

KARACHI: Pakistan Business Council (PBC) has cautioned the government against an accession to the World Trade Organisation's (WTO) treaty of free trade of IT products, as it says this will annihilate the electronics manufacturing sector before its birth.

PBC, in a report on Thursday, expected the information technology agreement (ITA) to cause jobs and revenue losses and suppress potential for exports.

"The ITA will result in a net loss to the economy by replacing locally manufactured products with imported ready-to-sell products in the ITA listed categories," said the council. "This will not only undermine the efforts to encourage investment by electronics manufacturers in Pakistan, but it will also cost Pakistan its independence to apply policy interventions to gradually increase its product space for exporting electronic products."

The agreement aims to eliminate custom duties and reduce non-tariff measures which restrict trade in IT and electronic products. The goal is to increase global trade and competition in IT goods and services, increase adoption of technology and spur innovation in the sector. ITA accounts for 97 percent of world trade in IT and electronic products with trade volume of \$3.7 trillion in 2019.

"There is an inconclusive evidence to suggest ITA is an appropriate avenue to expand a country's capability in manufacturing and exporting electronics and IT products," said the PBC. "Whilst countries that a signatory to the ITA have increased their IT and electronic product exports, non-signatories have also increased exports manifold."

India and Bangladesh use cascading tariff structure to increase localisation and manufacturing of electronics in their countries. India, being signatory to the agreement, is facing international disputes in the WTO for adopting policies for localising manufacturing of electronics, claiming them to be against the ITA protocols.

The information technology agreement is not bound on any member country of the WTO. It has so far been signed by advanced economies that already have strong exports base of IT products.

Pakistan's imports of ITA related products rose six-fold between 2003 and 2019, significantly higher than the global average. The imports recorded a compound annual growth rate of 13.2 percent during the period. The growth rate was much higher than the global average of 8.4 percent, according to the PBC

The business council said the country has experienced de-industrialisation due to policies that discourage manufacturing and make it easier to import finished products.

PBC said allowing across the board zero duty on components and finished, ready-to-sell electronics, will result in closure of existing manufacturing units, and also discourage additional investments in production facilities for electronics.

"By disallowing cascading of tariffs under ITA, and removing the advantage for local manufacturing, for example as envisaged in the mobile phones manufacturing policy, companies such as Samsung may lose interest to invest in smartphone assembly in Pakistan," it said. "Not only will this have an adverse impact on the external account, Pakistan will also miss opportunities to acquire technologies in manufacturing electronics by reducing the chances of foreign companies to enter Pakistan."

The council said the Federal Board of Revenue estimated revenue loss of Rs3.5 billion from 105 tariff lines following Pakistan's accession into the ITA.

Though imports of ITA-based products are a good proxy measure of technological adoption and accession to ITA will lead to zero-rated imports of electronics, it will further delay development of IT manufacturing sector.