

GENERAL AGREEMENT ON

RESTRICTED

BOP/273

6 October 1987

TARIFFS AND TRADE

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original: English

1987 CONSULTATION UNDER ARTICLE XVIII:12(B)
WITH PAKISTAN

Statement submitted by Pakistan under
Simplified Consultation Procedures

Attached is the statement provided by Pakistan.

CONSULTATIONS ON RESTRICTIVE IMPORT
MEASURES TAKEN FOR BALANCE-OF-PAYMENTS
PURPOSES - PAKISTAN

A table depicting Pakistan's Balance of Payments from 1975-76 to 1985-86 is placed at Annex I to this statement.

2. Although the Balance of Payments eased considerably during 1985-86, the position remains vulnerable to a host of adverse factors. There remains a large imbalance between exports and imports, and export earnings continue to rely heavily on a few agricultur based commodities which are prone to adverse climatic conditions as well as international factors such as the sharp falls in the prices of these commodities. Similarly, remittances from Pakistani workers abroad have also seen the effect of decline in economic activity in the oil exporting countries where the bulk of these remittances originates. In addition, a large proportion of Pakistan's manufactured exports consisting of cotton based textiles remains constrained by restrictions on these exports maintained in major export markets.

OVERALL POSITION

3. The pressure on the country's Balance of Payments which developed in 1983-84 and further intensified during 1984-85 eased in 1985-86. The improvement in payments position, which occurred notwithstanding deterioration in terms of trade, growing protectionist tendencies in developed

countries and slow growth in world trade was attributable mainly to a contraction of trade balance and a rise in home remittances. Value of exports increased due entirely to an increase in the volume of almost all major export items although average export prices of country's major export items declined. Value of imports, on the other hand, declined largely as a result of lower imports of petroleum and petroleum products, tea and vegetable oils due primarily to lower world prices. The export unit value index (adjusted for changes in Pak-rupee/U.S.dollar rate) recorded a decline of 10.3% , while import unit value index showed a fall of 6.6%, resulting in a deterioration of 3.9% in the terms of trade.

EXPORTS:

4. A table showing the composition of exports since 1975-76 is placed at Annex II.

5. The aggregate value of exports (fob) rose to \$ 3,072.8 million during 1985-86 from \$ 2,504.1 million in 1984-85, depicting a rise of 22.7% in contrast to a fall of 9.6% during 1984-85. The overall growth in the value of exports was attributable mainly to perceptible increases in exports of raw cotton, rice, cotton yarn and thread, leather, cotton fabrics, carpets and rugs and a number of small export items, grouped under 'other exports'.

6. The commodity-wise analysis of major exports indicates that raw cotton figured prominently among the items recording increases during 1985-86, export of which went up sharply by 78.4%, from \$ 288.0 million in 1984-85 to \$ 513.7 million in 1985-86, on account of a marked increase of almost 143% in the export volume, although the average export price showed a decline of 26.5%. The value of export of rice increased to \$ 342.5 million during 1985-86, depicting a growth of 55.5% in sharp contrast to a fall of 47.8% in the preceding year. This improvement resulted entirely from the higher quantum of exports (from 719 thousand tonnes to 1316 thousand tonnes) as the average export price of rice (other varieties) recorded a fall. While the rise in the value of exports of 'carpets and rugs' (+ \$ 32.9 million to \$ 166.8 million), cotton yarn and thread (+ \$ 16.5 million to \$ 283.3 million) and cotton fabrics (+ \$ 9.1 million to \$ 314.9 million) emanated from larger volume of exports as the average export prices declined. The rise in the value of exports of leather (+ \$ 26.4 million to \$ 179.7 million) and guar and guar products (+ \$ 5.0 million to \$ 27.5 million) occurred on account of both larger volume and higher average export prices.

IMPORTS

7. The value of merchandise imports (cif), aggregated to \$ 5,635.1 million

during 1985-86, depicting a fall of 4.8% as against a rise of 4.0% during 1984-85. The overall decline in the value of imports during 1985-86 resulted largely from lower imports of petroleum and petroleum products, tea and vegetable oils which more than offset the rise in the value of imports, notably of transport equipment, machinery (both electrical and non-electrical) and wheat.

