GENERAL AGREEMENT ON
TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1987 CONSULTATION WITH PAKISTAN
(SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205) to assist the Committee in taking the decision referred to in paragraph 8 of the Declaration.

I. Pakistan's previous consultations


3. At the last full consultation, held on 19 January 1978, the Committee expressed understanding for Pakistan's continuing balance-of-payments difficulties, and recognized that there was need for trade measures as provided for under Article XVIII:9 to 12. It acknowledged that some elements then affecting Pakistan's balance-of-payments posed difficult and often conflicting choices of policy. It recognized that a number of external factors beyond the control of the Pakistan authorities affects Pakistan's export performance and therefore its balance-of-payments and observed that a relaxation of these restraints could have a favourable effect on Pakistan's ability to reduce its trade restrictions. The Committee, noting that Pakistan had pursued efforts towards trade liberalization started in 1972, welcomed the intention of the Pakistan authorities to pursue simplification and rationalization of its trade régime with a view to achieving in the long run, fully liberalized trade, and hoped that the adoption of the fundamental external and domestic measures referred to by the International Monetary Fund would enable Pakistan to further reduce its reliance on trade restrictions (BOP/R/98).

II. Changes in Pakistan's trade policy since the last consultation

4. During the 1980s, many aspects of Pakistan's domestic agricultural and industrial controls have been liberalized. Although agriculture production is still dependent on weather conditions, this liberalization has led to a rapid increase in the rate of investment, and decontrol of many prices has stimulated farm output, particularly in the last three years. The
manufacturing sector has also grown rapidly, aided by decontrol measures to encourage private sector activity.

(a) **Import licensing**

5. The Pakistan statement and Secretariat background paper for the 1985 simplified consultation (BOP/250 and BOP/W/86) described the new import licensing system based on a "negative list" system, introduced on 1 July for import licensing and liberalized import restrictions on a number of products. The Secretariat background paper also noted subsequent liberalization of import restrictions in 1983/84 and 1984/85, principally on imports of capital and intermediate goods not produced in Pakistan. Since the beginning of the 1980s, Pakistan has eliminated import bans and restrictions on a wide range of capital and intermediate goods, raised the ceilings above which approval is required for new private sector investment project and imports of capital goods. Similar trends were noted in the structure of import duties and sales taxes, for which significant reductions were made on a number of raw materials, capital goods and consumer products not locally produced while significant increases were made in the rates on items competing with local production.

6. Pakistan has replied to the GATT questionnaire on import licensing procedures in L/5640/Add.25 and Suppl.1, most recently in November 1986. These replies indicate that there have been no fundamental changes in the system introduced in 1983. Pakistan has also supplied copies of its Import Policy Orders up to 1986/87 regularly to the Secretariat. A list of items (at CCCN four-digit level) subject to import licensing in Pakistan is also contained in the Secretariat analysis of the documentation supplied for the Technical Group on Quantitative Restrictions and Non-Tariff Measures (NTM(TG)/W/3).

7. Since the last consultation the following modifications have been made to import licensing policy:

(a) in 1985/86 three items (carbon fibre, components of heavy trailers, and certain types of small tractors) were removed from the "negative"list (items banned). Limits for import of samples were raised by 50 per cent in rupee value; ceilings for imports of machinery and mill work by commercial importers, and for imports of greenhouses, were increased by 60 per cent and 400 per cent in rupee value respectively; and conditions for financing of imports by industrial consumers were liberalized.

(b) in 1986/87, a number of electronic products previously on the negative list were moved to the "restricted" list for import by the Pakistan Television authority; ceilings for import of equipment for modernization or replacement by the textile industry were raised; and a few items were added to the list of goods importable by industrial consumers or subject to specific conditions.
(b) Tariffs and other charges

8. During 1986, the structure of Pakistan's import tariff structure was simplified. There are now ten tariff rates instead of seventeen. Duties range from 10 to 150 per cent for all products except motor cars and aircraft which are dutiable at 225 and 450 per cent respectively. During 1986, duties on imports of plant and machinery not produced locally, and on certain metals, were reduced from 40 to 20 per cent.

