

GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1985 CONSULTATION WITH PAKISTAN (SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205) to assist the Committee in taking the decision referred to in paragraph 8 of the Declaration.

I. Pakistan's previous consultations

2. The Committee has held ten full consultations with Pakistan, in the years between 1950 and 1969 and subsequently in 1978. Simplified consultations have been held in 1973, 1975, 1977, 1980 and 1982.

3. At the last full consultation, held on 19 January 1978, the Committee expressed understanding for Pakistan's continuing balance-of-payments difficulties, and recognized that there was need for trade measures as provided for under Article XVIII: 9 to 12. It acknowledged that some elements then affecting Pakistan's balance of payments posed difficult and often conflicting choices of policy. It recognized that a number of external factors beyond the control of the Pakistan authorities affected Pakistan's export performance and therefore its balance of payments and observed that a relaxation of these restraints could have a favourable effect on Pakistan's ability to reduce its trade restrictions. The Committee, noting that Pakistan had pursued efforts towards trade liberalization started in 1972, welcomed the intention of the Pakistan authorities to pursue simplification and rationalization of its trade régime with a view to achieving in the long run, fully liberalized trade, and hoped that the adoption of the fundamental external and domestic measures referred to by the International Monetary Fund would enable Pakistan to further reduce its reliance on trade restrictions (BOP/R/98).

II. Pakistan's trade policy and recent changes therein

4. On 1 July 1983, a new licensing system was introduced based on a "negative list" system. Information on the structure of the new system has been supplied to GATT in Pakistan's 1983 reply to the questionnaire on import licensing systems (L/5250/Rev. 1 dated 16 December 1983). Details of the system are contained in the Import Policy Orders 1983/84 and 1984/85, copies of which are available for consultation in the secretariat.

5. The new system brings a considerable measure of simplification and transparency into Pakistan's import régime. Imports are divided into two main lists: the negative list, comprising items imports of which are banned, and the restricted list. All other items may be freely imported by

registered importers, subject to the issue of import licenses. The negative list comprises items banned for religious or security reasons; luxury consumer goods; items banned for protective reasons; and certain other prohibited goods. The restricted list comprises items importable only by the public sector, items importable exclusively from tied sources under credit, loan or barter arrangements; and a list of consumer goods subject to quantitative restrictions. Within these provisions, imports of some items on the negative and tied lists are permitted under certain circumstances, for example for use by export industries or under the personal baggage scheme. Notwithstanding the basic principle of the negative list system, twenty Appendices to the Import Policy Order 1984/85 set out partial positive lists of specified goods to be imported for the purposes of particular industries, or subject to particular controls such as those applicable to drugs, pesticides, etc, or to laboratory, scientific or medical apparatus, while further provisions are laid down for a significant number of other products including marine engines, cement bags, lubricants and greases, polypropylene/polyethylene bags and nylon twine, and building and construction equipment.

6. Although a strict comparison between the old and new systems is difficult, it appears that the introduction of the new system was accompanied by a liberalization of import restrictions on a number of products. Thirty-seven items (148 Pakistan tariff headings) were made freely importable, restrictions were removed on seventeen consumer goods previously subject to quotas and a number of goods on the state-trading list were opened to the private sector. Products liberalized included grey cloth, milled wheat, sugar, non-nitrogenous fertilizers, new standardized trucks, buses and light commercial vehicles (CBU or CKD) and bidi leaves (except from India). Fifteen items (including car repair and garage machinery, forging machinery, metal forming, diecasting and extrusion machinery, rubber processing machinery, and metal trimming and dressing machinery) were removed from the tied list. The value ceilings on imports of capital goods for setting up new factories or for expansion of existing industries were raised from PRs 15 million and 10 million respectively to PRs 30 million, with the aim of promoting industrial expansion.

7. A further liberalization of imports took place in September 1983 when fourteen [items] [tariff headings] were transferred from the negative list to the tied list, seventeen placed on the public sector list and thirty-nine (including a certain number of consumer durables such as dish and clothes washing machines and car airconditioners) made freely importable. These changes have been consolidated in the import policy order for 1984/85, in which a number of other semi-finished and machinery items including carbon steel articles, certain types of motors and pumps, textile machinery, metal and stone working machinery, and part for electrical equipment were made freely importable; other items such as radiotelephones, railway equipment, aircraft and boats were transferred from the negative to the State-trading list.

