GENERAL AGREEMENT

ON TARIFFS AND TRADE

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TRADE POLICY REVIEW MECHANISM

PAKISTAN

Report by the Government

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policies Review Mechanism (BISD 36S/403), the initial full report by the Government of Pakistan for the review by the Council is attached.

NOTE TO ALL DELEGATIONS
Until futher notice, this document is subject to a press embargo.

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A. TRADE POLICIES AND PRACTICES

I. TRADE POLICY OBJECTIVES

Pakistan's trade policy is formulated with the aim of maximising gains from international trade through the promotion of freer trade in the context of a global multilateral trading system, and the encouragement of efficient and competitive domestic production activities. A free and competitive trading and production environment will contribute to the economic and social development of Pakistan. Towards this end, the Government has implemented an extensive liberalisation of the trade regime. Over the last six years, non-tariff barriers have been replaced with tariffs; the maximum level of tariffs has been reduced to 70 per cent with a few exceptions; the tariff structure has been rationalized with the aim of reducing disparities in effective protection; and all 'other charges' have been merged in the statutory tariff regime; all items have been made importable except for a few whose entry is restricted on religious, health and security considerations, or on account of balance of payments difficulties.

To complement the liberalisation of the trade regime, the exchange system has been fully liberalised. As of July 1, 1994, Pakistan has adopted current account convertibility of the rupee and eliminated all multiple currency practices. Accordingly Pakistan has accepted and fulfilled the obligations of Article VIII of the IMF's Articles of Agreement.

One of the important objectives of the measures described above has been the elimination of an anti-export bias in resource allocation and to encourage efficient and competitive import substituting activities. The Trade Policy announced by the Government for 1994/95 specified the following objectives:

(i) Prepare Pakistan's industry for a freer global trading system emerging from the Uruguay Round Agreements.

(ii) Stimulate exports by facilitating easy access to raw materials, intermediates and machinery.

(iii) Encourage efficient and competitive import substitution.

(iv) Impart greater transparency by minimizing administrative controls.

(v) Simplify and streamline procedures to make these user friendly.

(vi) Ensure availability of essential commodities in the domestic economy.

(vii) Adopt tariff measures instead of quantitative restrictions.

(viii) Facilitate the transfer of technology into the country.

(ix) Strengthen research and development capabilities and encourage human resource development.

(x) Liberalise controls in the economy and place greater reliance on market forces to promote efficiency and growth.

(xi) To provide a stable economic environment through greater continuity in policy planning.

II. IMPORT AND EXPORT SYSTEMS

(a) Import System

All items are freely importable into Pakistan except those which appear in the conditional and negative lists. The conditional list contains items importable subject to safety or health conditions, while the negative list consists of items banned for religious and security reasons or on account of balance of payments problems. These shall not be imported unless specifically authorised. Import licenses are not required for any items which are not on the conditional or negative lists.

Consistent with the principles of GATT, tariffs are the main trade policy instrument. The tariff structure is reviewed regularly and revised in line with the overall objective to liberalise trade.

(b) Export System

There are no export duties and licensing requirements except in the case of a small number of products to enforce policies on health, conservation, quality, heritage and security. Drawback of import duties and refund of internal taxes incurred on the exported goods is allowed upon export.

III. TRADE POLICY FRAMEWORK

(a) Domestic Laws and Regulations Governing the Application of Trade Policies

(i) Legislative Process

Pakistan is a parliamentary democracy with a bicameral legislature and the President is the constitutional Head of State. The Federal Constitution of Pakistan divides the authority of the federation into legislative, judicial and executive authorities. Separation of powers occurs both at the federal and provincial levels.

The executive arm consisting of the Federal Cabinet, with the Prime Minister at its head, is responsible for all policy decisions.

(ii) Domestic Trade Laws

The principal law governing the implementation of trade policy in Pakistan is the Imports and Exports (Control Act), 1950 (XXXIX of 1950). In exercise of the powers conferred by the Act, import and export policy is formulated valid for a fiscal year. The regulations in these orders are reviewed to take into account changing economic circumstances and to conform to any changes in the trading system.

In exercise of tne powers conferred by the Imports and Exports Control Act, the Federal Government prescribes the procedure for trade in the Import-Export Procedures Order. In addition, there are specific laws governing imports and exports having various degrees of effect on trade which are described in section III.

According to the Import Policy Order, private sector companies eligible to import must be registered with the Office of the Export Promotion Bureau (EPB) under the terms established by the Registration (Importers and Exporters) Order 1993. Registration can be refused, suspended or cancelled if the importer is not a member of a trade, commercial or industrial association prescribed by the

Companies Ordinance 1984, or is not member of a trade organisation licensed by the Federal Government under the Trade Organizations Ordinance 1961. A list of registered importers and exporters is published periodically in the official Gazette.

Pakistan's customs system draws its legal authority from the Customs Act 1969 (IV of 1969). Customs matters are subject to the jurisdiction of the Federal Government whose authority is exercised through the Ministry of Finance and the Central Board of Revenue (CBR). Customs duties are levied at rates prescribed in the First Schedule to the Customs Act, 1969. The tariff nomenclature is based on the Harmonized System containing 5464 lines at the 8-digit level.

Under the Customs Act 1969, the Federal Government or in exceptional circumstances, the Central Board of Revenue may by notification in the official Gazette, exempt goods from customs duty or may grant duty concession. These notifications are published as Special Regulatory Orders (SROs) from time to time. These concessions are of a temporary nature and could be granted for specific end-use or specific users or location. Requests for tariff changes submitted by business entities are examined by the National Tariff Commission (NTC). Such examination can also be initiated by the Federal Government or by the NTC at its own initiative. The recommendations have to be approved by the Economic Co-ordination Committee (ECC) of the Cabinet.

A number of other acts and ordinances which affect trade are listed in Annex I.