8. The item-wise break-up of imports indicates that the value of imports of tea, petroleum and petroleum products and animal tallow declined by 41.7% to \$ 134.8 million, 27.6% to \$ 1,039.4 million and 27.3% to \$ 40.4 million respectively during 1985-86. The fall in the import values of all these items occurred under the combined impact of both the reduced volume and lower average import prices. The value of imports of vegetable oils fell by 17.2% to \$ 379.8 million due entirely to lower average import prices which more than offset the rise on account of enlarged volume of imports. Imports of non-ferrous metals came down by 13.3% to \$ 53.4 million while that of iron and steel by 2.3% to \$ 206.5 million due entirely to reduced volume of imports which more than offset the rise on account of higher average import prices. On the other hand, the value of imports of wheat went up by 61.3% to \$ 292.5 million, while that of iron and

steel scrap by 60.2% to \$ 18.1 million exclusively on account of larger quantum of imports which was only partly neutralized by lower average import prices. Imports of electrical machinery, transport equipment and machinery (non-electrical) also rose by 18.2% to \$ 193.0 million, 10.4% to 568.7 million and 4.6% to \$ 926.6 million respectively during 1985-86.

TERMS OF TRADE

9. The terms of trade, as adjusted for changes in Pak-rupee/US dollar rate, which had registered a decline in 1984-85, deteriorated further during the year under report. The terms of trade index (1980-81=100) came down to 89.79 during 1985-86 from 93.47 in 1984-85, reflecting a deterioration of 3.9%. This was attributable to the fall of 10.3% in the export unit value index compared with a decline of 6.6% in the import unit value index. The fall in the export unit value index reflected largely lower average export prices of cotton (- 26.5%), petroleum and petroleum products (-23.0%), rice other varieties (-21.9%), cotton yarn and thread (-15.2%), footwear (-12.0%), carpets and rugs (-4.0%) and cotton fabrics (-2.3%), whereas the lower import unit value index depicted reduced average import prices of tea (- 40.9%), edible oils (-33.3%), animal tallow (-23.6%), wheat (- 17.2%) and petroleum and petroleum products (- 19.4%).

INVISIBLE EARNINGS
AND PAYMENTS

10. Both invisible earnings and payments increased during 1985-86. While invisible earnings rose by \$ 145 million (+ 4.0%) to \$ 3,774 million, invisible payments went up by \$ 172 million (+ 9.8%) to \$ 1,929 million. The rise in earnings resulted from higher receipts on account of both 'private unrequited transfers' and 'services'. Receipts under 'private unrequited transfers' which represent largely the remittances by Pakistanis working abroad rose by 4.7% to \$ 2,814 million accounting for 74.6% of the total invisible earnings. Receipts from services moved up by 2% to \$ 160 million due to higher receipts under 'other transportation' (+ \$ 31 million), 'other goods, services and income' (+ \$ 20 million) and 'travel' (+ \$ 12 million), partly offset by a decline under 'investment income' (- \$ 44 million). Payments under all items of service transactions excepting 'travel', which showed a fall of \$ 28 million (or 14.1%), recorded increases of varying magnitudes but the rise was particularly pronounced in the case of 'investment income' (+ \$ 121 million) reflecting largely interest payments, 'other goods, services and income' (+ \$ 44 million) and 'shipment' (+ \$ 22 million).

CAPITAL TRANSAC-
TIONS

11. The net inflow under capital transactions

increased from \$ 282 million in 1984-85 to \$ 1215 million during 1985-86 recording a surplus of \$ 933 million. The net inflow under private long-term capital, comprising direct investment and utilization/repayments of foreign loans including PAYE credits, went up by \$ 315 million. Of this, net inflow under direct investment, however, rose to \$ 43 million, while the net utilization of loans/credits increased by \$ 272 million. The net inflow under private short-term capital (other than direct investment) consisting mainly of transactions under the "Foreign Currency Accounts Scheme" went up sharply from deficit of \$ 16 million to surplus \$ 514 million. Long-term loans received by the 'general government' sector moved up from \$ 606 million to \$886 million and their repayments also increased from \$ 449 million to \$ 524 million.

SYSTEM AND METHOD
OF REGULATING
IMPORTS

12. The basic change brought about in the format of import system in 1983-84 has been continued and further simplification /liberalization measures have been put in place.

13. The Import Policy Order lays down basic guidelines for imports into the country. The Order divides imports into two main categories: Prohibited imports and Restricted imports.

14. The items prohibited for import are contained in a Negative List which consists of the following categories:-

- (i) Items banned for religious or security reasons.
- (ii) Items banned for protective reasons.
- (iii) Luxury consumer goods.

