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RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Pakistan
(Spec(82)6)

1. Introducing his country's submission the representative of Pakistan stated that his government had to take into account the following main factors in its development efforts: the necessity to strengthen the base of the economy; a rapidly increasing large population partly due to immigration; certain export requirements arising from the need to secure foreign exchange to meet the growing import demand; the need for diversifying the base of the economy from certain basic industries, e.g. textiles, to more advanced industries, e.g. cement, fertilizers, steel or ginning; diversification of exports; and adjustments in the agricultural sector to solve the problem of surplus production.

2. As regards structural adjustment that had taken place in Pakistan's economy he pointed out that when the country became independent practically no industries existed. During the first decade of independence production and exports were concentrated in the agricultural sector with wheat and cotton being the main products due to the existing climatic conditions. When commodity prices began to decline an urgent need arose for the setting-up of an industrial basis. A policy of accelerated industrialization was pursued, aimed at import substitution and concentrated on the textile sector mainly because of the easy availability of the necessary raw material, i.e. cotton, and the relatively low capital requirements. In the 1960s the strategy for development was changed and efforts were made to create an export oriented textile industry producing mainly yarn and simple fabrics. At the same time attention was also given to the development of agriculture and energy resources.

3. When in 1971 Bangladesh separated from Pakistan a market of 80 million people was lost and the textile industry had to undertake major adjustment efforts. At that time the government nationalized also banks and ginning industries and efforts were made to decrease the dependence on textile production and to diversify production into other industrial sectors. In line with technological developments measures were also taken to shift from low-value to high-value textile products, e.g. from yarn and fabrics into clothing production. This development was partly also necessitated by the existence of quantitative import restrictions for low-value textiles in the exporting markets. Adjustments had also taken place in the agricultural sector, particularly by reducing the production of cotton and increasing the production of rice. Among developing countries Pakistan was still the biggest exporter of cotton. The recent fall of

prices for those products created major difficulties for the economy. The long-term policy of his government was to develop other industries besides the existing textile production. The main obstacles in achieving this goal were the high capital requirements and the lack of sophisticated managerial skills.

4. One member wondered whether the representative of Pakistan could give examples of the fiscal incentives and concessions used for promoting adjustment. The reply given is contained in Annex I to this report.

5. The same member referring to the second paragraph on page 34 of Pakistan's submission wanted to know more details about the tax concessions on exports. The representative of Pakistan stated that income earned from exports was exempted from income tax up to 55 per cent. The exemption was granted as an essential instrument of economic development to provide incentives to exporters who, for a variety of reasons, were at a disadvantage compared with producers and traders who marketed their products in the domestic market. This facility was also admissable to commercial exporters of manufactured goods. The government also provided compensatory rebates to the exporters of the items listed below so as to compensate them for various indirect taxes such as octroi duty, etc. These duties could not be precisely calculated and refunded consequent upon exports of such products which bore these taxes. The items in question were the following: cotton yarn textiles, engineering goods, sports goods, cutlery goods, surgical goods and instruments, leather goods, handknotted carpets and rugs, acetate and filament yarn, canvas footwear, wooden launches, fibre glass and PVC products, water coolers (thermic jugs), and rexine (artificial leather) and its products.

6. The same member referring to the last paragraph on page 34 of Pakistan's submission, wanted to know what goods were considered as essential and what were the criteria for categorizing them as such. The representative of Pakistan said the degree of essentiality varied from item to item. However, broadly all the major items categorized as consumer goods, raw material for consumer goods, raw material for capital goods and capital goods used in export industries could be termed as essential items. The criteria for terming these as essential was that most of these were not produced within the country and their import therefore was necessary for public utility, health and sustained industrial production. In order to achieve structural adjustment of the economy, it was essential to import capital goods for the installation of new industries and for the purposes of balancing, modernization and replenishment of existing industrial units.

7. The same member referring to line 5 on page 35 of Pakistan's submission wondered whether a breakdown was available by country of remittances received from Pakistanis living abroad. The representative of Pakistan pointed out that during 1981-82 total remittances stood at US$ 2,225 million, of which 50 per cent were from Saudi Arabia alone. The detailed country-wise statistics of these remittances for the last six years are contained in Annex II to this report.

8. The same member wanted to know what had been the effect of the policy and programme of Islamisation of the economy on the adjustment process. The representative of Pakistan stated that the two major elements in the

programme of Islamisation of the economic system were (i) Zakat - a compulsory levy on Muslim citizens, possessing a prescribed minimum amount of wealth (specified assets), to be disbursed for approved social welfare purposes, and (ii) a financial system free from interest, as interest was prohibited in Islam. The Islamisation programme was being implemented in a phased manner and in gradual steps. As part of this programme Zakat was already being collected since June 1980 and spent under government control, while the process of substitution of interest by methods permissible in Islam had been started in July 1979 and so far covered certain domestic transactions. The Zakat system was essentially a social welfare measure. Replacement of interest by methods permissible in Islam in domestic financial transactions involved a re-ordering of bank-client relationships in accordance with the ethical principles of Islam. Both these elements in the programme of Islamisation of the economic system did not have any direct bearing on the adjustment process. It was, however, premature to evaluate the effect of their indirect impact.

