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Challenges and opportunities

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Abbreviations

ACP	African Caribbean and Pacific Group of States
AMS	Aggregate Measurement of Support
AoA	Agreement on Agriculture
ATC	Agreement on Textiles and Clothing
CLCV	Cotton Leaf Curl Virus
CoA	Committee on Agriculture
DDA	Doha Development Agenda
ECO	(Central Asian) Economic Cooperation Organization
EPB	Export Promotion Bureau
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
ICTSD	International Centre for Trade and Sustainable Development
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
ITC	International Trade Centre
LDCs	Least Developed Countries
MFA	Multifibre Agreement
MINFAL	Ministry of Food, Agriculture and Livestock
MTDF	Medium Term Development Framework
NAFTA	North American Free Trade Agreement
NFIDC	Net Food Importing Developing Country
NGO	Non Governmental Organization
NTBs	Non-Tariff Barriers
NWFP	North West Frontier Province
OIC	Organization of Islamic Countries
PTAs	Preferential Trade Agreements
RTAs	Regional Trade Agreements
SAARC	South Asian Association of Regional Cooperation
SDT	Special and Differential Treatment
SMEDA	Small & Medium Enterprises Development Authority
SP	Special Products
SPS	Sanitary and Phytosanitary Measures
SSM	Special Safeguard Mechanism
STE	State Trading Enterprise
TBT	Technical Barriers to Trade
TRIPS	(Agreement on) Trade Related Aspects of Intellectual Property Rights
TRQs	Tariff Rate Quotas
TRTA	Trade Related Technical Assistance
US	United States
WTO	World Trade Organization

Table of contents

Executive summary	1
Introduction	5
I Importance and state of agriculture in Pakistan	7
I.1 Role of agriculture in Pakistan's economy.....	7
I.2 Crops and livestock	8
I.3 Investment in the agriculture sector.....	11
II Agriculture in trade - Pakistan's experience with the WTO.....	15
II.1 Liberalization and compliance with the WTO	15
II.2 Export performance of agriculture	18
II.2.1 Cotton	19
II.2.2 Rice.....	22
II.2.3 Wheat.....	23
II.2.4 Sugarcane	24
II.2.5 Fruit and vegetables.....	25
II.2.6 Milk	26
III Policy response	29
IV Pakistan's involvement in the AoA negotiations	31
IV.1 Pakistan in the international arena.....	32
IV.2 Linking to the WTO negotiations from Islamabad	33
V Pakistan and the AoA negotiations: Opportunities and challenges..	35
V.1 Market access.....	35
V.1.1 Tariff reduction – The formula	35
V.1.2 TRQs	37
V.1.3 Tariff escalation	38
V.1.4 SP & SSM	38
V.2 Domestic support	38
V.2.1 AMS support	38
V.2.2 Blue box	39
V.2.3 Overall reduction in trade distorting domestic support.....	39
V.2.4 Green box	40
V.3 Export competition	40
V.3.1 Export subsidies	40
V.3.2 State trading enterprises	40
V.3.3 Food aid.....	41
V.3.4 The cotton initiative	42

VI Conclusions	43
Annex 1	45
Matrix of issues and recommendations on Pakistan's agro-based exports and sanitary and phytosanitary measures	45
Glossary of terms.....	49
References	51

List of Tables

Table I.1 Share of agriculture in Pakistan's GDP	7
Table I.2 Annual growth of Pakistan's GDP, manufacturing and agriculture sectors (%) ..	8
Table I.3 Area under important crops in Pakistan ('000 hectares)	9
Table I.4 Production of major crops in Pakistan ('000 tonnes).....	10
Table I.5 Crop-wise composition of value added of agricultural crops (at constant factor cost, base 1999-2000) (%).....	13
Table II.1 Use of AMS support by Pakistan.....	16
Table II.2 Subsidies provided by Pakistan under Article 6.2	17
Table II.3 Green box subsidies notified by Pakistan	17
Table II.4 Export subsidies provided by Pakistan under Article 9.4	18
Table II.5 Pakistan's agricultural trade by level of processing (\$'000).....	18
Table V.1 Summary of chairman's reference paper proposal	35
Table V.2 Comparison of G20 and reference paper proposals.....	36

List of Figures

Figure I.1 Trends in share of public/private investment in the agriculture sector	12
Figure I.2 Percentage share of agriculture in public sector development programmes ...	12
Figure II.1 Cotton production, consumption and trade for Pakistan ('000 tonnes)	20
Figure II.2 Pakistan's share in global export of cotton.....	20
Figure II.3 Rice production, consumption and trade for Pakistan ('000 tonnes).....	23
Figure II.4 Pakistan's share in global export of rice (%)	23
Figure II.5 Wheat production, consumption and trade for Pakistan ('000 tonnes)	24
Figure II.6 Pakistan's share in global export of wheat (%)	24
Figure II.7 Sugarcane production, consumption and trade for Pakistan ('000 tonnes)	25
Figure II.8 Pakistan's share in global export of sugarcane (%)	25
Figure II.9 Fruit and vegetable exports: Pakistan and the world (\$'000)	26
Figure II.10 Pakistan's share in global export of fruit and vegetables (%)	26
Figure II.11 Milk exports: Pakistan and the world (\$'000)	27
Figure II.12 Pakistan's share in global export of milk (%)	27

List of Boxes

Box I.1 Agricultural crop classifications of Pakistan.....	9
Box II.1 Some quality/SPS issues faced by Pakistan.....	19
Box IV.1 Pakistan's stance in negotiations on Agriculture.....	34
Box V.1 Specific objectives of Pakistan's AoA negotiating strategy	35

Executive summary

The Agreement on Agriculture (AoA) is a major outcome of the Uruguay Round. It came into force on 1 January 1995 as part of the single undertaking. The preamble to the AoA recognizes that the agreed long-term objective of the reform process initiated by the Uruguay Round is to establish a fair and market-oriented agricultural trading system. The reform programme comprises specific commitments to reduce support and protection in the areas of domestic support, export subsidies and market access. The AoA provides for implementation of the programme in an equitable manner among all Members by including aspects relating to non-trade concerns, such as food security and the need to protect the environment. At the Fourth World Trade Organization (WTO) Ministerial Meeting in Doha in 2001, Members agreed to further reform the AoA by making substantial improvements in all areas. However, the timeframe envisaged could not be adhered to because of a lack of consensus.

Given the role of agriculture in its economy, Pakistan has a fundamental interest in further strengthening the international rules governing agricultural trade. Agriculture is the backbone of Pakistan's economy. It provides food to consumers and fibre for domestic industry; it also provides livelihood and employment to the majority of the country's population and is the major source, directly and indirectly, of the country's export earnings. Agriculture contributes, on average, one-fourth of total Gross Domestic Product (GDP) and employs about 45% of the labour force. More importantly, 66% of the country's population living in the rural areas is directly or indirectly dependent on agriculture for its livelihood. Almost 68% of the country's exports are agro-based.

Pakistan has diversified ecological and climatic zones and thus a wide variety of crops are grown in different regions of the country. The major crops – which include cotton, rice, wheat and sugarcane – account for about 32% of agricultural value added. However, minor crops, constituting 12.3% of national agricultural value added, are also very important in view of the dependence on these of sizeable sections of the population at the regional level. Recent studies have highlighted the importance of minor crops, like gram, chilli, banana and tobacco, etc, and have suggested keeping these crops in focus while negotiating on the AoA. Livestock is another important sub-sector of national agriculture and its importance is increasing. Around 30-35 million rural people are engaged in livestock activities in Pakistan. This sub-sector now contributes 50% to agricultural value added, higher than the crop sector (47.4%), and equal to about 10.3% of overall national GDP.

Pakistan enjoys comparative advantage in a number of basic agriculture commodities, such as wheat, rice and cotton. However, because of inadequate infrastructure and an inefficient processing/manufacturing sector, the country has not been able to translate its comparative advantage into production and export surpluses. Pakistan has failed to diversify the direction of its agricultural exports towards the developing country markets where the greatest gains from such trade are to be made. In developed country markets, Pakistan's agricultural exports face competition from subsidized developed countries exports, which include subsidies not only at the marketing stage but also at the production stage (Kemal, 2005). Besides these subsidies, the prospective developed country markets for Pakistani agriculture, including the United States (US) and European Union (EU), have high tariff-peaks and tariff escalations that restrict Pakistan from increasing its value-added exports.

Pakistan liberalized its trade regime as part of its structural adjustment programme under International Monetary Fund (IMF) and World Bank conditionalities even before the completion of the Uruguay Round. Non-tariff barriers (NTBs) had been removed, with the

exception of a few retained for moral and religious reasons. Because of the removal of these NTBs, Pakistan did not have to tariffy under the AoA commitments. Nor did it have to commit to tariff reduction. Instead, Pakistan exercised the option of ceiling bindings. Pakistan has bound all of its agricultural tariff lines. Most agricultural tariffs are bound at 100%. For a few products, including wheat, maize and teas, the tariffs are bound at 150%. However, the applied rates are much lower and are set at a maximum of 25%.

While Pakistan's overall share of world trade¹ (imports plus exports) has declined from 0.26% in the 1960s to 0.12% in 2004,² the world market share of four of the six commodities studied in this report – milk, rice, fruit and vegetables, and cotton – has shown an encouraging increasing trend. These trends are indicative of the considerable export potential of these commodities.

Several factors have restricted the growth of Pakistani agricultural exports, including a number of import constraints in the international markets for Pakistani agricultural products, such as tariffs (including escalating tariffs). More significant is the inability of Pakistani exporters to adequately meet the health and safety, and quality standards that are increasingly required in international markets. The seasonality of agricultural production in Pakistan also hampers the growth of exports. High domestic transport costs and inadequate facilities for sorting, grading and packing are the most often cited reasons for the unrealized export potential of most agro-based export products in Pakistan.

The Government of Pakistan recognizes there are several means to increase the value of the output of this sector. Most notably, the use of a better grading system for Pakistan's agricultural products can significantly improve total returns to producers. Similarly, it is generally recognized that consumers are willing to pay more for safer food products and the Government has started to focus on strengthening and facilitating food safety aspects. Further-processed products add value, create jobs and improve technology. Pakistan must adapt to take advantage of these and other changes to enhance the value of output from the sector.

On the import side, edible oil, sugar and milk products constitute the major agricultural imports and have been subject to fluctuating trends in the past. The major portion of Pakistan's import bill for agricultural products is for edible oils. Pakistan, itself, mainly grows traditional oilseeds, such as rapeseed, mustard, groundnut and sesamum. However, in recent decades non-traditional oilseeds, including sunflower, soybean and safflower, have also contributed substantially to domestic oilseed production.

Agriculture has been a neglected area of government policies and programmes in the recent past. However, with the new challenges posed by, and the opportunities expected from, the WTO regime, the Government has realized the need to focus on this important sector. Both planning and executing agencies have given agriculture a central place in their future strategies. The Government's Medium Term Development Framework (MTDF) and Agricultural Policy both envisage specific initiatives to strengthen this sector at the domestic level as well as to make it competitive in international markets.

¹ The overall share of world trade is not a very precise measure to evaluate export performance or potential.

² FAO data

Pakistan has always been a major and active player in WTO negotiations. Pakistan is an active player and member of different groups and alliances of the negotiating countries. In the G20, Pakistan has been playing a pivotal and leading role. Besides being an enthusiastic member of the G20, which generally advocates an offensive stance on all the three pillars of the AoA, Pakistan also pursues a defensive posture and is on guard against the likelihood of cheaper imports through its membership of the G33, a group of almost 42 countries that vehemently demand special and differential treatment (SDT) in the form of special products (SP) and a special safeguard mechanism (SSM) for developing and least developed countries (LDCs). Besides being a regular member of the above-mentioned groups, Pakistan has been invited by other alliances, such as the African Group and the African, Caribbean and Pacific (ACP) countries, to their important meetings and events to strengthen mutual positions. Pakistan's membership of the Cairns Group – which takes a much more aggressive position on trade liberalization – underlines a major change in Pakistan's approach to the negotiations.

In negotiations on market access, domestic support and export competition, Pakistan's stance is that of the G20 collective position. Pakistan supports improvement in market access by reducing tariffs, reducing tariff escalations and eliminating tariff peaks. Improvement in market access is beneficial to Pakistan. Since Pakistan has sufficient "water" between its bound and applied tariff levels, it can negotiate for deeper tariff cuts. However, in case of excessive erosion of water, Pakistan is negotiating to have SP and SSM in place for its vulnerable products.

Pakistan supports reduction in trade distorting subsidies by countries that are major providers of domestic support. The G20 proposal of strengthening and tightening the Green box criteria has assumed a central position in the negotiations on domestic support. The G20 stance has been that the criteria for this box must be redefined to allow developing countries to address their genuine needs, on the one hand, and to limit the scope for countries to shift trade distorting support into this box and thus circumvent the commitments, on the other.

Pakistan has always been supportive of the elimination of export subsidies in view of the expected advantages for its farming communities. However, with the expected increase in global prices due to elimination of subsidies, Pakistan, as a net food importing developing country (NFIDC), may face a higher import bill. Food aid represents a form of export subsidy. Like other export subsidies, the main concerns about food aid are its potential to depress and destabilize prices, displace domestic production and lower public and private investment. There is concern that the reduction of other forms of export subsidies may give rise to additional pressure to provide food aid assistance. Pakistan should encourage the early elimination of all forms of food aid not provided in grant form, and no later than the termination of export subsidies.

The WTO regime is often mistakenly regarded by many in Pakistan as a conspiracy by the developed world to restrict the growth of developing country exports and provide a means for developed countries to have captive markets for their own exports. On the contrary, the WTO provides a facilitating mechanism for the growth of international trade on a level playing field and provides developing countries with the ability to leverage their negotiating ability. Without it, increasing globalization would result in most developing countries being completely overwhelmed and left in the category of "losers" of this process. Maintaining standards and ensuring quality are the requirements of modern day trade and commerce. Developing countries, such as Pakistan, need to develop these capacities in order to survive and benefit from the gains from international trade.

Introduction

The AoA is a major outcome of the Uruguay Round. It came into force on 1 January 1995 as part of the single undertaking. The preamble to the AoA recognizes that the agreed long-term objective of the reform process initiated by the Uruguay Round is to establish a fair and market-oriented agricultural trading system. The reform programme comprises specific commitments to reduce support and protection in the areas of domestic support, export subsidies and market access. The AoA provides for implementation of the programme in an equitable manner among all Members, by including aspects relating to non-trade concerns, including food security and the need to protect the environment.

The Uruguay Round resulted in a key systemic change on market access for agricultural products, by switching from a situation where numerous non-tariff measures obstructed agricultural trade flows to a regime of tariff-only protection with defined reduction commitments. This fundamental change was expected to help stimulate investment, production and trade in agriculture by making agricultural market access conditions more transparent, predictable and competitive; and by strengthening the link between national and international agricultural markets, thus relying more prominently on the market to guide scarce resources into their most productive uses, both within the agricultural sector and across the economy.

