

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

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## 1982 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH PAKISTAN

### Statement Submitted by Pakistan under the Simplified Procedures for Consultation

#### Balance-of-Payments Position and Prospects

1. Pakistan's balance of payments which had recorded a current account deficit of \$872.2 million in 1979-80 was narrowed down by \$122.8 million (or 14.1 per cent) to \$749.5 million in 1980-81. This improvement in the current account deficit was mainly due to substantial increase in the net inflow under unrequited transfers (some remittances etc.) which rose by \$353.9 million (or 16.4 per cent) to \$2,516.9 million during 1980-81. While the deficit on service transactions contracted marginally by \$4.9 million to \$514.3 million, the deficit on merchandise account widened by \$249.0 million (or 9.9 per cent) to \$2,764.95 million during 1980-81. More than 100 per cent of the export earnings were eaten away by the import bill for five items, namely POL, machinery, chemicals, edible oil and tea. Pakistan is therefore going under net deficit on merchandise trade account.
2. The net inflow under capital transactions decreased from \$1,270.5 million in 1979-80 to \$796.0 million (or 37.3 per cent) in 1980-81. Although the net inflow under capital transactions and the SDRs worth \$37.0 million met more than the current account deficit, yet the overall balance-of-payments surplus decreased from \$437.4 million in 1979-80 to \$83.4 million in 1980-81. The gold and foreign exchange reserves decreased by \$153.5 million to \$1,865.9 million by the end of June 1981. The services account also continued its gradual deterioration during 1979-80 and 1980-81 due entirely to enlarged payments which rose by 6.2 per cent to \$1,259.4 million in 1980-81 as compared with \$1,185.8 million in 1979-80. Net receipts under unrequited transfers which rose substantially in 1979-80 increased by 16.4 per cent to \$2,516.9 million during 1980-81.
3. The balance-of-payments position during 1978-79 and 1980-81 is given in Annex I.
4. The various elements affecting the balance of payments are:
  - (i) Exports

Exports (f.o.b.) which had increased by 38.3 per cent to \$2,364.7 million during 1979-80, were slowed down in 1980-81 showing an increase of 25.1 per cent to \$2,957.5 million. The break-up of exports in terms of economic

categories showed that exports of "primary commodities" and "manufactured goods" went up by 30.4 per cent and 30.7 per cent to \$1,295.5 million and \$1,326.8 million respectively during 1980-81, accounting for 43.8 per cent and 44.9 per cent of total exports as against 42.0 per cent and 43.0 per cent in 1979-80. Exports of "semi-manufactures" during this period, however, decreased by 5.7 per cent to \$335.4 million. Itemwise analysis of exports revealed that an increase in exports during 1980-81 was recorded mainly in case of "raw cotton" (+ \$190.1 million or 56.7 per cent to \$525.6 million), "rice" (+ \$143.6 million or 34.0 per cent to \$565.8 million), "synthetic textiles" (+ \$122.7 million or 2,245 per cent to \$128.5 million), "tent and canvas" (+ \$33.6 million or 106.0 per cent to \$65.3 million), "towels" (+ \$21.4 million or 80.8 per cent to \$47.9 million), and "molasses" (+ \$17.2 million or 100 per cent to \$34.4 million). On the other hand, notable decreases were recorded in the exports of "leather" (- \$37.7 million to \$90.0 million), "fruits and vegetables" (- \$11.8 million to \$31.8 million), "POL" (- \$9.0 million to \$169.2 million), and "leather gloves" (- \$5.4 million to \$14.6 million). Excepting for rice and raw cotton, export unit values of almost all other items decreased during 1980-81.

