GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

BOP/310
5 March 1992

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original: English

# 1991 CONSULTATION WITH PAKISTAN UNDER ARTICLE XVIII:12(b)

## Statement by Pakistan under simplified procedures for Consultations[1]

1. The year 1990-91 has been an eventful and difficult year for Pakistan. The Gulf crisis which resulted from the occupation of Kuwait by Iraq in August 1990 and culminated in the six week Gulf war of January and February 1991, cast deep imprints on Pakistan's economy. Increase in prices of oil and petroleum products and interruption in their supplies coupled with decline in workers' remittance, loss of export markets in the Gulf region and repatriation of Pakistanis from Kuwait, exerted immense pressure on the external balance and budget. Consequently, during the year, the balance-of-payments suffered a loss of seven hundred million dollars; with additional burden on the budget. Increase in consumer prices was also attributable largely to oil price hike and the resultant effect on energy prices and other cost-push factors. That Pakistan has been able not only to sustain its liberal trade and payments régime but also undertake further liberalization measures of a fundamental character, in spite of a severe pressure on its balance-of-payments during this crisis, is a remarkable achievement demonstrating its resolve to more towards completely market oriented economy.

2. Even in the back drop of these events the Gross Domestic Product (GDP) in real terms grew by 5.6 per cent as against 4.6 during the previous year. This growth became possible mainly through agriculture sector which grew by 5.1 per cent followed by 5.7 per cent increase in the manufacturing sector. Fixed investment increased by 16.3 per cent in which private sector had a major share. A notable feature was the growth in exports, which increased by 22 per cent. But for this substantial growth in exports, the pressure on the balance of payments owing to the effects of the Gulf crisis would have been even more pronounced. The current account deficit during the year was at US$1.85 billion in spite of absorbing additional burden of US$700 million.

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[1]Material provided by the authorities of Pakistan.

92-0269

## I. Balance-of-Payments

3. Pakistan's balance-of-payments generally remained under pressure during the years 1989-90 and 1990-91. During the year 1989-90, the current account deficit stood at US$1,891 million as against a deficit of US$1,934 million in 1988-89. The improvement during 1989-90, compared to 1988-89, occurred under the combined impact of contraction in the deficit under Merchandise Account and rise in the net inflow under Private Unrequited Transfers. The deficit under Services Account, however, widened from US$1,461 million in 1988-89 to US$1,616 million during 1989-90 as a result of large increase of US$472 million in payments than of US$317 million in receipts. The deficit under Merchandise Account contracted by 3.4 per cent to US$2,485 million during 1989-90 on account of higher rise of US$292 million in exports (f.o.b) than of US$204 million in imports (f.o.b). The terms of trade (adjusted for changes in Pak rupee/US dollar exchange rate) which had worsened by 7.0 per cent during 1988-89 remained almost unchanged during 1989-90. This was due to the fact that the rise in export unit value index (+2.7 per cent) was almost wholly neutralised by a matching increase in import unit value index.

### Exports 1989-90

4. The value of merchandise exports (f.o.b) increased from US$4,634 million in 1988-89 to US$4,926 million during 1989-90, recording an increase of US$292 million of 6.3 per cent, compared to a rise of 6.2 per cent in the preceding year. The sluggish growth in exports resulted almost wholly due to decline in the value of exports of raw cotton (-US$486 million) and rice (-US$65 million). While the decline in the former was entirely due to fall in volume, in the case of latter it was the combined result of decline both in quantum and average export price. The share of non-traditional exports which had steadily declined to 21.8 per cent in 1988-89 from 26.4 per cent in 1985-86 rose again to 25.5 per cent in 1989-90.

5. The break-up of exports in terms of economic categories reveals that exports of "manufactured goods" and "semi-manufactures" increased substantially by +22.4 per cent and +33.1 per cent respectively in 1989-90. Their share in total exports also moved up from 48.0 per cent and 19.0 per cent in 1988-89 to 56.0 per cent and 24.0 per cent respectively during 1989-90. Exports of "primary commodities" on the other hand, declined sharply by 34.4 per cent due largely to lower exports of "raw cotton" and "rice" and accounted for only 20.0 per cent of the total exports during 1989-90 as against 33.0 per cent in the preceding year.

Imports 1989-90

6. The value of merchandise imports (f.o.b) aggregated to US$7,411 million during 1989-90, compared to US$7,207 million in the preceding year, indicating a rise of 2.8 per cent.

7. The break up of imports in terms of economic categories reveals that the imports of consumer goods, raw material for consumer goods and for capital goods increased by 21.7 per cent, 16.0 per cent and 5.1 per cent respectively while that of capital goods declined by 2.2 per cent during 1989-90. The share of "capital goods" in the total imports declined from 37.0 per cent to 33.0 per cent while that of "raw material for capital goods" remained at last year level of 7.3 per cent during 1989-90. On the other hand shares of consumer goods and raw material for consumer goods in the total imports also moved up from 17.0 per cent and 39.0 per cent to 19.0 per cent and 41.0 per cent respectively.