9. An import surcharge was introduced at a rate of 5 per cent in the 1982/83 budget. This was increased to 10 per cent in the fiscal year 1985/86: the proceeds of the increased surcharge were to be devoted to finding education programmes.

(c) Other trade policies

10. As part of Pakistan's overall movement to more market-oriented policies, and to save budgetary resources, export subsidies were removed as of 29 May 1986. Exports from Pakistan benefit from drawbacks of import duties and sales taxes as well as a concessional expose finance scheme.

11. Pakistan has entered into a number of countertrade agreements with Eastern trading countries (including Poland, Czechoslovakia, Hungary and China) as well as with a number of firms.

12. In general, the trade policies pursued by Pakistan since the last consultation continue the liberalizing trends introduced in the early 1980s. Further easing of import licensing conditions and reductions in tariffs have taken place in areas which do not compete with local production or related to export industry; however, protection for locally produced goods remains high.

III. Economic trends and foreign trade

13. Pakistan's economy has grown rapidly in the past few years, with real GNP increasing on an average by 6.7 per cent per annum since 1980/81. Moreover, the annual rate of inflation has been controlled within single digits. ¹ A significant proportion, about half to two-thirds, of national savings is accounted for by Pakistani workers abroad. Imports have ranged between 16 per cent to 18 per cent of GNP during 1980/81 to 1985/86, and the share of exports in GNP was 7½ per cent to 10 per cent during this time period.

¹See Table 1. It is important to remember that several prices are controlled or influenced by the government.
14. However, the external sector is characterized by considerable structural vulnerability. There is limited diversification of merchandise exports, a high degree of reliance on workers' remittances (about 80 per cent of which emanate from the Middle East), and a high proportion of current receipts go towards servicing foreign debt. (See Chart 1 and Tables 1 and 2.) In 1985/86, the ratio of debt-service, including payments to the IMF, to current account receipts was 26 per cent. Pakistan's balance-of-payments situation is further complicated by the fact that the foreign-exchange receipts from its two main export items, namely cotton and rice, fluctuate considerably on account of changes in both volume and price. It is thus not surprising that the value of total exports has fluctuated much more than that of imports. Foreign-exchange reserves have been equivalent to only about one to around two months of import cover since 1984/85. (Charts 2 and 3).

15. In recent years, Pakistan's government has attempted to boost exports through bilateral trade agreements, limit imports by encouraging import-substitution in important sectors like fertilizers, and implemented several liberalizing measures (reported above) in order to infuse dynamism in the economy.

16. The dollar values of exports and imports have changed in the opposite directions in the last three fiscal years. While exports declined and imports increased in 1984/85, the former have risen and the latter have fallen since then. The value of exports increased by about 22 per cent in 1985/86, and data for the first nine months of 1986/87 shows a rise of about 17 per cent. The substantial rise in exports is due primarily to traditional exports. In 1985/86, the dollar value of exports of cotton, rice and cotton-based manufactures, respectively, grew by 84 per cent, 54 per cent and 19 per cent, and growth rates of more than 40 per cent were recorded by cotton-based manufactures and the other traditional exports (excluding cotton and rice) in the first nine months of 1986/87 compared to the same period in the previous fiscal year. The value of exports of both cotton and rice declined in the first nine months of 1986/87, due to a fall in the price of the former product and lower volume of exports in the latter case.