At the Fourth Ministerial Conference of the WTO held in Doha, Qatar in November 2001, a specific and binding timeframe was agreed to get the negotiating process to a meaningful end, with the objective of substantial improvements in market access, reduction in domestic support, and reduction and, if possible, elimination of export subsidies. Paragraphs 13 and 14 of the Doha Ministerial Declaration³ laid down the programme for the negotiations on agriculture. According to this programme, the negotiations, initiated in early 2000, were to culminate in a decision on modalities for further commitments in the AoA. On the basis of these modalities, Members had to submit their Schedules of Commitments at the time of the Fifth Ministerial Conference. The entire negotiation process was to be completed by 1 January 2005 to become part of the single undertaking. These dates and deadlines have been elusive so far.

Since every country has its own specific objectives on each element in the negotiations, the process has become sluggish and is focused on getting the maximum out of a give-and-take game. Behind the negotiating strategy of each country are the peculiar conditions, state of development, political and socioeconomic policy paradigms, and specific needs of the country. Pakistan, like other WTO Members, has been engaged in negotiations on the AoA since the early stages. Its negotiating stance has reflected the importance the country attaches to the agriculture sector. This paper is an attempt to analyze the status of the agriculture sector within the public policy arena, to review the country's current involvement in the negotiations and to identify possible future actions in the AoA negotiations as well as on the domestic front.

Following this introduction, the paper is divided into six sections. The first section describes the importance and present state of agriculture in the country. The second and third sections present analyses of trade potential, the impact of the WTO regime and the Government's policy response. The fourth section gives a brief overview of Pakistan's involvement in the WTO negotiations. The fifth section reviews the present state of play of the negotiations from Pakistan's point of view. The sixth section summarizes the main conclusions of the paper.

³ WTO document WT/MIN(01)/DEC/1.

I Importance and state of agriculture in Pakistan

I.1 Role of agriculture in Pakistan's economy

Like many developing countries, agriculture is the backbone of Pakistan's economy. Agriculture in Pakistan provides food to consumers and fibre for domestic industry; it provides livelihoods and employment to the majority of the country's population, and is the major source, directly and indirectly, of the country's export earnings.

Agriculture contributes, on average, one-fourth (about 22% in 2005-06) of total GDP and employs about 45% of the labour force. Most importantly, 66% of the country's population living in rural areas is directly or indirectly dependent on agriculture for their livelihood. Almost 68% of the country's exports are agro-based.⁴ Growth trends of the agriculture sector and overall GDP reveal how closely the nation's economy is dependent on agriculture. Generally, periods of high agricultural growth have been associated with high overall growth rates of GDP.

The share of agriculture in Pakistan's GDP since 1991/92 is given in Table I.1 below.

Table I.1 Share of agriculture in Pakistan's GDP

Year	Share of agriculture in GDP (%)
1991-92	26.1
1992-93	24.2
1993-94	24.3
1994-95	24.6
1995-96	25.8
1996-97	25.3
1997-98	25.9
1998-99	25.6
1999-00	25.9
2000-01	24.6
2001-02	24.1
2002-03	23.6
2003-04	22.9
2004-05	22.5
2005-06	21.6

Source: Computed from Economic Survey of Pakistan (various issues)

Manufacturing is the second largest sector, currently contributing about 17% to the economy.⁵ Agriculture production is highly variable and continues to be affected by natural calamities such as floods, drought, diseases and pests. The growth performance of agriculture vis-à-vis the manufacturing sector and the overall economy in recent years can be seen from Table I.2 below.

⁴ Ministry of Finance (Economic Wing), Government of Pakistan. *Economic Survey of Pakistan, 2005-06*.

⁵ Ministry of Finance (Economic Wing), Government of Pakistan. *Economic Survey of Pakistan, 2005-06*.

Table I.2 Annual growth of Pakistan’s GDP, manufacturing and agriculture sectors (%)

Period	GDP	Manufacturing	Agriculture			
			Overall	Major crops	Minor crops	Livestock
1990-91	5.6	6.3	5.0	5.6	3.5	5.0
1991-92	7.7	6.3	5.0	15.5	2.4	5.9
1992-93	2.1	8.1	9.5	-15.6	3.9	6.0
1993-94	4.4	4.5	5.2	1.2	12.6	5.9
1994-95	5.1	2.5	6.6	8.7	6.9	5.5
1995-96	6.6	3.7	11.7	7.2	3.3	5.6
1996-97	1.7	-0.1	0.1	-4.5	3.4	6.5
1997-98	3.5	6.9	4.5	8.7	8.1	-0.7
1998-99	4.2	4.1	1.9	-0.02	4.2	3.2
1999-2000	3.9	1.5	6.1	15.4	-9.1	1.9
2000-01	2.0	9.3	-2.2	3.5	4.6	4.9
2001-02	3.1	4.5	0.1	-2.5	-3.7	3.4
2002-03	5.1	6.9	4.1	6.9	0.4	2.8
2003-04	6.4	14.1	2.2	1.9	2.8	2.6
2004-05	8.4	12.5	7.5	17.3	3.1	2.3
2005-06	6.6	8.6	2.5	-3.6	1.6	8

Source: Economic Survey of Pakistan, 2005-06

1.2 Crops and livestock

About 29% of Pakistan’s total area of 79.61 million hectares is cropped. Helped by successive governments’ policies on land reclamation and eradication of salinity and water logging, the cropped area increased from 11.6 million hectares in 1947 to 22.6 million hectares in 1997.⁶ Pakistan has a rich and vast natural resource base, covering various ecological and climatic zones. Hence, the country has great potential for producing a range of agricultural crops.

A wide and diversified variety of crops, fruits, vegetables and condiments are grown. In the crops sector, four major crops dominate – wheat, rice, cotton, and sugarcane – and, on average, contribute 32% to the value added in overall agriculture. Minor crops account for 12.3% of the value added in overall agriculture. Some of these crops are specific to certain geographic regions; for example, gram is grown mainly in a particular area of central Punjab, tobacco in North West Frontier Province (NWFP) and chilli in Sindh province. Agricultural crops can be classified as follows:⁷

⁶ Ministry of Food, Agriculture and Livestock (MINFAL), *Agricultural Statistics of Pakistan - 2003-04*.

⁷ Classification and grouping of crops is as used in MINFAL's *Agricultural Statistics of Pakistan*.

Box I.1 Agricultural crop classifications of Pakistan

Classification	Crops
Food crops	Wheat, Rice, Jowar, Maize, Bajra, Barley
Cash crops	Sugarcane, Cotton, Tobacco, Sugar beet, Jute, Guarseed
Pulses	Gram, Mung, Mash, Masoor, Mattar, other pulses
Oilseeds	Rapeseed and Mustard, Sesamum, Groundnut, Linseed, Castroseed, other oilseeds
Vegetables	Potatoes, Tomatoes, other vegetables
Fruits	Mango, Banana, Citrus, Dates, Apple, Apricot, other fruits
Condiments	Chillies, Onion, Garlic, Coriander, Turmeric, Ginger

Table I.3 below shows the area under important crops in the country.

Table I.3 Area under important crops in Pakistan ('000 hectares)

Year	Wheat	Rice	Bajara	Maize	Barley	Total Food grain	Gram	Sugarcane	Rapeseed & Mustard	Cotton	Tobacco
1990-91	7,911	2,113	491	845	157	11,934	1,092	884	304	2,662	44
1991-92	7,878	2,097	313	848	149	11,667	997	896	287	2,836	54
1992-93	8,300	1,973	487	868	160	12,191	1,008	885	285	2,836	58
1993-94	8,034	2,187	303	879	151	11,919	1,045	963	269	2,805	57
1994-95	8,170	2,125	509	890	165	12,297	1,065	1,009	301	2,653	47
1995-96	8,376	2,162	407	939	171	12,473	1,119	963	320	2,997	46
1996-97	8,109	2,251	303	928	152	12,113	1,100	965	354	3,149	49
1997-98	8,355	2,317	460	933	163	12,618	1,102	1,056	340	2,960	53
1998-99	8,230	2,424	463	962	137	12,599	1,077	1,155	327	2,923	57
1999-00	8,463	2,515	313	962	124	12,734	972	1,010	321	2,983	56
2000-01	8,181	2,377	390	944	113	12,359	905	961	273	2,927	46
2001-02	8,058	2,114	417	942	111	12,000	934	1,000	269	3,116	49
2002-03	8,034	2,225	349	935	108	11,989	963	1,100	256	2,794	47
2003-04	8,216	2,461	539	947	102	12,657	982	1,074	259	2,989	46
2004-05	8,358	2,519	343	982	93	12,603	1,094	966	243	3,193	50
2005-06 P	8,303	2,621	438	1,022	86	12,720	1,064	907	234	3,096	57

Source: Economic Survey of Pakistan, 2005-06

The variation in production of major crops comes largely from variability of yields rather than from a variation in the area cropped. The production trends of the major crops (wheat, rice sugarcane and cotton, which together account for around 90% of total production) over the last 15 years, presented in Table I.4 below, shows this variability.

Table I.4 Production of major crops in Pakistan ('000 tonnes)

Year	Wheat	Rice	Sugarcane	Cotton	Cotton
				000 tonnes	000 bales
1990-91	14,565	3,261	35,989	1,637	9,628
1991-92	15,684	3,243	38,865	2,181	12,822
1992-93	16,157	3,116	38,059	1,540	9,054
1993-94	15,213	3,995	44,427	1,368	8,041
1994-95	17,002	3,447	47,168	1,479	8,697
1995-96	16,907	3,966	45,230	1,802	10,595
1996-97	16,651	4,305	41,998	1,594	9,374
1997-98	18,694	4,333	53,104	1,562	9,184
1998-99	17,858	4,674	55,191	1,495	8,790
1999-00	21,079	5,156	46,333	1,912	11,240
2000-01	19,024	4,803	43,606	1,826	10,732
2001-02	18,226	3,882	48,042	1,805	10,613
2002-03	19,183	4,478	52,056	1,737	10,211
2003-04	19,500	4,848	53,419	1,709	10,048
2004-05	21,612	5,025	47,244	2,426	14,263
2005-06 P	21,700	5,547	44,312	2,122	12,417

Source: Economic Survey of Pakistan, 2005-06

Although minor crops do not figure prominently in overall national data, they have great significance to livelihoods at the local level. Millions of people are dependent on these crops for their food, livelihood and incomes. A recent study⁸ showed how five crops – gram, tobacco, chilli, banana and dates – play an important role at the regional level in various parts of the country and yet may not show up as predominant at the national level. Another study, conducted by the International Centre for Trade and Sustainable Development (ICTSD),⁹ confirmed this regional importance. Generally, national policy interventions concentrate on major crops while “minor” crops, which may be extremely important at the regional level, are ignored. Analysis is necessary of minor crops that do not figure at the macro, national level but have enormous importance for large proportions of the rural population, especially when some of these sub-national levels are larger in size than most European countries.

Livestock is an important sub-sector of agriculture. Nearly 30-35 million rural people are engaged in livestock activities in Pakistan. This sub-sector now contributes 50% to agricultural value added, which is higher than the crop sector (47.4%) and equal to about 10.3% of overall GDP.¹⁰ Livestock production includes: milk, beef, mutton, poultry meat, wool, hair, bones, fats, blood, eggs, hides and skins. The livestock sector registered an annual average growth of 2.8% during 2001-05. Milk and meat have not grown as fast as the other livestock products. The low growth rate of milk and meat can be attributed to, among other reasons, low yields of

⁸ R. Malik, *Special Products in WTO - Pakistan Perspective*. Actionaid Pakistan, 2005.

⁹ S.J. Malik, *Guidelines to Facilitate the Selection of Special Products and the Implementation of the Special Safeguard Mechanism in Pakistan*. International Centre of Trade and Sustainable Development (International Centre for Trade and Sustainable Development (ICTSD), 2005).

¹⁰ Ministry of Finance (Economic Wing), *Economic Survey of Pakistan, 2005-06*.

the predominant animal breeds, poor livestock management, scarcity of feed as a consequence of drought and the early slaughtering of animals due to poverty.

Pakistan's MTFDF recognizes that productivity of livestock can be improved by introducing new breeds of superior quality. Pakistan, nevertheless, has some very fine and productive indigenous breeds whose full production potential has yet to be realized. Pakistan can improve the productivity of livestock by adapting modern animal husbandry practices, and ensuring adequate and nutritious feed, proper facilitation of veterinary treatments, and credit disbursement for the livestock.

1.3 Investment in the agriculture sector

The agricultural sector is a major determinant of the overall economic growth and wellbeing of Pakistan. As well as fulfilling the basic needs of farmers, 64% of industry is agro-based.¹¹ Unfortunately, agriculture is also a sector that has suffered from continuous neglect by government, especially since the late 1980s. The available evidence indicates a substantial decline in investment in agriculture, which can be linked to policies that resulted not only in a decline in profit margins but also in a shift of resources away from this sector. The share of public investment in this sector has remained low (in the range of 1%–5% of total public investment). Private investment, which had increased rapidly until the late 1980s, has shown a persistent decline since then. Figures I.1 and I.2 below show the trends in the share of agriculture in public/private investment and development budgets, respectively, over time.

Inadequate development of the formal credit market in rural Pakistan has been a major constraint to increased private sector investment. Despite a major emphasis on the provision of agricultural credit, often at highly subsidized rates, a well-functioning rural credit market has not developed. One of the major reasons is the lack of access for small and landless farmers and the limited availability of credit for developing agro-processing and other value-added components of agriculture for export. Poor governance, the subsidized nature of formal agricultural credit in the past, and the reliance on land as the only acceptable form of collateral for this credit led to the politically powerful large landowners usurping this credit even when it was meant for small farmers.

The large potential market for credit is in the urban areas where transaction costs for credit agencies are lower. A lack of understanding of the nature and requirements of the agricultural sector has led to limited attention being given to this sector by formal credit agencies. This neglect of the agriculture sector was reflected in the biases in credit, technology and fiscal policy that made the sector less attractive for private sector investment. The true potential of agro-processing and the strength of the backward and forward linkages of the agriculture sector are only now being fully realized in the policy circles in Pakistan following the liberalization and opening up of agriculture markets.

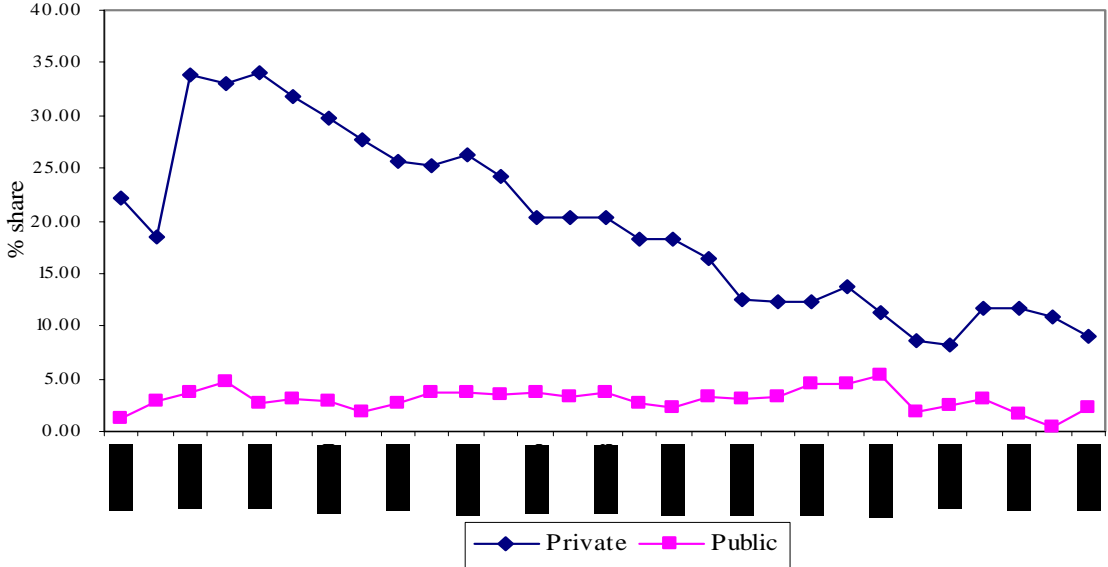
A large part of this shift in investment is also due to the huge and immediate profits to be made in the urban sector, especially in industry and real estate, which were aided by Government policies and poor governance.¹²

¹¹ Federal Bureau of Statistics, *Census of Manufacturing Industries (1995-96)*.