#### (ii) Imports

Imports (c.i.f.) during 1980-81 stood at \$5,408.45 million showing an increase of 14.1 per cent over last year. This rise was mainly due to heavy import bill for POL, which increased by 42.6 per cent to \$1,535.3 million during 1980-81. Imports of fertilizer and edible oil increased by 30.5 per cent and 14.8 per cent to \$357.3 million and \$263.9 million respectively during 1980-81. Imports of tea and iron and steel scrap increased by 24.2 per cent and 293.1 per cent to \$119.6 million and \$107.7 million respectively during 1980-81. Other items depicting prominent increase in import bill are electrical machinery and other machinery, other chemicals, paper and paperboard and rubber and rubber products, etc.

The imports by economic categories, unit value of imports and major items of imports are set out in Annex III and Annex IV.

#### (iii) Invisibles

The surplus on invisibles increased to \$2,002.5 million in 1980-81 from \$1,643.5 million in the previous year. The enlarged surplus by \$359.0 million over the preceding year was primarily attributable to larger net receipts by \$353.9 million under unrequited transfers.

The deficit on service transactions declined by \$5.0 million as compared with the previous year to \$514.3 million in 1980-81. As compared with the last year, the aggregate receipts increased by \$78.5 million or 12 per cent to \$745.0 million and aggregate payments rose by \$73.5 million or 6 per cent to \$1,259.4 million. The itemwise analysis reveals that receipts under all

major heads of transactions (except under "other services" which showed a decline of \$8.5 million) and payments under all major heads (except "Government n.i.e." and "Travel" which showed a decline of \$15.4 million and \$14.7 million respectively) recorded increases of varying magnitudes over the preceding year. Receipts were higher under "investment income" by \$43.1 million, "travel" by \$20.6 million, "other transportation" by \$11.6 million, "Government n.i.e." by \$7.8 million and "freight and insurance on international shipments" by \$3.7 million. Larger payments were reported under "freight and insurance on international shipments" by \$64.1 million, "investment income" by \$23.3 million, "other transportation" by \$13.7 million and "other services" by \$2.5 million.

The unrequited transfers recorded a net inflow of \$2,516.9 million in 1980-81, compared with \$2,162.9 million in the previous year. Receipts under private unrequited transfers increased by \$347.4 million to \$2,242.8 million in 1980-81 whereas payments were nominal at \$0.8 million.

(iv) Debt servicing

Pakistan's outstanding external debt and debt servicing depict an all-time upward increase. The net interest paid on foreign debts excluding debt relief stood at \$592 million and \$712 million in 1979-80 and 1980-81 showing an increase of 50.5 per cent over the preceding year. Outstanding debts during these years were \$8,658 million and \$8,765 million respectively (Annex V).

(v) Capital transactions

The net flow under capital transactions fell by 37.3 per cent to \$796.0 million during 1980-81 from \$1,270.5 million in the preceding year. Net inflow under private long-term capital increased from \$139.0 million to \$208.2 million. Private short-term capital showed a net inflow of \$52.3 million as compared with the net inflow of \$25.2 million in 1979-80. Long-term loans received by the General Government came down from \$1,096.3 million to \$535.6 million while their repayments declined marginally from \$278.8 million to \$270.5 million during 1980-81. Other short-term assets and liabilities denoted a net inflow of \$153.4 million during 1980-81 as compared with the net inflow of \$34.4 million in the preceding year.

(vi) System and method of restrictions

At present about 2,500 items are importable according to the Import Policy Order 1981. All imports required licences, except goods imported by the Central Government, goods in transit, personal baggage and certain other items permitted under Import Trade Control Schedule. Generally licences remain valid for twelve months but in cases where machinery is specifically manufactured, the validity period can be extended up to twenty-four months. Licences for imports valued at PRs 500 or less are not subject to payment of

any fee but licences above that amount are subject to a fee of 2 per cent payable at the time of issue. The import régime is one of the most liberal among those adopted by the developing countries.

