GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

BOP/288
30 March 1989

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original: English

1989 CONSULTATION UNDER ARTICLE XVIII:12(B) WITH PAKISTAN

Basic Document for the Consultations[1]

Attached is the basic document provided by Pakistan for the consultations.

[1]Material supplied by the Pakistan authorities.

89-0415

1989 Consultations under Article XVIII:12(b) With Pakistan

Basic Document for Consultations

SECTION I

Balance of Payments - Position and Prospects

(A) STATE OF THE ECONOMY

A country of over 100 million people and a population growth of about 3 per cent per annum, Pakistan experienced a relatively satisfactory economic performance in recent years. Since the beginning of the decade, its economy grew at an annual average rate of more than 7% with agriculture growing at 3.7 per cent and manufacturing at 8.9 per cent. During the same period, rise in the consumer price index decreased from 9% in the beginning of the period to 5% in 1986-87. However, the real per capita income remains low and the total national savings averaged only 13 per cent of the GNP during the period.

2. During 1987-88, the GDP grew at 5.8% despite the fact that production in agriculture was affected by unfavourable weather conditions. Agriculture grew at 4.5% and manufacturing at 7.6%. Consumer price index registered an increase of 6.3%.

(B) BALANCE OF PAYMENTS

3. The table at Annex I gives a detailed account of Pakistan's balance of payments since 1980-81. The position has generally remained under severe pressure. The current account has experienced consistent deficits. It 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

agricultural commodities which are prone to adverse climatic conditions as well as international factors such as the fall in the prices of these commodities. A large proportion of manufactured exports consists of cotton-based textiles which remain constrained by restrictions in major export markets. Remittances from Pakistanis working abroad have also witnessed a constant decline due largely to the deceleration of economic activity in the oil exporting countries of the Middle East where the bulk of these remittances orginiates.

4. The developments in the main categories of the Balance of Payments are discussed below:

(a) Current Account:

5. The current account of the balance of payments showed wide fluctuations over the period. The deficit widened from 3.2% of GNP in 1980-81 to 4.9% in 1981-82 mainly as a result of weak demand for exports due to the world recession. Although in 1982-83 it was reduced to 1.8% of GNP, the position weakened in 1983-84 and, in 1984-85, the current account deficit widened to 5% of the GNP. The major factors underlying this deterioration were a severe drought in Pakistan which resulted in lower cotton and rice exports and a decline in workers' remittances. In 1985-86, the deficit again declined to 3.5% of GNP with a further improvement in 1986-87 when the deficit amounted to 2% of GNP. However, in 1987-88 the deficit on current account again doubled to almost 4% of GNP: this despite a strong export performance. The major factors contributing to this deterioration were the surge in imports and larger net service payments.

6. In value terms, the current account deficit has ranged between $ 1.0 billion and $ 1.7 billion. Though

the deficit touched a record level of $ 1.68 billion in 1984-85, it declined to $ 0.719 billion in 1986-87. However, in 1987-88, it again increased to $ 1.59 billion.

(i) Trade Balance

7. There continues to be a large imbalance between exports and imports. Two primary commodities account for a large proportion of export earnings, and receipts from these sources have been subject to substantial fluctuations due to climatic factors domestically and price volatility internationally. Moreover, a large proportion of manufactured exports consists of cotton-based textiles which remain constrained by protectionist measures taken by the major importing countries. The depressed international prices for raw cotton, because of agricultural policies of some developed countries, also contribute to lower earnings from cotton-based manufactures.

8. Pakistan's export profile is indicated in the statement at Annex II.

9. Although exports have grown significantly since 1985-86, with dollar value of total exports growing by an average of 20 per cent, Pakistan faces a number of significant impediments to its exports. With the intensification of restrictions in the European Community market, a further five categories of textiles exports have been placed under quota restriction since 1987. Pakistan's exports to the United States have also come under increased restrictions. Under the new bilateral agreement signed in 1986, the coverage of restrictions has been extended to synthetic as well as cotton textiles with an aggregate cap on overall exports. Restrictions in the other import

markets have also increased. In addition, the exports of rice and cotton have been faced with price distortions mainly due to the support and trade policies pursued by a number of developed countries. Finally, Pakistan also faces limits on its exports of leather and fish products in a number of foreign markets.

10. On the import side, the sharp declines in world prices for crude oil and petroleum products contributed to a slackening of increase in the overall import bill. That notwithstanding, the non-oil imports, which rose by 4 per cent on average over 1984-85 and 1985-86, continued to increase in 1986-87 despite lower import prices for edible oil and fertilizers.

11. Total import value increased by almost 18 per cent in 1987-88. While the strengthening of world oil prices was a contributing factor, an estimated increase of about 17 per cent in non-oil import volume was the major factor accounting for the acceleration in import payments in 1987-88.