¹² Qureshi, et al, *Some Aspects of Agricultural Pricing and Taxation Policies in Pakistan* (Pakistan Institute of Development Economics, 1985).

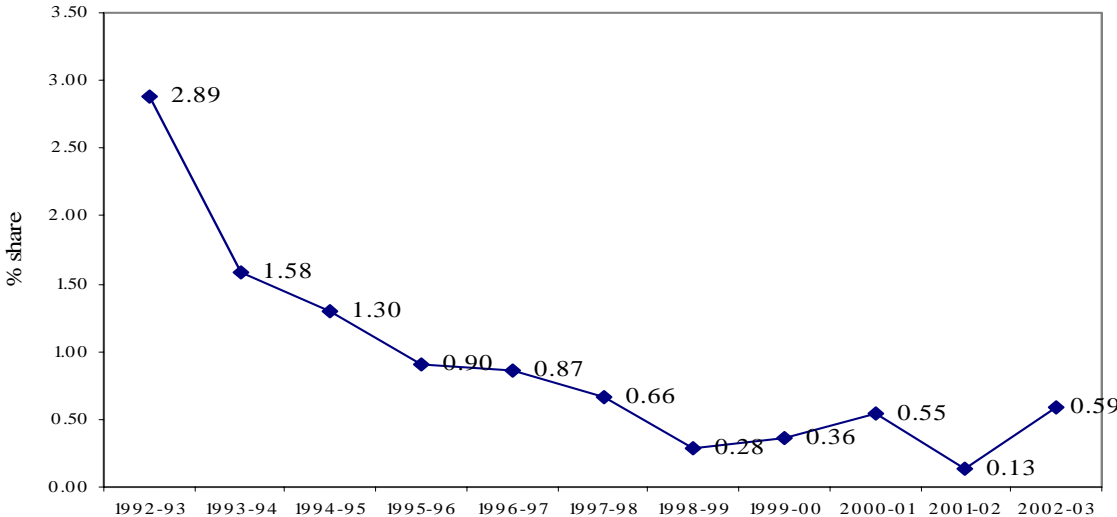
The low and declining share of public sector investment in agriculture has resulted in poor infrastructure and, hence, high costs of processing and transportation in the agriculture sector (Figure I.2). This low level of public sector investment also provided a negative signal for the private sector. A significant reason for this lack of attention is also embedded in the feudal nature of the agriculture sector, where rich landlords view economic prosperity for small landowners and the landless as an erosion of their feudal hold.

Figure I.1¹³ Trends in share of public/private investment in the agriculture sector



Source: Government of Pakistan Economic Survey (various issues)

Figure I.2 Percentage share of agriculture in public sector development programmes



Source: Agricultural Statistics of Pakistan, 2002-03

¹³ S.J. Malik, ICTSD, 2005.

During the 1990s, the agricultural sector grew at an annual average of slightly over 4% per annum. After 1996-97, the shortage of water and persistent drought sharply reduced the growth of this sector; the crop sub-sector in particular was more adversely affected. A comparison of crop-wise share in value added of agricultural crops over the years is given in Table 1.5.

Table 1.5 Crop-wise composition of value added of agricultural crops (at constant factor cost, base 1999-2000) (%)

Fiscal year	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Crops							
Food crops	63.3	62.32	60.34	62.66	63.52	61.56	64.59
Rice	15.4	15.62	14.54	15.85	16.94	15.29	17.23
Wheat	41.3	40.39	39.48	39.26	38.98	37.58	38.84
Barley	0.2	0.2	0.21	0.19	0.19	0.15	0.15
Jowar	0.4	0.44	0.46	0.39	0.46	0.31	0.27
Bajra	0.3	0.45	0.5	0.41	0.59	0.36	0.42
Maize	2.8	3.1	3.21	3.13	3.32	4.14	5.33
Gram	2.8	2.11	1.95	3.41	3.05	3.73	2.35
Fibre crops	24.0	24.89	25.26	22.98	22.06	27.19	24.37
Cotton	24.0	24.89	25.26	22.98	22.06	27.19	24.37
Cash crops	11.0	11.27	12.63	12.95	13.0	9.95	9.66
Sugarcane	11.0	11.27	12.63	12.95	13.0	9.95	9.66
Other crops	1.6	1.52	1.77	1.41	1.43	1.31	1.38
Sesamum	0.2	0.34	0.47	0.12	0.15	0.19	0.19
Rapeseed & mustard	0.8	0.7	0.75	0.81	0.81	0.65	0.62
Tobacco	0.6	0.84	0.55	0.48	0.46	0.47	0.57
All crops	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Survey of Pakistan, 2005-06

II Agriculture in trade - Pakistan's experience with the WTO

II.1 Liberalization and compliance with the WTO

Pakistan enjoys comparative advantage in a number of basic agriculture commodities, such as wheat, rice, and cotton. But, because of inadequate infrastructure and an inefficient processing/manufacturing sector, the country has not been able to translate its comparative advantage into a production and export surplus. Internationally, Pakistan's agricultural exports face tough competition from developed countries subsidized agricultural products, which include subsidies provided not only at the marketing stage but also at the production stage.¹⁴ This creates an artificial competitive edge for developed countries, which hurts the export prospects for Pakistan. As well, the prospective markets for Pakistan's agricultural products include developed countries, such as the US and EU, where high tariff-peaks and tariff escalations restrict Pakistan from significantly increasing its value-added exports. The share of Pakistan's agriculture exports in the world is very low, despite its potential and comparative advantage in horticultural and livestock products.

Pakistan liberalized its trade regime mainly as part of its structural adjustment programme under IMF and World Bank conditionalities even before the completion of the Uruguay Round. NTBs had been removed, with the exception of a few retained for moral and religious reasons. Because of the removal of these NTBs, Pakistan did not have to "tariffy" as part of its AoA commitments, nor did it have to commit to tariff reduction. Instead, Pakistan exercised the option of ceiling bindings. Pakistan has bound all of its agricultural tariff lines. Most agricultural tariffs are bound at 100%. For a few products, including wheat, maize, and tea, tariffs are bound at 150%. For only one tariff line, i.e. beetle nut, the tariff is bound at 200%. A few products kept unbound in the Uruguay Round, like pig and swine meat, were subsequently (in 2003) bound at 75%. As Pakistan offered "ceiling bindings", no commitment was required to reduce the tariffs during the Uruguay Round implementation period.

The structure of border protection has undergone significant change over time towards greater trade liberalization, involving both the dismantling of various NTBs and the reduction of ordinary tariffs. The NTBs included outright import bans, special dispensation and licensing, quotas, negative lists and parastatal monopolies. The maximum applied rate of ordinary tariffs has been reduced substantially in phases. From as high as 225% in 1987/88, the maximum tariff has been brought down to 25%. The number of tariff categories was reduced to 11 in 1996. Duties are applied on an *ad valorem* basis, except for edible oils. State involvement in rice and cotton has been reduced and is also being curtailed for wheat exports.

The Government sometimes waives tariffs completely, for food security reasons, on products such as wheat and sugar. Pakistan had a long tradition of subsidizing imports of wheat and maintaining low prices, also through a domestic food distribution program. Tariffs on a large number of high-value products, e.g. cereal preparations and fruit and vegetable products, were reduced in 1999 well below the statutory maximum of 35%. The rate of protection, as measured by the nominal protection coefficients, was generally much lower than unity for wheat. Tariff rates have been varied in order to stabilize domestic markets.

¹⁴ Kemal, *A Report of the Senate Special Committee Constituted by the House on a Resolution moved by Senator Ch. M.A. Bhinder to suggest ways and means to face the challenges of WTO* (Pakistan Institute of Development Economics, 2005).

Pakistan's access to agricultural export markets is frequently restricted. For example, more than 70% of Tariff Rate Quotas (TRQs) are on products of export interest to Pakistan – fruit and vegetables (26%), meat products (18%), cereals (16%) and dairy products (13%). Exports of processed hides and leather products are subject to large tariff peaks and considerable tariff escalation by importers. The Uruguay Round provided very little reform of the world sugar market, essentially leaving in tact the quota-ridden import regimes. Many of the import regimes for fruit and vegetables continue to be complicated, notably in the EU.¹⁵

With regard to domestic support under the AoA, Pakistan has recourse only to specific and non-specific *de minimis* support¹⁶ under the Amber box and Article 6.2 subsidies, which include as SDT:

- Investment subsidies, which are generally available to agriculture in developing country Members
- Agricultural input subsidies, generally available to low-income or resource-poor producers in developing country Members
- Domestic support to producers in developing country Members to encourage diversification from growing illicit narcotic crops.

In addition, Pakistan can use Green box subsidies. The use of Green box subsidies is quite flexible: there is no upper ceiling and any country can provide whatever quantum of Green box subsidies they want provided they are in conformity with the criteria laid down in Annex 2 of the AoA. Pakistan has not used much domestic support. Its aggregate measure of support (AMS) has always been negative. It used very little support under Article 6.2. The use of the Green box has been only in general services and public stock holding categories. The use of domestic support in different categories in the later half of 1990s is given in the following tables.¹⁷

Table II.1 Use of AMS support by Pakistan

Nature and description of support	Monetary value of measures (US\$ million)				
	1995-96	1996-97	1997-98	1998-99	1999-00
Product specific market price support					
Wheat	-172.00	-72.14	-143.4	-191.2	-257.3
Rice Basmati	-20.10	-	-	-	-
Rice Coarse	-10.40	-	-	-	-
Onion	-0.1	-	-	-	-0.1
Sunflower	-	0.03	-	-	-0.02
Potato	-	-	-	-	-0.05

¹⁵ Analysis by WTO Cell, Ministry of Food, Agriculture & Livestock (MINFAL).

¹⁶ The *de minimis* limits (both product-specific and non-specific) do allow expenditures for developing countries up to 20% of the value of production. Budget constraints in Pakistan do not permit expenditures of this magnitude. Moreover, it has been shown that these types of trade-distorting programmes are not very efficient or effective in improving competitiveness in agriculture.

¹⁷ Shoukat Ali Anwar Randhawa, *Subsidies notified by the SAARC countries to WTO: A briefing paper for SDPI / SWATEE* (2004).

Nature and description of support	Monetary value of measures (US\$ million)				
	1995-96	1996-97	1997-98	1998-99	1999-00
Non-product specific support					
Fertilizer subsidy	0.40	-	-	-	-
Electricity subsidy	10.40	15.5	22.5	26.6	12.6
Agricultural credit subsidy	0.00	-	-	-	-

Table II.2 Subsidies provided by Pakistan under Article 6.2

Nature and description of Article 6.2-criteria support	Monetary value of measures (US\$ million)				
	1995-96	1996-97	1997-98	1998-99	1999-00
Investment subsidy generally available to agriculture	Nil	Nil	Nil	Nil	Nil
Agriculture input subsidies to low income or resource poor producers					
Fertilizer subsidy	1.00	-	-	-	-

Table II.3 Green box subsidies notified by Pakistan

Nature and description of Annex II-criteria measure	Monetary value of measures (US\$ million)				
	1995-96 US\$=33.57	1996-97 US\$=38.99	1997-98 US\$=43.20	1998-99 US\$=43.20	1999-00 US\$=51.77
General services (para. 2 of Annex II)					
Agricultural research: development of high yielding varieties of important crops	12.80	7.36	7.55	2.44	3.18
Pest & disease control for plant protection coverage	0.50	0.03	0.02	0.70	0.01
Extension & advisory services to transfer the latest crop production technology	2.40	2.21	1.62	2.44	1.86
Marketing services, including provision of market information to benefit small producers	0.10	0.09	0.01	0.11	0.00
Infrastructural services for irrigation, drainage and reclamation purposes	335.0	312.63	266.12	235.76	213.07
Flood protection services	34.60	15.94	22.84	7.94	7.18
Water supply facilities	53.70	53.87	14.09	14.43	13.04
Public stockholding for food security purposes (para. 3 of Annex II)					
Storage facilities for wheat to ensure food security programmes	0.80	0.31	0.20	0.00	0.08

Pakistan cannot provide export subsidies to its agriculture sector, except as provided in Article 9.4. However, Pakistan has used this provision very sparingly as is obvious from the following table.

Table II.4 Export subsidies provided by Pakistan under Article 9.4

Nature and description of Article 9.1(d) & (e)-criteria support	Monetary value of measures (US\$ million)				
	1995-96	1996-97	1997-98	1998-99	1999-00
International freight (Art. 9.1(d))					
Fresh fruit and vegetables	1.70	2.29	2.65	2.65	0.384
Fresh fish products	-	-	0.19	-	-

II.2 Export performance of agriculture

Pakistan's agricultural exports continue to be dominated by primary products, although there has been some growth in recent years in the share of processed products (Table II.5).¹⁸ Semi-processed products continue to be an insignificant proportion. The share of processed exports rises significantly in years of large sugar exports. However, this has happened in only a few years since the 1990s. The years 1994, 1995, 1998 and 1999 were significant because of the larger share of processed exports; in 1999 these reached as high as 30%.

Table II.5 Pakistan's agricultural trade by level of processing (\$'000)

Year	Export primary	Import primary	Export semi processed	Import semi processed	Export processed	Import processed
1991	922,288	397,913	5,566	537,665	8,346	365,249
1992	1,076,332	637,396	6,016	531,634	12,609	114,929
1993	732,388	859,132	12,450	739,315	6,317	92,557
1994	475,084	650,457	10,324	659,024	84,280	69,795
1995	692,735	1,126,239	9,633	1,215,690	255,304	41,517
1996	1,192,827	945,270	7,420	1,054,642	27,332	363,180
1997	728,916	958,391	9,770	765,518	7,430	302,164
1998	843,914	980,630	9,352	1,104,991	423,422	40,927
1999	848,135	1,217,320	9,444	1,120,436	514,820	45,376
2000	1,003,116	882,660	11,247	594,720	24,473	542,392
2001	910,379	798,836	8,119	523,675	53,241	307,455
2002	864,138	986,750	9,841	596,985	74,145	63,698
2003	1,071,015	935,259	11,941	827,043	98,232	45,913
2004	1,069,727	1,200,440	15,252	963,598	140,311	27,888

Source: FAO website

¹⁸ The table has been computed from basic data by HS code on the FAO website and a classification of processing status by HS code provided by the WTO Cell of the Ministry of Food, Agriculture & Livestock (MINFAL).

