and Export related non tariff measures.

Figure 5.4: Export Restricting Policies (Yearly)

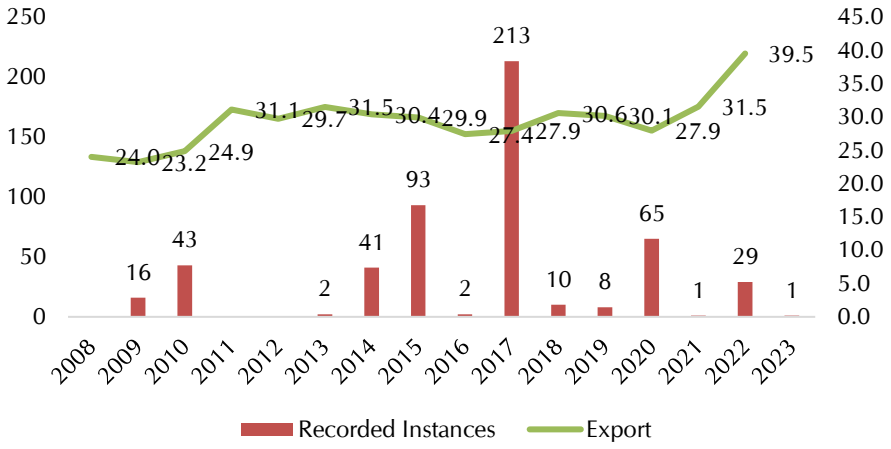
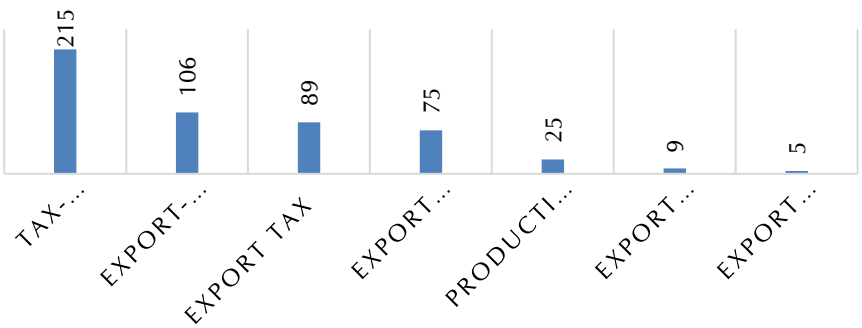
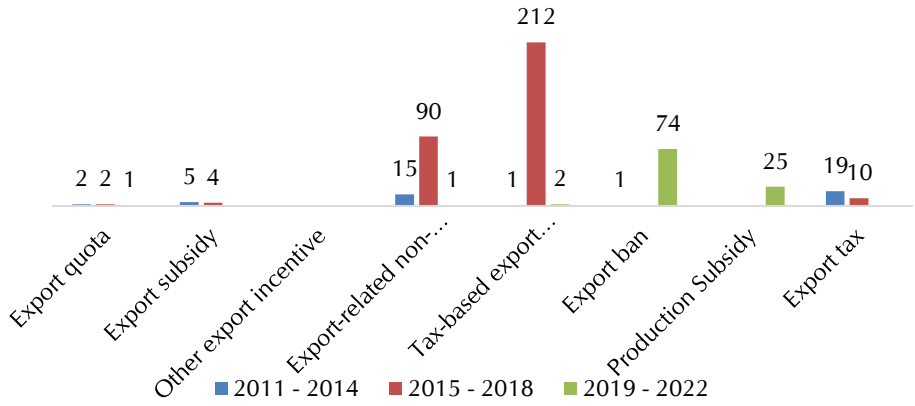


Figure 5.5: Export Restricting Policies



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

Figure 5.6: Export Restricting Policies (Time Bracket)



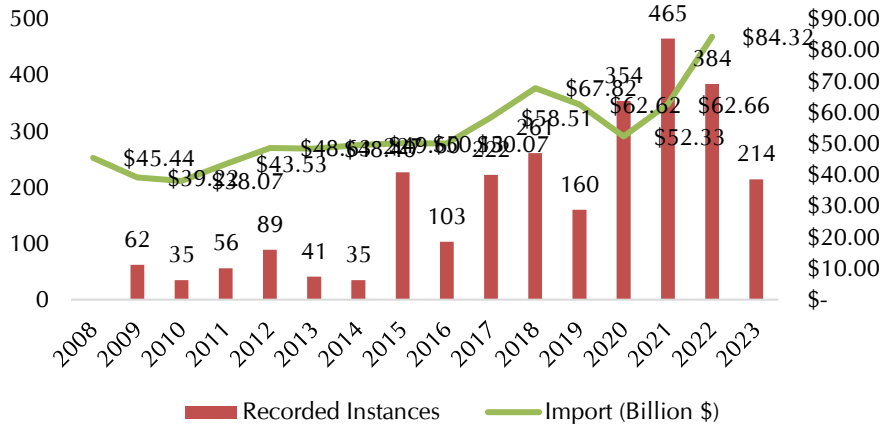
Import Policies

By analyzing the top five policies separately along with the Pakistan's import, we do see some impact on the imports for some of the policies. Figures 6.1 to 6.5 show us the data for these policies.

Import Tariff

Import Tariff as a policy measure has been used in Pakistan since 2009, with fluctuation in the recorded instances over the years. Recently, it has been used more actively.

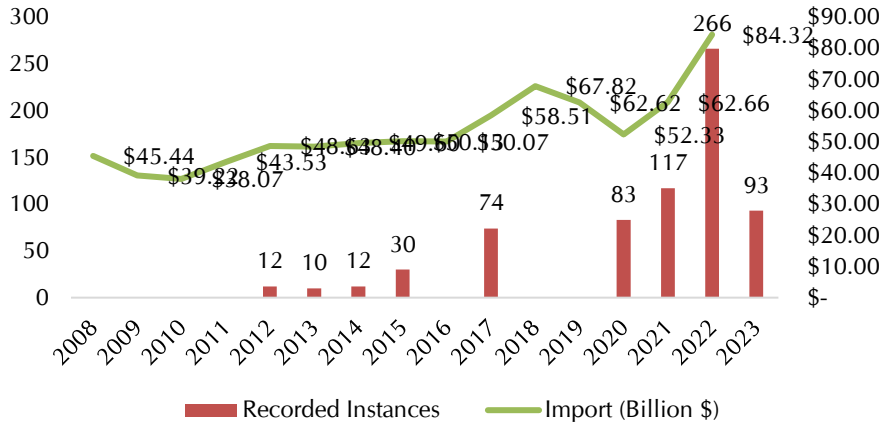
Figure 6.1 Import Tariff



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.

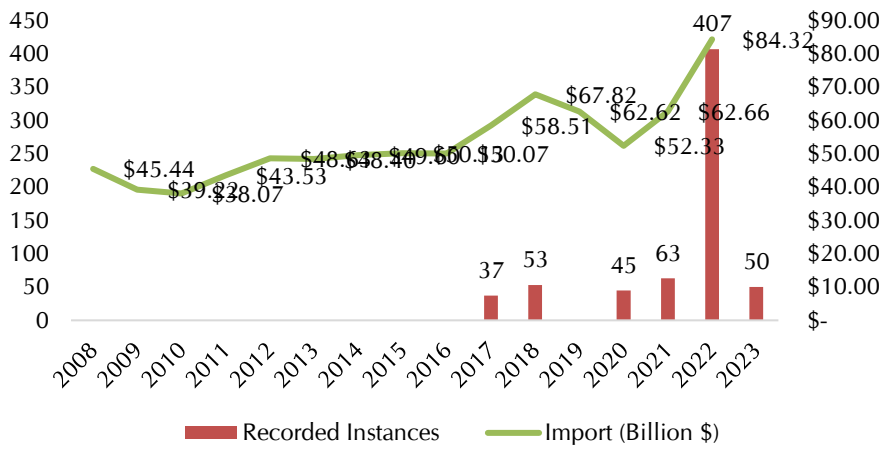
Figure 6.2 Internal taxation of imports



Trade Payment Measure

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

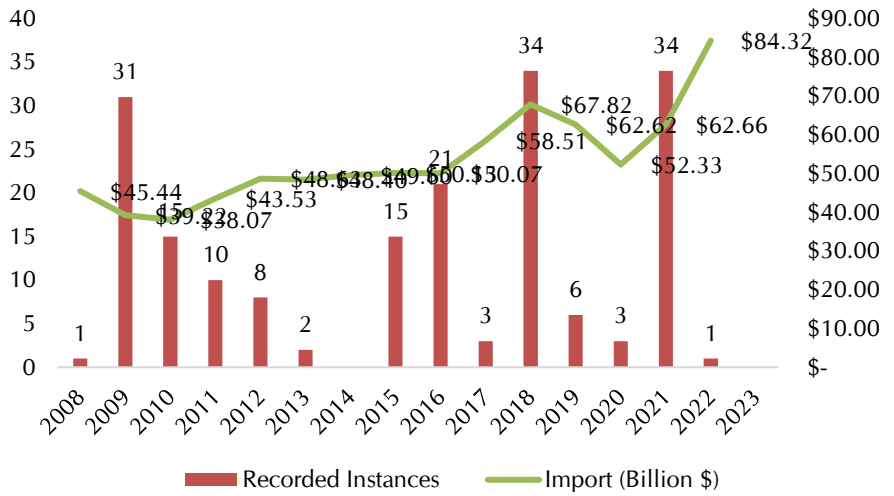
Figure 6.3 Trade Payment Measure



Anti-dumping

Anti-dumping duties are protectionist tariffs imposed by a domestic government on foreign imports that are 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 quite fluctuation in the imposition of anti-dumping policies.