(b) Trade Policy Formulation and Review

The Ministry of Commerce is responsible for formulating and reviewing the trade policy. Coordination with other relevant Government departments is ensured through the Economic Coordination Committee (ECC). The trade policy has to be approved by the Cabinet. Trade policy is formulated following consultation with the private sector which is represented by various chambers of commerce and industry, and trade and commodity associations recognised as such under the Trade Organizations Ordinance 1961. Consultations with ministries, departments and provincial governments are also held in the meetings of the Advisory Committee.

(c) Trade Agreements

(i) Multilateral Trade Agreements

GATT: The Uruguay Round

Pakistan is a founding Member of the GATT and has participated in all Rounds of multilateral trade negotiations under its auspices. It accepted the Final Act of the Uruguay Round in Marrakesh subject to ratification. The ratification of the WTO Agreement is under active consideration of the Government and is expected to be finalised soon. Following the acceptance of the WTO Agreement through ratification, Pakistan shall bring its legal and regulatory system into conformity with its obligations under the relevant agreements concluded in the Uruguay Round.

Tokyo Round Agreements

Pakistan has been a signatory to the Tokyo Round agreements on Technical Barriers to Trade, Subsidies and Countervailing Measures, Import Licensing, and Anti-Dumping.

Multi-Fibre Arrangement (MFA)

Pakistan has been a signatory to the MFA and has bilateral agreements to limit its exports under Article 4 of the MFA to Canada, the European Communities, Finland, Norway and the United States.

(ii) Regional and Preferential Agreements

Global System of Trade Preferences Among Developing Countries (GSTP)

Pakistan is a participant in the Agreement on the Global System of Trade Preferences Among Developing Countries (GSTP). In accordance with this Agreement, Pakistan grants tariff concession on certain products.

Trade Negotiations among Developing Countries

Pakistan participates in the GATT protocol relating to Trade Negotiations among Developing Countries, and grants preferential tariff treatment on a limited list of items imported from the signatory countries as per list in Annex II.

South Asian Association for Regional Cooperation (SAARC)

As member of the South Asian Association for Regional Cooperation (SAARC) together with Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka, Pakistan has agreed to the establishment of a SAARC Preferential Trading Arrangement (SAPTA) as a first step towards greater economic and trade cooperation in the region. The Arrangement has been notified to the CONTRACTING PARTIES pursuant to paragraph 4(a) of the Enabling Clause. This is only a framework agreement and the members have yet to enter into negotiations for actual exchange of concessions.

Economic Cooperation Organization (ECO)

Pakistan is a member of the Economic Cooperation Organization (ECO) together with Iran and Turkey. Following an additional protocol on preferential tariffs, ECO members have committed to grant a 10 per cent duty reduction on imports of specified products from member countries. The protocol was implemented in April 1993.

(iii) Bilateral Trade Agreements

Bilateral Trade Agreement

Pakistan has signed 'goodwill' type of trade agreements with a number of countries. These are based on the principle of MFN treatment for exchange of goods between Pakistan and these countries. There are no binding commitments on imports/exports, or on preferential tariff or non-tariff treatment.

Transit Trade Agreement with Afghanistan

Pakistan has concluded a transit trade agreement with Afghanistan, to facilitate the trade of Afghanistan transiting through the territory of Pakistan.

Border Trade Arrangements

In recognition of the traditional economic links between the people living across the border regions of neighbouring Iran and China, and consistent with Article XXIV:3 of the General Agreement, Pakistan has border trade arrangements with these two countries, that provides a uniform tariff of 10 per cent on commodities moving across the land border.

Avoidance of Double Taxation Agreements

To avoid the double taxation of international income from profits, dividends, interests and royalties, Pakistan has concluded agreement for avoidance of double taxation with 32 countries.

Bilateral Payments Agreements:

As a consequence of the liberalization of the exchange and trade system, Pakistan phased out all remaining bilateral payments agreements; the last five agreements expired by the end of 1992.

IV. IMPLEMENTATION OF TRADE POLICIES

(a) Trade Policy Measures

(i) Tariffs

Import duties are levied under the powers conferred by the Customs Act 1969 (IV of 1969). Customs duties are levied on CIF values at ad valorem rates (with the exception of a few specific rates) ranging between 10-70 per cent. However, automobiles and alcoholic beverages are subject to higher rates. The tariff rates are contained in the first schedule to the Customs Act 1969. Concessions and exemptions are contained in various notifications issued as SROs.

The Pakistan tariff schedule has a total of 5464 lines. Most of the import duties are levied at ad valorem rates, except for 128 tariff lines which have specific or mixed duties (ad valorem and specific). Imports from all countries are subject to the MFN rates except for those subject to preferential trade agreements.

(ii) Import Prohibition

In terms of the Import Policy Order 1994, all items are freely importable except for items which are on the conditional or negative list. Products on the conditional list can be imported subject to health and safety requirements. The negative list contains only 75 items whose import is not permissible unless specifically authorised.

(iii) Import Licensing

Licenses are not required for any importable items including those subject to specific conditions.

(iv) Quarantine Rules

Pakistan Plant Quarantine Act 1976 and Pakistan Quarantine Rules 1967 contain plant protection rules based on F.A.O. and international standards. Pakistan is a member of the International Plant Protection Convention IPPC (1951) and member of FAO's Asia Pacific Plant Protection Convention (APPPC), and Near East Plant Protection Organization. Administration of these regulations is the responsibility of the Ministry of Food and Agriculture.

FAO standards are applied in the Pakistan Animal Quarantine (Import and Export of Animals and Animal Products) Ordinance 1979 and Pakistan Animal Quarantine (Import and Export of Animals and Animal Products) Rules 1980.

(v) Customs Valuation

Imported goods are valued according to the Brussels Definition of Value (BDV). The valuation is on CIF basis. In order to check under invoicing and evasion of duty, the customs authorities currently value goods on the basis of officially established minimum values.

(vi) Government Procurement

Pakistan is not a signatory to the Agreement on Government Procurement. Rules on procurement by the Government and its agencies are laid down in the Purchase Manual (1972). The policy of the Government of Pakistan is not discriminatory and takes account of both quality and price consideration.