Overall, Pakistan’s share of international trade has declined from 0.26% in the 1960s to 0.12% in 2004.¹⁹ While several external factors, such as the elasticity of demand abroad for Pakistani agricultural products, affect the export performance of individual commodities, the rapidly developing domestic demand for these commodities, spurred by the high population growth and expanding incomes, also play a significant part in determining the level of actual exports.

Several factors have affected the growth of Pakistani agricultural exports. These have ranged from tariffs (including escalating tariffs) to the inability of Pakistani exporters to adequately meet health and safety, and quality standards. Inadequate capacity to handle these requirements, in particular, is a major constraint. High domestic transport costs and inadequate facilities for sorting, grading and packing are the most often cited reasons for the unrealized export potential of most agro-based export products in Pakistan.

Pakistani products have faced alerts in the international markets due to the inability to meet quality and sanitary and phytosanitary (SPS) standards. Some examples of these issues are highlighted below:

Box II.1 Some quality/SPS issues faced by Pakistan

Export market	Product	Issues
European Union	Check peas/lentils	Faeces of rodents
	Red chillies	Aflatoxin
	Apricot kernels	Presence of hydrocyanic acid
Sri Lanka	Onion	Pesticide residue/contaminants
Philippines	Citrus	Fruit fly

Source: World Bank/UNIDO, 2006

The export performance of the major agriculture products – cotton, rice, wheat, sugarcane, fruit and vegetables, and milk – is discussed in the following paragraphs.

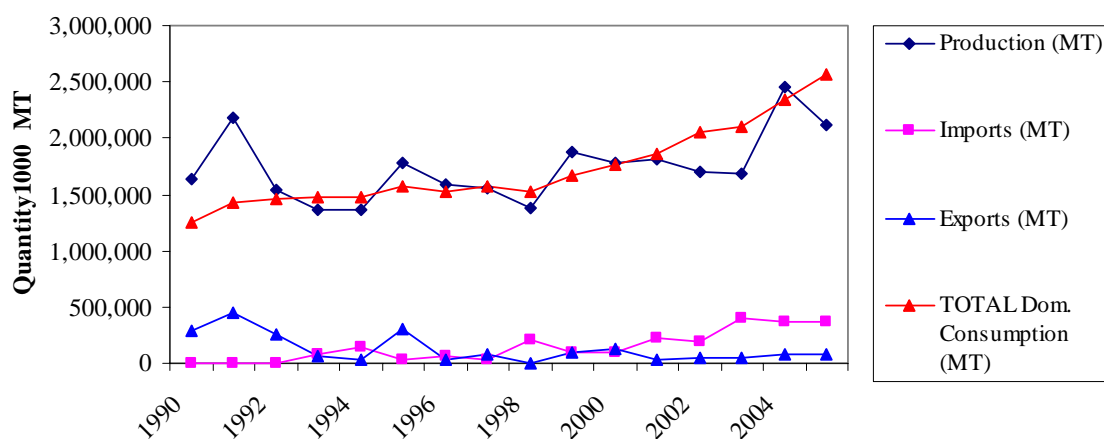
II.2.1 Cotton

As well as being an export-earning crop, cotton also provides raw material to local textile industries. It accounts for about 8.6% of value added in agriculture and 1.9% of GDP. Pakistan was considered a major exporter of cotton, but in the 1990s exports of cotton lint declined sharply, especially in 1994 due to the cotton leaf curl virus (CLCV), and almost approached zero in 1999. There have been some improvements since. The main reason for low exports is low crop production and increased domestic demand for cotton. The reasons for low domestic production are unfavourable weather conditions and a poor and inefficient market infrastructure.

Cotton export trends for Pakistan and the world are given in Figure II.1, while Pakistan’s share of world cotton exports is given in Figure II.2.

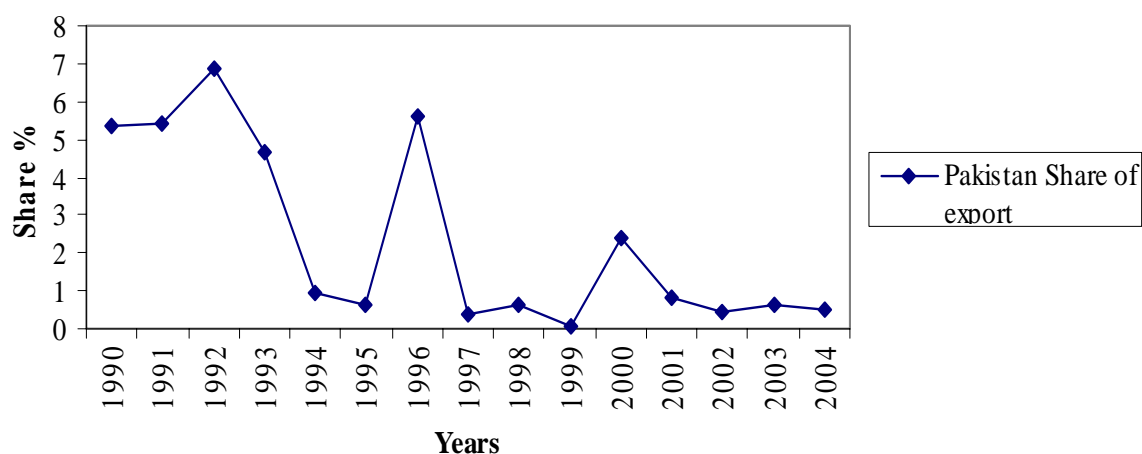
¹⁹ S.J. Malik, *Integrating the Trade Initiatives from a Human Development Perspective into the Poverty Reduction Strategy Paper* (2005).

Figure II.1 Cotton production, consumption and trade for Pakistan ('000 tonnes)



Source: Computed from FAO data (www.fao.org)

Figure II.2 Pakistan's share in global export of cotton



Source: Computed from FAO data (www.fao.org)

Pakistan has greater comparative advantage in the export of textiles rather than cotton. A recent International Food Policy Research Institute (IFPRI) study of the cotton sector in Pakistan²⁰ indicates that domestic and world prices are very closely correlated, suggesting that any exploitation of producers was modest,²¹ although this does not negate the need for improved domestic market institutions.

Two extraordinary developments occurred in 2005 that acted as a stimulus for enhancing consumption/mill use: the end of the quota regime and a record crop. With elimination of the quotas in 2005, there was a surge in mill consumption to capture a greater share of the international textiles market. Thus, there was unprecedented consumption of cotton by the textile industry in 2005.

²⁰ IFPRI, *The Impact of Global Cotton and Wheat Markets on Rural Poverty in Pakistan* (Asian Development Bank, 2005, www.adb.org).

²¹ Anecdotal evidence generally runs counter to this result and holds that the farmers were ruthlessly exploited.

A 2005 study by the Ministry of Food, Agriculture and Livestock (MINFAL)²² highlighted the potential for the cotton sector after the removal of the quota regime in 2005. It also underscored the risks and highlighted the measures that should be put in place to take advantage of these opportunities. These are summarized below.

From Pakistan's perspective, the removal of quotas spells both opportunities and risks. With no ceilings remaining on exports, Pakistan could, with some effort, aspire beyond its previous quota shares. Pakistan has made adequate investment in upstream textile technology (like China and India) to enable more vigorous market penetration, over and above its natural strength in linen and home textiles. However, there are threats from both strong competitors, like China and India, and low cost competitors who enjoy a number of privileges, e.g. those available to LDCs, S&D or preferential status, Lomé Convention, etc.

The elimination of quotas does not present these opportunities on a platter. Developed country markets continue to be protected through a host of measures: protection to farmers, export subsidies, technical barriers to trade (TBT), and anti-dumping measures, as well as a growing proclivity for imports from preferential partners with low tariffs. Pakistan needs to introduce genetically modified cotton in line with other cotton producers. If that is not possible in the near future, then alternative measures should be taken, including a focus on new, possibly hybrid, varieties with better yield, drought and disease resistance, along with better staple length and count. Controlling production losses (disease control) and post-production measures to control contamination and moisture, ensuring adequate incentives for growers, and ensuring quality from the ginning point, will also be necessary. Without strong emphasis on these measures, domestic cotton production will not be able to keep pace with the surge in demand from the textile industry.

With the end of the quota regime, there is fierce competition to capture the market share vacated by the quotas. Apart from China, which has emerged with greater strength, India also poses a challenge and is projected to increase its worldwide market share. To reduce the risk of sourcing from only one country (i.e. China), US importers plan to expand their trade relations with low cost countries, such as India, which also has a strong manufacturing base and a large supply of relatively low cost skilled labour to produce a wide range of textiles and apparels at competitive prices. Pakistan is also likely to face severe competition from low cost countries, especially many LDC countries enjoying better access to markets due to SDT, or the Generalized System of Preferences (GSP), etc. Countries with free trade agreements (FTAs) and regional trade agreements (RTAs) are also protected through common external tariffs. Tariff escalation for value added products is another factor, and the threat of anti-dumping and safeguards can never be ruled out.

While the phase out of the Agreement on Textiles and Clothing (ATC) was supposed to end the distortion imposed on the location of textile industries, it is uncertain whether expected benefits will be fully realized. Three factors have possible negative implications for the success of the ATC. First, the ATC was back loaded, with most reforms expected to take place in the last year, thus increasing the risk of non-compliance. Second, a number of countries (e.g. EU) have repeatedly sought to impose anti-dumping duties on textile imports from Asia in recent years. Third, there are a number of provisions under the ATC that allow for the imposition of temporary duties in the case that domestic textiles industries suffer "significant damage" following the phase out. The US was considering such an action against the recent surge in Chinese textile imports before it arrived at a comprehensive bilateral agreement to limit US

²² Teepu M. Khan, *Cotton and Citrus Fruit in Pakistan: Production, marketing and comparative advantage* (MINFAL, 2005)

textile and apparel imports from China. The safeguard provisions that made the agreement possible are scheduled to expire at the end of 2008 and efforts are being made within the US to influence an extension of the safeguard provisions beyond 2008.

The phase out of the Multifibre Arrangement (MFA) quotas through the ATC gives textile producing countries greater access to world markets. The likely result of this phase out will be a shift in textile production to LDCs due to labour cost differentials. Current technological advantages maintained by the US and other developed economies means there will not be a complete shift of textile production away from developed economies, at least in the short term. However, many developing countries are fast upgrading, focusing on high spectrum technology, innovation, speed and low production costs.

The quotas have ended after 50 years of managed trade. The transition will take time. During this transition period, exchange will continue to be volatile and unpredictable, leading to price fluctuations. Prices will continue to decline and delocalization and growth of regional integration, and hence the formation of regional blocks, will impact on free trade. Preferential arrangements other than quotas will be for lower/zero import duties, GSP, LDC status, and bilateral arrangements.

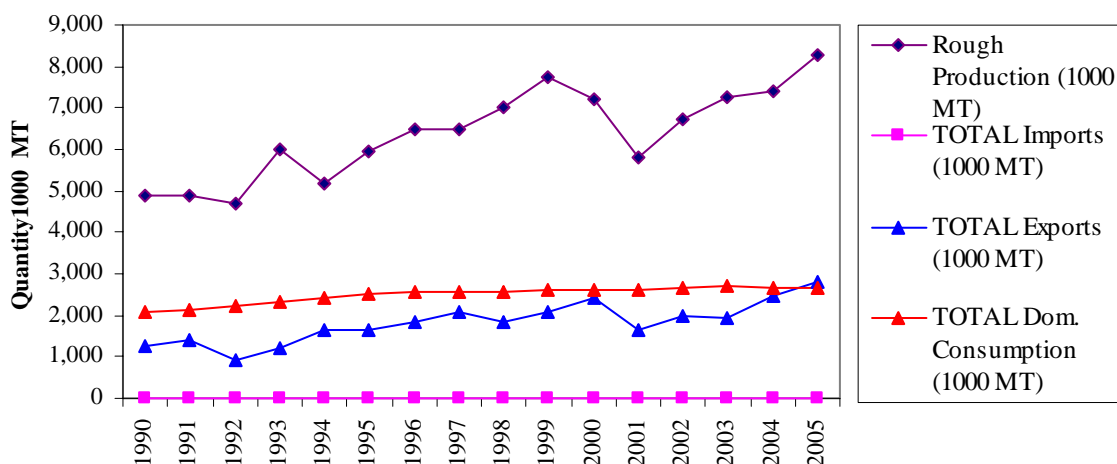
The withdrawal of quotas will impact positively on Pakistan's textile industry, helping to bring it into line with non-quota countries. However, tariff preferences to competitors in the EU and the North American Free Trade Agreement (NAFTA) will have a negative impact, making Pakistan's exports costlier to those countries. The new trading environment also imposes special skills and capacity requirements on Pakistan in order to understand and meet the complex requirements and standards. How successfully it meets these requirements will determine how much the textile sector in Pakistan benefits from the quota withdrawals.

II.2.2 Rice

Rice is an important staple food in Pakistan as well as a major source of export earnings. Pakistan's share in the world export of rice has increased from 5.83% in 1990 to 7.02% in 2004 value terms. The growth rate of exports declined from 42.8% in 1990 to 11.66% in 2004 in value terms, and is low compared to the world growth rate. Pakistani basmati rice, only grown in this part of the region, has not been able to get its due market share because of market restrictions, especially in Far East countries like Japan, Korea and the Philippines, which have very protected rice markets in favour of their own grain.

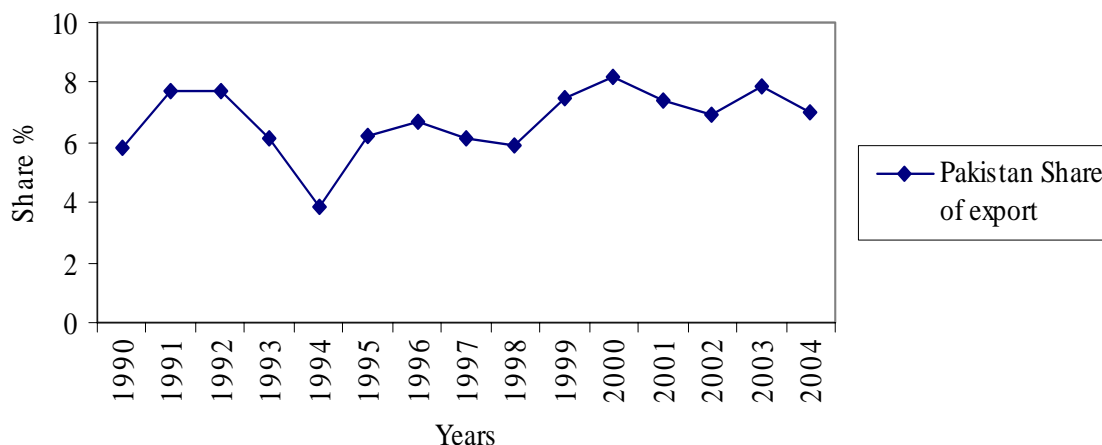
Rice export trends for Pakistan and the world are given in Figure II.3, while Pakistan's share of world rice exports is given in Figure II.4.