Invisible receipts and payments

8. Invisible Receipts increased by US$378 million (+10.0 per cent) to US$4,146 million (+18.6 per cent) to US$3,014 million. The rise in invisible receipts was attributed mainly to higher receipts under "services" (+US$317 million or 29.3 per cent) and "unrequited transfers" (+US$61 million or 2.2 per cent) during 1989-90. Annex-I shows the summary position of Pakistan BOP.

Gold and foreign exchange reserves

9. Gold and cash foreign exchange reserves which stood at US$1,260 million at the end of June 1990, indicating a rise of US$191 million. The overall increase in reserves was attributed to drawings of the equivalent of SDR 190.11 million from the Fund and partly of commercial borrowings.

Pakistan's balance-of-payments position during 1990-91

10. Pakistan's payments position came under severe pressure during the fiscal year 1990-91. The deficit under current account (excluding official unrequited transfers), which had marginally declined to US$1,891 million in 1989-90, from a record of US$1,934 million in 1988-89, is estimated to have risen to US$2,113 million in 1990-91. Notwithstanding, difficult payments position, the liberal payments trend continuing since 1972 was not only maintained but bold and unprecedented steps were taken as part of the broad based programme of deregulation and privatization of the economy to fully realize country's competitive advantage in the long terms. Increase in the deficit, which reflected mainly the impact of Gulf developments and sharp decline in terms of trade, would have been larger but for the impressive growth in export earnings. The entire world economy was affected by the

Gulf crisis. But it was the developing countries that were hit the hardest. Apart from a rise in import bill on account of sharp, though temporary, increase in oil prices, a number of developing countries, including Pakistan, had to face decline in foreign exchange earnings on account of reduced workers' remittances and loss of export markets. While for the group of moderately indebted low-income countries the impact is estimated at 18 per cent of their combined exports of 2.4 per cent of their GDP in 1991. The loss suffered by Pakistan on this account, excluding the cost of rehabilitation of returning expatriates, is estimated at US$745 million or 1.5 per cent of country's GDP in 1991. The flow of workers' remittances from Pakistanis working abroad, declined to US$1,848.3 million during 1990-91 from US$1,942.4 million in 1989-90, indicating a fall of US$94.1 million (-4.8 per cent). The fall was almost entirely accounted for by lower remittances from Kuwait which, in the wake of the Gulf crisis, declined sharply to US$21.11 million during 1990-91 from US$167.25 million in 1989-90. The terms of trade as adjusted for changes in Rupee/US dollar exchange rate, which had remained virtually unchanged in 1989-90, fell sharply by 13.1 per cent during 1990-91. this resulted under the combined impact of a rise of 12.5 per cent in the import unit value index and a fall of 2.3 per cent in the export unit value index. The gold and foreign exchange reserves, which came under heavy pressure during the year, fell from US$1,451 million at the end of June, 1990 to US$1,390 million at the end of June, 1991. The pressure on reserves in the face of exceptionally good exports performance was due to a marked decline in aid inflow, reflecting suspension of aid by a major donor.

11. A brief analysis of Pakistan's balance-of-payments position, exports, imports and foreign exchange reserves during 1990-91 is described below:

12. The deficit under Current Account (including official unrequited transfers) recorded a deficit of US$1,512 million during 1990-91 which was US$159 million (11.7 per cent) larger than the deficit of US$1,353 million in 1989-90. The increase in the Current Account deficit reflected the impact of expansion in the deficit under "Services Account" (+4.6 per cent to US$1,691 million) and a fall of US$93 million in the net inflow under "Unrequited Transfers". The deficit under "Services Transactions" widened by US$75 million due entirely to a rise of US$159 million in payments partly neutralised by a rise of US$84 million in "receipts". On the payments side, the rise was largely attributable to higher payments under "investment income" (+US$144 million) and "shipment" (+US$64 million). On the receipt side, the rise was accounted for entirely by other goods, services, income (+US$116 million) and "shipment" (+US$5 million). Net inflow on account of "unrequited transfers" also decreased by 3.4 per cent to US$2,655 million during 1990-91 due entirely to lower net inflow under private unrequited transfers, consisting mainly of "home remittances", which declined by US$156 million to US$2,054 million. Net inflow under the

sub-head official, however, increased by US$63 million to US$601 million during 1990-91. On the other hand, the deficit under "Merchandise Account" contracted slightly from US$2,485 million in 1989-90 to US$2,476 million during 1990-91 on account of a larger increase of US$923 million in exports (f.o.b) than of US$914 million in imports (f.o.b.). After taking into account the net inflow of US$1,572 million under the capital account, the balance-of-payments recorded an overall surplus of US$60 million during 1990-91 which was substantially lower than the surplus of US$422 million in the preceding year. Annex-I shows the summary position of Pakistan's balance of payments.