17. In contrast to exports, the dollar value of imports decreased by about 5 per cent in 1985/86 and about 7 per cent in the first nine months of 1986/87 compared to the same time period in the previous year. A major

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2 The traditional exports are mainly cotton, rice, cotton-based manufactures, leather, carpets and rugs, fish and fish preparations and synthetic textiles. The non-traditional exports are mainly raw wool, tobacco and its manufactures, guar and guar products, fruit and fruit preparations, vegetables, sports goods, surgical instruments and petroleum products.
reason for lower expenditure on imports in these two years was a reduction in expenditure on crude petroleum as a result of a fall in both its price and import volume. The lower import volume reflects an increase in domestically supplied crude oil. If only products other than crude oil and petroleum products are considered, then the dollar value of imports actually increased in both 1985/86 and in the first nine months of 1986/87. Within this category of imports, the dollar value of edible oil imports has been declining since 1983/84, the year in which it had increased by 180 per cent. Moreover, the value of wheat imports, which had jumped from zero in 1983/84 to 4½ per cent of total imports in 1985/86, declined in the first nine months of 1986/87 compared to the same period in the previous fiscal year.

18. The large annual variation in Pakistan's earnings from its main export items, and the recent substantial decline in the value of petroleum imports, have resulted in significant changes in export and import shares of different countries. For example, Japan had the largest export share in 1984/85, with 12 per cent of Pakistan's exports going to it in that fiscal year, but then dropped to second place behind the United States with a share of 9½ per cent in 1985/86. Similarly, the share of developing countries in Pakistan's imports fell from 44 per cent in 1984/85 to 36 per cent in 1985/86 (see Table 3). The share of the EC in Pakistan's imports was 19 per cent in 1984/85, as a result of a small fall from the slightly more than 20 per cent share since 1980/81; in 1984/85, this share increased to 24 per cent. The range of variation is much larger for the EC's share in Pakistan's exports, which increased from 16½ per cent in 1980/81 to 24½ per cent in 1985/86. Significant changes in the rankings have taken place in 1980s as a consequence of these fluctuations. Saudi Arabia figured amongst the top two countries purchasing and supplying, respectively, Pakistan's exports and imports in at least two of the three years during 1980/81 to 1982/83; China purchased the largest share of Pakistan's exports in 1980/81 and Iran did so in 1982/83. Since 1983/84, Japan and the United States been the two countries with largest exports to, and imports from, Pakistan.

19. The decline in the value of petroleum imports in 1985/86 is reflected in the sudden large fall in the share of fuels in total imports (Table 4). The variation in the value of exports of rice and cotton are reflected by the relatively big changes in the shares of food and raw materials given in Table 4. The evidence from these movements suggests that it is difficult to forecast the time-profile of the shares of different product-groups in the near future.

20. Lower imports and higher exports in the past two fiscal years have resulted in a consecutive fall in the trade deficit (f.o.b.-f.o.b.) during these years (see Chart 4). In fact, this deficit was estimated to be only around 70 per cent of the value of exports in 1986/87, in contrast to its historical tendency to exceed exports. The current account deficit has also been decreasing after reaching a peak in 1984/85. It was estimated to be $0.9 billion in 1986/87. Chart 4 shows the large difference between the
deficits on the trade merchandise account and the current account, which is
the surplus on the invisibles account. In the 1980s, this surplus
increased continuously till it reached a peak of about $2.4 billion in
1982/83, and then declined every year thereafter. This broadly reflects
the changes in workers' remittances from abroad. After peaking in 1982/83,
these remittances declined in the following two years, increased by 6 per
cent in dollar terms in 1985/86, before declining by about 11\% per cent in
1986/87 to $2.3 billion.

21. Since a large share of Pakistan's merchandise exports are primary
commodities or technologically simpler manufactured products, their sales
are likely to be affected to a relatively larger extent by price changes.
Hence the exchange rate movements assume special significance. In fact,
these movements also have important implications for workers' remittances:
these remittances increased by 30 per cent to reach their peak of
$2.9 billion in 1982/83, the year when a major depreciation took place in
Pakistan (Charts 1 and 2). The rupee has depreciated every year after
1980/81 at a significantly large, i.e., about 9 per cent, annual average
rate of decline in its nominal value vis-à-vis the dollar between 1980/81
and 1986/87. However, the annual average real effective exchange rate did
not move as consistently during this period, and most of the real
depreciation of the rupee has occurred subsequent to 1984/85.