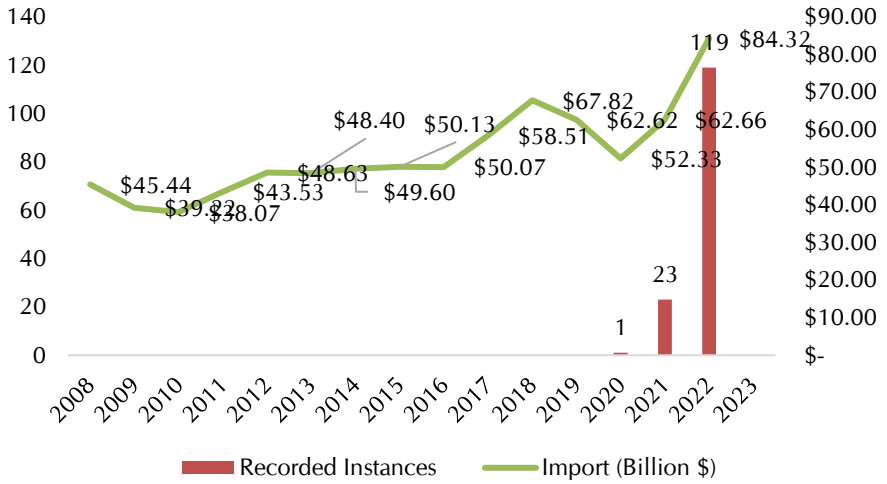
Figure 6.4 Anti-dumping policies



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 importation 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. Figure below shows the number of recorded instances for import promoting policies over the years along with import value of Pakistan. We do see a relationship between the recorded instances and import value.

Figure 7.1: Import Promoting Policies (yearly)

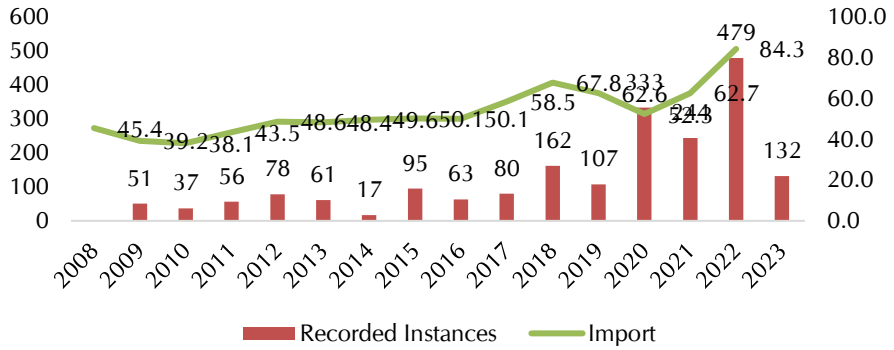


Figure 7.2: Import Promoting Policies

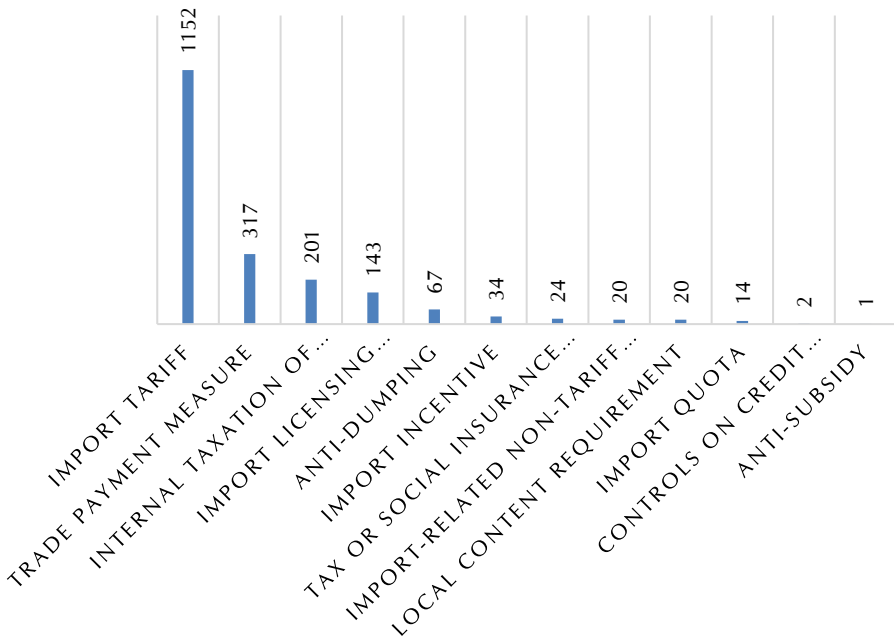
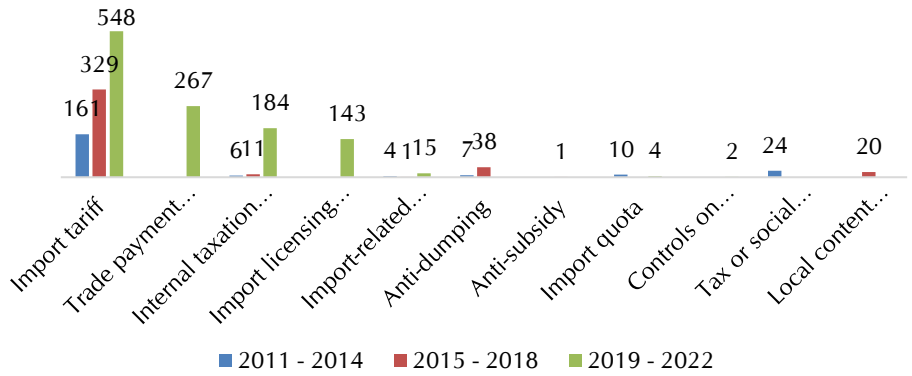


Figure below shows us that the use of import tariff as a policy measure has increased over the years. During 2019 to 2022 new import promoting policies have been implemented that have been used extensively such as trade payment measure, internal taxation of imports and import licensing requirement.

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 policy has increased. We can see a lag effect of the imposition of import restriction policy.

Figure 7.4: Import Restricting (Yearly)

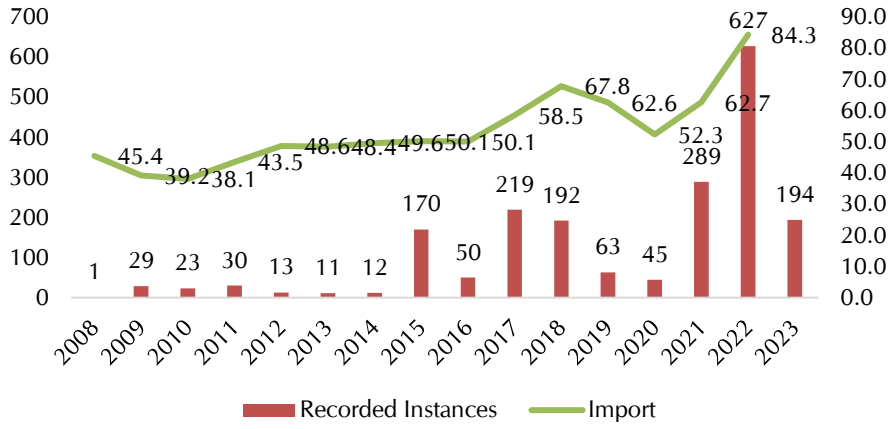
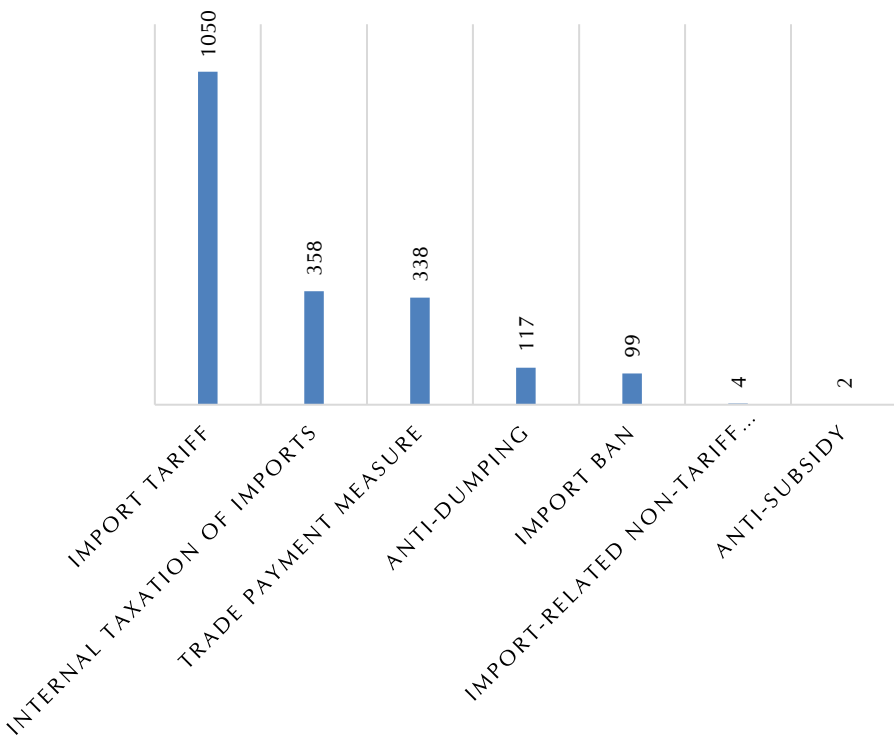
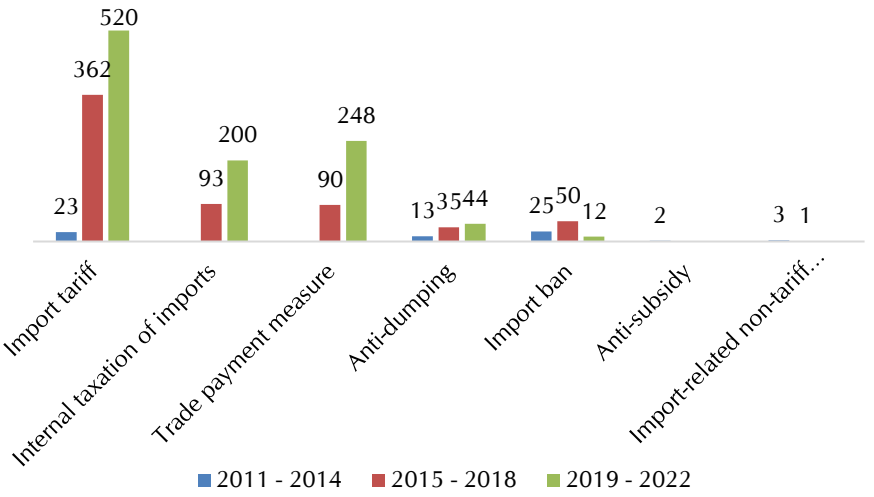


