

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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WORKING PARTY 5 ON BALANCE OF PAYMENT IMPORT RESTRICTIONS

Statement by the Representative of Pakistan at
the Meeting held on 29 October 1952 at 4 p.m.

1. At the outset, I shall seek your permission to convey to the representative of the Monetary Fund our thanks and appreciation of the interesting and elaborate documents that he has circulated on restrictive system and economic background of Pakistan. The useful information contained in these papers would surely facilitate consultations with Pakistan.

2. I may add for the information of the Working Party that when the Government of Pakistan took over administration in August 1947 the system of controls that it inherited was much more rigid. At that time import of most of the goods was restricted and there were no open general licences based on broad areas. Licences were issued for each country separately. Changes that have been effected in the system from time to time have aimed at making it more flexible and as non-discriminatory as possible. These regulations have been simplified to an extent that imports are now divided into three areas:

- (1) Dollar Area;
- (2) Japan;
- (3) Rest of the world or the non-American Account Area.

I. Dollar Area

3. The need of restricting imports from the Dollar Area arises from the fact that Pakistan's resources of dollars are scant. Pakistan has to limit expenditure in dollar countries to her own dollar earnings from exports and to such additional funds that may become available in view of Pakistan's export surpluses with some other countries. Still our imports from dollar areas have increased constantly during the past years while it has not been so with exports in spite of the best attention paid to them and certain facilities granted in our export regulations.

4. Pakistan's trade in this area is mainly with the United States. Imports to Pakistan on private account from the United States in 1948-49 amounted to Pakistan Rupees (PRs.) 79.6 million. In 1951-52 they rose to PRs 105.7 million. Motor vehicles topped the list of imports and accounted for 27 million rupees. A close second was machinery the import of which

amounted to PRs 24.8 million. Other main imports were chemicals, drugs and medicines, dyeing and tanning substances, paper, hardware, metals and mineral oils.

5. Exports from Pakistan to the United States stood at PRs 151.6 million in 1950-51. They dropped to PRs 71 million in 1951-52.

6. Subject to overall limit of availability of dollars and considerations taken into account in determining imports from dollar areas are essentiality of goods, availability in other currency areas, disparity in prices and attractiveness of period of delivery. This does not, however, mean that imports are confined to essentials or only to goods that are not available from other sources. Some of the items that have figured prominently in imports are motor vehicles, typewriters, domestic sewing machines, wireless receiving sets, domestic refrigerators and fents under textiles. Most of these goods are neither essential for an under-developed country nor are they scarce. Their import is an indicator towards application of price criteria and the importance attached to international competition in the import policies of Pakistan.

7. Apart from imports on private account heavy expenditure has been incurred by the Government of Pakistan in the dollar area on the purchase of capital goods, defence requirements and items like Diesel engines for railways and sugar. Import on Government account and other payments to dollar areas, amounted to PRs 75 million in 1949-50. They came to PRs 63 million in 1950-51. They further rose to PRs 246.7 million in 1951-52.

8. Due to heavy increase in expenditure and the stationary nature of Pakistan's exports to dollar countries, Pakistan has been running dollar deficits continuously for the past four years. The position deteriorated further during the second half of 1951 and the first half of 1952 as a result of increase in imports and drop in exports. Deficit during this period, that is, in 1951-52 amounted to \$78 million against \$24 million in the corresponding period during 1950-51. This development necessitated intensification of import restrictions and in August last the Government of Pakistan further curtailed the dollar O.G.L. by removing the item "small machinery for domestic and office use", which includes typewriters and domestic sewing machines, from this O.G.L.

9. Licences for imports during the year 1952 were programmed and issued in the beginning of the year and were made valid till the end of December. No change has been made in these licences. It is also the intention to licence genuine commitments made for the item which has since been removed from the dollar Open General Licence. No material decline in the level of normal imports is, therefore, expected till the end of 1952. Information about policies for subsequent periods is not yet available. It is, however, obvious that imports will continue on a restricted basis and will depend on availability of dollars. As development and defence requirements constitute chief imports from this area expenditure on them will be curtailed only as a last resort and under compelling circumstances.

10. Pakistan hopes to develop exports of burlap which is a good seller in the dollar area by the end of 1953. This factor should go a long way in easing our balance-of-payment difficulties with the dollar area.