Exports 1990-91

13. The value of merchandise exports based on customs data, aggregated US$6,169.7 million during 1990-91, depicting a sharp increase of 24.3 per cent compared to the rise of 5.8 per cent in 1989-90 and the average growth of about 14.9 per cent in the past five years ended June 1990. Exports at this level could finance 80.9 per cent of imports during 1990-91 compared to 71.5 per cent in the preceding year, reflecting a larger rise in exports than in imports. The impressive growth in exports, despite loss of exports to some Middle Eastern Countries as a result of Gulf crisis and decline in export values notably of "raw cotton", guar and guar products" and "carpets and rugs" was largely attributable to growth of "cotton-based products", "synthetic textiles" and "rice". The breakup of exports, in terms of economic categories revealed that all the categories depicted increases of varying magnitudes. In absolute terms, the rise was particularly pronounced in the case of manufactured goods (+US$726.1 million to US$3,508.1 million) followed by semi-manufacturers (+US$333.9 million to US$1,507.4 million) and primary commodities (+US$145.1 million to US$1,154.3 million). While the shares of manufactured goods and semi-manufactures increased from 56.0 per cent and 23.6 per cent to 56.9 per cent and 24 per cent respectively in the case of primary commodities it came down from 20.3 per cent to 18.7 per cent. The item-wise analysis of major exports revealed that significant increases in the value of exports were registered: under "cotton yarn and thread" (+US$354.2 million), "synthetic textiles" (+US$135.7 million), "cotton fabrics" (+US$118.3 million), "rice" (+US$110.1 million), "textile clothing and accessories" (+US$103 million) and "hosiery" (+US$60.7 million). On the other hand, notable declines in the value of exports occurred in the case of "raw cotton" (-US$19.2 million), "guar and guar products" (-US$12.6 million), "carpets and rugs" (-US$6.6 million) and "leather" (-US$4.1 million).

Imports 1990-91

14. The value of merchandise imports (c.i.f), based on customs data, aggregated US$7,628.6 million during 1990-91 compared to US$6,941.1 million

in the preceding year, showing a rise of 9.9 per cent, in contrast to a fall of 1.8 per cent in 1989-90. The overall increase in the value of imports during 1990-91, despite a fall in the quantum index of imports from 148.3 in 1989-90 to 146.5 in 1990-91, was largely attributable to an upsurge of 45.1 per cent in the import bill of "petroleum and petroleum products", associated with the Middle East crisis. If imports of petroleum and petroleum products are excluded the value of imports depicted an increase of 2.8 per cent during 1990-91 as against a fall of 5.4 per cent in the preceding year, reflecting higher imports of "fertilizer manufactured", "textile machinery", "palm oil", "transport equipment" and"iron and steel scrap". Import value of five major items viz, wheat, tea, petroleum and petroleum products, edible oil and chemical fertilizers showed a rise of 14.4 per cent and constituted 34.8 per cent of total imports, compared to 33.5 per cent in 1989-90 and an average of 30.9 per cent in the past five years ended June, 1990. In terms of economic categories, imports of all the categories, excepting consumer goods, recorded increases of varying magnitudes. Imports of raw material for consumer goods recorded a substantial increase of US$531.7 million (+18.5 per cent) to US$3,402.3 million during 1990-91, accounting for 44.6 per cent of the total imports as against 41.4 per cent in the preceding year. Imports of "capital goods" and "raw material for capital goods" at US$2,511.0 million and US$515.5 million during 1990-91, were also higher by US$252.7 million and US$28.7 million respectively compared to 1989-90. The share of capital goods in the total imports increased from 32.5 per cent to 32.9 per cent while that of raw material for capital goods came down from 7.0 per cent to 6.8 per cent during 1990-91. On the other hand, imports of consumer goods accounting for 15.7 per cent of the total imports as against 19.1 per cent to US$1,199.8 million in 1990-91, reflecting wholly a decline of US$261.6 million in wheat imports. Item-wise analysis of imports revealed that notable increases, in absolute items, were recorded in the case of petroleum and petroleum products (+US$524 million), machinery non-electrical (US$160.4 million), chemical fertilizers (+US$56.7 million), transport equipment (+US$38.4 million) and vegetable oils (+US$30.1 million). However, the above increases were partly offset by low imports under "wheat" (-US$261.6 million), "non-ferrous metals" (-US$26.9 million), "animal tallow" (-US$17.9 million), "tea" and "iron and steel" (-US$14.4 million) each.