The actual range and quantum of imports are regulated by the annual Import Policy Order (IPO). An IPO details items which are importable during a particular fiscal year. All residuary items (i.e. those not explicitly listed in the "IPO") cannot be imported except by special authorization of the Government. The quantitative restrictions are applicable in respect of only twenty-eight items of consumer goods. These were permissible for import at the rate of 115 per cent of the value licensed during 1980-81.

Importable items are divided into two parts, namely "Free List and Tied List". Import under the former can be arranged from world-wide sources against Pakistan's own foreign exchange resources and by and large without any quantitative ceilings (except (i) the commercial importer cannot import machinery valuing more than PRs 1.0 lac, (ii) the import of banned items of machinery is not to exceed PRs 3.00 million by export-oriented industry, (iii) twenty-eight items of consumer goods).

The second list comprises items that are importable exclusively from tied sources under credit loans and barter. The size of this list has gradually been reduced and now consists of eighteen categories of items. Imports originated from Israel and South Africa are prohibited.

The Import Policy structurally classifies the items on parts "A" and "B" of the Free List into the four categories (1) consumer goods, (2) raw material for consumer goods, (3) raw material for capital goods, and (4) capital goods.

The Trading Corporation of Pakistan (TCP) was established in 1977 and is owned and controlled by the Federal Government. It is not a statutory corporation but is a company registered under ordinary law. The main objective for which TCP was established was to carry on import and export business and to buy, sell and deal largely in bulk commodities. The management of TCP is vested in a Board of Directors constituted by the Federal Government. Items exclusively importable by TCP are indicated each year in IPO. Items handled by TCP broadly fall in one of the following categories:

- A. homogenous products importable in bulk;
- B. bulk requirements of public sector units;
- C. imports involving mix mode of financing, i.e. cash and barter/aid.

TCP charges only a small commission for its services as it functions essentially like a commission agent.

The following items are importable exclusively by TCP under IPO 1980.

- (i) Caustic soda
- (ii) Coal and coke
- (iii) Hessian
- (iv) Certain iron and steel items
- (v) Soda ash
- (vi) Sugar
- (vii) Butter oil/ghee
- (viii) Vegetable oil, hydrogenated

The major changes which took place in the context of import liberalization are given in annexed note on "Chronology of Changes" since 1980.

Pakistan has an essential liberal import régime. Barring some "consumer goods" items there is no quantitative restriction in import. Besides being liberal the import régime is a product of consultative process between the Government and trade/industrial sectors. Every year Chambers of Commerce and Industry are invited to make suggestions on all aspects of commercial policy.

The main objectives underlying the process of liberalization are:

- (i) To raise the level of industrial production and export by ensuring availability of essential raw material, intermediate and capital goods.
- (ii) To promote pattern of industrial output of growth which is best suited to obtain the growth and welfare objectives of the country including the lessening of dependence on foreign aid.
- (iii) To prevent speculative hoarding.
- (iv) To restrict the import of items which do not contribute to output but lead to socially undesirable forms of consumption.

Chronology of Changes in the Exchange and Trade System  
Since the 1980 Consultation

IMPORTS

The minimum margin requirements for the opening of letters of credit for the import of various items were also adjusted on a number of occasions during 1980/81. Only the principal changes (including the addition or deletion of requirements for any item) are listed below.

1980

15 May. The minimum margin requirement for the opening of letters of credit for the import of pesticides was withdrawn (BCD Circular No. 10/80).

20 May. The minimum margin requirement for the opening of letters of credit for the import of raw materials for the manufacture of gear boxes and rear axles for truck/bus chassis and jeeps by the manufacturers only was withdrawn (BCD Circular No. 11/80).

21 June. The minimum margin requirement for the opening of domestic letters of credit in favour of TCP for purchases of "bleaching powder" was withdrawn (BCD Circular No. 14/80).

25 June. The minimum margin requirement for the opening of letters of credit for the import of vegetable seed was withdrawn (BCD Circular No. 16/80).

