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GENERAL AGREEMENT ON TARIFFS AND TRADE

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1973 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH PAKISTAN

Statement submitted by Pakistan under the Simplified Procedures for Consultations[1]

A. Balance of payments 1971-72[2]

Pakistan's overall balance of payments showed a deficit of $18.5 million during 1971-72 as compared to $57.2 million during 1970-71. The reduction in deficit, notwithstanding the serious disruption in trade and commerce as a result of the crisis in East Pakistan, war with India and dismemberment of the country, was attributable mainly to a larger decline in payment for goods and services than the decline in receipt. The deficit on goods and services narrowed down by $216.3 million to $533.6 million. Inflow under Unrequited Transfers rose by $42.3 million to $173.0 million. Allocation of SDRs amounted to $27.0 million during 1971-72. Net inflow under capital transactions amounted to $317.1 million during the year as against the net inflow of $538.9 million in the preceding year. Despite the deficit in balance of payments, the monetary movements showed an improvement of $20.0 million due mainly to drawings from the International Monetary Fund under stand-by arrangements.

Goods and services

The deficit on merchandise account (f.o.b.) decreased markedly to $326.8 million in 1971-72, from $503.4 million in 1970-71. The reduction in deficit by $176.6 million was due mainly to a decline of $240.2 million in import payments, offset partly by a simultaneous fall of $63.6 million in receipts from exports.

Export receipts (f.o.b. and c.& f. mixed) during the year aggregated $635.9 million, which were $63.5 million lower than the last year's receipts. The commodity-wise earnings from exports during 1971-72 revealed that raw cotton including cotton waste was the largest foreign exchange earning item and contributed $163.0 million during 1971-72.

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[1] L/3772/Rev.1

[2] The 1971-72 data include balance-of-payments data in respect of East Pakistan for about five months only while 1970-71 data is overall Pakistan basis.

Imports (f.o.b.) including those financed by foreign assistance etc., declined considerably from $1,186.5 million during 1970-71 to $946.3 million in 1971-72. Of total imports, those financed from the country's own resources including barter amounted to $587.1 million or 62 per cent as compared to $656.5 million or 56 per cent in 1970-71. Imports financed by foreign loans/credit at $215.1 million or 23 per cent denoted a decrease of $145.6 million over last year and Indus/Tarbela expenditure declined by $14.5 million to $103.3 million. The balance was financed from foreign grants etc.

The deficit in Services Account (excluding non-monetary gold and unrequited transfers) decreased from $249.4 million in 1970-71 to $209.1 million in 1971-72. The improvement of $40.3 million was the combined result of a decline of $74.3 million in payments and of $23.0 million in receipts. As compared to the previous year, decrease in payments mainly occurred under freight and insurance on international shipments (-$38.2 million), investment income (-$37.3 million) and other transportation (-$14.1 million) while payments on account of other services increased by $17.8 million. On the receipt side, the position remained unfavourable in almost all the headings as compared to the last year.

Unrequited transfers

The unrequited transfers, comprising private remittances and official donations including loans repayable in rupees, recorded a net inflow of $173.0 million during the year 1971-72 as against $130.7 million in 1970-71. Receipts under the sub-heading "private" representing mainly "home remittances" from abroad increased from $68.9 million in 1970-71 to $96.3 million during the year under review, whereas payments during the same period declined by $1.7 million to $3.3 million. Receipts under the sub-heading "Government's including Indus/Tarbela Project grants" increased from $72.7 million in 1970-71 to $83.0 million during the current year. Payments under this heading, reflecting mainly the release from counterpart rupee funds, went down by $2.9 million to $3.0 million.

Private long-term capital (including all direct investments) recorded a net inflow of $70.4 million during 1971-72 as against the previous year's inflow of $92.8 million. Of the above, utilization of private loans/credits and repayments thereof amounted to $73.0 million and $25.1 million respectively. The private short-term capital (other than direct investment) also showed a net inflow of $1.0 million. In the local governments sector, disbursements and repayments amounted respectively to $95.5 million and $29.3 million. The Central Government sector recorded a net inflow of $193.6 million in 1971-72 as compared with $286.2 million in 1970-71. Of the net inflow under Central Government utilization and repayments thereof stood at $208.5 million and $15.0 million respectively,

while other long-term and short-term assets and liabilities showed an increase of $9.9 million mainly in the investment portfolio of Indus Basin/Tarbela Project Fund and $3.9 million in the cash balances of Pakistan's diplomatic missions abroad and IBDF/Tarbela Funds.

B. Balance of payments 1972-73 (six months only)

A complete payments picture for 1972-73 (July 1972 to June 1973) is not yet available. The balance of payments for the first six months of 1972-73 showed an overall deficit of $27.9 million. While the deficit on Goods and Services Account stood at $224.0 million, net receipts under Unrequited Transfers and net inflows under Capital Transactions amounted to $91.4 million and $104.7 million respectively.