(vii) Standards and Technical Requirements

Pakistan aims to have national standards at par with international standards such as those of ISO and IEC. Pakistan has been a signatory to the Tokyo Round Agreement on Technical Barriers to Trade since 1981. The national standards system is contained in the Pakistan Standards Institution (Certification Marks) Ordinance 1961. A number of quality-control regulations exist as per the list in Annex VI.

(viii) Packaging and Labelling Requirements

Rules pertaining to labelling and packaging requirements are laid down in the Import Policy Order 1994. These rules apply to edible products, cigarettes and containers of insecticides and pesticides.

(ix) Local Content Requirements

Local content requirements are contained in deletion programmes introduced for the engineering sector in 1987. The objective of these programmes is to encourage transfer of technology, intra-industrial linkages, greater self-reliance and to save foreign exchange. Under a deletion programme, entrepreneurs undertake to utilise a progressively higher proportion of domestically produced components in the production of certain products, subject to specific incentives in the form of concessionary tariffs on imports of raw material and other components. Currently deletion programmes exist in the automobile, electronics, electrical and engineering industries.

(x) Rules of Origin

Rules of Origin applied to trade preferences granted by Pakistan under the Protocol Relating to Trade Negotiations Among Developing Countries are contained in the Rules of Origin 1973. The rules applying to trade between member countries of Economic Cooperation Organization (ECO) (Turkey, Iran and Pakistan) are contained in the Additional Protocol on Preferential Tariffs, ECO (Part A).

(xi) Internal Taxes

General Sales Tax

In Accordance with the Sales Tax Act, 1990, sales tax is levied at the rate of 15 per cent of the value on all goods imported, manufactured or traded except those for which exemption is granted by the Federal Government. At present only a few goods are taxed at the wholesale and retail level. The goods which are exempt (partially or wholly) from the sales tax are listed in notifications issued as S.R.O's from time to time. Imports of essential items of food and medicines and some agricultural and export-oriented industrial machines, insecticides, pesticides, fertilizers are exempt.

Central Excise Duties

In accordance with the Central Excise Act, 1944, excise duties are levied on domestically produced goods and on certain services rendered in Pakistan, as specified in the First Schedule of the Central Excise Act, 1944. Exemptions from excise specified in the First Schedule are contained in the notifications, S.R.O. 545(I)/94, and S.R.O. 546(I)/94, dated 9th June, 1994.

Excise duties on goods are specific or ad valorem which are assessed at the stage of clearance of goods from manufacturing premises. The assessment of central excise duties on services is made on the basis of charges received at the time of rendering the excisable service.

(xii) Anti-Dumping and Countervailing Measures

Pakistan has been signatory to the Tokyo Round Agreements on Anti-Dumping and Subsidies and Countervailing Measures. Regulations on anti-dumping and countervailing measure are contained in the Import of Goods (Anti-Dumping and Countervailing Duties) Ordinance, 1983. So far Pakistan has never imposed any anti-dumping or countervailing duties on any of its imports.

(xiii) Export Trade Registration

According to the Registration (Importers & Exporters) Order 1993, all exporters have to be registered with the Export Promotion Bureau (EPB). Applicants for registration as exporters are required to be members of a trade organisation recognised by the Federal Government under the Trade Organizations Ordinance, 1961 (XLV of 1961). The Export Trade Control Order 1994 provides a list of few commodities in Schedule II/A which can only be exported by public sector corporations and Schedule II/B provides a list of commodities the export of which is subject to special procedure. In addition Schedule VI of the Export Trade Control Order 1994 provides a list of commodities (bed sheets, pillow cases and towels) which shall be permitted for export subject to pre-shipment registration of export contracts with the all-Pakistan textile associations. The requirement applies for consignments destined for non-quota countries (under the MFA agreements) and consignments intended for re-export from quota countries.

(xiv) Export Taxes, Minimum Prices and Prohibitions

In terms of the amendment to the Customs Act 1969 carried out through the Finance Act 1994, exports of all commodities including those in Schedule III of the Amended Customs Act 1969 are subject to zero rate of duty.

Schedule III of Export Trade Control Order 1994 gives the list of items (onyx, breeding animals) subject to minimum export price restrictions.

Schedule I of Export Trade Control Order 1994 contains the list of goods which are prohibited for export. The list contains 26 categories of goods together with the exceptions from the prohibition.

(xv) Export Quotas

In accordance with Pakistan's bilateral agreements with some countries under the Multi-fibre Arrangement (MFA), exports of textiles and clothing to these countries are subject to the textile quota management policy. The Ministry of Commerce is responsible for the management of quotas through the office of the Textile Quota Mana ent Directorate. Under the MFA, Pakistan has accepted to limit the export of textiles and clothing products to Canada, the European Communities, Finland, Norway and the United States.

(xvi) Export Incentives

As part of a policy to off-set the anti-export bias in the tax and incentives structure, Pakistan compensate the exporters for tax levied on imports. Such compensation is allowed in the form of duty draw back and refund of internal taxes. To encourage exports, Pakistan allows duty free facility for exporters, export processing zones, bonded warehousing, and export refinance facilities.

(xvii) Export Promotion

To help promote Pakistan's products abroad, the Export Promotion Bureau sponsors trade delegations to and from Pakistan, participates in international trade fairs, settles trade disputes, undertakes market studies, seminars and workshops, disseminates market information and registers export houses abroad. The Export Promotion Bureau also provides services to exporters in the areas of quality control, display centers, promotional publicity and market information.

(xviii) Export Processing Zone

Export processing zones (EPZ) can be established under the Export Processing Zones Authority Ordinance 1980. Rules of operations of these zones are laid down in the Customs Export Processing Rules 1981. At present one export processing zone is operating near Karachi. The normal import and export restrictions enforced in Pakistan are not applicable in the EPZ. Firms are also exempted from foreign exchange control regulations and insurance regulations applicable in Pakistan. In addition enterprises in the EPZ are exempted from domestic labour laws. Other advantages in the EPZ include tax holidays up to the year 2000.

(xix) Foreign Exchange Regulations

Pakistan has a highly liberalized exchange system. As of July 1994 Pakistan has adopted current account convertibility of the rupee and removed all multiple currency practices. As a consequence of these measures, Pakistan has accepted and fulfilled its obligations under Article VIII of the IMF's Article of Agreement.