1 July. The 1980/81 IPO became effective: six items were removed from the list of importable items (and hence were implicitly banned), four were added, and numerous amending regulations were introduced for some other items. The ceiling for machinery imports by commercial importers was increased from PRs 50,000 to PRs 100,000, while an exemption from the latter was granted for specified machinery imported by the exporting units of seven additional industries. The 1980/81 IPO stated for the first time that import licences for all items included in the permitted list would be issued in accordance with regulations published by the CCI & E. For each importer such licensing entitlements would become interchangeable for all items, except consumer goods (which remained subject to ceilings per importer and item), and also would be available in two equal semi-annual installments rather than on a quarterly basis as was previously the case.

1 July. In accordance with the provisions of the 1980/81 IPO, it was announced that until further notice import licences would be issued to each importer up to 125 per cent of the higher of (a) the value licensed in 1978/79, or (b) the average value licensed during the three years ended 30 June 1980. Units which began operating in 1979/80 would be entitled to 110 per cent of their annualized usage during 1979/80.

20 December. The Government announced the removal of licensing restrictions on permitted list imports of all raw materials (except for yarn and artificial fibre), all capital goods, and certain consumer goods. Simultaneously, (a) 121 items were added to the permitted import list; (b) five items previously imported only by TCP, namely, mercury, aluminium, copper, zinc, and lead, were allowed to be imported by the private sector; and (c) the ceiling on the import of machinery for which no permission from any government agency is required was raised from PRs 2.5 million to PRs 10.0 million, while the limit on the value of total new investment eligible for this facility was raised from PRs 20 million.

### 1981

January. Regulatory duties ranging from 25 per cent to 45 per cent were imposed on eleven basic raw material items.

21 February. The limit on the value of machinery which may be imported against various sources of finance by existing industrial units not falling within the list of restricted industries was raised from PRs 2.5 million to PRs 10 million.

14 March. Duty-free import of machinery for balancing, modernization, and replacement purposes was allowed for the tanning, boot and shoe, leather garments and glove manufacturing, sporting goods, surgical goods, and cutlery industries.

April. A regulatory duty was levied on imports of decorative laminates.

April. The customs duty on unpacked tea was raised from 49.5 per cent to 56 per cent.

May. The customs duty on unpacked tea was reduced from 56 per cent to 52 per cent.

1 July. The 1981/82 budget included the following measures: (a) a compensatory rebate of 12.5 per cent was allowed on the export f.o.b. value of hand-knotted woollen carpets and leather goods; (b) the duty of 85 per cent previously levied on the import of wet-blue goat and sheep leather was withdrawn; (c) duty-free import of machinery for balancing, modernization and replacement purposes was allowed to the marble industry and to the Gem Stone Corporation; (d) protective duties were increased on eight items by from 10 percentage points to 50 percentage points; and (e) regulatory duties ranging from 12 per cent to 85 per cent were imposed on thirteen raw material items.

1 July. The 1981/82 IPO became effective and involved the following changes: (a) a number of hitherto banned items were added to the Free List; (b) thirty-six items were shifted from the Tied List to the Free List; (c) nine items were deleted/transferred from Part C of the Free List to either Part A or Part B; (d) thirty-one items were transferred from Part B of the Free List to Part A; (e) the limit for machinery imports under balancing, modernization, and replacement was raised from PRs 2.5 million to PRs 5 million; (f) the number of permitted consumer goods and raw materials for consumer goods subject to licensing ceilings was reduced from forty-seven to twenty eight; and (g) the requirement that certain goods be imported only from Turkey was removed. In the case of the remaining imports subject to licensing ceilings, licences are to be issued up to a value equivalent to 115 per cent of the value of imports during 1980/81.

14 October. The monetary ceiling for the import of banned items of machinery by export oriented units was raised from PRs 2.5 million to PRs 3 million and for non-exporting units from PRs 0.5 million to PRs 1 million.

