GENERAL AGREEMENT

ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

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1994 CONSULTATION WITH PAKISTAN UNDER ARTICLE XVIII:12(b)

Statement by the Government of Pakistan under Simplified Procedures for Consultations

Legal and administrative basis for import restrictions

1. The principal instrument governing the implementation of the trade policy in Pakistan is the Imports and Exports (Control Act), 1950 (XXXIX of 1950). In exercise of the powers conferred by the Act, conditions for the import and export trade of Pakistan are set annually in the Import Policy Order valid for the fiscal year. This Order is reviewed annually to take into account changing economic circumstances and to conform to changes in international trade.

2. According to the Import Policy Order, private sector entitles 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 organization 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.

Trade Policy Formulation and Review

3. The Ministry of Commerce is responsible for formulating, recommending and reviewing trade policy. Coordination with other relevant Government departments is insured through the Economic Coordination Committee (ECC) of the Cabinet. Trade Policy is formulated following consultation with the private sector who are represented by various chambers of commerce and industry and trade and commodity associations (recognised under the Trade Organizations Ordinance 1961). Consultation with ministries, departments and provincial governments are also held through an Advisory Committee.

Methods used to restrict imports

4. According to the current Import Policy Order, all items are freely importable except for those which are subject to fulfilment of certain conditions or are on the negative list on account of balance-of-payments reasons or health, religious or security considerations. The Negative List contains items whose importation is not permissible unless specifically authorised.

Import Licensing

5. Licenses are not required for any importable items.

Measures since the Last Consultations

6. Since the last consultations in the Committee on Balance-of-Payments Restrictions in March 1992, Pakistan has continued to effect fundamental changes to liberalize its trade and payments régime. Some of the most significant measures are outlined in the following paragraphs.

7. According to the Import Policy Order 1994, all imports have been made freely importable except for 75 items which remain on the Negative List on account of religious, health or security considerations, or on account of the balance of payments reasons.

8. The requirement for import licensing had already been eliminated in 1991.

9. With effect from January 1994, the so-called restricted list of imports has also been eliminated. Likewise, the system of restricting imports to specified makes (i.e., the standardization requirement) has also been dispensed with.

10. A number of surcharges on imports and the import license fee have been merged into a single statutory tariff rate, and the maximum level of tariffs has also been reduced from 225 per cent in a few cases to 70 per cent only.

11. To complement the liberalization of the trade régime, the exchange system has been fully liberalized so that, as of 1 July 1994, Pakistan has adopted full current account convertibility of the rupee and eliminated all multiple currency practices. Consequently, Pakistan has fulfilled the obligations of Article VIII of IMF's Article of Agreement.

12. Finally, a number of modifications aimed at facilitating imports into Pakistan have been adopted including, e.g., the permission to change the list of items in the letters of credit prior to the shipment of the goods without payment of any additional charge; the permission to import on the basis of invoices directly issued by the foreign suppliers or indents issued by an indentor registered as an importer under the Registration (Importers and Exporters) Order, 1993; the permission for imports of up to US$ 10,000/- against foreign currency demand drafts instead of through opening of letters of credit; the substantial increase in the monetary ceilings for imports of arms and ammunition; permitting the locally incorporated foreign companies to engage in commercial imports; etc.

Current Status of Pakistan's Balance of Payments

13. Pakistan's balance of payments has remained under pressure in recent years, although the situation eased somewhat in the fiscal year 1993/94 due to a number of short term factors.