Pakistan's foreign exchange regulations are also liberalized for most aspects of capital account. There are no restrictions on repatriation of profits and capital associated with foreign direct investment. Residents and non-residents are allowed to maintain foreign currency accounts and are free to transfer their balances abroad.

Exchange control is administered by the State Bank of Pakistan in accordance with the Foreign Exchange Regulation Act 1947. All rules and regulations pertaining to import and export of currency, notes and foreign exchange are contained in the Foreign Exchange Manual, 7th Edition, 1992 and subsequent foreign exchange circulars issued from time to time by the State Bank of Pakistan.

The State Bank has delegated authority to a number of banks and financial institutions to deal in foreign currency, to supervise surrender requirements, and to sell foreign exchange. Exchange receipts and payments abroad must be effected through an authorised foreign exchange dealer in any convertible currency. Letters of credit for imports must be established in foreign currency except certain settlements with specified countries. Payments to, and receipts from member countries of the Asian Clearing Union (ACU) (Bangladesh, India, Iran, Mayanmar, Nepal and Sri Lanka) in respect of all current transactions are effected through the ACU in Asian Monetary Units (AMUs) or in the domestic currency of one of the member countries involved. No exchange control is exercised over transactions with Afghanistan and settlements are made in Pakistan rupees or in Afghan currency. Payments for invisibles are controlled by the State Bank of Pakistan and in some cases require its prior approval.

Exporters are obliged to collect and surrender foreign exchange receipts with the State Bank of Pakistan within 4 months of shipment, although the State Bank of Pakistan may allow the extension of this period. The surrender of Afghan currency accruing from exports to Afghanistan is not required.

(xx) The Exchange Rate

The exchange rate arrangements of Pakistan consist of a managed float under which the State Bank of Pakistan sets the daily exchange rate at which it will purchase and sell US dollars (the intervention currency) in its dealings with authorised dealers. The rate has been adjusted on a frequent basis, taking into account the competitiveness of the tradeable sector and the need to contain inflationary pressures.

(b) Prospective Changes in Trade Policies and Practices

Pakistan's medium term programme aims to further liberalize the exchange and trade system. The Government is committed to maintaining the liberalization process which has resulted in the substitution of quantitative restriction with tariff measures, reduction in the level and disparities in tariffs, the reduction in the anti-export bias and the adoption of current account convertibility. As part of its contribution to the Uruguay Round, Pakistan has made commitments to reduce and bind tariffs on 2128 tariff lines. This would cover 39% of the total tariff lines.

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B. BACKGROUND FOR THE ASSESSMENT OF TRADE POLICIES

I. RECENT ECONOMIC DEVELOPMENTS

The Domestic Economy

During the 1980's Pakistan achieved high rates of economic growth and a steady rise in its per capita income, despite a relatively high rate of population growth (Tables 1 and 2). The average annual rate of growth of real GDP (at factor cost) during 1980/81 - 1987/88 was more than 6 per cent. During this period, manufacturing output expanded at an annual average rate of over 8 per cent, and agriculture output grew at 3 1/2 per cent. To lay the foundations for sustained growth and to realise the full potential of the economy, the authorities embarked upon a comprehensive programme of economic liberalization in 1988/89, aimed at reducing market distortions, increasing investment and enhancing the role of the private sector (Table 3).

In the following years considerable progress was achieved in implementing structural reforms, especially in liberalisation of the exchange and trade system, financial sector reforms, liberalisation of the domestic and foreign investment activities, and in initiating a wide ranging privatisation programme. Consequently industrial activity and private sector investment accelerated. The productive structure of the economy also transformed gradually in the ensuing period with the share of industrial output in GDP increasing from 24 1/2 per cent in 1987/88 to about 27 per cent in 1993/94 (Table 4).

Table 1
Pakistan: Macroeconomic Indicators

	1990/91	1991/92	1992/93	1993/94
Output and prices (percent change)				
Real GDP at factor cost	5.6	7.7	2.3	4.0
GDP deflator at factor cost	13.2	10.2	8.9	12.1
CPI (12 month change)	12.6	9.4	9.1	12.1
Investment and savings (in per cent of GDP)				
Total investment	19.0	20.0	20.3	19.2
Gross domestic saving	13.1	16.5	13.9	14.9
Gross national saving	14.6	17.0	13.2	14.6
Nonfinancial public sector (in per cent of GDP)				
Total revenue	16.5	19.2	19.8	19.8
Total expenditure	25.3	26.7	29.4	27.6
Public sector borrowing requirement	-8.7	-7.4	-9.6	...
Domestic debt	43.5	42.8	46.3	45.8
Monetary sector (per cent change)				
Net domestic assets[a]	16.8	27.9	25.1	9.9
Domestic liquidity	16.3	30.3	18.0	13.3
External sector (in per cent of GDP)				
Exports	13.0	13.8	13.1	12.7
Imports	18.4	18.4	19.4	16.8
Current account[b]	-4.4	-3.1	-7.1	-4.6
External sector (in millions of U.S. dollars)				
Current account, excluding official transfers	-1,961	-1,500	-3,688	-2,375
Gross reserves[c]	572	1,038	469	1,663
Gross reserves[c] (in weeks of imports)	3.3	5.5	2.2	9.1

a In relation to beginning of period domestic liquidity.
b Excluding official transfers.
c Excluding gold.

Source: Ministry of Finance, State Bank of Pakistan.