8. The overall effect of the 1983/84 and 1984/85 measures thus appears to be a loosening of restrictions on imports on capital and intermediate goods for industry which are not produced in Pakistan, while controls on products which compete directly with domestic output have not been significantly relaxed, leading to higher effective protection of domestic production of final goods.

9. During 1983 and 1984 conditions for payments for certain invisibles (such as travel allowances and foreign exchange allowances for study abroad) were also eased somewhat.

10. Following an extensive study of effective protection in industry undertaken in collaboration with the World Bank in 1983, a significant revision of the tariff structure for products of or imported inputs for the engineering and pharmaceutical industries was made, leading to some exemptions or reductions in duties on engineering goods but also to the introduction of a 20 per cent tariff rate on machinery for which locally produced substitutes were available. Duties on pharmaceuticals were increased, to a rate of 85 per cent for raw materials also domestically produced. Other adjustments made in 1984/85 aimed at adjusting levels of protection have led to significant reductions or exemptions from tariffs and/or domestic sales taxes on a number of raw materials, capital goods and consumer products not locally produced, but significant increases for goods competing with local production - trends which move in the same direction as the licensing measures noted in paragraphs 6-8 above. Pakistan's GATT schedule has been subject to a waiver under Article II since 1977 pending renegotiation. The most recent extension of the waiver, until 31 December 1985, is contained in document L/5742.

III. Recent trends in Pakistan's economy and foreign trade

11. Pakistan's real GDP, which had progressed by 6 per cent in 1982/83, with sustained expansion in the manufacturing sector, but declining output of rice, cotton crops and sugarcane, grew by less than 5 per cent in 1983/84. Bad weather and pest infestation led to a drop in raw cotton output and poor results for wheat and rice; sugarcane production was, however, moderately up. Because of energy shortages and lower availabilities of important inputs, manufacturing output is estimated to have registered an overall increase of just over 7 per cent in 1983/84, one of the lowest in recent years. The shortage of raw cotton led to a marked decline in production of cotton cloth and slight fall in output of yarn. Production of fertilizers, which had been growing at rates exceeding 20 per cent in 1980-1983, is estimated to have risen by only 3.9 per cent in 1983/84 and output of steel products stagnated. Production of edible oils, chemicals and cement, however, rose significantly. Measured by the consumer price index, the average annual rate of inflation remained relatively modest in 1984 at 7 per cent (slightly higher than the average in 1983). The Rupee has been in a managed float against a basket of currencies since February 1982. It subsequently depreciated strongly against the dollar until the first half of 1983, when the rate of depreciation slowed down considerably; in the second half of the year and in early 1984, the exchange rate against the dollar stabilized, but the acceleration of Rupee depreciation started again during the last quarter of 1984.

12. In 1983/84, Pakistan's exports increased by about 1½ per cent in terms of US dollars, to \$2.7 billion (\$2.5 billion in 1982/83). Cotton exports fell sharply by 57 per cent to \$131 million (\$302 million in 1982/83), having been halted following the crop failure of 1983/84 in order to safeguard supplies for the domestic market. Earnings from rice exports rose by 47 per cent, to \$422 million (\$287 million in 1982/83). Among manufactures, a 12

per cent fall in exports of cotton yarn was offset by a 43 per cent rise in cotton fabrics, while exports of clothing rose by 33 per cent compared with 2 per cent in the previous year and exports of leather increased by more than 55 per cent, at some \$146 million (\$94 million in 1982/83). Exports of "non-traditional" products, ranging from sports goods to medical instruments, rose by 7.4 per cent and accounted for 27 per cent of the value of exports.

13. The estimated value of imports in 1984 expanded by 7 per cent, to \$6½ billion. Imports of crude petroleum declined by about 8 per cent in value, due to the fall in world oil prices, while continuing to rise in volume, and remained the country's major import item, contributing some 15 per cent of the total imports. Private sector imports of industrial inputs and capital goods, which had stagnated in 1982/83, expanded by up to 12 per cent in real terms in 1983/84.

14. Pakistan's trade deficit increased again in 1984 and amounted to \$3.8 billion as against only \$3.5 billion in 1983. The country's international reserves (excluding gold) declined rapidly from a level of nearly \$2 billion in 1983 to about 1.0 billion at the end of 1984.