

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1787  
6 June 1962

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## REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH

### P A K I S T A N

1. In accordance with its terms of reference the Committee conducted the consultation with Pakistan under Article XVIII:12(b). The Committee had before it: (a) the "basic document" and supplementary information supplied by the Government of Pakistan, BOP/4/Rev.1 and BOP/8 respectively<sup>1</sup>, and (b) a document provided by the International Monetary Fund, as noted in paragraph 2 below. In conducting the consultation, the Committee followed the "Plan" for Consultations recommended by the CONTRACTING PARTIES. The discussion was completed on 29 May 1962. The present report summarizes the main points of discussion during the consultation.

#### Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Pakistan. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Pakistan. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on Pakistan, dated May 16, 1962.

"The Fund is presently conducting a consultation with Pakistan under Article XIV of the Fund Agreement and expects to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available."

#### Opening statement by the representative of Pakistan

3. In his opening statement, the full text of which is annexed, the representative of Pakistan gave an outline of major economic and trade developments and of the basic objectives of his Government's economic and commercial policy. He pointed out that for the bulk of its foreign exchange earnings, Pakistan continued to depend on the export of a small number of agricultural and primary commodities. Trade in these products was characterized by uncertainties of production, fluctuations in prices and vicissitudes of demand abroad, as had again been demonstrated by recent variations in export earnings

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<sup>1</sup>The Committee also had before it documents relating to the revised Second Five-Year Plan of Pakistan supplied by the delegation of Pakistan.

from jute; the country's major export commodity. To reduce this inherent instability in the economy, his Government had undertaken over the last decade a planned programme of industrialization. This did not, however, imply that agriculture was not assigned an important place in the Government's policy of economic development; indeed lately there had been renewed stress on the development of agriculture, so as to enable Pakistan to feed its population mainly from its own resources and to provide for larger export availabilities of such important cash crops as cotton and jute. In view of the very great difficulties which had to be overcome, progress in expanding industrial production had been gratifying, particularly as regards output of a number of manufactured goods, so that Pakistan was now in a position to export these in addition to meeting domestic requirements of the goods concerned.

4. The Government's main objective in implementing its development programme was to channel efforts principally towards providing food for meeting the requirements of Pakistan's growing population. Other basic objectives were the expansion of industrial production and exports. Moreover, in implementing its development programme, Pakistan was consistently striving to establish and to maintain the confidence of industrial investors, an effort which had already had some success. In pursuing rapid and balanced economic development, the Government generally did not permit the establishment of new industries which depended to any significant extent on imported raw materials. Rather, emphasis was laid on the establishment or expansion of industries which would earn or save foreign exchange. Private foreign investment in industry was being encouraged.

5. The Government was aware that in its efforts to achieve rapid economic development, it must proceed in a manner which would not endanger monetary stability and the Government had indeed succeeded in curbing inflation, an achievement which had been significantly assisted by the increasingly liberal import policy it had pursued. Another major objective of his Government had been to place long-term planning for economic development on a sound basis; so as to give clear direction to governmental and to private endeavours and to minimize any waste or misdirection of Pakistan's resources, while at the same time providing a sound and reliable basis for obtaining and making use of foreign assistance. In concluding his opening statement, the representative of Pakistan said that, in his view, the latter objective was being achieved to a large extent by the Second Five-Year Plan, the implementation of which was well under way.

#### Balance-of-payments position and prospects

6. The Committee thanked the representative of Pakistan for his comprehensive and informative opening statement, and congratulated the Government of Pakistan on the further progress made since the last consultation in expanding industrial production. The Committee expressed appreciation of the measures towards import liberalization introduced by Pakistan since the last consultation and the generally liberal import policy pursued by Pakistan. In discussing the