Table 2
Pakistan: Social and Demographic Indicators

Area	796,000 sq km	**Nutrition(1990)**	
		Calorie intake (per capita per day)	2,219
Population			
Total	117 million(1992)	Health (1990/91)	
Rate of growth	3.1 per cent per annum (1990)	Population per physian	2,008
Density	142 per sq km	Population per hospital bed	1,506
GNP per capita	US$416(1991/92)	Access to electricity Per cent of rural villages	65
Population characteristics(1990)			
Life expectancy at birth (years)	55.8	Access to safe water Per cent of population (1990)	43
Crude birth rate (per thousand)	41		
Crude death rate (per thousand)	11		
Infant mortality (per thousand live births)	108	**Education (1990)**	
		Enrollment rates (per cent)	
		Primary education	38
		Secondary education	20
Income distribution(1990)			
Per cent of total household income received			
By highest 10 per cent of households	31		
By lowest 20 per cent of households	8		
Distribution of labour force (1989/90)			
Per cent in: agriculture	51		
industry	13		

Source: Government of Pakistan, Economic Survey,; World Bank, Social Indicators of Development 1991/92.

After accelerating to over 7 1/2 per cent in 1991/92, the growth rate of GDP declined to an estimated 2.3 per cent with agricultural output declining by more than 5 per cent. Pakistan's economic situation in 1992/93 was adversely affected by a combination of factors including floods, deterioration in the external terms of trade and political uncertainty. Problems in cotton related sectors was reflected in deceleration of industrial output. In 1993/94, GDP growth has recovered to nearly 4 per cent with the help of recovery in the agriculture sector, which grew by 2.6 per cent. The growth in the manufacturing sector led by large scale manufacturing, recovered to 5.6 per cent despite retrenchment in engineering related industries.

Following a period of low inflation during the 1980's when growth in output was achieved without aggravating inflationary pressures and price increases remained moderate, inflation accelerated in 1990-91 and then again in 1993/94 fuelled by expansionary fiscal and monetary policies. Inflation was contained to 10.6 per cent in 1993/94 as financial policies were tightened during the second half of the year.

Table 3
Pakistan: Growth Rates of Gross National Product
(At Constant Factor Cost)

	1990/91	1991/92	1992/93	1993/94
Commodity Sector	5.9	8.6	0.1	4.1
Agriculture	5.0	9.5	-5.3	2.6
Mining & Quarrying	10.4	2.4	3.0	5.8
Manufacturing	6.3	8.1	5.4	5.6
Construction	5.7	6.0	5.8	3.7
Electricity & Gas Distribution	11.0	9.1	7.0	6.1
Services Sector	5.2	6.8	4.6	3.8
GDP (Constant factor cost)	5.6	7.7	2.3	4.0
GNP (Constant factor cost)	3.6	6.6	2.4	3.8
Memo item:				
GNP at current market prices (in billion of rupees)	1044.5	1223.9	1356.9	1569.4

Source: Federal Bureau of Statistics.

Table 4
Pakistan: Sectoral Shares in GDP
(At Constant Factor Cost)

	1969/70	1991/92	1992/93	1993/94
Commodity Sector	61.6	52.1	50.9	51.0
Agriculture	38.9	26.2	24.2	23.9
Mining & Quarrying	0.5	0.5	0.5	0.5
Manufacturing	16.0	17.8	18.3	18.6
Construction	4.2	4.1	4.2	4.2
Electricity & Gas Distribution	2.0	3.5	3.7	3.7
Services Sector	38.4	47.9	49.1	49.0
GDP at constant factor cost	100.0	100.0	100.0	100.0

Source: Federal Bureau of Statistics.

Agriculture output peaked in 1991/92 following a period of sustained growth in the previous decade. Large gains were made in cotton production reaching a record level of 12.8 million bales in that year. Expansion of agricultural output reflected a number of factors including supply response to higher international prices in recent years, favorable weather condition and improvement in seed varieties and farming techniques. Agricultural policy in Pakistan in recent years has moved towards more rational pricing of inputs and crop pricing reflecting international market developments. These policies have allowed the private sector to assume a greater role in trading agricultural commodities. Federal and Provincial development programmes have focused increasingly on developing agricultural infrastructure and have contributed towards enhancing productivity through the provision of extension services, timely availability of inputs and ensuring greater access to agricultural credit.

Industrial output has continued its upward trend that began in the late 1980s helped by policies aimed at promoting investment in exports. Cotton based industries continued to dominate the sector, where output was substantially boosted by modernization and addition to existing capacity. The Government has adopted a two prong industrial policy, emphasizing privatization and providing investment incentives to the private sector. The investment policy encourages domestic investment and attracting investment by foreign and Pakistan nationals residing abroad. Correspondingly sanctioning requirements for foreign investment have been simplified and with minor exceptions all industrial zones are now open to foreign investors.

In the years ahead, the authorities aim to establish macroeconomic balance through stabilization policies reinforced by structural measures. The medium-term macroeconomic strategy seeks to address financial imbalances in a sustained manner, promote growth while alleviating poverty and improving social sector performance.

II. THE EXTERNAL ECONOMIC ENVIRONMENT

(a) Balance of Payments

The structural reforms programme which Pakistan has been implementing since 1988/89 has had a strong bearing on recent balance of payments developments. The reforms have been aimed at expanding merchandise exports, liberalising imports of goods and services and encouraging the inflow of foreign direct and portfolio investment.

Prior to 1992/93 the current account benefitted from a strong performance of exports which grew steadily in relation to GDP. However the impact of export receipts was partly offset by rapid increases in imports of goods and services. Nevertheless the current account deficit declined from 3.4 per cent of GDP in 1989/90 to 2.1 per cent in 1991/92. During this period medium and long-term capital inflows also declined somewhat with the result that the overall balance of payments did not improve significantly and remained in small surplus. Gross official international reserves remained relatively low albeit growing gradually (Table 5).