15. The restricted list comprises the following:-

- (i) Items importable by public sector only.
- (ii) Items importable exclusively under loan, credit or barter.
- (iii) Items import of which is subject to quantitative restrictions.(This list has now been curtailed to only 4 items.).

16. All the items not appearing in either the negative or restricted lists are freely importable against licenses issued to importers registered as such under the Registration (Importers and Exporters) Order 1952 and are subject to a fee of 2% of the value of license payable at the time of issue.

17. Effective from 1st July,1987, a further fundamental change has been brought about in Pakistan's trade policy in that the new Policy will be valid for a period of three years as against the past

practice of policies announced on a year-by-year basis. The measure has been designed to promote certainty and predictability for trade.

MEASURES TAKEN
SINCE LAST CONSUL-
TATIONS TO LIBERALISE
AND FACILITATE
TRADE

18. Despite the difficult Balance of Payments position and restrictions encountered by Pakistan's major exports, the country has continued to simplify and liberalise its import regime. A list of measures adopted since the last Balance of Payments consultations is given below:-

1985-86

- (i) Following three items were removed from the negative list and were made importable: (a) carbon fibre by hockey stick manufacturers; (b) components of trailers above 20 tons through public sector assemblers only; and (c) small agricultural tractors of 7-15 H.P. in CBU condition after inclusion in the standardised list of importable tractors.
- (ii) The value restriction of Rs.2.5 million for the import of machinery and millwork by the commercial importers subject to the value restriction of Rs.0.25 million per unit of machinery or spares was

raised to Rs.4.0 million and Rs.0.50 million respectively.

- (iii) In order to promote technological development of agriculture, the value restriction of Rs.0.25 million per unit for import of a green house was increased to Rs.1.0 million.
- (iv) The aggregate CIF value of Rs.2,000 per annum for import of bonafide samples of articles without involving any foreign exchange or import authorisation was raised to Rs.3,000.
- (v) The condition of restricting import licences of industrial consumers to one source was dispensed with.
- (vi) The administration of textile quota which was the sole responsibility of the Export Promotion Bureau was handed over to the respective associations of manufacturers.
- (vii) For BMR purposes preparatory/spinning sections and weaving/finishing sections were treated as separate units and each would now be entitled to BMR licences upto the prescribed ceiling independently.
- (viii) In order to promote mining industry,

the item of mine steel rail was added to the list of importable mining equipments.

During the year certain adjustments/changes were made in the import policy notable of which were as follows:

- (i) Effective from 4th February, 1986 the minimum margin requirement for opening letters of credit for import of sugar was withdrawn.
- (ii) The price and import controls on edible oils were lifted with effect from 6th April, 1986.
- (iii) THE EXPORT COMPENSATORY REBATE SCHEME, INTRODUCED IN 1978, WAS ABOLISHED WITH EFFECT FROM 29TH MAY, 1986.

1986-87

- (i) 9 items which were previously banned for import were allowed to be imported: two barrel blanks for recoilless rifles, recorded magnetic tapes and video tapes, crepe and medicated bandages, canned food and fruits for diabetic patients, pearl essence synthetic turf for hockey fields, aquarium fish and TV

- equipment and spares required by T.V.
- (ii) All type of fertilizer was made importable by the private sector by removal of this item from the restricted list.
- (iii) The textile mills were divided into three categories instead of two for the purpose of BMR and the ceiling has been fixed between the range of Rs.5 million to Rs.50 million.
- (iv) The monetary ceiling of Rs.5 million for import of machinery under BMR was enhanced to Rs.10 million for import under BMR by the leather tanning industry.
- (v) The restriction on 3 items was relaxed in order to facilitate their imports to various sectors. These are black steel pipes and tubes, scientific instruments and electro medical apparatus and appliances.

1987-90

- (i) The import regime has been further liberalised by lifting ban on import of another 136 items. The list of such items includes wrought plates and sheets, rayon yarn, tyres and tubes,

chemicals and other raw materials.

(ii) IMPORT OF COTTON YARN HAS BEEN ALLOWED
FREE OF IMPORT DUTY.

(iii) Import of milk food for infants and
invalids has been allowed without any
quantitative restriction.

(iv) Value of ceilings for import of machinery
has been relaxed as follows:

(a) limit on import of machinery for
balancing, modernization and replacement
has been doubled;

(b) limit for value of import of machinery
by commercial importers has also
been raised from Rs.4 million to
Rs.10 million; and

(c) henceforth there will be no limit
on import of machinery against foreign
credits.