various aspects affecting the development of Pakistan's balance of payments and future prospects, the Committee noted that despite considerable progress made in recent years in expanding exports of manufactured products, the slight increase in total export earnings (from PRs.1,872 million in 1960 to PRs.1,900 million in 1961), was almost entirely due to appreciably higher jute prices in 1961, and to a lesser extent to higher cotton prices. In addition, exports of cotton, the country's second major export item, had shown a declining trend due inter alia to production remaining steady and domestic consumption increasing. The volume of jute exports had been significantly lower in 1960/61 on account of a poor harvest. Total imports in 1961 had amounted to approximately PRs.3,051 million as compared with PRs.3,108 in 1960; the level of imports in these years had been well above that in earlier years. The very large trade gap of PRs.1,151 million in 1961, and a deficit of approximately PRs.590.5 million on account of invisible payments in 1960/61, had only been covered by large inflows of foreign aid and, to a smaller extent, by private capital inflows. Pakistan's foreign exchange reserves, which had amounted to approximately PRs.1,170 million at the time of the last consultation in October 1960, had shown a slight decline to a level of PRs.1,133 million at the end of 1961.

7. Members of the Committee noted that export and import forecasts indicated that the trade gap in 1961/62 and in 1962/63 would be more than double that in 1960/61. Moreover, the deficit on invisibles was also expected to be higher. They enquired in this context about possibilities for expanding Pakistan's major exports, and about the reasons for the forecast of practically steady exports in 1961/62 and in 1962/63. The representative of Pakistan explained that his Government would continue its efforts to encourage an increase in exports to the greatest extent possible. It was expected that new measures introduced thus far to diversify and expand exports would bear fruitful results. He pointed out that the area under jute cultivation had been increased and that it was hoped to increase exports of this commodity. It was recognized, however, that an increase in the volume of exports was unlikely to be matched by a similar increase in export earnings. Export prices for jute had already shown a significant decline from the peak reached in March 1961 to an extent that it might be expected that export earnings from jute in the current season would not exceed those of the preceding year and there was even a possibility that there might be a small decline. In these circumstances there was no justification for expecting any significant improvement in export receipts. Similarly, Pakistan was following developments closely in relation to increased export possibilities for cotton and efforts were being made to increase the amount of cotton available for export. At the same time it could be expected that import requirements would increase in connexion with the accelerated pace of economic development under the Second Five-Year Plan.<sup>1</sup>

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<sup>1</sup>A full discussion of the trade-and-payments aspects of Pakistan's Second Five-Year Plan is to be undertaken at a meeting of Committee III in the autumn of 1962.

8. In reply to questions concerning possibilities for bridging the trade deficit, the representative of Pakistan explained that, in any event in the short term, a large share of Pakistan's imports would continue to depend on foreign aid, including commodity aid. The larger part of the payments deficit was expected to be met through financial assistance made available from a Consortium comprising Canada, France, Japan, the Federal Republic of Germany, the United States, the United Kingdom, the IBRD and the International Development Association. He explained that commitments by the Consortium for long-term financial assistance amounted to \$945 million for the period 1961/63, of which approximately \$400 million would be available in 1961/62 and approximately \$540 million in 1962/63.

9. Members of the Committee welcomed the measures taken by Pakistan in recent years for promoting foreign investment. Members of the Committee observed that foreign capital and reinvested profits in approved industrial projects could apparently be repatriated without difficulty and that appreciation of any capital investment, including investment from reinvested profits, was also treated as investment for the purpose of subsequent repatriation. Similarly, current profits could be transferred without restriction to the country of origin of the capital. Some members of the Committee noted, however, that investments by non-residents were subject to approval and wondered whether this requirement might have an inhibiting influence on foreign private investment. They noted in this context that, according to estimates, only a small increase in private foreign investment was expected and enquired about prospects for increased inflows of private investment capital. The representative of Pakistan stated that his Government was aware of the desirability of encouraging private foreign investment. While the estimate of private capital inflows of \$25 million in 1962/63 might appear to be conservative, it would be difficult to predict what the actual capital inflow would be. It was his Government's expectation, nevertheless, that foreign investors would respond favourably to the different measures adopted by the Government for the encouragement of foreign private investment. He explained in this context that the prior approval of such investment was not intended to hinder investment. Prior authorization was required for all major investments simply to ensure balanced growth of the economy, and to avoid the establishment of uneconomic industries.