Invisible receipts and payments

15. Invisible receipts increased marginally by US$9 million to US$4,184 million during 1990-91, while invisible payments recorded a rise of US$177 million (+5.8 per cent) to US$3,220 million. The overall increase in invisible receipts was shared by "services"(+US$84 million) and "official" unrequited transfers (+US$154 million). Receipts from "services" increased by 6.0 per cent to US$1,482 million due entirely to

higher receipts under "other goods", "services and income" (+US$116 million) and "shipment" (+US$5 million). These were, however, partly offset by lower receipts under "investment income" (-US$16 million), "other transportation" (-US$15 million) and "travel" (-US$6 million). While receipts under "official unrequited transfers" increased by 14.2 per cent to US$634 million, in the case of private unrequited transfers; these declined by 6.9 per cent to US$2,068 million during 1991 mainly on account of inflow of home remittances (-4.8 per cent to US$1,848.3 million). The rise in invisible payments are accounted for largely by higher payments under "investment income", reflecting largely interest payments (+US$114 million), shipment (+US$64 million) and "official unrequited transfers" (+US$16 million).

Gold and foreign exchange reserves

16. Gold and foreign exchange reserves, held and controlled by the State Bank of Pakistan, which stood at US$1,451 million at the end of June 1990, declined to US$1,390 million at the end of June 1991, showing a decline of US$61 million (-4.2 per cent). The overall decline was attributable entirely to the fall under foreign exchange (-US$92 million) as the gold holdings increased by US$31 million.

II. System and methods of restrictions

| | | |
|---|---|---|
| Quota restrictions | - | Except monetary ceiling on import of arms and ammunition which had been imposed due to security reasons, no other quota restriction exists in the Import Policy. |
| Import liberalization | - | In the Trade Policy 1990-91, 97 items were removed from the Negative List reducing the Negative List to only 118 items. The Restricted List was reduced to 62 items from 105. |
| Elimination of Import Restrictions | - | 118 items were borne on the Negative List prior to 1991-92 Policy. In the Trade Policy 1991-92, 14 further items have been removed from this list. During the course of the current financial year, another 10 items have have been removed from the negative list reducing the list to 94 items only. During the course of the year |

restricted list was further reduced by one item.

Freely importable items - All items are freely importable except those which are borne on the Negative List due to health, security and religious reasons.

A few items though importable are subject to fulfilment of certain requirement pertaining to health, safety, standardization and procedural requirements.

Free licensing Licensing has been done away with for all freely importable items. Now import licences are required only for those items the import of which needs to be regulated for health, safety and security reasons.

State trading Trading Corporation of Pakistan (TCP) was established in the public sector in 1967 to import certain deficit essential commodities in times of shortages in the domestic market especially when the private sector does not come forward to import for emergent situation in the country. Presently it is importing coal and coke. It is also involved in the import of edible oil along with the private sector. As such, it now retains only a residual rôle and the private sector is fully involved in the import trade.

## III. Effects of restrictions

17. Import policy has been substantially liberalized in recent years. As a result imports have continued to grow.

## Annex I

### Pakistan's Balance-of-Payments

| | 1990-91(P) | 1989-90 | (US$ million) Change in 1990-91 over 1989 -90 Absolute | Percentage |
|---|---|---|---|---|
| Trade balance | - 2,475 | - 2,485 | + 9 | + 0.4 |
| Exports (f.o.b) | 5,849 | 4,926 | + 923 | + 18.7 |
| Imports (f.o.b) | 8,325 | 7,411 | - 914 | - 12.3 |
| Services (net) | - 1,691 | - 1,616 | - 75 | +4.6 |
| Receipts | + 1,482 | + 1,398 | + 84 | + 6.0 |
| Payments | - 3,173 | - 3,014 | - 159 | - 5.3 |
| Unrequited Transfers (net) | + 2,655 | + 2,748 | - 93 | - 3.4 |
| Private (Net) | + 2,054 | + 2,210 | - 156 | - 7.1 |
| (of which private remittances) | (1,848.29) | (1,942.35) | (-94.06) | (-4.8) |
| Official (net) | + 601 | + 538 | + 63 | + 11.7 |
| Current Account Balance (incl. official unrequited transfers) | - 1,512 | - 1,353 | - 159 | - 11.7 |
| Current Account Balance (excl. official unrequited transfers) | - 2,113 | - 1,391 | - 222 | - 11.7 |
| Capital Account | - 1,572 | + 1,775 | - 203 | - 11.4 |
| Overall Balance | + 60 | + 422 | - 362 | - 85.8 |
| Surplus(+) Deficit(-) | | | | |

Note: (P) Provisional
(+) Sign indicates improvement
(-) Sign indicates deterioration

Source: State Bank of Pakistan