Table 5
Pakistan: Summary Balance of Payments[a]

	1991/92	1992/93	1993/94
		(In million of U.S. dollars)	
Current acct. before off. transfers	-1500	-3687	2423
Exports fob	6762	6782	6566
Imports fob	-8998	-10049	8825
Services (net)	-2225	-2748	2524
Of which: interest payments	-999	-1159	-1237
Private transfers (net)	2292	2327	2360
Of which: workers' remittances	1468	1562	1435
Official transfers (net)	450	361	314
Current account balance	-1050	-3326	-2109
Capital account	1180	2737	2514
Medium-and long-term capital	766	815	826
Project and nonproject aid	966	846	...
Commercial banks and IDB	-165	-42	...
Other official capital	-35	11	...
Public sector short-term (net)	-403	739	89
Private medium-and long term	1137	1234	1417
Private short-term (incld.e & o)	-320	-50	191
Of which: errors and omissions	-33	26	...
Overall balance	130	-589	-405
Financing	-130	589	-895
Net int. reserves (increase -)	-352	512	-1194
Use of IMF credit	222	77	299
Memorandum items			
Gross official reserves excldg. gold	1038	469	1663
(in weeks of cif imports)	5.5	2.2	9.1
		(In per cent of GDP)	
Current acct. before off. transfers	-3.1	-7.1	-4.6
Current account balance	-2.1	-6.4	-4.0
External debt	40.4	44.2	46.1
		(Annual per centage changes)	
Exports fob	14.6	0.3	-3.2
Imports fob	7.3	11.7	-13.5

a Covering 12-month period July-June.

Source: State Bank of Pakistan.

In 1992/93, reflecting the failure in agricultural production, exports remained stagnant while imports expanded sharply (Table 6 & 7). The current account deficit jumped from US$1.05 billion in 1991/92 to US$3.2 billion in 1992/93 (6.4 per cent of GDP). To meet the financing need, public sector and commercial bank short-term borrowing was sharply increased but it could not prevent a draw down of about US$589 million in reserves. In 1993/94 initial estimates show some reversal of the previous year's deterioration, with the current account deficit reduced to US$2.1 billion (4.0 per cent of GDP) and the overall balance in surplus by US$405 million. Gross official reserves stood at US$1.6 billion (excluding gold) which was equivalent to over 9 weeks of imports.

Table 6
Pakistan: Balance of Trade
(Value in millions of US dollars)

Year	Exports	Imports	Trade Ex/Imp	
			Balance	Ratio per cent
1988/89	4661	7034	-2373	66
1989/90	4954	6935	-1981	71
1990/91	6131	7619	-1488	80
1991/92	6904	9252	-2348	75
1992/93	6813	9941	-3128	69
1993/94	6803	8564	-1761	79

Source: Ministry of Commerce.

Table 7
Pakistan: Terms of Trade
(1980/81 = 100)

Year	Export Unit Value Index	Import Unit Value Index	Terms of Trade
1988/89	167.99	187.54	89.58
1989/90	192.93	215.00	89.73
1990/91	197.05	252.79	77.95
1991/92	209.59	253.34	82.73
1992/93	214.56	270.62	79.28

Source: Ministry of Commerce.

(b) Exports

Receipts from merchandise rose from US$4.4 billion in 1987/88 to 6.9 billion in 1991/92. The increase in export receipts was associated with a shift in the composition of cotton based export from raw cotton to cotton manufacturers and ready-made garments, and with a large increase in cotton productions in 1991/92. Other traditional exports showed some improvement towards end of this period. But a major contribution to the increase in total exports during this period was made by leather manufacturers, sports and surgical goods (Tables 8 and 9).

Export earnings in 1992/93 declined sharply due to supply constraints. The production of raw cotton was seriously damaged by floods and pest attack. There has been some recovery in exports in 1993/94. The changes in the composition of exports were associated with changes in the direction of export rate. A larger share of exports are now sold in the United States while the shares of the European Community and Japan have declined.

The trend in export earning conceals the underlying adverse price developments reflected in the deterioration in Pakistan's term of trade. The effect of adverse price developments was compounded by the continuation of protectionists barriers in some export markets.

Table 8
Pakistan: Exports by Economic Categories
(Value in millions of US dollars)

Year	Primary Commodities		Semi-manufactures		Manufactures		Total	
	Value	Per cent Share	Value	Per cent Share	Value	Per cent Share	Value	Per cent Share
1988/89	1528	33	875	19	2258	48	5806	100
1989/90	1007	20	1171	24	2776	56	4954	100
1990/91	1145	19	1499	24	348	57	2992	100
1991/92	1312	19	1477	21	4115	60	6904	100
1992/93	1006	15	1405	21	4403	64	6814	100

Source: Ministry of Commerce.

Table 9
Pakistan's Major Destination of Exports[a]
(Value in millions of US dollars)

Country	1988/89	1989/90	1990/91	1991/92	1992/93
Japan	541 (11.6)	457 (9.2)	508 (8.3)	572 (8.3)	466 (6.8)
U.S.A.	535 (11.5)	655 (13.2)	660 (10.8)	885 (12.8)	945 (13.9)
Germany	290 (6.2)	394 (8.0)	545 (8.9)	489 (7.1)	531 (7.8)
U.K.	290 (6.2)	337 (6.8)	446 (7.3)	457 (6.6)	485 (7.1)
Italy	213 (4.6)	236 (4.8)	231 (3.8)	220 (3.2)	174 (2.6)
Saudi Arabia	110 (2.4)	130 (2.6)	219 (3.6)	295 (4.3)	319 (4.7)
Hong Kong	261 (5.6)	210 (4.2)	367 (6.0)	502 (7.3)	450 (6.6)
France	133 (2.9)	183 (3.9)	235 (3.8)	268 (3.9)	294 (4.3)
Dubai	173 (3.7)	145 (2.9)	175 (2.8)	304 (4.4)	403 (5.9)
South Korea	157 (3.4)	147 (2.9)	241 (3.9)	203 (2.9)	165 (2.4)
Netherlands	79 (1.7)	97 (2.0)	122 (2.0)	149 (2.2)	180 (2.6)
Canada	71 (1.5)	81 (1.6)	103 (1.7)	132 (1.9)	155 (2.3)
Others	1808 (38.7)	1882 (37.9)	2279 (37.1)	2428 (35.1)	2245 (33.0)
Total	4661	4954	6131	6904	6813

a Figures in brackets indicate the share in exports.

Source: Ministry of Commerce.