9. Another member was interested in some examples of sector specific adjustment policies and wondered whether trade measures were an integral part of such policies. As concerned the rehabilitation of sick industrial units he wanted to know what were the costs involved. The representative of Pakistan said that his country had a managed economy mainly because the government had to take a leading role in the industrialization efforts. For instance foreign aid which played an important role in all industrial activities was allocated by government agencies. As concerned sick industrial units these were mainly industries which could not keep pace with technological development. In such cases the government had provided direct subsidies which were now being phased out. The idea was to put these industries on a sound commercial basis. Another help through governmental action was the duty free and unrestricted import of certain machinery in order to close the technological gap. In addition, there existed the already mentioned system of compensatory rebates mainly for certain export industries. The costs involved in these programmes were, however, high and led to budgetary deficits which were strongly criticized in the relevant reports of the IMF and the World Bank.

10. The same member referring to page 34 of Pakistan's submission wondered whether the measures taken to increase exports and to decrease imports were of a general nature or whether they were aimed at specific sectors. He wanted to know also what trade measures were used. The representative of Pakistan stated that there existed basically two measures, i.e. the so-called free list containing items which could be imported freely and a tied list, under which imports were restricted because of the scarcity of foreign exchange. The normal commercial means used to decrease imports were tariffs but the general policy at present aimed at a higher liberalization of imports. The main reasons for falling imports could be found in the declining export earnings due to depressed commodity prices and the after-effects of the two oil shocks.

ANNEX I

Answer to the question referred to in paragraph 4 of the report

The government of Pakistan is extending a number of fiscal incentives and concessions for promoting the structural adjustment process. The government is, for example, allowing duty free import of specified plant and machinery for textile and several other specified industries for balancing, modernization and replenishment purposes, details of which are given below:

S.No.	Type of Plant/Industry	Purpose for which exemption shall be admissable
1	Textile industry	for balancing, modernization or replacement
2	Made-up garments, hosiery and towel industry	for initial installation, balancing, modernization, replacement or extension
3	Textile processing industry	for initial installation, modernization, replacement or extension
4	Tanning industry	for balancing, modernization and replacement
5	Boot and shoe making industry	-do-
6	Leather garments and gloves manufacturing industries	-do-
7	Sports goods industry	-do-
8	Surgical goods industry and cutlery industry	-do-
9	Onyx/marble industry	-do-
10	Ginning industry	-do-

ANNEX II

COUNTRY-WISE REMITTANCES FROM PAKISTANIS ABROAD

($ in million)

COUNTRIES	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
U.K.	49.32	76.69	119.15	149.77	184.89	121.31
US	29.32	51.53	53.58	61.24	70.76	71.99
Germany, F.R.	9.04	16.95	37.34	57.30	59.14	51.90
Middle Eastern Countries	422.15	911.03	1,053.08	1,311.40	1,592.33	1,751.47
Saudi Arabia	158.82	464.10	594.13	795.62	985.07	1,129.44
Bahrain	24.27	43.43	37.19	33.04	42.44	43.39
Kuwait	27.37	53.97	75.12	111.65	133.23	151.69
Qatar	24.41	50.93	52.23	63.20	62.55	65.68
Muscat and Oman	55.05	63.93	61.77	73.49	92.28	118.52
Abu Dhabi	46.74	81.79	92.72	104.99	131.92	113.07
Sharjah	15.90	29.93	24.93	24.93	31.51	28.52
Dubai	55.19	96.55	88.14	86.88	102.05	83.29
Iran	14.40	26.40	26.85	17.60	11.28	.05
Iraq	-	-	-	-	-	12.82
Other countries	67.91	100.13	134.26	167.91	210.06	228.31
Libya	12.15	21.90	42.60	51.20	75.10	97.12
Canada	7.83	6.69	6.93	7.33	7.84	7.49
Denmark	3.82	5.73	10.33	12.31	12.72	10.01
Norway	6.48	9.25	11.22	14.46	16.54	14.86
Tanzania	0.70	1.31	1.14	1.52	1.70	1.06
Kenya	0.55	0.53	0.58	0.54	0.74	0.51
Uganda	0.35	0.30	0.34	0.66	0.44	0.38
Hong Kong	2.05	3.39	4.18	5.31	5.93	4.96
All other countries	33.98	51.03	56.94	74.58	89.05	91.92
TOTAL:	577.74	1,156.33	1,397.41	1,747.62	2,117.18	2,224.98