Figure 7.5: Import Restricting



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. Due to higher production costs, high tariffs on these essential inputs reduce the competitiveness of local products on the international market. To prevent unforeseen market disruptions and to allow industries enough time to adjust to new competitive conditions, a progressive reduction plan with predetermined timetables is part of the proposed policy to systematically lower these tariffs. In order to ensure that tariff reductions support the expansion of industries deemed strategically important to national interests, this policy should concentrate on lowering tariffs in a manner that is consistent with Pakistan's larger economic plan.

Promoting Export-Oriented Industrial Policies

Pakistan has to find and invest in industries with a large 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 to improving its trade performance. To effectively assist exporters, existing programs like tax breaks and the Duty Drawback Scheme should be improved and expanded. For example, making it easier for exporters to claim duty deductions would encourage more of them to take advantage of this incentive and lower their operating costs. In addition, direct subsidies could be given for technological advancements, assisting local producers in meeting international standards and improving their ability to compete in international markets. These kinds of incentives not only help current exporters but also draw in new exporters, 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 significantly cut down on the amount of time that items spend in transit, hence 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

Figure 1.1

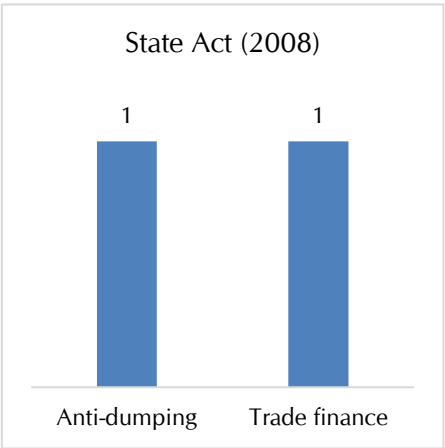


Figure 2.1

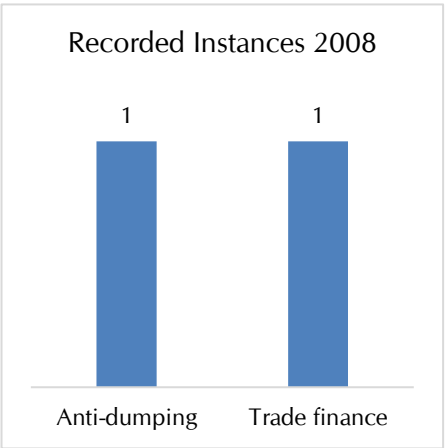
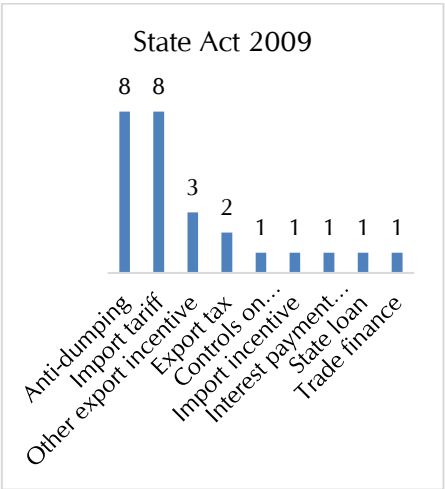


Figure 1.2



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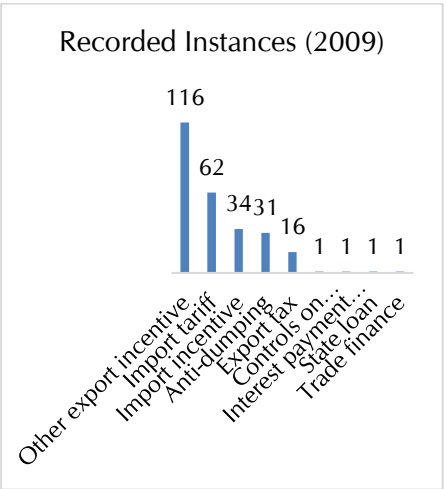

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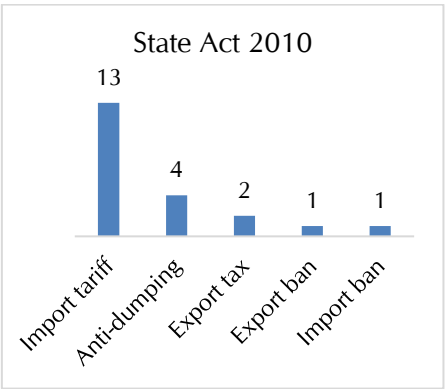

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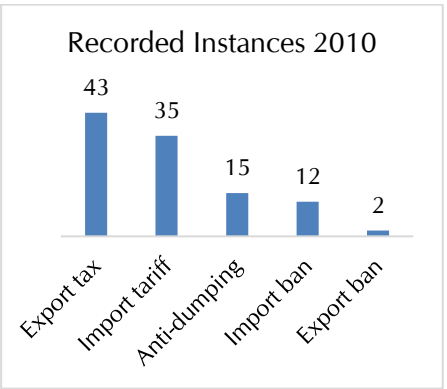

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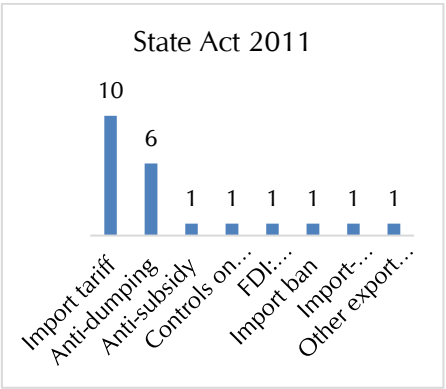

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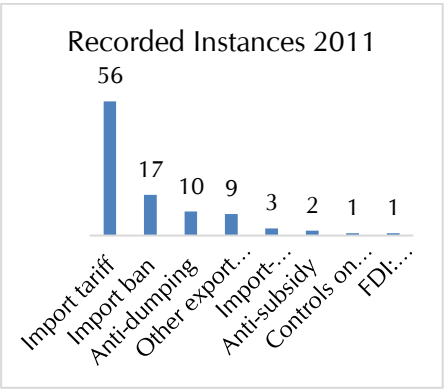

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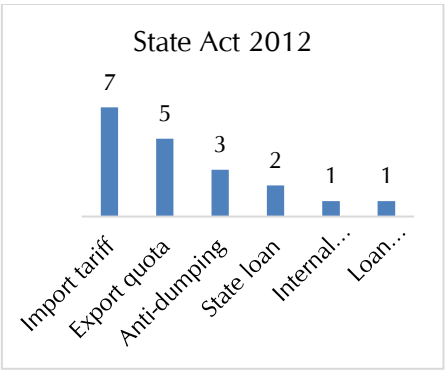

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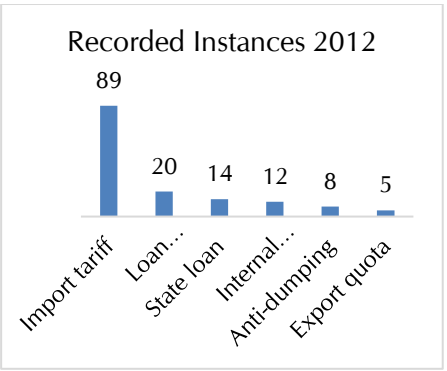

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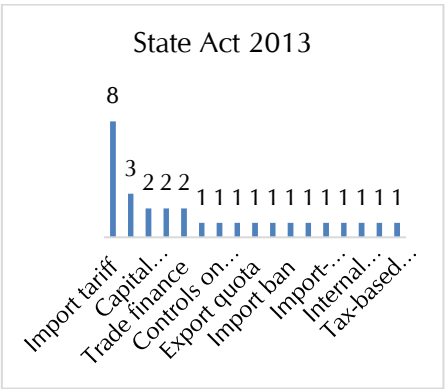