(ii) Invisible Earnings and Payments

12. The deficit on the invisible services account has also increased steadily. After a short reversal in 1986-87, it increased to $ 1.3 billion in 1987-88 from a mere $ 0.515 billion in 1980-81. From 1983-84, services payments grew at an average annual rate of 8 per cent while growth of total receipts averaged around 1 per cent a year.

13. Private transfers which mainly consist of the remittances from Pakistani workers abroad have constituted a major source of foreign exchange earnings. However,

after having peaked to $ 3.08 billion in 1982-83 they have witnessed a continuing decline and stood at only $ 2.297 billion in 1987-88. The decline reflects mainly the slackening of economic activity in major oil exporting countries of the Middle East. In the coming years, earnings from workers remittances are expected to come under further pressure.

(b) Capital Account and Foreign Exchange Reserves

14. The flow of foreign aid and loans, a large source of financing the current account deficit, has also been erratic. Consequently, there has been an increased recourse to the draw down of foreign exchange reserves. The Country's foreign exchange reserves which were at one point of time able to finance about 18 weeks of imports have decreased sharply and can now finance only about four weeks of imports.

(c) Debt service ratio

15. Pakistan's medium and long-term external debt (disbursed and outstanding - payable in foreign currencies) as on 30th June, 1988 stood at $12.6 billion. As a ratio of GNP it amounted to 30.9 per cent in 1987-88. In relation to total current account receipts, debt service payments increased from 20% in 1981-82 to 30.4% in 1987-88.

PROSPECTS

16. Due to the inherent weaknesses in Pakistan's balance of payments, a sustained effort would be required to maintain a viable external position. The major weaknesses derive from a large trade deficit, heavy dependence on exports from cotton-based products whose expansion is vulnerable to international commodity prices on the one hand and sustained protectionist measures in the industrialised countries on the other, a narrow base of non-traditional exports, and the declining trend in the flow of remittances from workers abroad. Consequently, the pressure on balance of payments is expected to persist. Debt service on past borrowings shall increase. The recent relief fro lower prices of imported oil has already proved transitory as

international oil prices have recovered. All this would require prudent management of the balance of payments.

SECTION II

TRADE POLICY

17. Trade policy is an integral component of Pakistan's national economic policies. It is formulated within the framework of national cbjectives of improving the living conditions of the people, attaining sustained economic growth and development of a self-reliant economy. It aims basically at greater mobilization of external resources through export of goods and utilization of scarce foreign exchange resources on imports in accordance with national priorities.

18. The import policy has been basically designed to promote industrialization by fuller use of existing industrial capacity, modernizing agriculture, creating greater employment opportunities and ensuring availability of essential consumer and capital goods and raw materials. The policy aims at simplifying and improving rules and regulations governing imports. However, to contain external account deficits, the Government has been obliged to maintain some import restrictions.

IMPORT REGIME

(a) Legal and Administrative basis of the import restrictions

19. The basic legal instrument for regulating imports is the Imports and Exports (Control) Act, 1950. Deriving its powers from the Act, Federal Government issues the Import Policy Order which is published in the official gazette of Pakistan, and is available to the general public.

(b) Methods used in restricting imports

20. A basic change was brought about in the format of the import policy in 1983-84 and this has been continued with further simplifications/ liberalization measures. Before 1983-84, the import system specified the list of permissible imports. From 1983-84, it was changed to the 'negative list' system by which the items not appearing in the negative, i.e., prohibited, list were made importable. This policy change was designed to increase the transparency of the import regime.

21. The Import Policy Order lays down basic guidelines for imports into the country. The Order specifies two main lists of the items: Prohibited imports and Restricted imports. All the items not appearing in either the prohibited or restricted lists are freely importable against licences issued to registered importers.

22. The items prohibited for import are contained in a Negative List which now consists of only 240 items. The restricted list comprises the following:-

(i) Items importable by public sector only.

(ii) Items importable by industrial consumers.

(iii) Items importable from specific source under loans, credits and barter.

(iv) Items import of which is subject to quantitative restrictions. (This list has now been curtailed to only 5 items).

23. The actual administration of import system is carried out by the office of the Chief Controller of Imports and Exports, a department of the Federal Ministry of Commerce. Headquartered in Islamabad, the Department has eleven offices spread throughout the country. Import licences are issued by these offices upon application in accordance with provisions of the import policy.

24. Over the years, efforts have been made to simplify and streamline the import licensing procedure so that, at present, the issue of licences has become extremely simple, almost automatic. Licence forms are available with all bank branches undertaking international banking, and import licences are issued within 24 hours of submission at any office of the Department.

(c) Treatment of imports from different sources

25. Import licences are valid for import from any country having trade relations with Pakistan. The restricti where applied, are on a non-discriminatory basis. The Government does not compel importers to buy from any partic source. However, Pakistan maintains bilateral trade agreeme with China, Hungary, Poland, Bulgaria, Czechoslovakia, USSR and Iran.