#### Alternative measures to restore equilibrium

10. The Committee welcomed the measures which the authorities of Pakistan had taken for curbing inflationary pressures and the success achieved in this regard. The Committee noted with satisfaction that the Government's policy continued to be to maintain economic stability while aiming at maximum economic growth. The Committee noted in this connexion that the Second Five-Year Plan was expected to be financed without resort to Government deficit financing and that monetary expansion would be confined to a rate equal to the anticipated increase in gross national product. The Committee expressed the hope that the policy of maintaining monetary stability would give additional scope to the Pakistani authorities for proceeding with import liberalization.

System and method of the restrictions

11. In the discussion of the administration of licensing controls in Pakistan, members of the Committee pointed out that the continued use of 1950/52 as the base period for establishing import quotas had an adverse effect on exporters from countries which during this period had not exported to Pakistan to any significant extent. One member of the Committee considered that the use of this base period made it practically impossible for new importers to establish themselves in the market. The Committee expressed the hope that Pakistan would consider the adoption of a more recent base period for the purpose of allocating import licences. Referring to the report on the last consultation, the representative of Pakistan explained that the period 1950/52 had been chosen as a reference period for allocating import licences due to the fact that following cancellation of the OGL in 1952, imports had had to be restricted. For administrative reasons the Government had not yet found it possible to base allocations on a later representative period. He explained that generally importers, within the limits of their licence allocations, were free to choose sources of supply and that the use of 1950/52 as a base period should consequently not impede imports from countries which in those years had not been significant suppliers of the products concerned, as was, indeed, evident from the present structure of Pakistan's import trade. He would, nevertheless, not fail to bring the views of the Committee regarding this aspect of the licensing system to the attention of his Government.

12. Members of the Committee observed that in the current licensing period no provision had been made for newcomers in the major trading centres to receive new licence allocations. They felt that the exclusion of importers in these centres from new licence allocations, together with the registration requirement, made it extremely difficult for newcomers to set up in the import trade. In reply the representative of Pakistan explained that the requirement of prior registration for engaging in most types of import or export trade was not intended to limit the number of persons in the trade but rather, by requiring certain minimum qualifications, to avoid entry into the trade of persons or firms not adequately equipped to carry on an import or export business. The provisions adopted in successive licensing periods for newcomers to the import trade, including those for applicants from outlying districts, were proof of the Government's desire to avoid undue concentration of the trade in the principal towns and in a few firms. Once a "newcomer" had received a licence allocation he would automatically be granted allocations in subsequent licensing periods. In reply to a further question, the representative of Pakistan explained that the proscription of registration and the issue of licences under OGL to resident nationals of Pakistan and to firms wholly owned by resident Pakistani nationals was a measure designed to establish Pakistan's import trade on a broad and sound basis. He further explained that imports of industrial items by foreign firms under the provisions for imports by industry were not affected by this requirement. It was not therefore a deterrent to foreign investors.

13. With reference to questions concerning imports under OGL, the representative of Pakistan explained that imports under this category were admitted without limitation up to the amount applied for within an overall ceiling on foreign exchange allocations for the different categories of goods included under OGL. In cases where imports of a particular item exceeded this limit, which had been established at a reasonably high level, account being taken of past trends in the imports concerned and of projected import requirements, the authorities might have to consider action to prevent an excessive expansion of such imports, possibly by removing the product concerned from the OGL list. In further discussion of this aspect of Pakistan's licensing control, members of the Committee noted that the allocations for imports under OGL in the foreign exchange budget were not published. While expressing understanding of certain difficulties which might arise from the publication of such information in the administration of licensing controls, members of the Committee expressed the hope that, when reviewing its import control policy, Pakistan would have regard to the relevant provisions of the General Agreement concerning the publication of trade regulations. In clarifying another aspect of the licensing system, the representative of Pakistan explained that since the last consultation a number of items had been placed under automatic licensing. These included items for industrial users and certain essential consumer goods. Under the automatic licensing procedure importers were permitted to request a repeat licence once their initial licence had been utilized. Foreign exchange ceilings applied to products in this category but exercised no restrictive effect on the volume of imports.