Figure II.3 Rice production, consumption and trade for Pakistan ('000 tonnes)



Source: Computed from FAO data (www.fao.org)

Figure II.4 Pakistan's share in global export of rice (%)



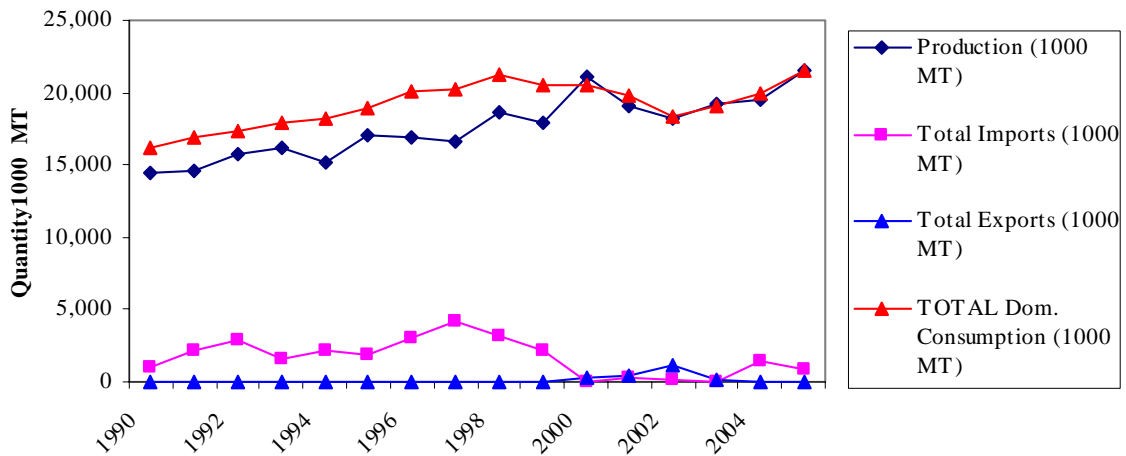
Source: Derived from FAO data (www.fao.org)

II.2.3 Wheat

Wheat is of vital importance to Pakistan, as it is the staple food of its people. The focus of Pakistan's agriculture and food policies since independence has been on the attainment of self-sufficiency in wheat production.

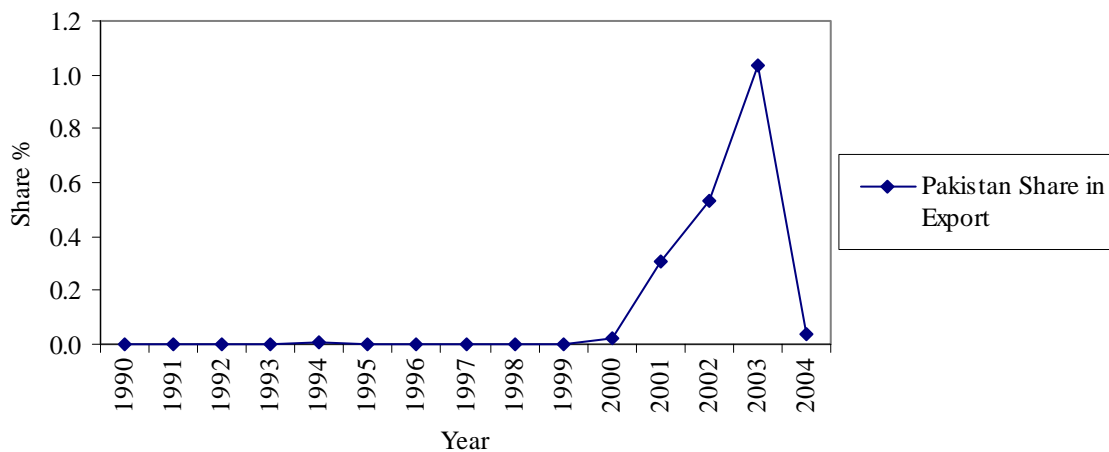
As the data in Figure II.5 indicate, Pakistan has continued to rely on imports in most years to meet domestic demand. Exports have either been non-existent or minimal. There were exports in the years 2001, 2002 and 2003, with wheat exports accounting for its highest share of slightly over 0.8% of global exports in 2003. Not only is there a minimal, often non-existent, surplus available for export once domestic consumption has been catered for, but the non-availability of adequate facilities to meet certification standards required for export under SPS provisions is a serious constraint.

Figure II.5 Wheat production, consumption and trade for Pakistan ('000 tonnes)



Source: www.indexmundi.com

Figure II.6 Pakistan's share in global export of wheat (%)



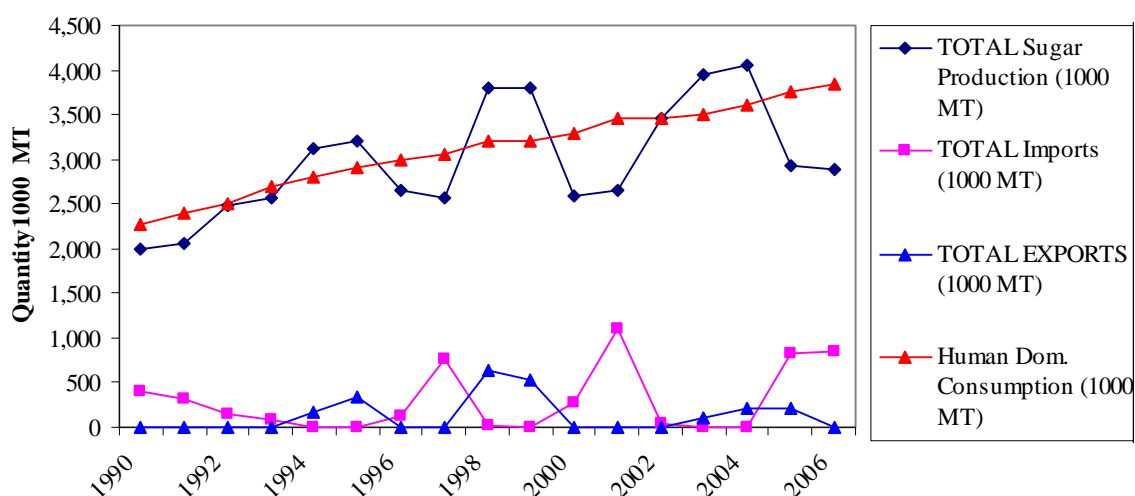
Source: Derived from FAO data (www.fao.org)

II.2.4 Sugarcane

Pakistan imports sugar in most years to fulfil its domestic consumption demand. Its exports are minimal and occur in years when total sugar production has exceeded domestic demand (see Figure II.7). Pakistan does not have a comparative advantage in sugarcane production, leading to a reliance on imports in most years and to its extremely low export potential.

It is important to note that the domestic consumption of sugar has continued to increase at a steady rate. Production has also grown but is liable to large variation, accounting for the intermittent reliance on imports followed by some years of exports.

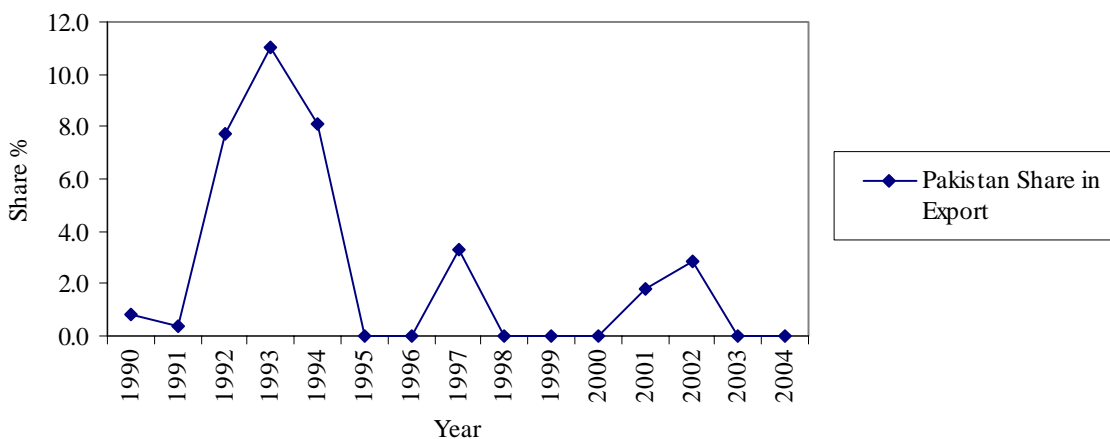
Figure II.7 Sugarcane production, consumption and trade for Pakistan ('000 tonnes)



Source: www.indexmundi.com

In the years that Pakistan does export, its sugarcane exports are an almost insignificant percentage of world exports (Figure II.8). However, these sugar exports are significant enough in terms of their share of the total value of exports to significantly increase the share of overall processed agricultural exports in total exports (in years in which sugar exports do occur) so as to outweigh the share of unprocessed agricultural exports. This was discussed earlier in Section II.2 on the export performance of agriculture.

Figure II.8 Pakistan's share in global export of sugarcane (%)



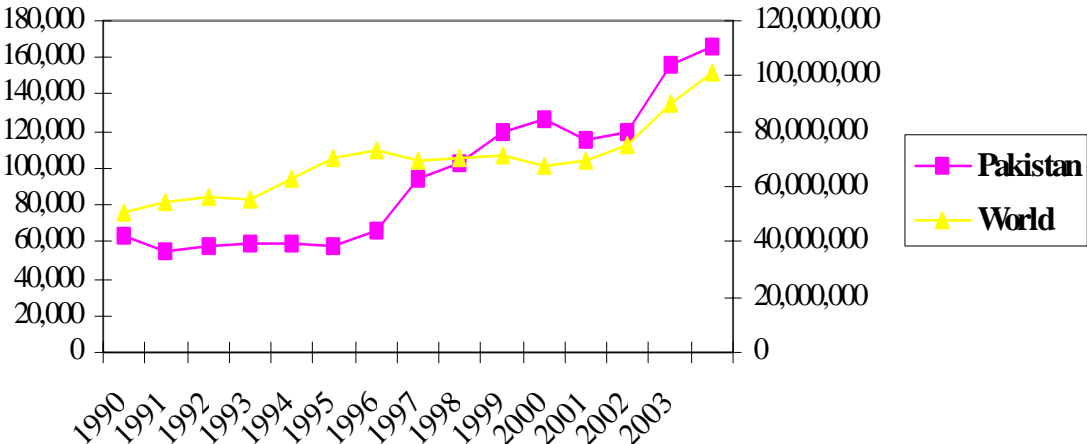
Source: Derived from FAO data (www.fao.org)

II.2.5 Fruit and vegetables

There is high demand for Pakistani fruits in international markets, especially mango, apples, dates and citrus. Unfortunately, Pakistan has very poor grading, packaging and processing infrastructure that is not compatible with international standards. With proper planning and selection of the right markets, Pakistan has a good opportunity to increase the value of exports.

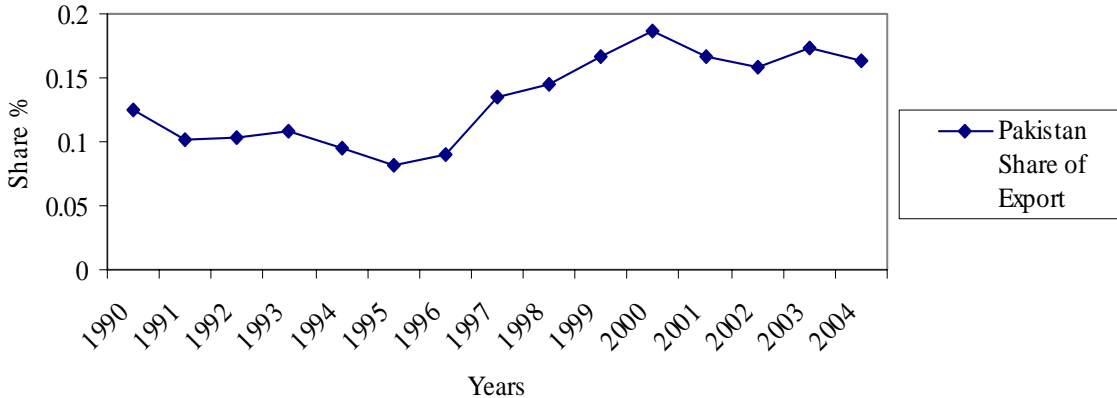
The share of horticulture in agriculture value added is about 12% but has further expansion potential. It is a good source of foreign exchange earnings. Despite negligence of these crops, exports of fruit and vegetables are increasing steadily. Pakistan's share in the world export of fruit and vegetables increased from 0.12% in 1990 to 0.16% in 2004 in value terms. It showed a growth rate increase from 5.27% in 1991 to 12.17% in 2004 in value terms. Despite significant variation over the years the overall trend has been positive. During the first five years of the previous decade the growth rate of Pakistani exports of fruits and vegetables was significantly higher than that of the global trade and resulted in a rapidly increasing share of Pakistan in world trade. The trend in the last five years has been more erratic, due in part to seasonality in domestic production and in part to the inability to meet SPS measures.

Figure II.9 Fruit and vegetable exports: Pakistan and the world (\$'000)



Source: Computed from FAO data (www.fao.org)

Figure II.10 Pakistan's share in global export of fruit and vegetables (%)



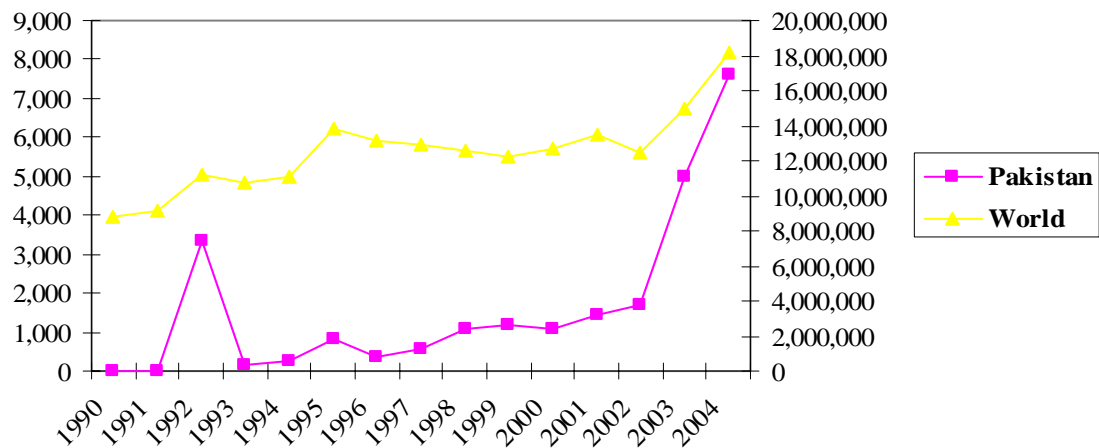
Source: Computed from FAO data (www.fao.org)

II.2.6 Milk

Pakistan is ranked fifth in world milk production but unfortunately, due to poor market structure, lack of technology to preserve milk for longer shelf life and the very poor state of the milk processing industry, Pakistan does not have a major share of world milk exports. Pakistan's share of world milk exports increased negligibly from 0.0% in 1990 to 0.041% in 2004 in value terms. Instead, Pakistan is a net importer of milk. In the recent past, the

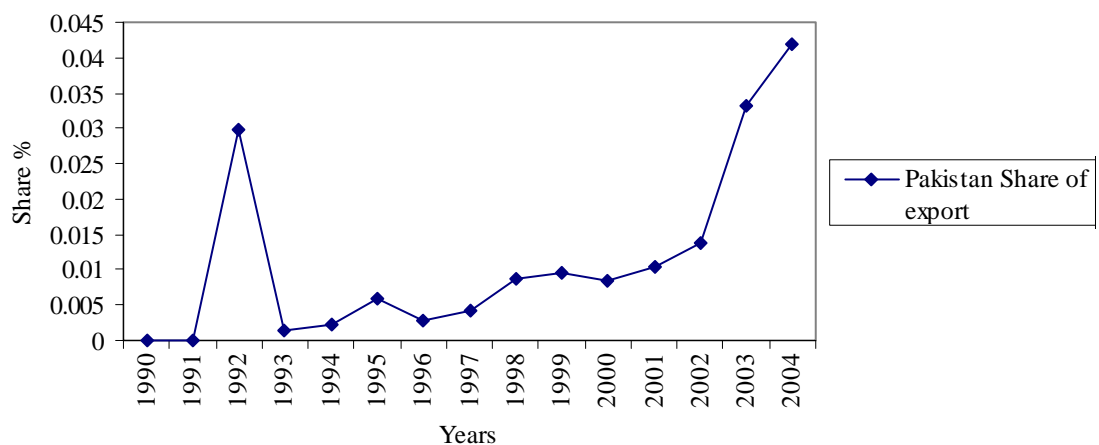
Government has shown its intention to develop the dairy sector. This has brought positive results for Pakistan, with exports of milk increasing, although at a slow pace.