19. Despite favourable trends in the current
account in 1985-86, the long term balance of payments
position remains under pressure. In 1985-86, the
debt service ratio was 16.3% of exports of goods and
services, which is significantly higher than the
ratio of 12.3% for developing countries of Asia.

20. Nevertheless, the year 1985-86 witnessed
further liberalisation of the economy as a number of controls

were removed and structural reforms introduced. The measures taken by the Government included the removal of almost all controls on edible oil industry, price and distribution controls on urea and other nitrogenous fertilizers, transfer of management of textile export quotas to trade associations, replacement of monopoly procurement of Basmati paddy with a voluntary one, and removal of ban on the movement of paddy within the country.

PAKISTAN: SUMMARY BALANCE OF PAYMENTS

(Million U.S. Dollar)

ITEMS	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Trade Balance	- 977	-1,286	-1,469	-2,172	-2,516	-2,764	-3,450	-2,989	-3,324	-3,552	-2,990
Exports f.o.b.	1,162	1,132	1,283	1,644	2,341	2,799	2,319	2,627	2,669	2,457	2,939
Imports f.o.b.	-2,139	-2,418	-2,751	-3,816	-4,857	-5,563	-5,769	-5,616	-5,993	-6,009	-5,929
Services (Net)	- 324	- 356	- 362	- 438	- 519	- 515	- 496	- 609	- 717	- 815	- 963
Receipts	297	306	399	509	667	745	864	904	975	941	960
Payments	- 621	- 661	- 760	- 948	-1,186	-1,260	-1,360	-1,513	-1,692	-1,756	-1,923
Freight and Insurance	(-201)	(-229)	(-288)	(-338)	(-430)	(-494)	(-511)	(-490)	(-525)	(-522)	(-544)
Investment Income	(-173)	(-202)	(-215)	(-279)	(-333)	(-356)	(-450)	(-541)	(-638)	(-661)	(-782)
Others	(-246)	(-231)	(-258)	(-331)	(-423)	(-410)	(-399)	(-482)	(-529)	(-573)	(-597)
Private Unrequited Transfers (Net)	353	590	1,226	1,496	1,895	2,242	2,412	3,081	3,044	2,687	2,808
Current Account Balance	- 948	-1,051	- 605	-1,114	-1,140	-1,037	-1,534	- 517	- 997	-1,680	-1,145
Long-term Capital (Net)	568	607	742	652	1,058	849	927	931	702	834	1,166
Private Capital (Net)	139	107	108	123	139	208	326	397	162	306	372
Official Capital (Net)	428	500	633	528	919	641	601	534	540	528	794
Allocation of SDRs	-	-	-	38	39	37	-	-	-	-	-
Basic Balance	- 389	- 444	137	- 424	- 43	- 151	- 607	414	- 295	- 846	21
Errors and Omissions (Net)	47	110	..	23	50	27	22	296	97	- 229	410
Balance Requiring Official Financing	- 334	- 334	137	- 401	8	- 124	- 585	710	- 198	-1,075	431
Official Borrowings	313	82	178	215	445	169	4	- 12	112	58	16
Official Short-term Capital (Net)	-47	- 79	109	134	34	153	- 6	- 50	84	33	9
Balance of Payments Borrowings	360	161	69	81	410	16	10	38	28	25	25
IMF Trust Fund	(-)	(-)	(48)	(71)	(157)	(16)	(-)	(-)	(-)	(-)	(-)
Others	(360)	(161)	(21)	(10)	(253)	(-)	(10)	(38)	(28)	(25)	(25)
Net Official Reserves (Increase-)	20	252	- 315	185	- 453	- 45	580	- 698	86	1,017	- 447

@Includes Official Unrequited Transfers

*Include Private Short-term Capital and Non-monetary Gold

ANNEX II

PAKISTAN: COMPOSITION OF EXPORTS

(Value in Million U.S. \$)