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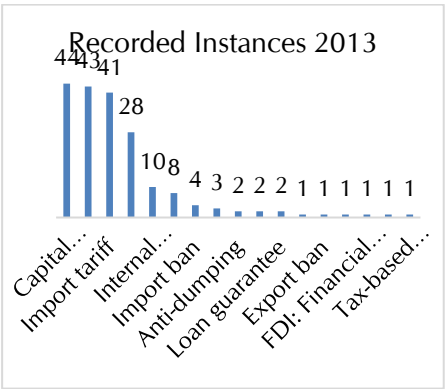

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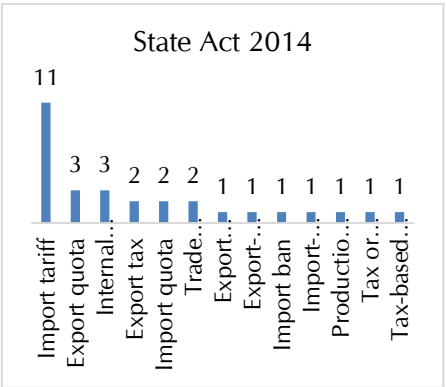

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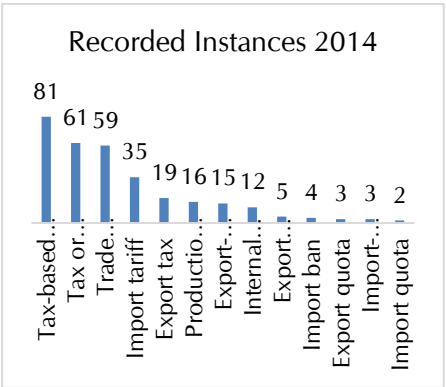

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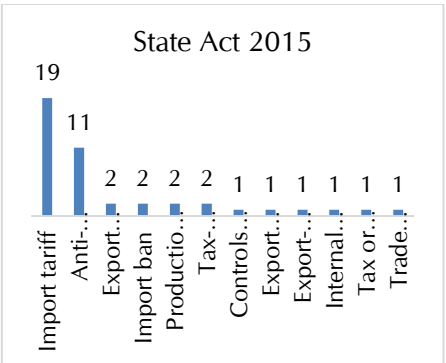

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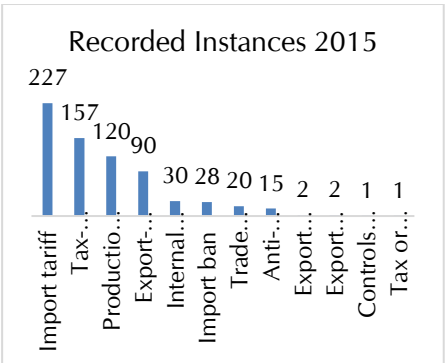

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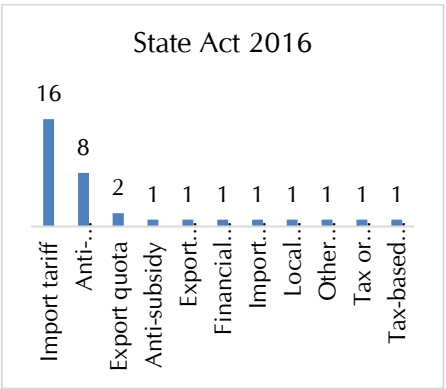
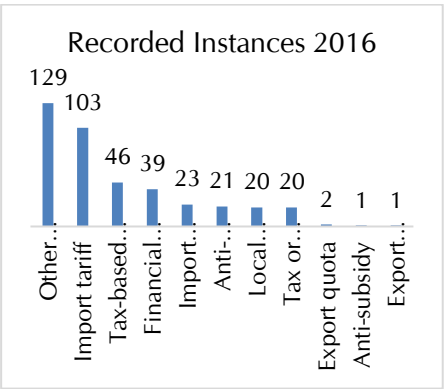


Figure 2.9



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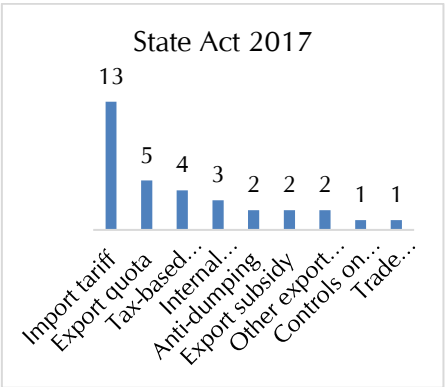

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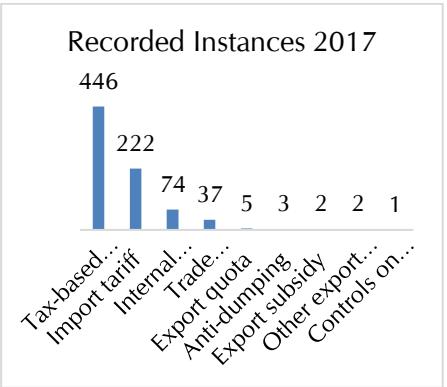

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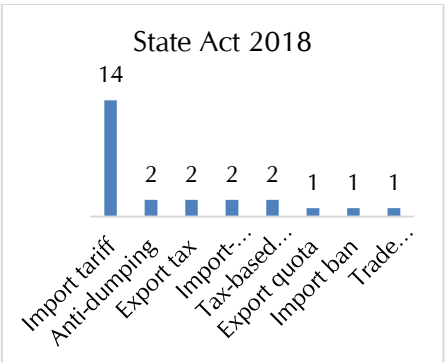

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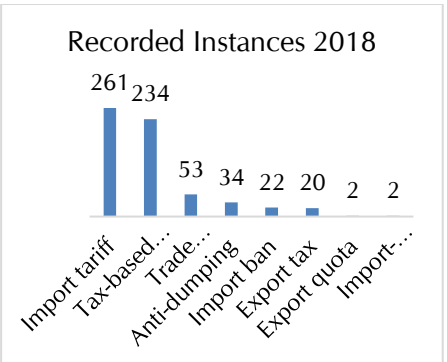

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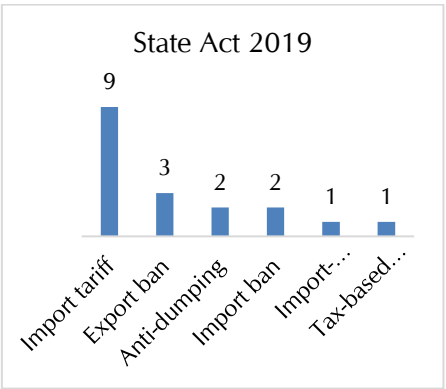

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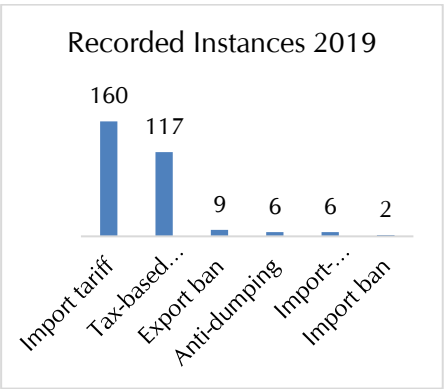

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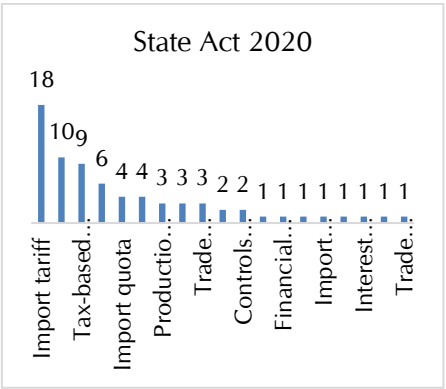


Figure 2.13

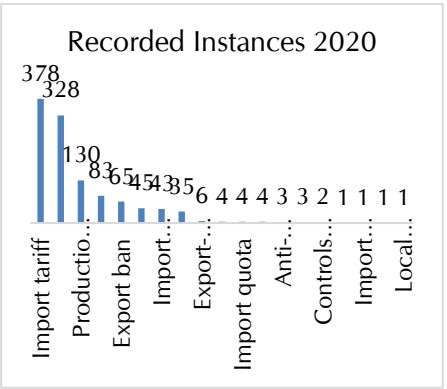


Figure 1.14

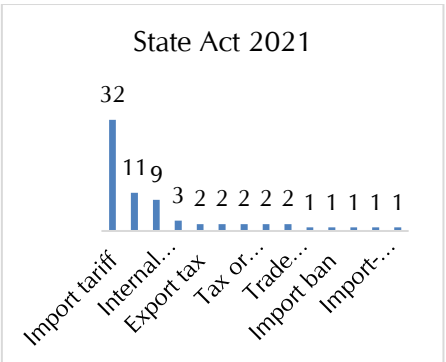


Figure 2.14

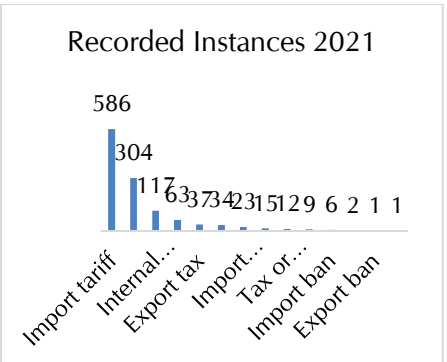
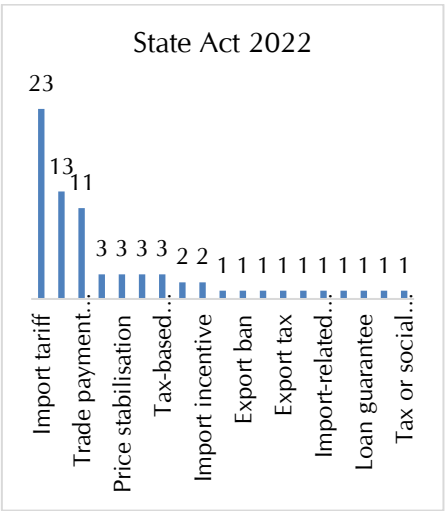