14. Members of the Committee recalled that during the last consultation the representative of Pakistan had stated that the Export Bonus Scheme was considered as only a temporary expedient. The relevant extract from his statement is attached as Annex II to this report. The Committee noted that the linking of an export incentive scheme with import permits could have serious disadvantages. Members of the Committee enquired about prospects for the modification of this scheme and for its eventual elimination. The representative of Pakistan explained that the statement made during the last consultation remained valid; his Government did in fact consider the scheme a temporary expedient. On the other hand, it had to be realized that under present circumstances it was of vital importance for Pakistan to encourage exports to the greatest possible extent. Indeed, it was felt that the increasing export consciousness of the business community and the actual improvement in Pakistan's export performance had largely been brought about as a result of the operation of this scheme. For this reason it was scheduled to remain in operation until the end of the Second Five-Year Plan. This did not exclude the possibility of modifications in its operation as had been the case on a number of occasions since the inception of the scheme. The Government was keeping the operation of the Export Bonus Scheme under constant review so as to ensure that the linking of imports to export performance would not have undesirable repercussions on the development of production and trade. Members of the Committee welcomed this statement and expressed the hope that Pakistan would soon find it possible to reduce and then discontinue reliance on the Export Bonus Scheme.

15. Members of the Committee noted that there appeared to be a ban on the import of films in Indian languages and enquired about the reasons and justifications for this restriction. The representative of Pakistan assured the Committee that this restriction was not imposed to protect domestic industry. He undertook to bring this question to the attention of the competent authorities in his country and to communicate further on this subject with the delegations concerned. Members of the Committee also noted that items not on the licensing lists including the items importable through the use of export bonus vouchers, were in effect prohibited. They expressed the hope that the arrangements would be reviewed so as to allow at least token imports of the items affected. Members of the Committee noted the complexity of the present system of import controls and expressed the hope that Pakistan would soon be in a position to simplify the system.

16. In reply to questions concerning imports under bilateral agreements, the representative of Pakistan explained that, except for the agreement with India, Pakistan's bilateral agreements contained no quota provisions of any sort, nor was there any discrimination in favour of imports from bilateral partners. He also explained that barter deals, which had occasionally been undertaken, had only been of a limited nature and scope and that these arrangements were becoming less and less important; to his knowledge no barter deals had been entered into lately. His Government was fully aware of the desirability of conducting trade and payments on a multilateral basis. Members of the Committee welcomed this assurance and expressed the hope that Pakistan would further reduce its reliance on bilateral arrangements including barter arrangements.

#### Effects of the restrictions

17. The Committee welcomed the renewed assurance by the representative of Pakistan that his Government was aware of the possible adverse effects on economic development and productive efficiency of the continued maintenance of restrictions. They noted that the Government would constantly endeavour to minimize the incidental protective effects of the restrictions which were at present still necessary to protect the balance of payments.

#### General

18. The Committee expressed appreciation of the co-operative manner in which the representatives of Pakistan had engaged in the consultation. The Committee congratulated Pakistan on the remarkable progress in expanding industrial production and diversifying exports in the face of very real difficulties. The Committee welcomed the progress made since the last consultation in relaxing import restrictions and the statement of intention by the Pakistani authorities to continue to follow as liberal an import policy as permitted by the foreign exchange reserves. The Committee felt, however, that the system of licensing controls applied by Pakistan continued to be complex and that in certain instances the operation of controls might involve some element of discrimination. The Committee urged Pakistan to review the operation of

the licensing system with a view to simplifying procedures and eliminating any element of discrimination resulting from the licensing system. They also urged Pakistan to explore the possibility of reducing the scope of restrictions. Members of the Committee expressed the hope that Pakistan would find it possible to reduce reliance on bilateral arrangements.