(d) State trading

26. Imports of certain items like maize, coal and coke petroleum products and certain raw materials are made through public sector agencies such as Trading Corporation of Pakistan, agencies of Ministry of Food and Agriculture and Industrial Units under the Ministry of Production. The policy of channeling such imports through designated public sector agencies has been evolved with a view to effecting economical imports. These purchases are guided by normal commercial considerations on a non-discriminatory basis and are not designed to restrict imports per se.

(e) Measures taken since the last consultation in relaxing or otherwise modifying import restrictions

27. Eversince the last full consultations under

Article XVIII:12(b), and consistent with the objective of simplifying and liberalizing the trade regime, measures to modify the import restrictions have been adopted by Pakistan as a constant feature of its policy. A chronology of major improvements since 1983-84 is given hereunder:

1983-84

- A basic change was brought about in the format of the import system, the negative/restrictive list system was adopted in place of the positive list system.
- 122 new items were made importable.
- Import of sugar and fertilizer (non-nitrogenous) hitherto channelised through the public sector was opened for the private sector also.
- 15 items previously importable from specified sources were made freely importable.
- Quantative restrictions were removed from 17 consumer items.

1984-85

- 44 further items were removed from the negative/restricted list and made freely importable.

1985-86

- Three items were removed from the negative list and were made importable.
- The Export Compensatory Rebate Scheme, introduced in 1978, was abolished with effect from 29 May 1986.

1986-87

- Nine further items which were previously banned for import were made importable.
- Restriction on three items was relaxed in order to facilitate their import to various sectors.
- 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.

1987-88

- The import regime was further liberalised by lifting the ban on the import of another 136 items.

- The import of cotton yarn was allowed free of import duty.

- Two items were removed from the list of items subject to quantitative restrictions.

1988-89

- The classification of imports was changed to the Harmonized Commodity Description and Coding System with a view to improving the transparency of the import regim

- 213 further items were removed from the negative/restric list and made freely importable.

- The time limit of opening of letter of credit has been enhanced from 60 days to 180 days.

(f) Effects of Import Restrictions on Trade

28. The effects of import restrictions on trade may be guaged from the following table:

PAKISTAN: BALANCE OF TRADE

(Million U.S. Dollars)

Year	Exports	% varia-tion	Imports	% varia-tion	Balance of Trade	% va tion
1980-81	2,957.5		5,408.5		(-) 2,451.0	
1981-82	2,489.0	- 15.84	5,635.7	+ 4.20	(-) 3,146.7	+
1982-83	2,710.6	+ 8.90	5,363.6	- 4.82	(-) 2,653.0	-
1983-84	2,769.3	+ 2.17	5,689.1	+ 6.07	(-) 2,919.8	+
1984-85	2,504.1	- 9.58	5,919.4	+ 4.05	(-) 3,415.3	+
1985-86	3,072.8	+ 22.70	5,635.1	- 4.80	(-) 2,562.3	-
1986-87	3,687.9	+ 20.01	5,380.4	- 4.51	(-) 1,692.5	-
1987-88 (P)	4,457.1	+ 20.86	6,328.5	+ 17.62	(-) 1,871.4	+

Source: State Bank of Pakis

29. The trend in the growth of imports in the above table is somewhat masked by the fact that a substantial port of Pakistan's imports is accounted for by petroleum and

petroleum products, whose prices have been subject to fluctuations over the past years. The trend of growth in Pakistan's non-oil imports has been as follows:

(Million U.S. Dollars)

Year	Total imports	of which		% variation over previous year
		oil imports	Non-oil imports	
1980-81	5,408.5	1,535.3	3,873.2	
1981-82	5,635.7	1,709.8	3,925.9	+ 1.36
1982-83	5,363.6	1,615.7	3,747.9	- 4.53
1983-84	5,689.1	1,421.1	4,268.0	+ 13.88
1984-85	5,919.4	1,434.9	4,484.5	+ 5.06
1985-86	5,635.1	1,039.4	4,595.7	+ 2.48
1986-87	5,380.4	813.6	4,566.8	- 0.62
1987-88(P)	6,328.5	981.3	5,347.2	+ 17.09

(g) General policy in the use of restrictions for BOP purposes:

30. Pakistan has consistently upheld and promoted the principles of liberal and open trading system based on the General Agreement. It is in keeping with that general policy that despite serious and prolonged trade imbalances, it has persisted in its efforts to progressively relax restrictions on imports and to simplify the licensing system. However, because of the prolonged deficit in its balance of payments, Pakistan is obliged to apply certain restrictions in terms of Article XVIII:B of the General Agreement. These restrictions are applied to contain external account deficits and to ensure that limited foreign exchange resources are utilized to meet the essential needs of a developing economy. Restrictions are also necessitated because of a high debt service ratio. When applied, these are in accordance with the principles outlined in paragraphs 17-18.