Figure 1.15



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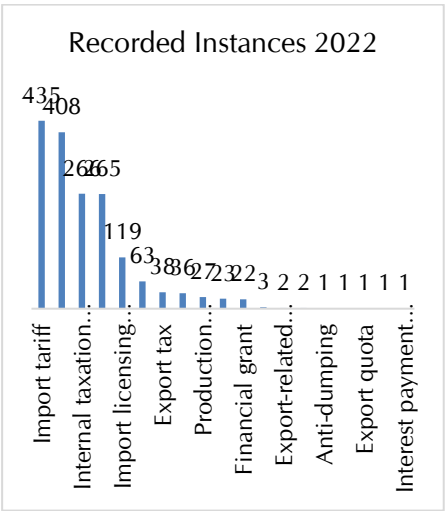

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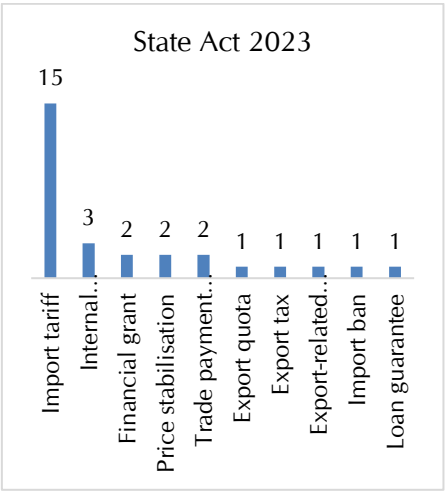
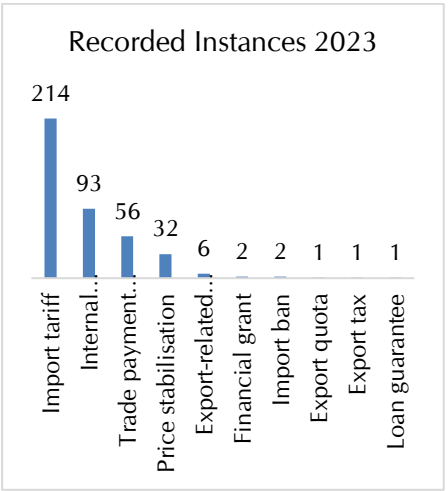


Figure 2.16



Appendix B

Export Promoting Policies on a yearly basis

Figure 3.1

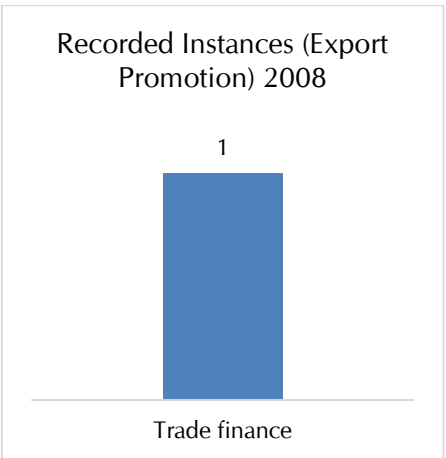
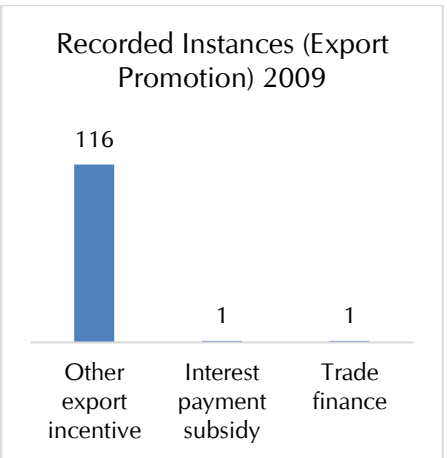


Figure 3.2



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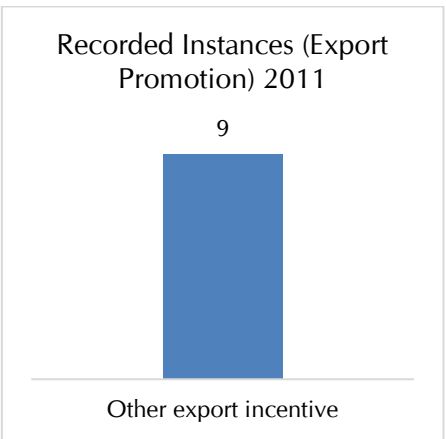
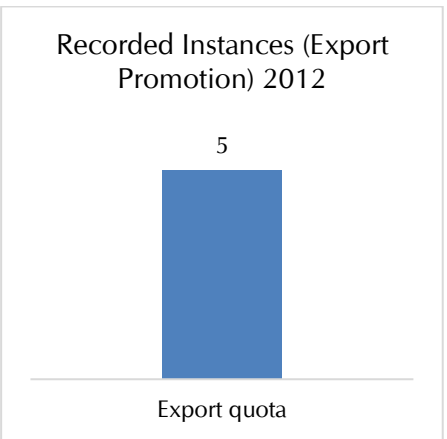


Figure 3.3



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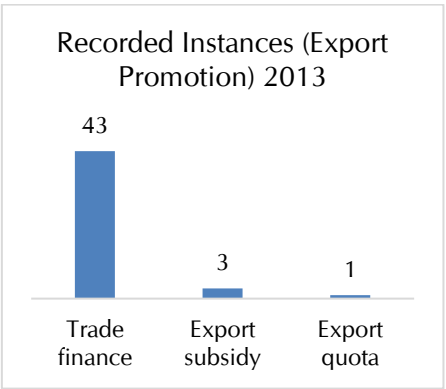
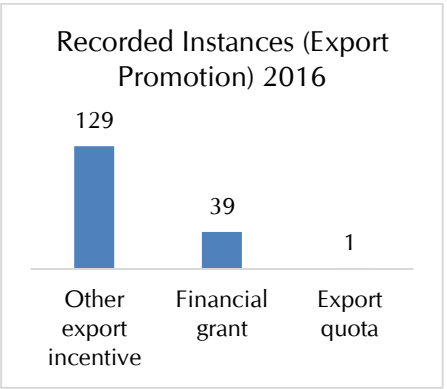


Figure 3.5

Figure 3.6

Figure 3.7



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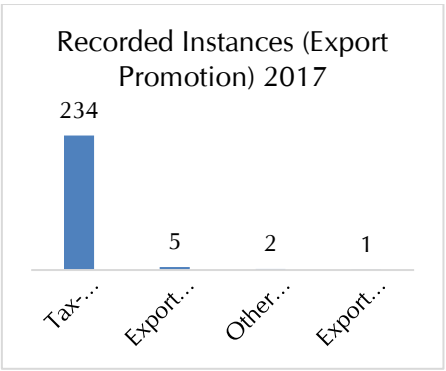

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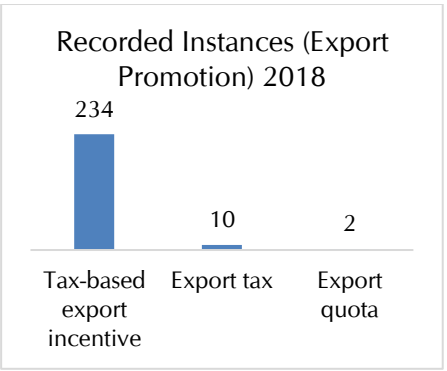


Figure 3.10

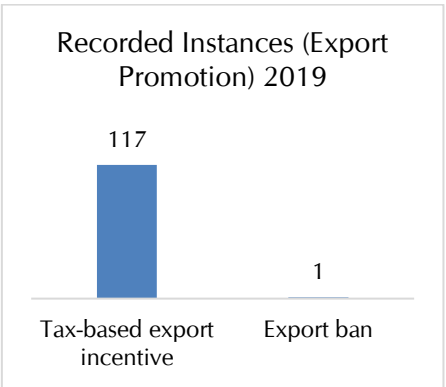


Figure 3.11

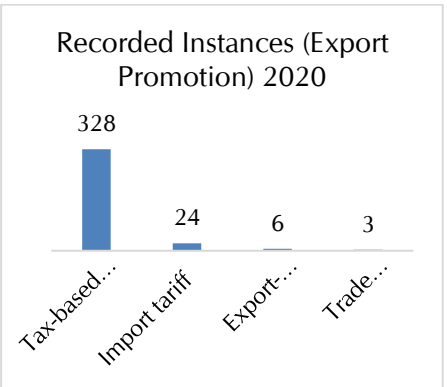
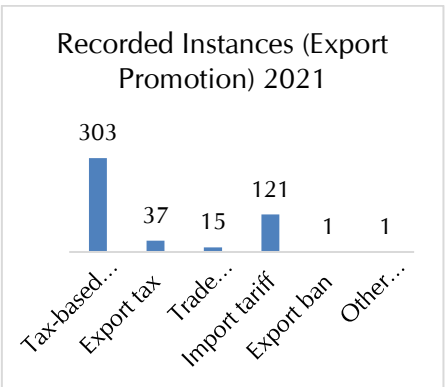