ITEMS	1975-76		1976-77		1977-78		1978-79		1979-80	
	Quantity	Value								
1. Rice (000 MT)	782	250.4	945	250.3	879	243.3	1,015	341.4	1,087	422.2
2. Raw Cotton (000 MT)	113	99.0	18	29.5	101	111.3	55	66.2	251	335.5
3. Cotton Yarn and Thread (Million Kgs.)	112.1	147.7	68.1	122.7	62.2	114.2	99.5	203.4	102.0	212.9
4. Cotton Fabrics (Million Sqm.)	463.8	137.3	416.8	161.9	453.5	175.9	531.8	215.7	545.8	244.1
5. Leather (Million Sqm.)	4.3	60.2	8.5	65.4	8.7	64.3	12.7	126.0	10.2	127.7
6. Carpets & Rugs (000 Sqm.)	1,986	72.6	2,083	92.1	1,943	118.3	2,499	178.3	2,731	222.0
7. Fish & Fish Preparations (Million Kgs.)	11.5	28.2	14.3	38.5	13.4	34.5	13.6	46.7	13.2	53.6
8. Petroleum and Petroleum Products (000 MT)	323	19.4	291	27.1	759	63.2	681	61.4	1,037	178.2
9. Guar & Guar Products (000 MT)	91	19.9	82	18.4	89	20.5	110	27.4	85	33.6
10. Raw Wool (Million Kgs.)	4.5	6.7	4.2	7.7	4.9	7.4	5.3	10.1	4.2	8.9
11. Footwear (Million Pairs)	7.1	6.7	9.3	9.0	6.6	7.2	8.0	9.8	8.0	10.7
12. Tobacco-Raw & Manufactured	N.A.	16.2	N.A.	16.5	N.A.	12.7	N.A.	10.2	N.A.	8.1
13. Sports Goods	N.A.	19.1	N.A.	20.1	N.A.	19.7	N.A.	21.4	N.A.	24.7
14. Surgical Instruments	N.A.	13.3	N.A.	13.5	N.A.	16.2	N.A.	21.3	N.A.	24.3
15. Others	N.A.	240.0	N.A.	267.9	N.A.	302.6	N.A.	370.4	N.A.	458.2
Total:		1,136.7		1,140.8		1,311.2		1,709.6		2,364.7

(Value in Million U.S. \$)

ITEMS	1980-81		1981-82		1982-83		1983-84		1984-85		1985-86	
	Quantity	Value										
1. Rice (000 MT)	1,244	565.8	951	391.1	905	289.8	1,265	421.9	719	220.2	1,316	342.5
2. Raw Cotton (000 MT)	325	525.6	231	278.4	255	306.7	98	131.4	263	288.0	639	513.7
3. Cotton Yarn and Thread (Million Kgs.)	98.5	217.2	98.1	204.3	137.7	260.4	103.6	226.0	127.2	266.8	159.1	283.3
4. Cotton Fabrics (Million Sqm.)	500.9	241.4	584.4	279.4	605.3	281.7	664.4	360.2	687.7	305.8	727.4	314.9
5. Leather (Million Sqm.)	8.8	90.1	11.0	109.2	10.7	94.0	16.6	146.2	15.7	153.3	17.7	179.7
6. Carpets & Rugs (000 Sqm.)	2,548	226.5	1,932	159.0	2,229	150.5	4,690	172.3	2,073	133.9	2,690	166.8
7. Fish & Fish Preparations (Million Kgs.)	19.7	56.5	18.2	74.8	16.6	70.6	27.6	74.7	36.3	81.2	35.9	82.7
8. Petroleum and Petroleum Products (000 MT)	1,005	169.2	1,002	194.0	363	77.6	185	40.3	149	34.6	175	31.4
9. Guar & Guar Products (000 MT)	49	28.9	56	28.9	63	22.6	79	23.9	67	22.5	73	27.5
10. Raw Wool (Million Kgs.)	2.7	5.1	5.8	10.6	7.1	13.3	8.3	12.7	10.8	17.2	9.8	17.0
11. Footwear (Million Pairs)	6.7	10.2	6.2	9.4	6.4	11.7	9.6	15.9	6.4	16.4	6.8	15.4
12. Tobacco-Raw and Manufactured	N.A.	5.4	N.A.	10.0	N.A.	9.7	N.A.	10.6	N.A.	10.5	N.A.	12.1
13. Sports Goods	N.A.	31.5	N.A.	30.3	N.A.	34.8	N.A.	49.3	N.A.	44.4	N.A.	48.7
14. Surgical Instruments	N.A.	26.7	N.A.	23.8	N.A.	22.6	N.A.	31.9	N.A.	51.0	N.A.	52.2
15. Others	N.A.	757.4	N.A.	685.8	N.A.	1,064.6	N.A.	1,052.0	N.A.	858.3	N.A.	984.9
Total:		2,957.5		2,489.0		2,710.6		2,769.3		2,504.1		3,072.8

R—Revised