31. The external environment is unfavourable to expanding Pakistan's exports, as a large part of its exports faces restrictions in practically all developed country markets. This situation impedes the process of liberalization of import regime.

Annex 1.

PAKISTAN: SUMMARY BALANCE OF PAYMENTS

(Million U.S. Dollars)

ITEMS	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88 (P)
Trade Balance	−2,764	−3,450	−2,989	−3,324	−3,552	−3,042	−2,294	−2,542
Exports (f.o.b.)	2,799	2,319	2,627	2,669	2,457	2,942	3,498	4,341
Imports (f.o.b.)	−5,563	−5,769	−5,616	−5,993	−6,009	−5,984	−5,792	−6,883
Services (Net)	−515	−496	−609	−717	−815	−1,016	−982	−1,348
Receipts	745	864	904	975	941	963	1,013	939
Payments	−1,260	−1,360	−1,513	−1,692	−1,756	−1,979	−1,995	−2,287
Shipment	(−494)	(−511)	(−490)	(−525)	(−522)	(−543)	(−499)	(−594)
Investment Income	(−356)	(−450)	(−541)	(−638)	(−661)	(−752)	(−787)	(−891)
Others	(−410)	(−399)	(−482)	(−529)	(−573)	(−683)	(−709)	(−802)
Private Unrequited Transfers (Net)	2,242	2,412	3,081	3,044	2,687	2,822	2,557	2,297
Current Account Balance	−1,037	−1,534	−517	−997	−1,680	−1,236	−719	−1,593
Long-term Capital (Net)	849	927	931	702	834	1,223	793	1,227
Private Capital (Net)	208	326	397	162	306	474	286	367
Official Capital (Net)‡	641	601	534	540	528	749	507	860
Allocation of SDRs	37	—	—	—	—	—	—	—
Basic Balance	−151	−607	414	−295	−846	−13	74	−366
Errors and Omissions (Net)*	27	22	296	97	−229	404	105	−58
Balance Requiring Official Financing	−124	−585	710	−198	−1,075	391	179	−424
Official Borrowings	169	4	−12	112	58	43	85	261
Official Short-Term Capital (Net)	153	−6	−50	84	33	18	75	252
Balance of Payments Borrowings	16	10	38	28	25	25	10	9
IMF Trust Fund	(16)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Others (Debt Relief/ Cancellation)	(—)	(10)	(38)	(28)	(25)	(25)	(10)	(9)
Net Official Reserves (Increase −)	−45	580	−698	86	1,017	−434	−264	163

P Provisional

‡ Includes Official Unrequited Transfers

* Includes Private Short-Term Capital and Non Monetary Gold

Source: State Bank of Pakistan.

Annex 2

Pakistan: Export profile

Value in million U.S. Dollars

Sr. No.	Items	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
1.	Rice	565.8	391.1	289.8	421.9	220.2	342.5	299.2	363.9
2.	Raw Cotton	525.6	278.4	306.7	131.4	288.0	513.7	446.8	611.3
3.	Cotton Yarn and thread	217.2	204.3	260.4	226.0	266.8	283.3	510.2	545.3
4.	Cotton Fabrics	241.4	279.4	281.7	360.2	305.8	314.9	345.2	485.2
5.	Leather	90.1	109.2	94.0	146.2	153.3	179.7	237.4	286.4
6.	Carpets & Rugs	226.5	159.0	150.5	172.3	133.9	166.8	200.2	252.6
7.	Fish & Fish Preparations	56.5	74.8	70.6	74.7	81.2	82.7	112.3	124.2
8.	Petroleum and Petroleum Products	169.2	194.0	77.6	40.3	34.6	31.4	25.8	27.2
9.	Guar & Guar Products	28.9	28.9	22.6	23.9	22.5	27.5	33.9	52.5
10.	Textile Clothing and Accessories	75.3	94.1	122.8	162.7	132.7	206.4	355.0	349.8
11.	Hosiery	23.2	28.5	36.5	56.1	42.8	54.7	96.7	134.3
12.	Synthetic textiles (Excl.Tyre Cord Fabrics)	128.5	5.3	94.1	107.7	42.0	49.7	157.0	197.8
13.	Sports Goods	31.5	30.3	34.8	49.3	44.4	48.7	58.2	65.1
14.	Surgical Instruments	26.7	23.8	22.6	31.9	51.0	52.2	55.6	56.7
15.	Others	551.1	587.9	845.9	764.7	684.9	718.6	754.4	904.8
	Total:	2,957.5	2,489.0	2,710.6	2,769.3	2,504.1	3,072.8	3,687.9	4,457.1

Source: State Bank of Pakistan.