Figure 3.12



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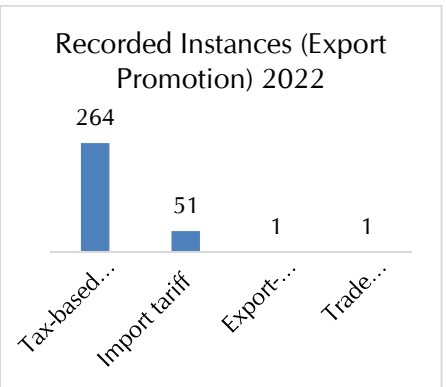
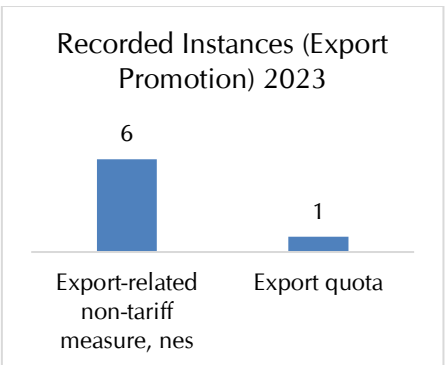
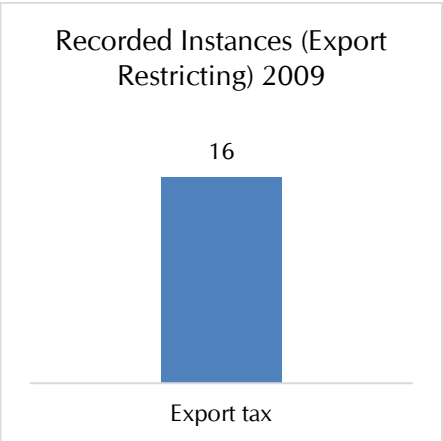


Figure 3.14



Export Restricting policies on a yearly basis

Figure 4.1



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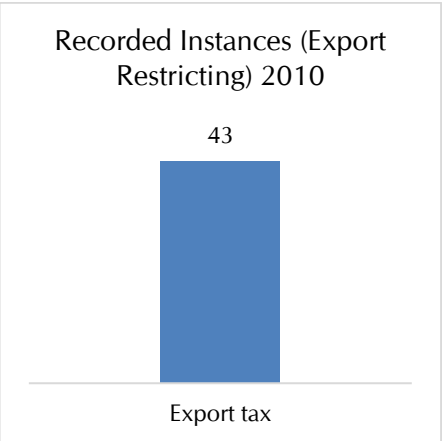
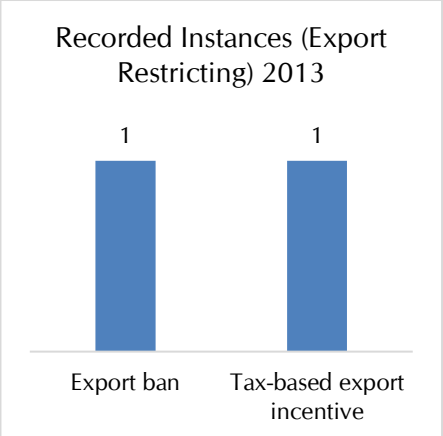


Figure 4.3



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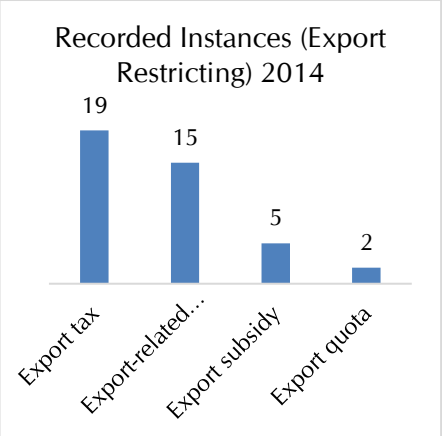

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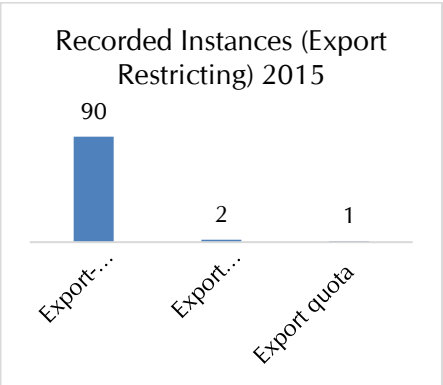

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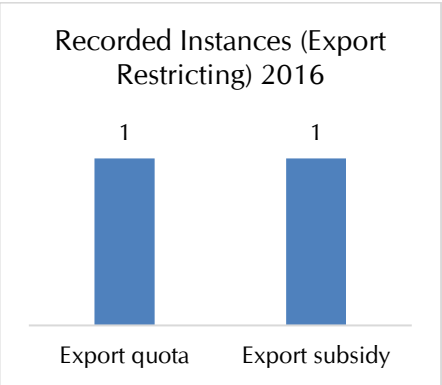

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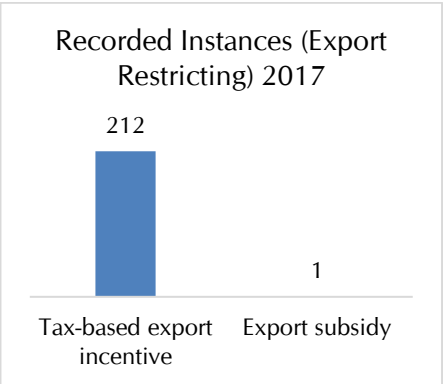

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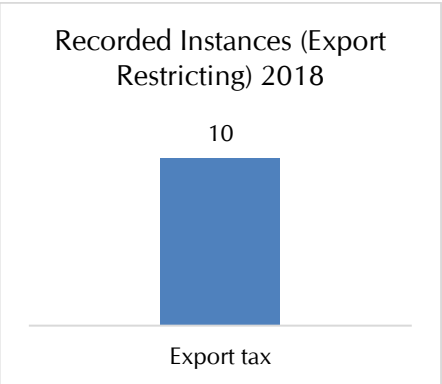

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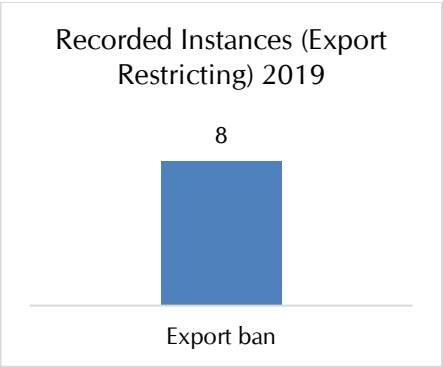

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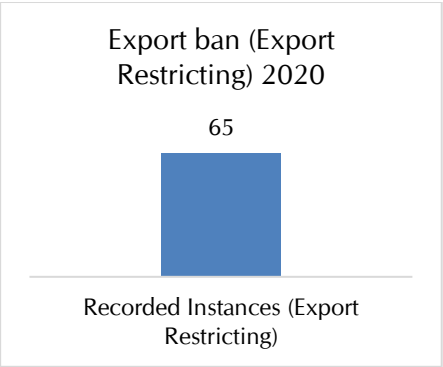

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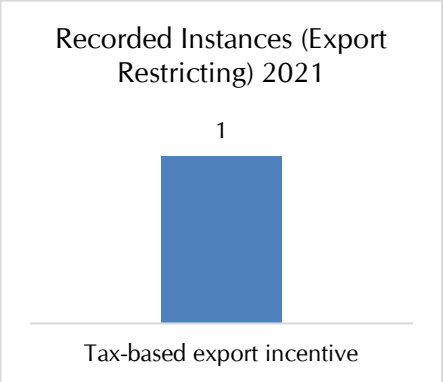

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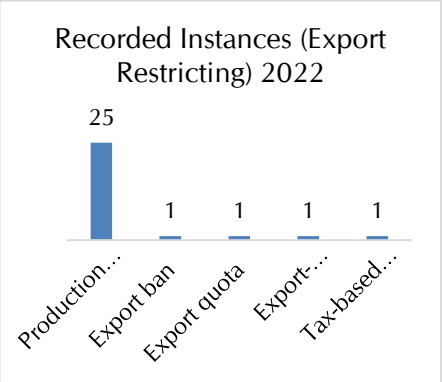

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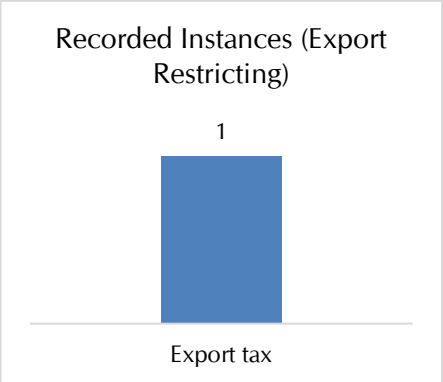
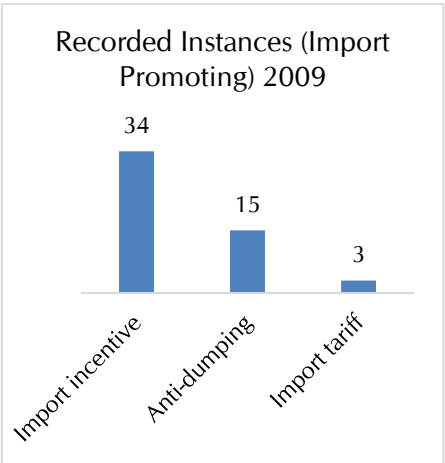


Import Promoting Policies on a yearly basis.