3 December. Belarus Tractor Model MTZ 50 was made importable only in CKD condition by the recognized assemblers.

ANNEX I

BALANCE OF PAYMENTS

(\$ million)

<u>ITEM</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
1. Merchandise account (net)	- 2271.52	- 2515.86	- 2764.95
Exports (f.o.b.)	+ 1644.24	+ 2340.81	+ 2798.59
Imports (f.o.b.)	- 3815.76	- 4856.67	- 5563.54
2. Non-monetary gold	+ 2.12	-	+ 12.93
3. Service transactions (net)	- 438.38	- 519.29	- 514.34
Receipts	+ 509.39	+ 666.57	+ 745.05
Payments	- 947.78	- 1185.86	- 1259.39
4. Unrequited transfers (net)	+ 1623.94	+ 2162.93	+ 2516.87
Private (net)	+ 1496.16	+ 1894.85	+ 2442.02
Government (net)	+ 127.78	+ 268.08	+ 274.85
5. Current account balance	- 983.84	- 872.22	- 749.49
6. Allocation of SDRs	+ 38.28	+ 39.09	+ 36.87
7. Capital transactions (net)	+ 778.99	+ 1270.50	+ 796.06
8. Overall surplus (+) deficit (-)	- 166.57	+ 437.37	+ 83.44

Source: State Bank of Pakistan

ANNEX II

EXPORT OF MAJOR ITEMS - PAKISTAN

<u>S.NO.</u>	<u>ITEMS</u>	<u>(US\$ million)</u>		
		<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
1.	Rice	341.4	422.2	565.8
2.	Raw cotton	66.2	335.5	525.6
3.	Cotton yarn	197.6	205.9	207.0
4.	Cotton fabrics	215.7	244.1	241.4
5.	Leather	126.0	127.7	90.0
6.	Carpets and rugs	178.3	214.3	226.1
7.	Fish and fish preparations	46.7	53.6	56.5
8.	Molasses	21.2	17.2	34.4
9.	Guar and guar protein	27.5	33.6	28.9
10.	Petroleum and petroleum products	61.4	178.2	169.2
11.	Towels	21.2	26.5	47.9
12.	Others	406.4	505.9	764.7
	TOTAL	<u>1,709.6</u>	<u>2,364.7</u>	<u>2,957.5</u>

ANNEX III

IMPORT BY ECONOMIC CATEGORY - PAKISTAN

<u>S.NO.</u>	<u>ITEMS</u>	<u>(US\$ million)</u>		
		<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
1.	Consumer goods	792.09	757.57	785.37
2.	Raw material for consumer goods	1,557.14	2,003.48	2,710.28
3.	Raw material for capital goods	218.20	294.52	409.56
4.	Capital goods	1,108.13	1,684.75	1,503.24
	TOTAL	<u>3,675.56</u>	<u>4,740.32</u>	<u>5,408.45</u>

UNIT VALUE OF MAJOR IMPORTS

<u>S.NO.</u>	<u>ITEMS</u>	<u>(US\$ per ton)</u>		
		<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
1.	POL			
	(i) Crude	104	128	251
	(ii) Products	132	268	327
2.	Wheat	158	175	210
3.	Fertilizer	180	246	278
4.	Edible oil	652	667	567
5.	Tea	<u>1,650</u>	<u>1,580</u>	<u>1,650</u>

ANNEX V  
DEBT SERVICING

(US\$ million)

<u>Year</u>	<u>Debt outstanding</u>	<u>Debt Servicing</u>			<u>Debt relief</u>	<u>Net payment</u>	<u>Percentage increase (+) decrease (-)</u>
		<u>P</u>	<u>I</u>	<u>T</u>			
1978-79	7,792	370	254	624	151	473	-
1979-80	8,658	395	287	682	90	592	+ 25.0
1980-81	8,765	516	357	873	161	712	+ 50.5
1981-82 (estimated)	9,260	551	435	986	257	729	+ 54.0