19. The representative of Pakistan thanked the Committee for the sympathetic attitude and the spirit of understanding for the problems faced by Pakistan with which the consultation had been conducted. He assured the Committee that he would not fail to bring the views of the Committee and the suggestions made during the consultation to the attention of his Government.

ANNEX IOpening Statement by the Representative  
of Pakistan

Before proceeding with my statement, I should like to inform the Committee that my Government have always found it of very great interest indeed to appear for consultations before this Committee which has a very full experience of the problems confronting less-developed areas of the world. These consultations are in fact a most refreshing exercise and from them something of use for the consulted country and in the wider interest may usually be calculated to appear. Pakistan were themselves members of the Committee from its inception as a Working Party at that time, until 1958 when we found, very much to our regret, that by reason of other important preoccupations we simply did not have the time or men to spare. Nevertheless, it may be expected for reasons of natural circumstances that the work which is being done here will continue for quite some years, and I am looking forward to the time when we may ask to take part in this work again, apart, of course, from the position which we now have of being a consulted country at two year intervals.

Also before proceeding, I should like to thank the GATT secretariat and the representatives of the International Monetary Fund for the work which has been done in the preparation of the useful and comprehensive documentation now before us, which contains detailed information of various aspects of Pakistan's economic situation and the import restrictions which we have to apply. It is not required of me that I should take the time of the Committee in repeating their contents nor can I add much to them, the more especially because the IMF document is of very recent date; actually it is only about two weeks old, and all I will now say regarding them is that these documents accurately reflect our policy and circumstances. I might, however, try to add some remarks on some aspects not recorded as such in the basic documentation.

Pakistan's earnings of foreign exchange depend vitally and almost entirely on exports of a small number of agricultural and primary commodities. Trade in these products is characterized by uncertainties of production, fluctuations in prices and vicissitudes of demand abroad. To reduce this inherent instability in the economy of the country and to introduce balance, a planned programme of industrialization has been undertaken for over a decade. Progress in this programme has been rapid, although perhaps not as rapid as we would like, and it has resulted not only in self-sufficiency in a wide range of manufactured goods but also in their export which has been showing signs of increase every year in the case of certain important items. Establishment or expansion of only such industries as can earn or save foreign exchange is permitted. Otherwise, the establishment of new industries which require the use of imported raw materials in any appreciable degree is not allowed. Foreign and private investment in industry is encouraged, and of late more stress is being laid on the development of agriculture.

Relevant to some particular matters covered by the basic documentation, it is, of course, almost axiomatic that one problem brings another and also that the solution of one problem brings another. The IMF document records on the top of page 3 that the improved supply position in the case of jute has resulted in a substantial price decline. This has not yet seemed to provide a full answer for the consumer, and the crop has moved very much slower than in the preceding year. The consequent danger arises that the producer, unable to obtain a ready return for his endeavours, may turn to other crops in place of the jute which he cultivated last year. This would result in a reduced area of jute under cultivation and a return to higher prices, complaints from the manufacturer, and perhaps some manufacturers overseas may again shut down, either temporarily or permanently. This, of course, is quite apart from the occurrence of unfavourable natural circumstances and phenomena, to which we are far from being unaccustomed.

What has been recorded by the IMF in the case of our cotton is something which will have become familiar to members of this Committee in their studies of industrial development in less-developed countries in relation to foreign exchange earnings achieved or intended to be achieved by exports. Here the conflict arises between the demand for raw cotton by domestic producers on the one hand and our wish to maintain or to increase an exportable surplus on the other.

It is heartening to read that the food situation has become more comfortable, in obtaining which result our own efforts have had their part although we still have had to rely on our good friends overseas for their very welcome assistance. Our Finance Minister in presenting our budget for the fiscal year 1961-62 stated that the first objective of the Government must be to focus our development policy and efforts and our potential for achieving the capacity for feeding our growing population. There is no doubt that we have the physical resources for doing this in spite of difficult and variable climatic conditions.