22. Though Pakistan's capital account has been in surplus in the 1980s,
this surplus has also shown large fluctuations in different years. In
1985/86 the surplus on the capital account was about $1.2 billion, helped
by the disbursements of project and commodity loans exceeding $1 billion
for the first time ever. To a small extent, this surplus was also aided by
the net receipts of $148 million from sales of foreign exchange bearer
certificates introduced in August 1985. Net long term loans have ranged
from 53 per cent to 86 per cent of the capital account surplus during
1980/81 to 1984/85; this share fell to 37 per cent in 1985/86. The
surplus on the capital account in 1986/87 is estimated to have dropped to
around $1 billion. However, the lower current account deficit in 1986/87
implied that the overall balance of payments was in surplus by $183 million
compared to a deficit of $62 million in 1985/86. Nonetheless, foreign
exchange reserves at the end of 1986/87 dropped slightly to $886 million
(equivalent to around two months of import cover), in part due to
repayments to the IMF.

3See Chart 2. The rupee was delinked from the United States' dollar
on 8 January 1982, and a managed floating rate system based on a trade
weighted currency basket was introduced on that date.
### TABLE 1 - PAKISTAN SELECTED ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>1980/81</th>
<th>1984/85</th>
<th>1985/86</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of debt - service payments to current account receipts (%)</td>
<td>14.7(^a)</td>
<td>20.9</td>
<td>25.7</td>
</tr>
<tr>
<td>Percentage share in GNP of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Exports (f.o.b.)(^2,3)</td>
<td>9.7</td>
<td>7.5</td>
<td>8.7</td>
</tr>
<tr>
<td>- Imports (c.i.f.)(^2,3)</td>
<td>17.8</td>
<td>17.7</td>
<td>15.9</td>
</tr>
<tr>
<td>- Consolidated government budget deficit(^1,3)</td>
<td>5.4</td>
<td>7.2</td>
<td>5.6</td>
</tr>
</tbody>
</table>

**Annual Percentage Rates of Change**

<table>
<thead>
<tr>
<th></th>
<th>1980/81 to 1985/86</th>
<th>1985/86</th>
<th>1986/87</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GNP(^2,4)</td>
<td>6.8</td>
<td>7.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Industrial production(^2,4)</td>
<td>9.2</td>
<td>7.9</td>
<td>7.4</td>
</tr>
<tr>
<td>Agricultural production(^2,4)</td>
<td>3.8</td>
<td>6.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Money supply(^2)</td>
<td>15.0</td>
<td>14.9</td>
<td>14.8(^b)</td>
</tr>
<tr>
<td>Combined consumer prices(^2)</td>
<td>6.5</td>
<td>4.5</td>
<td>3.5(^c)</td>
</tr>
<tr>
<td>Trade volume(^2):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Exports</td>
<td>9.8</td>
<td>45.5</td>
<td>...</td>
</tr>
<tr>
<td>- Imports</td>
<td>6.9</td>
<td>0.7</td>
<td>...</td>
</tr>
</tbody>
</table>