Figure 5.1



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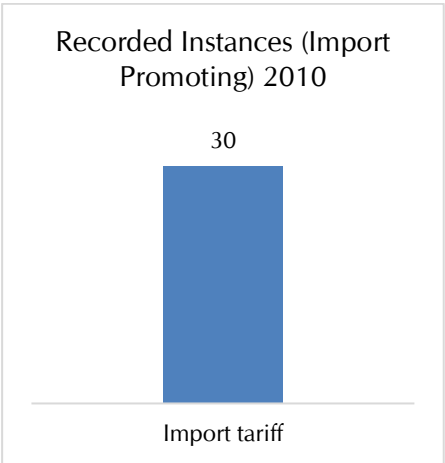

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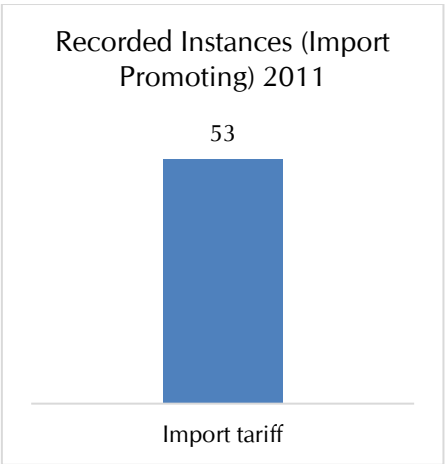
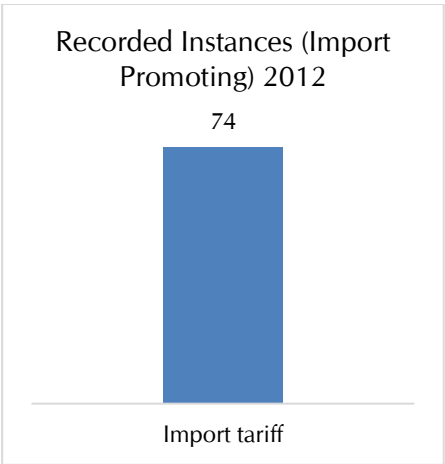


Figure 5.4



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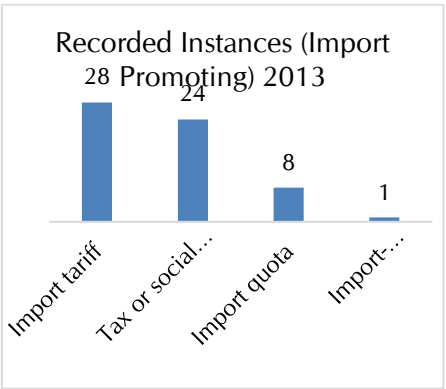

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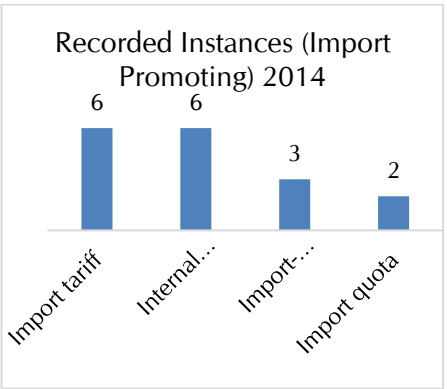


Figure 5.6

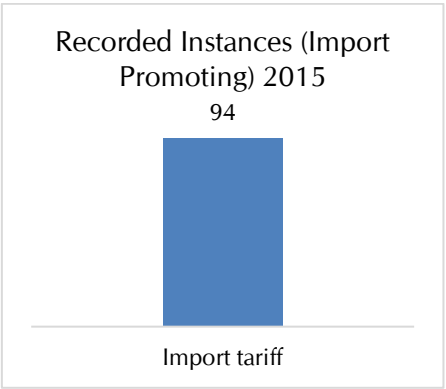
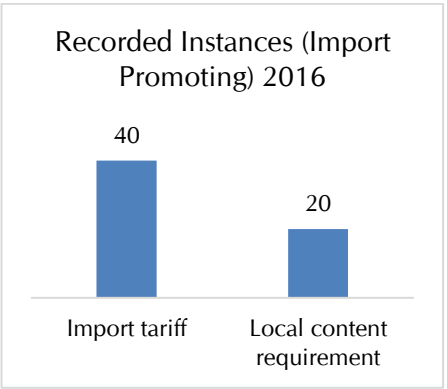


Figure 5.7



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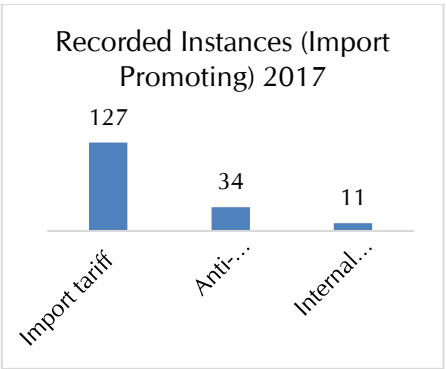
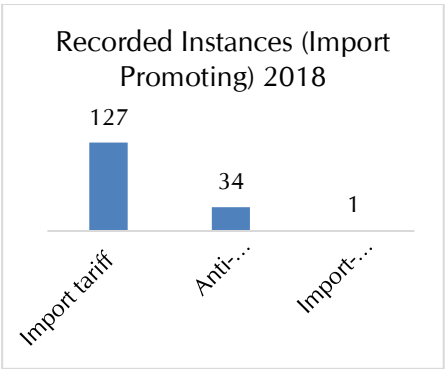


Figure 5.9



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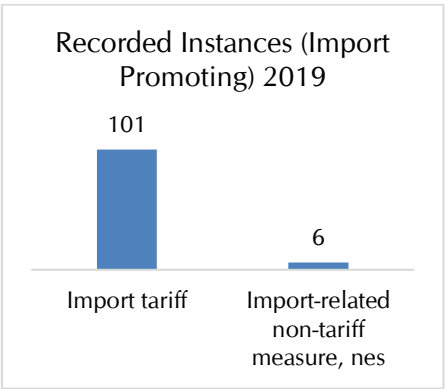


Figure 5.11

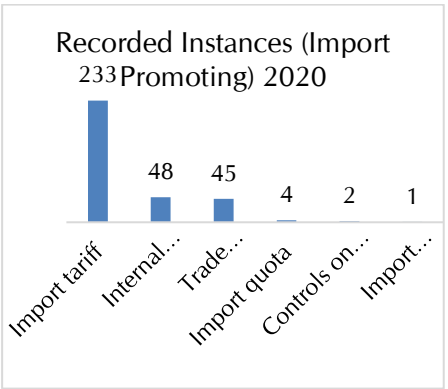
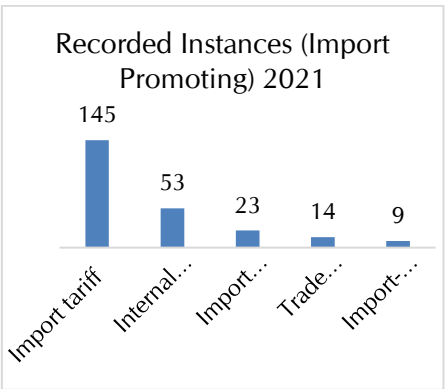


Figure 5.12



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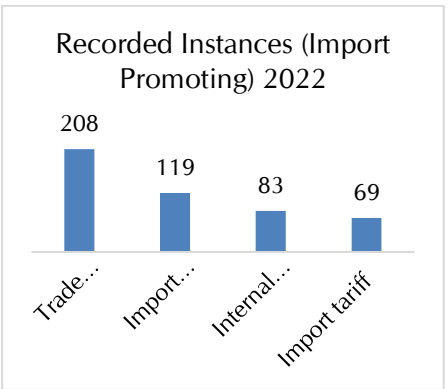
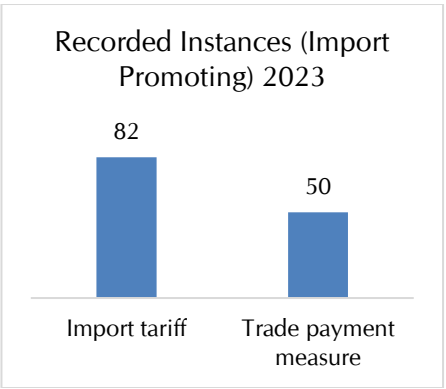


Figure 5.14



Import Restricting Policies on a yearly basis.