(c) Imports

Largely as a result of the authorities' import liberalisation programme, the value of merchandise imports rose from US$6.9 billion in 1987/88 to 9.1 billion in 1991/92. Some of this increase was due to the rise in oil price, but most of it reflects the up-turn in private sector imports facilitated by the more liberal import regime and reflecting higher level of private sector investment, production and exports. Another significant factor in accounting for developments in imports during this period is the substantial reduction in the maximum tariff rates applied by Pakistan on imports. The maximum tariff was lowered in steps from 225 per cent in June 1988 to 90 per cent in July 1991 and further to 80 per cent in July 1992 and now finally to 70 per cent in July 1994.

The import bill in 1992/93 was affected by larger imports of wheat and machinery that were needed in the aftermath of floods. Imports in 1993/94 were contained through tight demand management and financial policies (Tables 10 and 11).

Table 10
Pakistan: Economic Category-Wise Imports
(Value in millions of US dollars)

Year	Consumer goods		Raw material for consumer goods		Raw material for capital goods		Capital goods	
	Value	Share[a]	Value	Share[a]	Value	Share[a]	Value	Share[a]
1988/89	1210	17	2747	39	514	7	2563	37
1989/90	1325	19	2868	41	486	7	2256	33
1990/91	1198	16	3397	44	517	7	2507	33
1991/92	1186	13	3573	39	611	7	3882	42
1992/93	1386	14	3816	38	550	6	4189	42

a In per cent.

Source: Ministry of Commerce.

Table 11
Pakistan: Major Sources of Imports[a]
(Value in millions of US dollars)

Country	1988/89	1989/90	1990/91	1991/92	1992/93
Japan	974 (13.8)	875 (12.6)	987 (13.0)	1325 (14.3)	1579 (15.9)
U.S.A.	1106 (15.7)	955 (13.8)	901 (11.8)	971 (10.5)	938 (9.4)
Germany	507 (7.2)	532 (7.7)	553 (7.3)	736 (8.0)	744 (7.4)
U.K.	414 (5.9)	366 (5.3)	376 (4.9)	504 (5.5)	516 (5.2)
Saudi Arabia	287 (4.1)	313 (4.5)	478 (6.2)	485 (5.2)	541 (5.4)
France	192 (2.7)	129 (1.9)	220 (2.9)	438 (4.7)	413 (4.2)
China	308 (4.4)	271 (3.9)	386 (5.1)	400 (4.3)	420 (4.2)
South Korea	231 (3.3)	203 (2.9)	213 (2.8)	307 (3.3)	445 (4.5)
Italy	205 (2.9)	126 (1.8)	264 (3.5)	384 (4.1)	335 (3.4)
Iran	100 (1.4)	120 (1.7)	181 (1.8)	155 (1.7)	177 (1.8)
Malaysia	245 (3.5)	245 (3.5)	304 (4.0)	389 (4.2)	511 (5.1)
Switzerland	144 (2.0)	155 (2.2)	195 (2.6)	242 (2.3)	226 (2.3)
Others	2321 (33.0)	2645 (38.1)	2561 (33.6)	2916 (33.6)	3096 (31.2)
Total	7034	6935	7619	9252	9941

a Figures in brackets indicate the share in imports.

Source: Ministry of Commerce.

(d) Exchange Rate

Between February 16, 1973 and January 7, 1982, the rupee was pegged to the US dollar at the rate of PRs.9.90 = US$1.0. On January 8, 1982, the rupee was unpegged from the US dollar but the latter was retained as the intervention currency, and a managed floating rate system was introduced. Under the current managed float exchange rate arrangement of Pakistan, the State Bank of Pakistan sets the rate at which it purchases and sells US dollars in its transactions with authorised dealers. The rate is adjusted on a frequent basis taking into account the exchange rate developments of the US dollar against other major currencies of the world and currencies of trading partners, and the external domestic fundamentals of Pakistan's economy.

On the whole, the Pakistan Rupee has been depreciating against the US dollar since 1982 except for short periods (e.g. in 1983/84). The movement of the rupee against the US dollar since 1987 is shown in Table 12.

Table 12
Pakistan: Exchange Rate vis-à-vis US dollar 1988/93
(In Rupees per U.S. dollar)

		Exchange Rate
1988		
	First quarter	17.52
	Second quarter	17.69
	Third quarter	18.20
	Fourth quarter	18.60
1989		
	First quarter	19.24
	Second quarter	20.61
	Third quarter	21.05
	Fourth quarter	21.27
1990		
	First quarter	21.42
	Second quarter	21.83
	Third quarter	21.75
	Fourth quarter	21.83
1991		
	First quarter	22.24
	Second quarter	23.65
	Third quarter	24.62
	Fourth quarter	24.68
1992		
	First quarter	24.74
	Second quarter	25.08
	Third quarter	25.08
	Fourth quarter	25.70
1993		
	First quarter	26.65
	Second quarter	27.16
	Third quarter	29.85
	Fourth quarter	30.12

Source: International Financial Statistics, IMF.

(e) Foreign Exchange Reserves

Pakistan's gross official foreign reserves (excluding gold) gradually increased in the years following 1988/89, to over US$1.0 billion (equivalent to 5.5 weeks of imports) in 1991/92. After a draw down of reserves in 1992/93 to help finance the unexpectedly large current account deficit in that year, reserves have been restored to over US$1.6 billion (equal to 9 weeks of imports) in 1993/94 (Table 13).

Table 13
Pakistan: Gross Official Reserves[a]
(In millions of U.S. dollars)

	Gold[b]	SDRs	Foreign Exchange	Total
1988	92	7	388	487
1989	90	1	639	730
1990	97	1	195	293
1991	98	7	409	514
1992	97	-	850	947
1993	98	1	1196	1295
1994 June				

a On the last Thursday of each month.
b Valued at SDR 35 per fine ounce and converted into U.S. dollars at end-month SDR/U.S. dollar rates.

Source: International Financial Statistics, IMF.