Figure II.11 Milk exports: Pakistan and the world (\$'000)



Source: Computed from FAO data (www.fao.org)

Figure II.12 Pakistan's share in global export of milk (%)



Source: Computed from FAO data (www.fao.org)

III Policy response

In the wake of the fast changing global scenario, the Pakistan Government has identified agriculture as a major priority area for addressing the problems of unemployment, poverty alleviation and economic development. The Government's Agricultural Policy²³ focuses on:

- Sustainable food security
- Increasing productivity
- Commercial agriculture
- Income diversification
- Export orientation.

While the overall policy recognises the holistic nature of the response necessary to bring about the desired changes in agriculture, it puts considerable emphasis on the opportunities and challenges arising from participating in the WTO. The MTD²⁴ recognizes that “the WTO has opened up new opportunities and challenges for the agriculture sector. The major areas of reform are waiving of domestic support, removal of export subsidies and market access by removal of NTBs. In case of Pakistan, domestic support has already been phased out. The AMS is negative. The reduction in export subsidies and liberal market access by developed countries is important for our exports. In order to take advantage of this, the quality of agriculture products should meet international standards and sanitary and phytosanitary standards.”

The MTD envisages improvement in agricultural research, extension services, plant protection, irrigation, drainage and reclamation, on-farm water management and agricultural marketing, to cope with the challenges of the WTO. The MTD states that the knowledge of farmers about the WTO will be enhanced through appropriate training of extension officials and awareness raising. Pakistan's comparative advantage in crops such as cotton and rice will be consolidated. Necessary measures will be taken on sanitary and phytosanitary issues, in line with WTO requirements. Quality testing laboratories will be established and strengthened to meet WTO requirements. Capacity building in knowledge of international trade practices will be undertaken.

The MTD further envisages that the Agreement on Trade Related Intellectual Property Rights (TRIPs) will be used for plant variety protection and development of the seed industry. A gene bank will be established to prepare an inventory of all genetic resources of the country and take steps to get proprietary rights on them.

The Agricultural Policy envisages the following in this regard:

- Providing domestic support and export subsidies where provisions are available in the AoA.

²³ Ministry of Food, Agriculture & Livestock, *Agricultural Policy and Perspective*. 2004.

²⁴ Planning Commission, *Medium Term Development Framework, 2005-10*.

- Pressurizing developed countries to eliminate all sorts of domestic and export subsidies and to provide market access to Pakistan’s agricultural exports.
- Improving quality and standards of agricultural commodities according to WTO Agreements on Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT).
- Providing Green box subsidies, which include government storage, pest and disease control, training services, extension and advisory services, infrastructure services and facilities for food security.

The Government has taken a number of steps in this area, despite capacity to provide these subsidies being limited due to financial resource constraints.

The Government has launched a number of initiatives for improving the standards and quality of agricultural exports. For example, in the case of cotton quality control, a “clean cotton” campaign and pesticide ordinance, etc, have been started. In collaboration with UNIDO and the World Bank, the Government has drawn up a matrix that lists the actions recommended to address the major issues in Pakistan’s agro-based exports and SPS measures. This matrix is presented in Annex 1. A unique feature of this matrix is that it lists the agencies that need to collaborate to make the actions possible and provides both a timeline and an assessment of priority. Such collaboration amongst government agencies, donors and other actors, according to a clearly specified timeline, is crucial for Pakistan to quickly equip itself to meet the requirements of the WTO AoA.

The Trade Policy 2005-06 announced the following five pillars in order to expand the country’s export base, including for agricultural products:

1. Improving market access through trade diplomacy, and new Free Trade Agreements/ Preferential Trade Agreements (FTAs/PTAs) with selected priority countries.
2. Focusing on neglected regions and countries, like Africa, Latin America, Eastern Europe, Central Asia and the Far East.
3. Strengthening of the trade promotion infrastructure of the Government, including the Export Promotion Bureau (EPB) and trade offices abroad.
4. Improving skill development and productivity through provision of large-scale training.
5. Providing state of the art physical infrastructure by the Government to spur investment and foreign direct investment (FDI).

IV Pakistan's involvement in the AoA negotiations

Pakistan has to be vigilant about further development in all three areas of the AoA and has proactively participated in the reform process throughout the negotiations. Pakistan came to the forefront, along with other like-minded developing countries, in the initial stage (Phase 1) of the negotiations that started in early 2000 under Article 20 of the AoA. In the later half of June 2000, the famous “Development Box”²⁵ proposal was initiated by a like-minded group of 11 developing country Members, including Pakistan. Not only did it bring the issues of rural poverty, employment and food security to the centre of the negotiations, but it also clearly differentiated between the non-trade concerns of developed and developing countries. The proposal made recommendations aiming to:

- Protect and enhance developing countries' domestic food production capacity, particularly in key staples.
- Increase food security and food accessibility, especially for the poorest.
- Provide, or at least sustain, existing employment for the rural poor.
- Protect farmers, who are already producing an adequate supply of key agricultural products, from the onslaught of cheap imports.
- Allow flexibility to provide necessary supports to small farmers, especially in terms of increasing their production capacity and competitiveness.
- Stop the dumping of cheap, subsidized imports on developing countries.

These recommendations have remained as central negotiating points in one form or another, especially in the SP and SSM contexts. Simultaneously, this group (though the number of countries varied for different proposals) also submitted proposals on the Green box²⁶ and on market access²⁷ recommending a tightening of the Green box criteria and an improvement in various market access elements. Pakistan also developed proposals and non-papers in Phase 2 of the negotiations jointly with major developing countries in the areas of tariff quota administration, export subsidies, food security, rural development, Green box, special agricultural safeguards, development box (sponsoring members slightly different from the original development box proposal made in Phase 1) and SDT.²⁸

With the start of deliberations on the Doha Development Agenda (DDA), the group of developing countries become more coherent and active. It took an active part in negotiations, aiming to further the reform process. It is now well recognized that, unlike the Uruguay Round, developing countries in the Doha Round are dealing with developed countries more forcefully and consistently.

25 G/AG/NG/W/13.

26 G/AG/NG/W/14.

27 G/AG/NG/W/37.

28 WTO Backgrounder on Agriculture Negotiations.

For want of any consensus on modalities on AoA negotiations during the run-up to Cancun, the US and EU came up with a joint draft on 13 August 2003²⁹ that created the impression among many that another “Blair House” was around the corner. Through this draft, the US and EU seemed to exchange mutually desired concessions ignoring developing and least developed countries’ concerns. Although almost all other negotiating players rejected the draft, the developing countries, now as a more specific group in the name of the G20,³⁰ were the first to block this hegemonic move by presenting a parallel draft of their own.³¹ This parallel draft clearly incorporated the elements of SP and SSM for developing countries, while suggesting drastic cuts on tariffs and subsidies for developed countries. Pakistan played a central role in developing this draft. Since this historic draft, released just before the 2003 Cancun Ministerial Conference, the G20 has been a force to be reckoned with.

IV.1 Pakistan in the international arena

Pakistan is an active member of different groups and alliances of negotiating countries. In the G20, Pakistan has played a pivotal and leading role. It has participated in all major events organized by the group and has helped on a number of occasions to smooth issues within the group. Out of the five Ministerial meetings of the G20 convened between the Cancun and Hong Kong Ministerial Conferences of the WTO, one was hosted by Pakistan in Bhurban on 9-10 September 2005. This was only the second to be held in Asia. This Ministerial meeting of the G20 was considered crucial for shaping the final negotiating stance for the Sixth WTO Ministerial meeting held in Hong Kong in December 2005.

Besides being an enthusiastic member of the G20, which generally advocates an offensive stance on all three pillars of the AoA, Pakistan is also on guard against the fallout of likely cheaper imports by joining the platform of the G33, a group of almost 42 countries vehemently demanding SDT, in the form of SPs and SSM for developing and least developed countries.

Recently, on the sidelines of the Hong Kong Ministerial Meeting, Pakistan joined the Cairns Group as its 18th member,³² the only member from South Asia. The Cairns Group is an alliance of agricultural exporters and has a very firm stand for drastic and meaningful liberalization in farm products. From the very beginning of the negotiating process, the Cairns Group has been proposing drastic cuts in export and domestic subsidies and tariffs,³³ a stance that Pakistan shares strongly. The Cairns Group is so keen about the improvement in market access that it supported the Swiss (25) Formula proposed by the US in the earlier modalities phase, with the aim of harmonizing tariffs and thus eliminating tariff peaks and escalations. Pakistan, along with other developing countries, had also initially supported this formula with certain flexibility for developing countries. By joining the Cairns Group, Pakistan has clearly signalled the continuation of its stand for liberalization of agricultural trade by making improvements in market access and reducing subsidies. It also confirms Pakistan’s resolve to be among

²⁹ Job (03)/157.

³⁰ Earlier known as the developing countries group or sometimes the likeminded group, the G20 comprises mainly those developing country members who had submitted joint proposals earlier as mentioned in the above text. The membership of G20 has hovered around 20. (Official website: www.g-20.mre.gov.br.)

³¹ Job (03)/162 recirculated as WT/MIN(03)/W6.

³² Other member of Cairns Group are Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay.

³³ G/AG/NG/W/11, G/AG/NG/W/35, G/AG/NG/W/54 (phase-1) and other proposals of the Cairns Group.

agricultural exporters, in line with the objectives of its national Agricultural Policy and the MTDF (see section III).

Besides being a regular member of the above-mentioned groups, Pakistan has been invited by other alliances, like the African Group and the ACP countries, to their important meetings and events in order to strengthen mutual positions. Moreover, Pakistan has regional interests and has been jointly voicing its WTO-related concerns from the platforms of the South Asian Association of Regional Cooperation (SAARC), Central Asian Economic Cooperation Organization (ECO), Organization of Islamic Countries (OIC) and the D8. Pakistan has been invited to all the “Mini-Ministerial” meetings between Cancun and Hong Kong; Pakistan was in fact the first WTO Member visited by Dr. Supachai Panitchpakdi, the then Director General of the WTO, after the failure of Cancun in order to muster support for a campaign of confidence building among Members.

“Pakistan will continue to be supportive of efforts to steer the negotiations forward in a way that developing countries could achieve their rightful share of benefits from the multilateral trading system”

President Pervez Musharraf, in his meeting with Dr. Supachai Panitchpakdi, former Director General of the WTO.

IV.2 Linking to the WTO negotiations from Islamabad

“Pakistan is an influential member of the WTO and it has a very important role to play in the coming days”.

“After the Cancun Conference, I needed to initiate fresh consultations with Trade Ministers of the world and Pakistan was the first country that I am visiting in this regard”.

Dr. Supachai Panitchpakdi, former Director General of the WTO, in his meeting with President Pervez Musharraf.

Pakistan has a separate WTO Wing in the Federal Ministry of Commerce that specifically deals with all areas covered under the WTO umbrella. The wing is in constant liaison with the Permanent Mission of Pakistan to the WTO in Geneva and provides necessary information and guidelines to the national negotiators. A separate desk has been established in the wing to deal with the AoA and the associated negotiations. In addition, an exclusive WTO Cell has been established recently in MINFAL. Both these offices work in close coordination to build up the national position for the WTO, as well as other fora when required. Besides mutual coordination, these offices also have arrangements to extract feedback from relevant public

and private agencies. Specific arrangements and focal points have been set up to deal with WTO related issues in all major federal and provincial government and semi-government agencies, including all the main Federal Ministries, Provincial Development Boards, EPB, Small and Medium Enterprises Development Authority (SMEDA), etc.

Since the opening up of negotiations on the AoA, and especially after the Doha Ministerial Conference, WTO-related awareness has increased significantly in the private sector as a result of the Government’s efforts to reach out to stakeholders. All chambers of commerce, different associations of producers and traders, and the farmers’ and growers’ organizations now take part in major WTO-related activities. Non-government organizations (NGOs) are also playing an important role in creating awareness through advocacy.

Academic and research institutions, parliamentarians and lawyers are also involved and contributing in line with their own particular capacities. Both the upper and lower houses of Parliament have established special committees to assess and analyze WTO issues and the negotiation process. Prominent and leading universities and educational institutions are running specific training courses on the WTO.

The Government of Pakistan actively supports all the above-mentioned stakeholders.

Box IV.1 Pakistan’s stance in negotiations on Agriculture³⁴

DDA mandate	Current status	Pakistan’s position
<p>The DDA envisages substantial reductions in trade distorting domestic support, a phasing out with a view to eliminating export subsidies, and substantial improvement in market access.</p>	<p>Agreement exists only on phasing out export subsidies and related elements, like export credits and guarantees, by 2013.</p> <p>In market access, the US favours a progressive approach within bands resulting in cuts between 55% and 90%. The EU’s proposal results in average reduction of tariffs of 39%, whereas the G20 proposal requires overall tariff reduction by developed countries of at least 54%. The EU’s offer is not considered adequate and they are being pressed to submit a revised market access offer.</p> <p>In overall trade distorting domestic support, the US proposes cuts between 31% and 75%, the EU proposal is for cuts in the range of 50% to 70%, whereas the G20 proposal calls for cuts between 70% and 80%. Offers by the EU and US are considered to be inadequate.</p>	<p>Status quo is not in our interest and we would like ambitious reforms for agriculture.</p> <p>To achieve ambitious results, we joined the G20 coalition. More recently we also became a part of the Cairns Group as we share similar objectives. At the same time we do have some defensive interests, such as allowing developing countries to self designate some SPs and to be able to use the SSM against dumping. To achieve these objectives, we are associated with the G33.</p> <p>Pakistan’s strategy in the three areas (pillars) of agriculture negotiations is:</p> <p>Export competition: Complete elimination of export subsidies by the year 2013 and achieving parallelism through elimination of programmes for export credits, export credit guarantees, insurance programmes beyond 180 days, while ensuring front loading of commitments by achieving 50% elimination in the 1st year of the implementation period.</p> <p>Domestic support: Overall substantial reduction of total AMS, permitted <i>de minimis</i> and Blue box payments; capping of product specific support; further reduction in <i>de minimis</i> for developed countries; Blue box criteria to be less trade distorting; Green box criteria to be reviewed and clarified.</p> <p>Market access: Substantial overall reduction in tariffs; deeper cuts in higher tariffs; tariff escalation to be addressed; concept of SP and SSM for developing countries; tariff capping at 100% for developed countries and 150% for developing countries.</p>

³⁴ Posted on Permanent Mission of Pakistan to the WTO website at www.wto-pakistan.org.