The IMF paper speaks of the high rate of growth in the industrial sector which has approximated the rates of growth envisaged in the First and Second Five-Year Plans. Since increased industrial production has as an objective an increased capacity for exports and since this is a ~~Balance-of-Payments Committee~~, concerned with the amelioration or the removal of our ~~balance-of-payments~~ difficulties, it is not out of place for me to emphasize that the extrication of the country from foreign exchange difficulties and the rebuilding of foreign exchange reserves, which we are all glad has been achieved in substantial measure, must remain in our eyes a secondary objective, taking its essential priority after that which I have mentioned of arranging the conditions under which we are enabled to feed our people from our own resources.

As a third basic objective, the Government has consistently sought to restore the confidence of industrial investors and to establish the good name and reputation of Pakistan, both at home and abroad. The degree of our success

may appear from statistics of new foreign investment which during the past two years have amounted to something like Rs. 30 crores out of a total of Rs. 50.64 crores of investment proposals approved by the Investment Promotion Bureau.

In the matter of monetary developments our approach regarding necessary monetary expansion needs to be cautious but flexible. We must make sure that funds are made adequately available to the private sector for a smooth implementation of its expansion plans. Activity must not in any way be retarded for lack of funds or purchasing power. We need, however, move with caution for two reasons. Firstly, the economy has just found some relief from inflationary pressures. Secondly, with the introduction of liberal economic policies the economy has become more open. If any pressures develop again, they will be reflected in the balance-of-payments situation and would cause drain on foreign exchange reserves. With the absence of domestic price control and with the operation of a liberal import policy, monetary pressures are likely to work themselves off through a rise in imports and increased domestic consumption of exportable goods. We have to be careful that whatever we do will not endanger our progress towards a free economy. In short, our economic policies need to be framed recognizing the fact that our paramount need is to create conditions conducive to the maximum rate of economic growth in the framework of monetary stability and freedom from controls.

I have spoken of three objectives of the Government. A fourth objective has been to replace our long range planning for economic development on a sound basis, that would give clear direction to governmental and private endeavours, will minimize waste and misdirection of our efforts and will provide a sound and reliable basis for obtaining and making use of the foreign assistance that we need. It may be said that this objective has been largely served by the Second Five-Year Plan which was approved by the Economic Council a little less than two years ago, the implementation of which is well under way.

I have spoken in this opening statement of a few matters which may interest the Committee. It is, of course, possible to speak of many more, but because the consultation has yet to proceed, I shall about now bring my remarks to an end.

ANNEX II

Extract from the Statement made by the Representative of Pakistan at  
the 1960 Consultation under Article XVIII:12(b)

(Reference: paragraph 14 of the present report)

... "Nevertheless, whatever the overall improvement the situation is that this Scheme can at best be considered as a temporary expedient. A real and lasting improvement, in our view, can take place only by raising the exportable surplus of our agricultural products and by increasing the competitive efficiency of our industries. Our exports of manufactured goods have shown a substantial rise in recent months, but in so far as the increase has been due to the incentive provided by the Export Bonus Scheme it is only a rather short-term gain. Larger exports of manufactured goods under artificial stimuli have not led my Government to believe that our domestic industry has secured a firm basis in the international market. Also, improvement in the productive efficiency of our industries depends on the extent to which they can stand world competition without the support of such devices as the Export Bonus Scheme. A careful study of cost structure is, therefore, of paramount importance. It would be quite suicidal on the part of manufacturers to remain complacent about the urgent need for improving their productive efficiency. The growth of industries in a highly sheltered market is certainly not a sure sign of economic strength. Sooner or later these industries will have to face world competition and that will be the time when they will have to meet the moment of truth. They can hold on to their gains only if they give sufficient attention to the rationalization of the cost of structure and to improvement in the quality of their products."