II. Japan

11. Japan is treated as a separate area for purposes of imports. The O.G.L. applicable to Japan is more restrictive than the rest of the world Open General Licence, though it is more liberal than the dollar O.G.L. Non-dollar global licences are also not valid for Japan. Separate licences are issued for import from this country. The arrangements with Japan though restrictive in nature do not arise from a desire to restrict trade with that country. The targets of imports and exports each year are mutually agreed between the two countries. The object is to have a balanced trade. Trade with Japan has developed in large proportions during past years. The two-way trade which amounted to PRs 147.5 million in 1949-50 rose to PRs 513 million in 1950-51 and PRs 664 million in 1951-52. The share of Japan in Pakistan's total imports came to 23 per cent in 1951-52. The principal imports were textiles and machinery.

12. Japan is one of the most competitive sources of supply and maintenance of large imports from that country helps to a considerable extent in enlarging the scope of international competition and in keeping a check on rise of internal prices.

III. Rest of the World

13. The main Open General Licence is applicable to all the countries other than dollar area countries and Japan. Pakistan has trade agreements with sixteen countries in this area. These agreements aim at expanding and diversifying foreign trade. Their aim is also to assure markets abroad for Pakistan's raw materials, to find new channels for flow of increased exports and to procure capital and other goods required for development. The commitment made under the agreements is only to grant licences for import of such goods as are on the restricted list. Single country licences are issued where a provision for them is specifically made in the agreement. In cases where provision for single country licences does not exist imports are allowed under global licences. Uneconomic imports under trade agreements are prevented in several ways. Global licences are in the first place issued for each and every licensable item included in a trade agreement. Besides, identical goods are included in a large number of agreements. Due regard is also paid to past imports of the country concerned, the total ceiling available for an item and other principal sources of supply while fixing quotas under an agreement. Experience shows that where a country has not been competitive, imports even under single country licensing provision have not materialised.

14. The barter deals concluded recently with the U.S.S.R. and Japan for import of foodgrains are the only exceptions to the general pattern of agreements described above.

15. As regards imports from this area as a whole, Pakistan has, in favourable circumstances, followed a considerably liberal policy. A wide range of goods could be imported without restrictions under the Open General Licence from all the countries in this area. Adequate ceilings were also provided for import of licensable goods. This policy resulted in heavy imports which Pakistan could afford for some time due to a corresponding increase in the value and volume of her exports. But a steep fall in prices of primary commodities and a slackening of demand for them due to discontinuance of stock-piles reversed this position. Failure of wheat crop further aggravated the situation as instead of exporting wheat Pakistan had to import it in large quantities. These developments resulted in an adverse balance of payment of \$114 million in the first half of 1952. Pakistan's monetary reserves also dropped by \$210 million in the first eight months of 1952. Certain internal measures were taken to restore the balance of payment and to stop the drain on monetary reserves.

These are:-

- (1) Reduction in the minimum internal prices of jute and cotton under the Government price support Scheme.
- (2) Substantial reductions in the export duty of jute and long staple cotton.
- (3) Abolition of export duty on wool, short staple cotton and tea.
- (4) Increase in the import duty on cotton textiles, which account for about 30 per cent of the total imports of Pakistan, from PRs 30 to PRs 60 ad valorem.
- (5) Restrictions on credit facilities available for financing imports.
- (6) Cancellation of the special Open General Licence applicable only to imports from India in addition to the global O.G.L.

These measures did not prove adequate, and on 11 August 1952 the Government of Pakistan imposed further restrictions on imports by removing a large number of items from the Open General Licence. These restrictions are substantial in nature and have already been explained in document No. MGT/135/52/Rev.1.

16. At present Pakistan depends entirely on foreign markets for the import of defence stores and consumer goods. Some development schemes which were taken in hand a few years ago have now been completed or are nearing completion. It is estimated that from 1953 onwards Pakistan will be able to meet not an insignificant part of her requirements of defence stores, textiles, jute manufactures, cement, cigarettes, sugar and paper from within the country. Exports of jute are also likely to develop in 1953. Schemes are also in hand for bringing extensive areas under cultivation and for stepping up agricultural production. The most important of these are the Thal project and the Lower Sind Barrage each of which will irrigate 2 million acres of land. The latter is expected to be completed

in 1953. An increase in the normal export of wheat and rice is therefore expected in the near future. These developments should strengthen the balance-of-payments position of Pakistan. The recent intensification of restrictions is therefore considered a temporary phase and it is the intention to relax these restrictions gradually as and when the balance-of-payments position so permits.