**Sources:**
1. IMF.

**Notes:**
\(^{a}\)This estimate is not strictly comparable with the other estimates in this row, and may have a slight downward bias.
\(^{b}\)April 1987 over April 1986.
\(^{c}\)July-March, 1986/87 over July-March, 1985/86.
... not available.
<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th></th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>Raw cotton (excluding linters)</td>
<td>16.7</td>
<td>1)</td>
</tr>
<tr>
<td>2)</td>
<td>Rice</td>
<td>11.1</td>
<td>2)</td>
</tr>
<tr>
<td>3)</td>
<td>Cotton fabrics</td>
<td>10.2</td>
<td>3)</td>
</tr>
<tr>
<td>4)</td>
<td>Cotton yarn</td>
<td>9.1</td>
<td>4)</td>
</tr>
<tr>
<td>5)</td>
<td>Textile clothing and accessories</td>
<td>6.7</td>
<td>5)</td>
</tr>
<tr>
<td>6)</td>
<td>Leather</td>
<td>5.8</td>
<td>6)</td>
</tr>
<tr>
<td>7)</td>
<td>Carpets, carpeting and mats</td>
<td>5.4</td>
<td>7)</td>
</tr>
<tr>
<td>8)</td>
<td>Other textile made up excluding towels</td>
<td>4.6</td>
<td>8)</td>
</tr>
<tr>
<td>9)</td>
<td>Fish and fish preparations</td>
<td>2.7</td>
<td>9)</td>
</tr>
<tr>
<td>10)</td>
<td>Leather clothes and</td>
<td>2.5</td>
<td>10)</td>
</tr>
<tr>
<td>11)</td>
<td>Towels</td>
<td>2.1</td>
<td>11)</td>
</tr>
<tr>
<td>12)</td>
<td>Hosiery</td>
<td>1.8</td>
<td>12)</td>
</tr>
<tr>
<td>13)</td>
<td>Urea</td>
<td>1.7</td>
<td>13)</td>
</tr>
<tr>
<td>14)</td>
<td>Surgical instruments</td>
<td>1.7</td>
<td>14)</td>
</tr>
<tr>
<td>15)</td>
<td>Synthetic textile fabrics</td>
<td>1.6</td>
<td>15)</td>
</tr>
<tr>
<td>Total of above</td>
<td>83.7</td>
<td>Total of above</td>
<td>78.6</td>
</tr>
</tbody>
</table>

### TABLE 3 - MAJOR TRADING PARTNERS OF PAKISTAN, 1984/85 and 1985/86
(Percentage shares)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1) United States</td>
<td>10.4</td>
<td>10.4</td>
<td>13.4</td>
<td>14.9</td>
</tr>
<tr>
<td>2) Japan</td>
<td>12.0</td>
<td>9.6</td>
<td>12.3</td>
<td>11.9</td>
</tr>
<tr>
<td>3) Saudi Arabia</td>
<td>6.9</td>
<td>7.0</td>
<td>5.8</td>
<td>8.6</td>
</tr>
<tr>
<td>4) Germany, Fed. Rep.</td>
<td>5.7</td>
<td>6.0</td>
<td>10.7</td>
<td>7.4</td>
</tr>
<tr>
<td>5) United Kingdom</td>
<td>6.7</td>
<td>5.5</td>
<td>7.9</td>
<td>6.6</td>
</tr>
<tr>
<td>6) Italy</td>
<td>4.1</td>
<td>4.4</td>
<td>5.9</td>
<td>6.6</td>
</tr>
<tr>
<td>7) Dubai</td>
<td>4.5</td>
<td>3.6</td>
<td>5.5</td>
<td>3.9</td>
</tr>
<tr>
<td>8) France</td>
<td>2.6</td>
<td>2.8</td>
<td>2.4</td>
<td>3.8</td>
</tr>
<tr>
<td>9) Hong Kong</td>
<td>2.8</td>
<td>2.6</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>10) Korea, Rep. of</td>
<td>1.2</td>
<td>2.4</td>
<td>1.3</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total of above</strong></td>
<td><strong>56.9</strong></td>
<td><strong>54.3</strong></td>
<td><strong>67.9</strong></td>
<td><strong>69.1</strong></td>
</tr>
</tbody>
</table>

1) Developed countries 52.0 51.3 1) Developed countries 51.3 59.7
2) Developing countries 39.3 41.9 2) Developing countries 44.0 36.0
3) Eastern trading area 8.7 6.8 3) Eastern trading area 4.7 4.3

**Source:** Federal Bureau of Statistics, Government of Pakistan.

**Note:** The ranking is according to shares in 1985/86.
### TABLE 4 - PAKISTAN: PATTERN OF TRADE, 1983/84 TO 1985/86
(Percentage shares)