14. A summary of the main features of the balance of payments is given in the following table

	1991/92	1992/93	1993794
		(US dollars million)	
Trade Balance	-2,236	-3,267	-2,259
Exports f.o.b	6,762	6,782	6,556
Imports f.o.b	-8,998	10,049	-8,825
Services (net)	-2,225	-2,748	-2,524
of which: interest payments	-999	-1,159	-1,237
Private transfers (net)	2,292	2,327	2,360
of which: workers remittances	1,468	1,562	1,435
Official transfers (net)	450	361	314
Current account balance	-1,050	-3,326	-2,109
	Memorandum Items		
Gross official reserves excluding gold	1,038	469	1,663
in weeks of c.i.f imports	5.5	2.2	9.1
(In per cent of GDP)			
Current account, before official transfers	3.1	7.1	4.6
Current account balance	2.1	6.4	4.0
External debt	40.4	44.2	46.1

15. Prior to 1992/93, the current account benefitted from a strong performance in exports. However, the impact of export receipts was partly offset by rapid increases in imports on both goods and services accounts. Nevertheless, the current account deficit declined from 3.4 per cent of GDP in 1989/90 to 2.1 per cent of GDP in 1991/92. During this period, the medium and long term capital inflows also declined with the result that the overall balance of payments registered only a small surplus. Gross international reserves also remained relatively low.

16. In 1992/93, exports remained stagnant while imports expanded sharply. Consequently, the current account deficit jumped from US$ 1.05 billion in 1991/92 to US$ 3.3 billion in 1992/93 or 6.4 per cent of GDP. In 1993/94, the initial estimates show some reversal of the previous year's deterioration, with the current account deficit reducing to US$ 2.1 billion or 4 per cent of GDP. This, however, has been made possible due to a very sharp fall in imports, and lower payments on the services account, in the wake of general political uncertainty. Consequently, the gross official reserves also improved from 2.2 weeks' worth of import cover to some 9 weeks of imports.

17. Export earnings in 1992/93 declined sharply due to supply constraints in the economy which were occasioned by a serious damage to the production of cotton on account of the floods and pest attack. In 1993/94 also, exports failed to produce any expansion.

18. The trend in export earnings also conceals the underlying adverse price developments reflected in the deterioration in Pakistan's terms of trade. The effect of adverse price developments was compounded by an acceleration in protectionist barriers in some export markets, which also witnessed

the initiation of a number of anti-dumping and countervailing investigations against Pakistan's major exports.

19. On the import side, largely as a result of the import liberalization programme pursued by the Government over the past several years, the value of merchandise imports rose from US$ 6.9 billion in 1987/88 to US$ 9.1 billion in 1991/92. Most of this increase reflects the up-turn in private sector imports facilitated by a liberal import régime and a substantial reduction in the maximum tariff rates. (The maximum tariff has been lowered in steps from 225 per cent in June 1988 to 90 per cent in July 1991, to 80 per cent in July 1992 and now to 70 per cent since July 1994). The trade reforms have also included relaxation of a number of non-tariff import restrictions which included the abolition of the requirement for import licensing in March 1991.

20. The import bill for 1992/93 was affected by larger imports of food and machinery items. In 1993/94, imports declined substantially which, however, is contrary to the trend in the previous years, and reflects the effects of tight demand management and financial policies in the wake of a sharp deterioration in the balance-of-payments position during the previous year.

21. Pakistan's gross official reserves saw a sharp decrease in 1992/93 touching a low of 2.2 weeks worth of import cover, although they improved to some 9 weeks of imports at the end of 1993/94 due largely to a marked decrease in imports.

22. Pakistan carries a large external debt which stood at US$ 17.4 billion on 30 June 1992 and was estimated at US$ 18.5 billion on 30 June 1993. Excluding liabilities on account of foreign currency deposits, external debt as a per centage of GDP increased from 40.4 per cent in 1991/92 to 46.1 per cent in 1993/94.

Prospects

23. Pakistan's balance of payments position remains under pressure. The balance of trade continues to register a large deficit: exports are stagnating; the sharp fall in imports in the last financial year has been due to temporary short-term factors; the debt service ratio remains on an upward trend. Due to all these reasons, the improvement in the balance-of-payments situation at the end of a single year (1993-94) cannot be treated as reflecting a sustainable trend.