

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/W/58  
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Limited Distribution

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## Committee on Balance-of-Payments

### 1982 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 on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration.

#### I. Pakistan's previous consultations

2. The Committee on Balance-of-Payments Restrictions held ten full consultations with Pakistan in 1950 - 1969 and in 1978, and four simplified consultations in 1973, 1975, 1977 and 1980.

3. The last full consultation with Pakistan took place on 19 January 1978. The Committee expressed at this consultation understanding for the continuing balance-of-payments difficulties of Pakistan, acknowledged the difficult policy choices Pakistan was facing and recognized that external factors, among them difficult access to markets, affected Pakistan's export performance and hence its ability to earn the foreign exchange necessary to relax import restrictions.

4. In its conclusions the Committee inter alia "recognized that there was a need for trade measures as provided for under Article XVIII:9 to 12" and it "expressed the hope 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. Recent changes in Pakistan's trade policy

5. All imports require licenses. For imports valued at more than PRs 500, a license fee of 2 per cent is charged. Items that may be imported into Pakistan are classified into two lists: a free list and a tied list. The items on the free list are divided into three categories: A - unrestricted; B - industrial users only; and C - public sector agencies only. Items on the tied list may be procured only from tied sources under credits, barter trade, loans or the U.S.P.L. 480 programme. In the fiscal year 1980/81, import licenses issued under the free list amounted to PRs 38,586 million and under the tied list PRs 35 million.

6. The following are the main changes introduced in the 1981/82 Import Policy Order covering the period 1 July 1981 to 30 June 1982.

A number of items previously importable by industrial users only may now be imported by all registered importers, namely:

Pectin; kapok; natural calcium phosphate; mercury; lacquers and varnishes; synthetic rubber; wood pulp; iron and steel scrap metal for remelting and rerolling; iron or steel tin plates and tinned sheets; various aluminium, copper or zinc manufactures; sponge iron.

The following items previously importable by public sector agencies only are now importable by all registered importers:

Cement (excluding cement fondu); power tillers, mechanical farming equipment and combine harvesters (specified makes only); stoving acrylic paint.

The main items not previously included in either the free or the tied list but now importable by all registered importers, are the following:

Plastic erasers; safety helmets of glass fibre/plastic; modelling pastes; plastic egg-trays; plastic laboratory ware; raw material for starches, glues and sizing materials; sensitized paper board/cloth; waste paper, all sorts; glass envelopes for electronic valves/tubes; glass fabric; plates, sheets and strips of unvulcanized natural or synthetic rubber.

In addition a number of tools and workshop equipment and components, parts and accessories thereof, previously either banned or importable from tied sources only, have now been added to the list of items importable by all registered importers.

7. A comparison of the Import Policy Order 1980/81 with that for 1981/82 reveals the following changes in the number of items in the various import lists.

	<u>1980/81</u>	<u>1981/82</u>	<u>Change</u>
<u>Free list</u>	<u>439</u>	<u>505</u>	<u>+66</u>
Part A: Unrestricted	351	456	+105
Part B: Industrial users only	58	30	-28
Part C: Public sector only	20	19	-11
<u>Tied list</u>	<u>20</u>	<u>20</u>	<u>0</u>
<u>TOTAL</u>	<u>459</u>	<u>525</u>	<u>+66</u>

8. Under the Import Policy Order 1981/82 licenses for imports subject to licensing ceilings are to be issued up to a value equivalent to 115 per cent of the value of imports during 1980/81. The number of consumer goods and raw materials for consumer goods subject to licensing ceilings was reduced from 47 to 28. The ceiling for the importation of machinery for balancing, modernization and replacement purposes was doubled to PRs 5 million.

9. The relaxations in the import licensing regime were accompanied by substantial modifications in the structure of import tariffs. The following comparison of the incidence of import duties in the fiscal years 1978/79 and 1980/81 reveals that the

average import duty on consumer goods has increased while that on raw materials has declined.

	<u>Duty as per cent of value</u>		
	<u>1978/79</u>	<u>1980/81</u>	<u>Change</u>
<u>Total</u>	39	37	-2
Consumer goods	40	60	+20
Raw materials for consumer goods	42	34	-8
Raw materials for capital goods	42	34	-8
Capital goods	40	38	-2

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

10. Pakistan's real GDP growth doubled to over 8 per cent in 1979/80 (July/June), as a result of the accelerated growth of production in both agriculture (7 per cent) and manufacturing (9 per cent). Overall economic expansion slowed down (to less than 6 per cent) in 1980/81, despite sustained growth in manufacturing, due mainly to the stagnation or modest expansion of major crops.

11. The strong recovery of cotton production during the 1979/80 season had allowed exports of cotton to be, in the calendar year 1980, about 5 times larger in volume and 6 times higher in value than in 1979. The increase in cotton export earnings, to some \$465 million in 1980, accounted for the bulk of the increase in the country's total export earnings (up 27 per cent, to \$2.6 billion). Rice exports declined in volume and their value dropped to \$430 million. Among manufactures, textile exports climbed 20 per cent to \$875 million and clothing exports rose by 30 per cent to \$105 million. Volume declines were substantial in most other exports in 1980. As regards imports, the increase in the petroleum bill alone, which more than doubled to \$1.4 billion, offset the whole increase in export earnings in 1980. Non-oil imports increased moderately, by 16 per cent, to \$3.9 billion. The import value of capital goods and fertilizers increased by about 40 per cent. Grain imports were sharply reduced, due to a good wheat crop, and imports of iron and steel, another important item in 1979, also declined. A shortfall in domestic sugarcane production and higher international sugar prices combined to boost imports from \$10 million in 1979 to \$90 million in 1980.

12. In 1981, export unit values of Pakistan's cotton tended to decline throughout the year, but remained on average 15 per cent higher than in the preceding year; thus the 10 per cent fall in cotton export earnings was the result of a reduced volume of exports. Thanks to higher international prices, the value of rice exports increased in 1981 (22 per cent, to \$530 million). While declines are reported in exports of cotton textiles, other manufactured exports recorded small value increases and total export earnings were up 10 per cent, to nearly \$2.9 billion. As the dollar value of total imports remained in 1981 at the same level as in the year before, Pakistan's trade deficit (exports, f.o.b., less imports, c.i.f.) which had increased from \$2.0 billion in 1979 to \$2.7 billion in 1980, was reduced to about \$2.5 billion last year. Pakistan's international reserves (excluding gold) increased by some \$200 million in the year to December 1981.