#### PERCENTAGE SHARES

<table>
<thead>
<tr>
<th>Exports</th>
<th>Total ($ million)</th>
<th>Primary Commodities</th>
<th>Food</th>
<th>Raw Materials</th>
<th>Fuels</th>
<th>Manufactures</th>
<th>Chemicals</th>
<th>Engineering Products</th>
<th>Textiles and Clothing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983/84</td>
<td>2,770</td>
<td>34</td>
<td>24(\frac{1}{2})</td>
<td>7</td>
<td>1(\frac{1}{2})</td>
<td>66</td>
<td>1(\frac{1}{2})</td>
<td>3</td>
<td>49</td>
</tr>
<tr>
<td>1984/85</td>
<td>2,510</td>
<td>33(\frac{1}{2})</td>
<td>17</td>
<td>14</td>
<td>1(\frac{1}{2})</td>
<td>66(\frac{1}{2})</td>
<td>3(\frac{1}{2})</td>
<td>4(\frac{1}{2})</td>
<td>47</td>
</tr>
<tr>
<td>1985/86</td>
<td>3,080</td>
<td>38(\frac{1}{2})</td>
<td>18</td>
<td>19</td>
<td>1</td>
<td>61(\frac{1}{2})</td>
<td>2</td>
<td>3</td>
<td>46(\frac{1}{2})</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Imports</th>
<th>Total ($ million)</th>
<th>Primary Commodities</th>
<th>Food</th>
<th>Raw Materials</th>
<th>Fuels</th>
<th>Manufactures</th>
<th>Chemicals</th>
<th>Engineering Products</th>
<th>Textiles and Clothing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983/84</td>
<td>5,690</td>
<td>49(\frac{1}{2})</td>
<td>16(\frac{3}{4})</td>
<td>5</td>
<td>25(\frac{1}{2})</td>
<td>50(\frac{1}{2})</td>
<td>11(\frac{3}{4})</td>
<td>28</td>
<td>2(\frac{1}{2})</td>
</tr>
<tr>
<td>1984/85</td>
<td>5,920</td>
<td>49(\frac{1}{2})</td>
<td>18</td>
<td>4</td>
<td>25</td>
<td>50(\frac{1}{2})</td>
<td>11(\frac{3}{4})</td>
<td>28(\frac{1}{2})</td>
<td>2</td>
</tr>
<tr>
<td>1985/86</td>
<td>5,640</td>
<td>44(\frac{1}{2})</td>
<td>18(\frac{1}{2})</td>
<td>3(\frac{1}{2})</td>
<td>19(\frac{1}{2})</td>
<td>55(\frac{1}{2})</td>
<td>13</td>
<td>33</td>
<td>2</td>
</tr>
</tbody>
</table>

**Sources:** UNSO, Comtrade data base; Federal Bureau of Statistics, Government of Pakistan.

(US$ Billion)

Sources: Federal Bureau of Statistics, Government of Pakistan; I.M.F.

Notes: The estimates of exports and imports for 1986/87 are based on data for the first nine months of this fiscal year.
(Number of months: Percentage change in value)

Sources: Secretariat estimates and same as Chart 1.

Note: Import cover for any year is calculated by dividing the annual imports by twelve, to get the average monthly imports, and then by calculating the number of months' imports which can be purchased by the foreign exchange reserves available at the beginning of the year.
CHART 3.- PAKISTAN: ANNUAL PERCENTAGE CHANGE IN THE PRICE AND VOLUME OF EXPORTS OF COTTON AND RICE.
(1981/82 - 1985/86)

Source: IMF

Fiscal year

US $ Billion

-0.5
-1
-1.5
-2
-2.5
-3
-3.5
-4


Current account deficit

Trade deficit


Notes: Government transfer payments have been excluded from the current account.


% share

18
16
14
12
10
8
6
4
2
0

Fiscal year


INVESTMENT SAVINGS

Sources: State Bank of Pakistan and The World Bank.