III. INTERNATIONAL ECONOMIC ENVIRONMENT

The risk of a further deepening of recession in many industrial countries following the severe economic slowdown since 1990, seems to have been abated. This was the result of efforts by the international community to address the challenges in a global and cooperative framework. World output is projected to expand by 3 per cent in 1994 and by 3 3/4 per cent in 1995 as the global economy continues its gradual recovery.[1] Expansion is underway in North America and the U.K. while Continental Europe and Japan remain sluggish. Developing country growth is expected to remain robust on average. At the same time, rates of inflation in the world economy are projected to decline further from levels which for many countries are the lowest experienced since the early 1960's. Reflecting these developments and the conclusion of the Uruguay Round, world trade volume is expected to increase by nearly 6 per cent annually in 1994 and 1995 after growing by just over 2 per cent in 1993. Most of the acceleration is due to expansion in industrial country imports.

[1] "World Economic Outlook, May 1991," International Monetary Fund.

Expansion of world output and trade should generally improve the export prospects for Pakistan. Recent developments could particularly be helpful since the direction of export trade in recent years has been changing towards the North American market where the economic recovery has clearly set in.

The successful conclusion of the Uruguay Round of trade negotiations has removed a substantial downside risk to the prospects for world growth and trade. Its short-term effect will be visible in boosting confidence and increasing investment incentives. Over the medium and long term, estimates indicate that the level of world trade will expand by 10 per cent as a result of the full implementation of the agreement.

The results of the Uruguay Round could also be beneficial for Pakistan. Of special significance in this context is the strengthening and expansion of the trading system through the inclusion of agriculture, textiles and services within the scope of the multilateral system. However much will depend on the manner in which the results of the Round in these areas are implemented, and the speed with which this implementation takes place. Equally important will be the necessity to resist the temptation of interpreting the new rules to serve narrow protectionist purposes especially in Pakistan's major export markets.

On another front, Pakistan is one of the emerging stock markets that has drawn the attention of world financial system. Improved economic prospects and financial sector reform in Pakistan have attracted substantial inflows of foreign direct and portfolio investment in recent years. These inflows have helped to support investment and have facilitated the privatisation of public enterprises. Notwithstanding these positive developments, the surge in capital inflows and in stock market prices raise concerns about the risk of speculative bubbles and unpredictable changes in market sentiment. To minimise chances of adverse developments, Pakistan intends to continue pursuing short-term economic stabilisation policies and strengthen prudential supervision of its financial system.

IV. PROBLEMS IN EXTERNAL MARKETS

As stated elsewhere, Pakistan is one of the founder members of the General Agreement. Oddly enough, however, the two most important areas of its export interest have largely been kept outside the scope of the normal rules of the multilateral trading system, and of the successive rounds of liberalisation under the GATT auspices. While agriculture fell victim to trade distortions through large-scale subsidisation by the major industrialised countries, the textiles sector has encountered systematic barriers against normal growth of trade and discriminatory treatment through the Multi-fibre Arrangement and its predecessor short and long-term arrangements. Even the results of the Uruguay Round have fallen short of the Pakistan's genuine expectations in these areas. In agriculture, massive subsidisation, both for production and export, has been legitimised. In textiles, likewise, the restrictions are likely to persist for a long period of ten years.

In additions, exports are being increasingly subjected to initiation of anti-dumping and countervailing investigations which creates uncertainty and depresses the business sentiment. Investigation periods are sometimes quite lengthy and the legal costs of defending against these cases is prohibitive. The phenomenon is matter of particular concern because although a number of investigations initiated into alleged dumping or subsidisation of imports from Pakistan all resulted in negative findings, they had already created a damaging impact on normal growth of trade.

During the last few years, the growing tendency towards creation of trading blocs is extremely worrisome to Pakistan, especially as these discriminate against non-member countries.

Annex I

Various Acts and Ordinances Affecting Trade

1. Export (Quality Control) Order 1973
2. Inspection Agencies (Registration and Regulation) Ordinance 1981.
3. Textile Quota Management Order
4. Agricultural Pesticides Ordinance 1971
5. Trade Marks Act
6. Weights and Measures Act

Annex II

Products Given Tariff Preferences Under TNDC

1. Raisins and Sultanas.
2. Nuts.
3. Cellulose Plates and Sheets.
4. Certain Veneer Sheets.
5. Cotton Yarn.
6. Ropes and Cables.
7. High Pressure Hydro-Electric Conduits of Steel.
8. Containers.
9. Copper and certain other Wires and Cables.
10. Road Building Equipment.
11. Looms.
12. Warping and Beaming Machines and Knitting Machines.

Annex III

Bilateral Trade Agreements

Name of Countries

1. U.S.A.
2. Bangladesh
3. India
4. Sri Lanka
5. Maldives
6. Nepal
7. Japan
8. Philippines
9. Indonesia
10. South Korea (ROK)
11. Thailand
12. Malaysia
13. Canada
14. Iraq
15. Kuwait
16. Jordan
17. Syria
18. Rep of Yemen
19. Germany
20. Spain
21. Bulgaria
22. Greece

23. Portugal

24. Italy

25. China

26. Morocco

27. Tunisia

28. Algeria

29. Tanzania

30. Sudan

31. Libya

32. Egypt

33. Nigeria

34. Kenya

35. Senegal

36. Zimbabwe

37. Mauritius

38. Tajikistan

39. Kazakistan

40. Uzbekistan

41. Iran.

Annex IV

Border Trade Agreements

Iran

China

Annex V

Quality Control Regulations

1. Wool (Grading & Marking Rules 1953) under the agricultural produce (Grading & Marking Act) 1937 (I of 1937).

2. Animal hair (Grading & Marking Rules 1961).

3. Lamb skins (Grading & Marking rules 1971).

4. Casings (Grading & Marking Rules 1970) X-67.

5. Dry Fish and Shell Fish (Grading & Marking Rules 1937).

6. Fish Meal (Grading & Marking Rules 1937).

7. Bones (Grading & Marking Rules 1969).

8. Citrus (Grading & Marking Rules 1970).

9. Lime and Lemon (Grading & Marking Rules 1971).

10. Dry spices whole (Grading & Marking Rules 1971).

11. Potatoes (Grading & Marking Rules 1967).

12. Mangoes (Grading & Marking Rules 1979).

13. Oil Cakes (Grading & Marking Rules 1967).