V Pakistan and the AoA negotiations: Opportunities and challenges

Given its role as a major agricultural exporter and importer, Pakistan has a fundamental interest in further strengthening the international rules governing agricultural trade, eliminating trade distorting subsidies and significantly improving market access opportunities. Future growth and development of the agriculture and food sectors are dependent on new markets, and both Pakistan's farmers and processors can expect to benefit significantly from increases in exports.

Pakistan is using every opportunity to position its approach to achieve a level international playing field. Pakistan is seeking real and substantial market access improvements for all agriculture and food products, as well as the elimination of export subsidies and the maximum possible reduction of trade-distorting domestic support.

Box V.1 Specific objectives of Pakistan's AoA negotiating strategy

- Limit the extent and the speed of adjustment for the most vulnerable sectors.
- Respect the food security requirements of low-income consumers.
- Re-balance the unfair and disruptive practices of export subsidies and domestic subsidies.
- Provide access to international markets for competitive export sectors.

V.1 Market access

In the current negotiations Pakistan has been pursuing an offensive stance for substantial reductions in tariffs in order to get market access. Throughout the round, Pakistan has supported proposals that aim at substantial improvement in market access as mandated in the DDA through deeper cuts in tariffs, elimination of tariff peaks and tariff escalations, and improvement in tariff quota administration. However, Pakistan supports SDT to safeguard the non-trade concerns of developing countries. Pakistan's interests in the negotiations in view of the latest developments are given below.

V.1.1 Tariff reduction - The formula

The Chairman's 9 June 2006 reference paper on market access put forth a tiered formula, with proposed thresholds and tariff cuts, to be implemented in equal annual instalments from the bound level as follows:

Table V.1 Summary of chairman's reference paper proposal

For developed countries	
Where the bound duty or <i>ad valorem</i> equivalent is	The reduction shall be
>0 – <=[20-30] %	[20 – 65] %
>[20-30] – <=[40-60] %	[30 – 75] %
>[40-60] – <=[60-90] %	[35 – 85] %
>[60-90] %	[42 – 90] %

For developing countries	
Where the bound duty or <i>ad valorem</i> equivalent is	The reduction shall be
>0 – <=[20-50] %	[15 – slightly less than 65] %
>[20-50] – <=[40-100] %	[20 – slightly less than 75] %
>[40-100] – <=[60-150] %	[25 – slightly less than 85] %
>[60-150] %	[30 – slightly less than 90] %

The above proposals can be seen as another way of presenting the proposals of the G20. The following table compares the G20 proposals (October 2005) with the proposals contained in the reference paper.

Table V.2 Comparison of G20 and reference paper proposals

G20 proposal		Chairman’s reference paper proposal	
Developing countries			
Thresholds	Proposed cuts (linear)	Thresholds	Proposed range of cuts (linear)
0 – 20	45%	0 – [20-30]	20 – 65%
20 – 50	55%	[20-30] – [40-60]	30 – 75%
50 – 75	65%	[40-60] – [60-90]	35 – 85%
>75	75%	>[60-90]	42 – 90%
Proposed tariff cap: 75 or 100			
Developing countries			
Thresholds	Proposed cuts (linear)	Thresholds	Proposed range of cuts (linear)
0 – <=30	25%	0 – [20-50]	15 – slt 65%
>30 – <=80	30%	[20-50] – [40-100]	20 – slt 75%
>80 – <=130	35%	[40-100] – [60-150]	25 – slt 85%
>130	40%	>[60-150]	30 – slt 90%
Proposed tariff cap: 150			

It can be seen that the statistical means of the proposed ranges in the reference paper almost correspond to the numbers proposed by the G20. The Chair has himself noted in the paper that “... the real zone of engagement has to be around the G20”. Under these assumptions the following points emerge:³⁵

- For Pakistan, the reduction would be within the vicinity of 40%– 45% for most of the agricultural commodities, leaving considerable “water” between the bound and applied rates. However, water may be squeezed in the case of some edible oils, for which applied rates are applied in the form of specific duties and have been estimated at around 40%-45%. A recent study³⁶ suggested that six products for Pakistan would be affected by the G20 formula. The bound and applied rates for cotton, silk, wool, flax, and hemp are set at 5%. The proposed formula would reduce them to 3.5%. In Pakistan’s tariff schedule, there are some 40 vegetable oils with specific tariffs.

³⁵ The authors are indebted to the WTO Cell, MINFAL, for its input analysis in this area.

³⁶ Mario Jales, *Tariff Reductions, Special Products, and Safeguards: An Analysis of the Agricultural Tariff structures of G-33 Countries* (ICTSD, 2005 www.iictsd.org/dlogue/2005-06-16/Jales.pdf)

- The pattern would be similar for other developing countries of the G20. For India, the expected reduction is 45%–49%, for China 30%–31%, for Brazil 40% and for Thailand 38%–43%.
- With regard to developed countries, for the US most commodity tariffs would be reduced to within the range of 43%–48%. Larger cuts are expected for processed fruit and vegetables, an area of interest for Pakistan especially if the escalations are also reduced in this field. For the EU, tariffs for most commodities would be reduced to within the range of 42%–47%. There will be comparatively deeper cuts for tobacco and processed fruits and vegetables. In Japan, most commodity tariffs will be reduced to within the range of 40%–49%, with larger cuts for sugar, meats and dairy products.

Pakistan would essentially get all of the market access gains from the DDA with little cost. Therefore, Pakistan should attempt to get the maximum multilateral tariff reductions in order to maximize its own potential gains. Not only will Pakistan benefit from improved access in existing global markets, there will also be a price incentive for products, such as rice, wheat, cotton, dairy, and meat products, that Pakistan may export in the future.

V.1.2 TRQs

Pakistan has not been able to avail of any tariff rate quota (TRQ).³⁷ The import allocation mechanisms for access to the in-quota tariffs during 1995-2000 were largely: applied tariffs (50%), licences on demand (25%), followed by “first-come, first-served” (10%), and historical importers (9%), based on number of tariff lines. However, De Gorter³⁸ estimates that based on trade value, each of these four mechanisms accounted for about the same value of trade (14%–18%). A number of countries applied additional criteria (such as a requirement for domestic product purchase) on about 20% of the tariff lines.

The WTO data for 1995-2000 indicates widely varying conditions on quota fill rates. There was a substantial under-fill (<20%) of TRQs for about one-quarter of the products, while at the same time there was a high fill rate (80%–100%) for half of the products.

Pakistan should concentrate on improvement in the administration of TRQs. Priority improvements in TRQ administration would include easing restrictions on new developing country suppliers to access existing or proposed expanded quotas. Reforms should also include elimination of the “additional conditions” imposed in a high percentage of cases. Countries should adopt an “auction approach” to the new quota allocation, limited only to developing countries, and countries should allow quotas to be tradable between companies and countries.

There should be improved transparency requirements. All relevant information should be widely and publicly communicated in a timely manner. Members should establish a dedicated, publicly accessible, tariff quota administration website in order to disseminate all commercially relevant information and regulation.

³⁷ Information supplied by WTO Cell, MINFAL.

³⁸ H. De Gorter and H.H. Chang, *Tariff Rate Import Quotas, Domestic Market Structure and Agricultural Support Program - The Case of Taiwanese Rice Imports* (paper presented at the Western Agricultural Economics Association Annual Meeting, Hawaii, 30 June - 2 July 2004).

V.1.3 Tariff escalation

Tariff escalation is a particular area of interest for Pakistan because of its need to increase the exports of processed food products and fruit and vegetables. The Chairman's reference paper envisages that "should after application of the tiered formula for tariff reductions, the bound duty on a processed agricultural product be greater than the bound duty on a primary product, the bound duty for the processed agriculture product shall be reduced by applying a factor of [1.3] compared to the reduction which would otherwise have been required under the tiered formula".

Pakistan should try to increase this multiplying factor.

V.1.4 SP & SSM

There is a strong argument that Pakistan, having sufficient water between bound and applied tariff rates, should not push for SP and SSM provisions. However, both studies conducted in this regard in 2005³⁹ have argued strongly that Pakistan should reserve this option for a number of products, especially if the tariff reduction requirement is high. There is a great danger that unqualified support for these mechanisms would jeopardize the whole process of liberalization. The losses to Pakistan from SP outweigh any gains to Pakistan. Therefore, Pakistan needs to carefully evaluate its support of these initiatives.

V.2 Domestic support

Paragraphs 6 to 16 of Annex A of the July 2004 Framework⁴⁰ laid the basis for making progress on this important pillar of the AoA. However, consensus on modalities has yet to be reached. The Hong Kong Ministerial Conference led to a decision regarding the number of tiers (three) for trade distorting support, and some basis to develop further the Blue and Green boxes.⁴¹ With the expectation of preparing draft modalities on the AoA around the end of June 2006, the Chairman circulated reference papers *inter alia* on all elements of domestic support. The salient points of the reference papers are as follows.

V.2.1 AMS support

In the context of AMS, the following points should be noted:

- Final Bound Total AMS should be reduced by a tiered formula with three tiers.
- The Member with the highest level of permitted support should be in the top tier, the next two Members in the middle tier and all other Members, including all developing country Members, in the bottom tier.
- As such, the EU (with a Final Bound Total AMS of €67.159 billion) will be in the top tier, the US (US\$19.103 billion) and Japan (¥3,972.9 billion) in the middle tier, and all other Members with AMS commitments in the bottom tier.

³⁹ S.J. Malik, ICTSD, 2005, and R. Malik, Actionaid Pakistan, 2005.

⁴⁰ WT/L/579.

⁴¹ WT/MIN(05)DEC.

- *De minimis* limits should be reduced except for developing countries that devote almost all their *de minimis* to low-income and resource-poor farmers. (The reference paper expects reduction in developed countries' *de minimis* in the range of 50%–80%.)
- Product-specific AMSs are to be capped at their respective average levels according to a methodology to be agreed.
- Two alternative base periods have been suggested for the product-specific AMS caps – 1995 to 2000 (or the possibility of choosing 1995 to 2004 for developing countries) and 1999 to 2001. The selection of a particular base period will have a considerable impact on some Members, particularly those countries that have undergone major changes in support policies.
- In the case of cotton, the Hong Kong mandate is to be followed, i.e. to implement ambitiously and expeditiously.

V.2.2 Blue box

Further progress on the Blue box will develop according to paragraphs 13-14 of Annex A of the July 2004 Framework. Redefining the Blue box criteria as per these paragraphs is expected in view of the future objective of the US farm programme. However, crucial debate will be on the capping of this box, as mandated in paragraph 15 of Annex A of the framework, which states "Blue Box support will not exceed 5% of a Member's average total value of agricultural production during an historical period." Members have shown preparedness to reduce this cap from 5% to 2.5% of the total value of agricultural production. Some suggest that this cap should apply from the start of implementation and, indeed, are seeking further reduction during the implementation period. Others want to start at 5% and reduce to 2.5% by the end of implementation.

V.2.3 Overall reduction in trade distorting domestic support

In the context of overall reduction in trade distorting domestic support, two basic points should be noted:

- The three components of overall trade-distorting domestic support are the Final Bound Total AMS, permitted *de minimis* and the Blue box.
- This overall base level for all trade-distorting domestic support is to be reduced by a tiered formula.

The crucial point of discussion will be to determine the base level of these components, particularly the *de minimis* and Blue box; the base period for AMS is to be decided in its own context. Once the base level is determined, the overall trade distorting support will be reduced from the final bound rate in such a way that the highest level of permitted support should be in the top tier; the next two Members in the middle tier and all other Members, including all developing countries, in the bottom tier. The cuts to be applied on these tiers are yet to be negotiated.

On the issue of staging, it needs to be ensured that overall trade distorting support does not exceed, throughout the implementation period, 80% of the base level stipulated in the last sentence of paragraph 7 of the Agreed Framework. Some countries have also called for "front-

loading" of the cuts as they consider that "water" would be built into the base level of the overall trade-distorting domestic support. Others counter that if "water" is to be addressed here, front-loading should apply to other pillars as well.

V.2.4 Green box

The G20 proposal of strengthening and tightening Green box criteria has assumed a central position in the negotiations on domestic support. The G20 stance has been that the criteria for this box be redefined in such a manner as to allow developing countries to address their genuine needs, and to limit the scope countries to shift trade distorting support into this box and thus circumvent the commitments. The Chairman's reference paper has reaffirmed that the key objective of the review of the Green box is to ensure that programmes notified in the box cause not more than minimal trade distortion or effects on production.

The paper also expects that, in line with the guidance provided in the Hong Kong Ministerial Declaration, there is a genuine openness to changes to paragraph 2 – General services – to ensure that the programmes of developing countries are effectively covered.

In order to be vigilant that the Green box measures are applied in the overall spirit of the reform process and not with a view to circumvent the core commitments, an effective mechanism of monitoring and surveillance, originally proposed by the developing countries, is now an essential negotiation point. It has been proposed to achieve this objective through the creation of a sub committee of the Committee on Agriculture (CoA) or an appropriate procedure of notifications.

Under the existing AoA, Pakistan can introduce virtually any amount of Green box programmes, such as research and development, marketing assistance, domestic food aid, infrastructure, and input subsidies. These are the type of programmes most likely to be of interest to Pakistan. While negotiating on redefining the Green box criteria, Pakistan should ensure that these provisions remain intact.

V.3 Export competition

V.3.1 Export subsidies

Under the AoA, export subsidies were to be capped and reduced over time. The July 2004 Framework indicated that all forms of export subsidies would be eliminated by an (to-be-agreed) end date. It has now been decided that export subsidies will be eliminated by 2013, and on cotton by 2006. The issue of debate is now the yearly phasing quantum.

Pakistan has always been supportive of the elimination of export subsidies in view of the expected advantages for its farming communities. However, with the expected increase in global prices due to elimination of subsidies, Pakistan, as a NFIDC, may face a higher food import bill.

V.3.2 State trading enterprises

The July 2004 Framework stated that the trade distorting practices (i.e. direct and indirect subsidies) of state trading enterprises (STEs) should be eliminated. There was a need for

increased transparency in their operations and the extent of their monopoly power would be subject to negotiation.