Figure 6.1

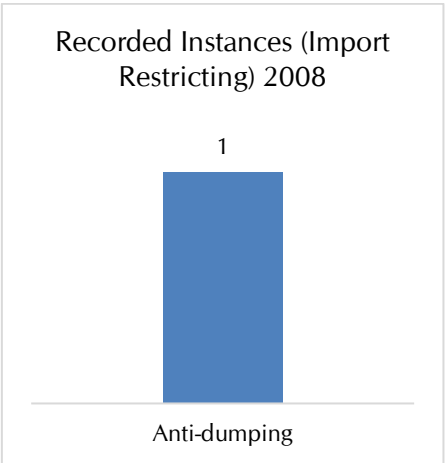


Figure 6.2

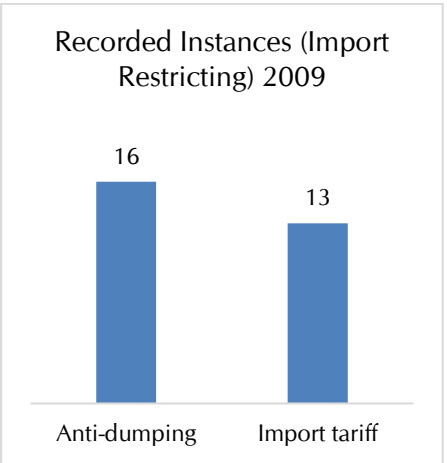


Figure 6.3

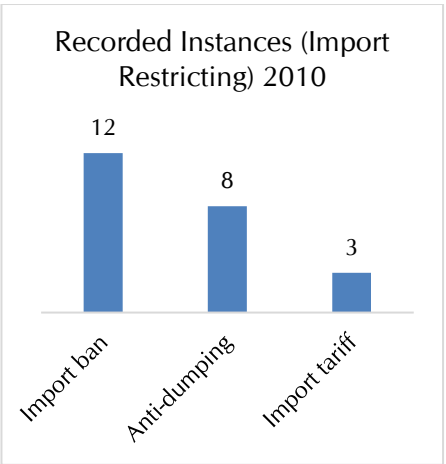


Figure 6.4

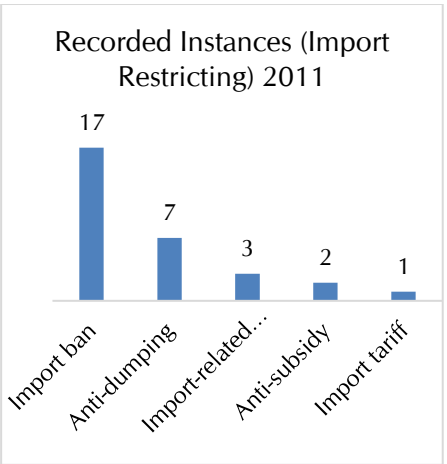
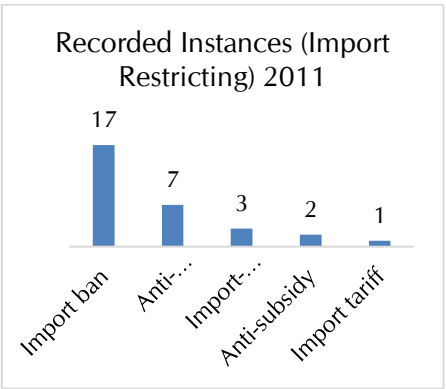


Figure 6.5



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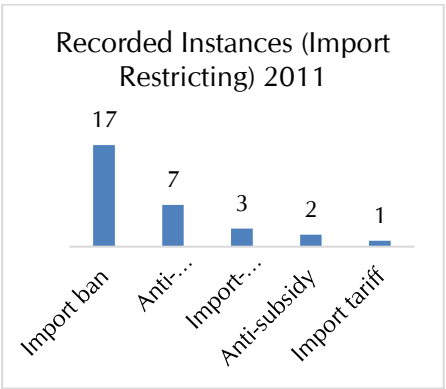

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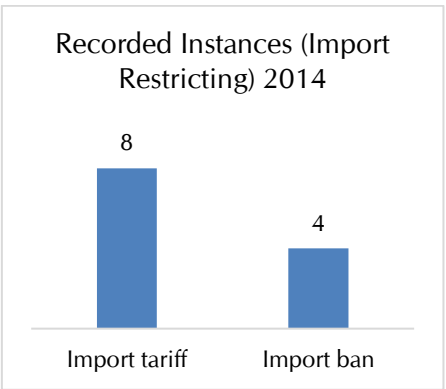


Figure 6.8

Figure 6.9

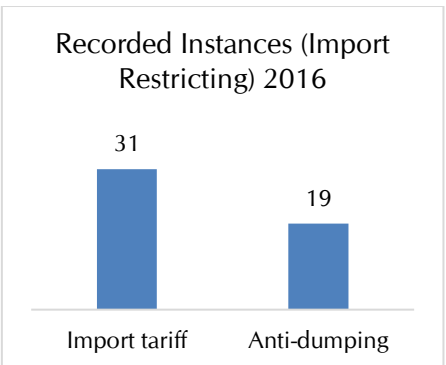


Figure 6.10

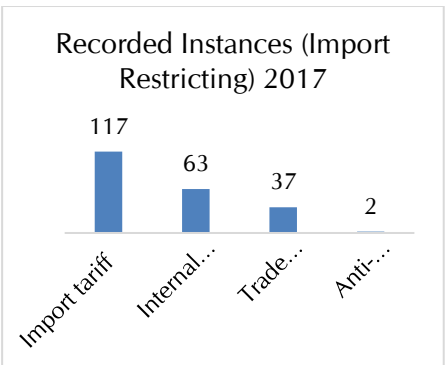


Figure 6.11

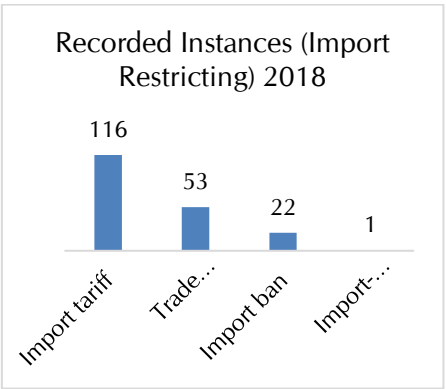


Figure 6.12

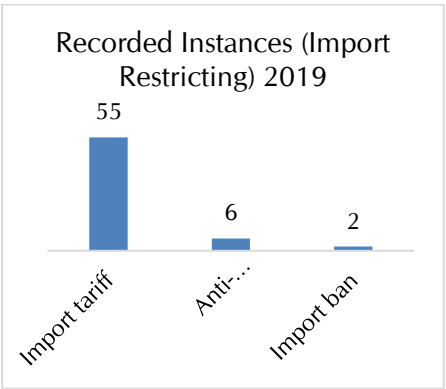


Figure 6.13

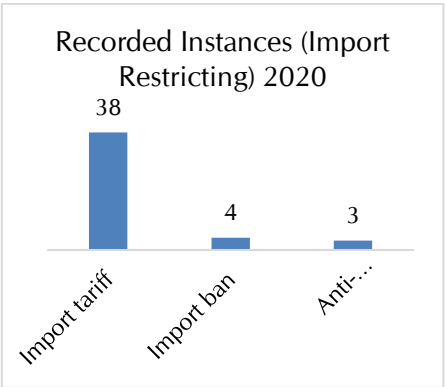


Figure 6.14

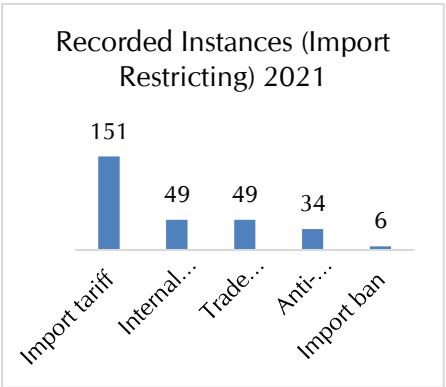


Figure 6.15

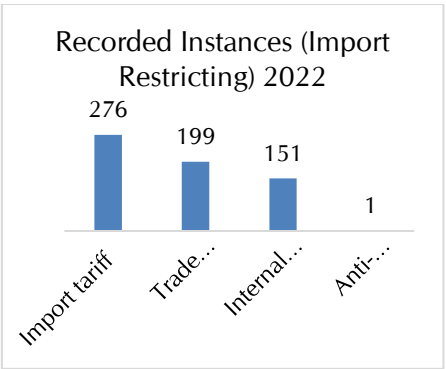
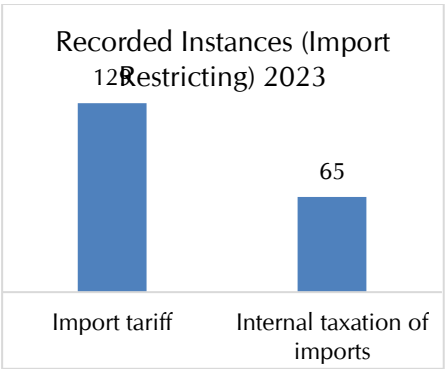


Figure 6.16



The Lahore School of Economics was established in 1993 as a private, non-profit university with the goal of developing world class teaching and research in Pakistan. The objectives of the LSE are to prepare young Pakistanis to undertake research in economics, finance, banking, business management, industry, and development, in order to deepen their understanding of, and be able to productively contribute to, the major issues and policies that impact Pakistan and Asia at large.

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The ITC produces consumer reports, working papers and other outputs as part of the LSE's overall publication programme, which also comprises of the Lahore Journal of Economics, Lahore Journal of Policy Studies, Lahore Journal of Business, a textbook series, Lahore School Case Study Journal, the CREB Working Paper Series, and CREB Policy Paper Series. The LSE strongly encourages both in-house and external contributors.

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