Goods and services

The deficit on merchandise account during July-December 1972 amounted to $129.8 million. A break-down of the export earnings revealed that out of total export earnings (on a mixed c.& f. and f.o.b. basis) of $302.3 million during July-December 1972, cotton manufactures accounted for the largest share ($103.8 million) followed by Raw Cotton ($57.6 million), Rice ($25.1 million), Leather, Tanned and Goods ($25.0 million), Floor Coverings, Tapestries etc. ($13.0 million), Fish, Fresh and Tinned ($10.3 million), Sports Goods ($6.5 million) Wool and Animal Hair and Petroleum Products ($3.8 million each), Lime Cement and Building Material ($13.4 million), Tobacco and Tobacco Manufactures ($3.1 million), Hides and Skins ($1.8 million), Machinery ($1.7 million), Chemicals ($1.6 million) and Other Exports ($41.8 million).

Out of total imports (f.o.b.) of $423.9 million during July-December 1972, those financed from the country's own resources amounted to $310.9 million and those from foreign loans and credits to $69.3 million. The balance of $43.7 million was financed through Indus/Tarbela Development Fund ($37.6 million) and foreign assistance including investment ($6.1 million).

Invisible receipts during July-December 1972 amounted to $53.5 million while payments were of the order of $147.7 million. As a consequence of excess of payments over receipts the deficit on Service Transactions, excluding non-monetary gold, amounted to $94.2 million.

Unrequited transfers

Net receipts under Unrequited Transfers during the six-months period under review aggregated $91.4 million. Receipts under the sub-heading "private" which represents mainly Home Remittances amounted to $72.7 million, while payments under this heading stood at $0.6 million.

Capital Transactions during July-December 1972 showed a net inflow of $104.7 million. Private long-term capital (including all direct investment) showed a net outflow of $8.6 million while private short-term capital (other than direct investment) recorded a net inflow of $0.6 million. The total utilization of foreign loans and credits and repayments thereof during the period under review amounted to $114.9 million and $52.7 million respectively. Of these, the utilization of foreign loans/credits in the private, local governments and central government sector respectively amounted to $16.3 million, $11.8 million and $86.8 million; while payments thereof stood at $23.4 million, $23.3 million and $6.0 million.

C. System and methods of restrictions

Imports into Pakistan are regulated under the provisions of the Imports and Exports (Control) Act, 1950, which is administered by the Ministry of Commerce of the Federal Government. Under the provisions of this Act, an Import Policy Order is issued effective from 1 July of each year which remains in force for one year.

Prior to May 1972, imports were divided into a number of categories. However, consequent upon the introduction of Exchange Reforms on 11 May 1972, the Government of Pakistan adopted a new system of import policy. The basic aim of this policy, which is now in force, is to liberalize imports and to eliminate administrative controls in order to end the uncertainties and to free imports from controls.

Under the new[1] policy, imports are permissible under two lists, the Free List and the Tied List. The bulk of imports fall under the Free List. Import of all items under the Free List is allowed without any quota or quantitative restrictions from world-wide sources (except for a few countries with which Pakistan has no trading relations).

At present, there are 349 items on the Free List. This number is based on generic description. If BTN headings are taken into account, the number of items on the Free List will be much larger.

Items on the Tied List can be imported only from tied sources, i.e. under loans, credits, and barters, according to the availability of funds. According to the current import policy (effective from 1 July 1973) there are 53 items on the Tied List. The number of items on the Tied List will be much larger if BTN headings are taken into account.

Items which do not appear either in the Free List or in the Tied List are not eligible for import. In other words, import of items not included in the Free List or the Tied List is prohibited. Prohibited items include those imports which are

[1] A copy of current import policy is deposited with the GATT secretariat.

prohibited for balance-of-payments reasons and also items the import of which is not considered desirable for other reasons such as health, safety etc.

Import licences are issued for all imports whether under the Free List or under the Tied List. However, licensing is not used as a method of restricting imports. Licensing is used for statistical control.

Quotas, quantitative restrictions and licensing are not used as methods in restricting imports for balance-of-payments reasons.

State trading

With a view to ensuring economies of scale through bulk purchases, the importation of pig iron, steel billets, aluminium, zinc and lead ingots, sulphur, mercury, newsprint, wood pulp, ingots, sugar, coal and coke, copper rods and copper has been channelized through the Trading Corporation of Pakistan only. Such items as fertilizers, generators, rail and track material, drilling and telecommunications equipment, which are either subsidized or required in the public sector, have been reserved for import by public sector agencies only.

State trading, however, is not used as a measure to restrict imports for balance-of-payments reasons.

D. Measures taken during the last two years to modify import restrictions

Prior to the introduction of Exchange Reforms, a system of multiple exchange rates existed in Pakistan as a result of the operation of the Export Bonus Scheme, and a number of effective exchange rates prevailed for imports, as also for exports. Imports were allowed under Licensable List, Free List, Cash-cum-Bonus List and Bonus List. Restrictions on imports under that system were applied or relaxed depending upon the balance-of-payments situation of the country and the availability of external assistance. The position has significantly changed after the Exchange Reform and devaluation of the Pakistan rupee in May 1972. Since then there has been substantial liberalization of imports.