Pakistan's concern about STEs is two-way. On the one hand, STEs may restrict the import of commodities through non-price factors. STEs often establish long-term trade agreements for government-to-government transactions that may be on less competitive terms than the private sector can provide. On the other hand, if there was market failure or substantial stocks accumulated, Pakistan may also want to retain the possibility of using the Trading Corporation of Pakistan's offer-to-purchase programmes for its key agricultural commodities such as cotton, wheat, and rice. Pakistan has used STEs for the export of cotton and wheat in the past.

Therefore, Pakistan should support the proposals for the reform of STEs with respect to export subsidies and transparency (but retain its right to use STEs when necessary).

V.3.3 Food aid⁴²

The July 2004 Framework indicated that food aid not in compliance with effective disciplines will be eliminated. The objective is to ensure that food aid is not used as a mechanism for surplus disposal or commercial displacement.

Food aid represents a form of export subsidy. Like other export subsidies, the main concerns about food aid are its potential to depress and destabilize prices, displace domestic production and lower public and private investment. There is a concern that the reduction of other forms of export subsidies may give rise to additional pressure to provide food aid assistance.

Food aid has played a relatively minor role for Pakistan. Over a 5-year period (1999-2003), annual average food aid shipments into Pakistan were approximately 86,000 tonnes of wheat and 91,000 tonnes of vegetable oil.

Recipient countries of food aid expect to benefit from lower priced food supplies that accrue to consumers, particularly urban consumers. Like any subsidy, donor countries and marketing agencies retain part of the benefits. This is illustrated by the high transaction costs for food aid. For example, the US spends \$2.66 to provide \$1 of food aid to recipients.

Historically, food aid has been supply-driven and levels of food aid shipments have varied according to surplus stocks of commodities in donor countries. Also, food aid has generally not reflected the nutritional requirements or eating habits of the recipients. The US is a major donor of food aid, and is also the only country providing food aid largely in the form of commodities.

Pakistan should encourage the early elimination of all forms of food aid not provided in grant form, and no later than the termination of export subsidies. In addition, Pakistan may support a "traffic light" system for categorizing the various forms of food aid assistance. Pakistan should evaluate the implications of a shift to provide food aid mainly for emergencies.

To insure that food aid is meeting the requirement of being minimally distorting to international trade, Pakistan should support newer forms of international governance for the monitoring and enforcement of food aid.

⁴² Analysis of WTO Cell, MINFAL, is gratefully acknowledged.

V.3.4 The cotton initiative

The Hong Kong Ministerial Declaration mandated the implementation of commitments under all pillars, ambitiously and expeditiously.

Pakistan is now a net importer of cotton lint. The proposed changes for cotton are expected to increase cotton prices, most likely by a modest amount. The price increase would benefit Pakistan's cotton farmers. It would also negatively affect material costs for the textile sector in Pakistan and other textile manufacturing countries. Pakistan has, for political reasons, been siding with the African countries on this issue. In order to compensate somewhat for the unfavourable situation likely in the form of increased prices, Pakistan needs to firm up its agricultural strategy and commercial mechanism for cotton.

VI Conclusions

Pakistan is essentially an agro-based economy where agriculture is contributing directly or indirectly to the lives of the entire population. Agriculture provides livelihoods and employment as well as food for millions of people in Pakistan. It also provides the basic raw materials for a variety of industries in the country and is a major source of export earnings.

The sector has been neglected in the past two decades and has not performed to its full potential. Despite the upward trend in the country's exports in recent years, its overall performance has been much below its true potential because of inefficient policies at the domestic level as well as the high tariff and subsidization levels of its trading partners. However, the Government now has a strong resolve to reverse this neglect. The planning, agriculture and commerce agencies have devised reinforcing strategies to achieve this goal. Pakistan has fulfilled all its WTO commitments. However, it has yet to reap the full benefits from the system due to the reasons mentioned above.

While the WTO provides a potentially level playing field, a host of supply and demand side factors eventually determine the pace at which Pakistan's agricultural exports can grow. A number of these relate to the thinness of domestic markets, high domestic transport costs, and the lack of adequate facilities for sorting, grading and packing, etc. A major constraint also arises from a lack of domestic capacity to take advantage of the opportunities that result from a lack of cohesive policies and clear roles and responsibilities within the Government sector to address these issues in a holistic manner. While the Government is fully cognizant of these needs, much more needs to be done to address these issues.

Awareness building and the enforcement of standards for safety and compliance of the other requirements are all measures that will enhance the growth of Pakistan's agricultural exports.

At the same time it needs to be recognized that the large and growing domestic population, with its increasing levels of income, is also placing an increasing demand on domestic agricultural production.

Pakistan has been playing a proactive, positive and leading role in the WTO negotiations on the AoA. Its positive endeavours have been recognized and appreciated worldwide. In the DDA, Pakistan has a range of stakes in each of the pillars, namely market access, domestic support and export competition. Pakistan's negotiation stance has been consistent since the beginning. It has demanded fair play and beneficial rules for developing countries. It is an established fact that Pakistan can benefit if there is substantial improvement in market access and if the subsidies of the developed world are reduced or eliminated. Pakistan should continue to pursue this agenda along with other developing countries.

The WTO regime is often mistakenly regarded by many in Pakistan as a conspiracy by the developed world to restrict the growth of developing country exports and provide a means for the developed countries to have captive markets for their own exports. On the contrary, the WTO provides a facilitating mechanism for the growth of international trade on a level playing field and provides developing countries with the ability to leverage their negotiating ability. Without it increasing globalization would result in most of the developing countries being completely overwhelmed and left as "losers" in this process. The need to maintain standards and ensure quality is a requirement of modern day trade and commerce. Developing countries such as Pakistan need to develop these capacities in order to survive and benefit from the gains in international trade.

Annex 1

Matrix of issues and recommendations on Pakistan's agro-based exports and sanitary and phytosanitary measures

Technical or policy issue	Actions recommended	Requirements					Agencies / Actors involved	Timeframe	Priority
		Define strategy	Change policy/law	Promote awareness	Reform institutions	Technical assistance for capacity building			
Strategy and priority setting	Highlight SPS management constrains and issues. Prioritize them and elaborate an action plan.	X				X	WTO Consultative Group/Task Force	Short-term	Very high
	Awareness campaign on SPS management capacity. Issue and conduct dialogue with the private sector. Develop SPS information in public domain.	X		X			Private sector, MINFAL, MOC, MOH, MOST	Short-term	High
	Improvement of the existing formal mechanism for strategic planning and institutional coordination on matters of trade-related quality and SPS management.	X				X	MINFAL, MOC, MOH, MOST, private sector, research & WTO Consultative Group/Task force	Short-term	High
International efficiency and effectiveness	Review of existing institutional arrangements to minimize overlaps and ensure most effective use of limited technology and staff capacities. Evaluate further the need for FSVPHA and any privatization required.	X			X	X	MINFAL, MOC, MOH, MOST, SPS focal point & Agribusiness Development Project	Short-term	High
Food safety controls food and agriculture	Awareness-raising and training in fish products, horticulture, meat and livestock sectors regarding HACCP, GAP, GMP etc.			X		X	MINAL, NOC, private sector	Short-term	High

Technical or policy issue	Actions recommended	Requirements					Agencies / Actors involved	Timeframe	Priority
		Define strategy	Change policy/law	Promote awareness	Reform institutions	Technical assistance for capacity building			
	Promote and support the implementation of HACCP, GAP, GMP, etc, throughout the supply chain utilizing loans, fund match grants, etc.					X	MINFAL, MOC, Agribusiness development project and private sector.	Medium-term	High
	Implement and enhance food safety controls in slaughterhouses, fish processing plants, pack houses etc. via awareness-raising, certification, surveillance, auditing, etc.	X	X	X		X	MINFAL, provincial & local governments.	Short to Medium-term	High
	Continue to invest in upgrading hygiene facilities at Karachi Harbour.					X	MINFAL & Provincial government	Short to Medium-term	High
Enhancing food quality standards in raw material produces	Implement initiatives that build on strengthening the raw material supply chain to supply high-value markets for agriculture and food products. Develop codes of practice for the various food sectors.			X		X	MINFAL, Agribusiness Support Fund, private sector	Short to Medium-term	Very High
Phytosanitary control measures	Update and amend legislation on animal and plant health controls to become fully internationally compliant.		X			X	Government of Pakistan, MINFAL	Medium-term	Medium
	Raise awareness and training in practicing for animal and plant health control, including GAP to include ICM and IPM.			X		X	MINFAL	Medium-term	High
	Address immediate problems that threaten to undermine trade or productivity (including fruit fly, seed weevil, BSE, FMD, etc).	X				X	MINFAL	Short to Medium-term	High
	Enhance scale and effectiveness of surveillance and assessment of plant pests and diseases.	X			X	X	MINFAL	Medium to Long-term	Lower
Animal health controls	Continue updating animal health legislation and quarantine procedures at the border.		X		X		MINFAL, MOC	Medium-term	Medium
Animal health controls	Enhance scale and effectiveness of surveillance for animal diseases.	X			X	X	MINFAL	Medium to Long-term	Medium

Technical or policy issue	Actions recommended	Requirements					Agencies / Actors involved	Timeframe	Priority
		Define strategy	Change policy/law	Promote awareness	Reform institutions	Technical assistance for capacity building			
Use and Registration of pesticides	Review arrangements for pesticide registration explore equivalency of approval process in other countries.		X		X		MINFAL	Short-term	High
	Improve pesticide residue analysis in horticulture crops and pharmaceutical residues meat products.	X				X	MINFAL	Short-term	High
Laboratory capacity	Upgrade laboratory capacity for food safety, plant and animal health in a graduate manner building upon existing initiatives					X	MINFAL, MOH, MOST	Medium to Long-term	Medium

Source: World Bank/UNIDO, Pakistan's Agro-based Exports and Sanitary and Phyto-Sanitary (SPS) Compliance (2006)

Glossary of terms

Cairns Group

Group of agricultural exporting nations lobbying for agricultural trade liberalization. It was formed in 1986 in Cairns, Australia, just before the beginning of the Uruguay Round. Current membership: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Philippines, South Africa, Thailand and Uruguay.

Domestic support

(Sometimes “internal support”.) In agriculture, any domestic subsidy or other measure that acts to maintain producer prices at levels above those prevailing in international trade; direct payments to producers, including deficiency payments, and input and marketing cost reduction measures available only for agricultural production.

EU

European Union; in the WTO, officially called the European Communities.

Food security

Concept that discourages opening the domestic market to foreign agricultural products on the principle that a country must be as self-sufficient as possible for its basic dietary needs.

GATT

General Agreement on Tariffs and Trade, which has been superseded as an international organization by the WTO. An updated General Agreement is now the WTO agreement governing trade in goods. GATT 1947: The official legal term for the old (pre-1994) version of the GATT. GATT 1994: The official legal term for new version of the General Agreement, incorporated into the WTO, and including GATT 1947.

Members

WTO governments (first letter capitalized, in official WTO style).

Modality

A way to proceed. In WTO negotiations, modalities set broad outlines — such as formulas or approaches for tariff reductions — for final commitments.

Multifunctionality

The idea that agriculture has many functions in addition to producing food and fibre, e.g. environmental protection, landscape preservation, rural employment, food security, etc

Non-trade concerns

Similar to multifunctionality. The preamble of the Agreement on Agriculture specifies food security and environmental protection as examples. Also cited by members are rural development and employment, and poverty alleviation.

NTBs

Non-tariff barriers, such as quotas, import licensing systems, sanitary regulations, prohibitions, etc. Same as Non-tariff measures.

Reform process

The Uruguay Round Agreement on Agriculture started a reform process. It set out a first step in the process, i.e. a programme for reducing subsidies and protection and other reforms. The current negotiations, launched under Article 20, are continuing the reform process.

S&D

(Sometimes “SDT”.) “Special and differential treatment” provisions for developing countries. Contained in several WTO agreements.

Subsidy

There are two general types of subsidies: export and domestic. An export subsidy is a benefit conferred on a firm by the Government that is contingent on exports. A domestic subsidy is a benefit not directly linked to exports.

Tariff escalation

Higher import duties on semi-processed products other than on raw materials, and higher still on finished products. This practice protects domestic processing industries and discourages the development of processing activity in the countries where raw materials originate.

Tariff peaks

Relatively high tariffs, usually on “sensitive” products, amidst generally low tariff levels. For industrialized countries, tariffs of 15% and above are generally recognized as “tariff peaks”.

Tariffication

Procedures relating to the agricultural market-access provision in which all non-tariff measures are converted into tariffs.

Tariffs

Customs duties on merchandise imports. Levied either on an *ad valorem* basis (percentage of value) or on a specific basis (e.g. \$7 per 100 kgs). Tariffs give price advantage to similar locally produced goods and raise revenues for the Government.

Uruguay Round

Multilateral trade negotiations launched at Punta del Este, Uruguay, in September 1986 and concluded in Geneva in December 1993. Signed by Ministers in Marrakesh, Morocco, in April 1994.

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European Commission (EC) Trade-Related Technical Assistance Programme (TRTA) for Pakistan

The European Commission Trade Related Technical Assistance Programme for Pakistan commenced in September 2004 with the objective of assisting Pakistan to foster its integration into the world economy and, ultimately, to contribute to poverty alleviation through the achievement of trade-related conditions for sustained and stable economic growth.

The programme is designed to enhance awareness among government officials, the business sector and civil society about the implications of World Trade Organisation (WTO) Agreements on the economy of the country, and to assist Pakistan in building the necessary capacity to address issues resulting from its participation in the WTO.

The programme has three components:

Component 1 – implemented by ITC – focuses on creating awareness and building the necessary capacity for Pakistan to benefit fully from its participation in the WTO Agreements.

Component 2 – implemented by the United Nations Industrial Development Office (UNIDO) – focuses on improving the quality, standards, metrology and accreditation systems in the country. This will enable Pakistan to address challenges and requirements brought by WTO Agreements in this field, as well as to increase the competitiveness of Pakistan's export industry.

Component 3 – implemented by the World Intellectual Property Organisation (WIPO) – focuses on strengthening the intellectual property (IP) system in Pakistan and enhancing Pakistan's capacity to use the IP system for developmental goals, where necessary by examining international obligations in the IP field.

The expected results of the programme are as follows:

- Pakistan's officials, business sector and civil society organisations are more aware and knowledgeable about WTO issues, and able to take full advantage of national WTO trade policies.
- The Ministry of Commerce, and other government departments and institutions involved in WTO negotiations, are more able to formulate trade policy and actively participate in multilateral trade negotiations.
- Dialogue is strengthened between government services, the business sector and civil society on WTO negotiations and other trade matters.
- A full assessment is made of the constraints faced by Pakistan's exporters in relation to technical barriers to trade (TBTs) and sanitary and phytosanitary standards (SPS).
- Pakistan's export industry is more able to comply with standards and certificate requirements, because of improved accreditation and conformity assessment processes, and metrology and testing laboratory services.
- Policy formulation, administration and enforcement of intellectual property rights (IPR) are improved, by modernising the IPR legislation, creating more awareness of the role of IPR for economic growth and trade development, and supporting the establishment of a Pakistan IPR organisation.



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