TRADE POLICY REVIEW MECHANISM

PAKISTAN

MINUTES OF MEETING

Chairman: Mr. Abdelkader Lecheheb (Morocco)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN

1. The Chairman (Mr. Abdelkader Lecheheb), introducing the first review of Pakistan recalled that this joint meeting of the TPRB and the 1947 GATT Council was taking place under the procedures of GATT 1947 as the review of Pakistan had been postponed from 1994. He welcomed the Pakistan delegation headed by Mr. M. Naseem Qureshi, Secretary in the Ministry of Commerce, members of the TPRB and the 1947 GATT Council, and the discussants, Mrs. Linda Fernández-Corugedo Steneberg and Mr. Mehmet S. Onaner. As usual, the discussants spoke in their personal capacities.

2. The Chairman recalled the objective of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The joint meeting was to base its work on two reports, one submitted by the Government of Pakistan (C/RM/G/50) and the other by the GATT Secretariat (C/RM/S/50). He reminded members of the procedures for conducting reviews, introduced in May 1993 (document L/7208).

3. Australia, Canada, European Communities and the United States had given advance notice in writing of points they wished to address during the meeting. These had been conveyed to the Pakistani delegation and copies were available to participants.
II. OPENING STATEMENT BY THE REPRESENTATIVE OF PAKISTAN

4. The representative of Pakistan said that his Government had circulated papers summarizing its trade policy in document C/RM/G/50. The GATT Secretariat had prepared an excellent, objective and highly informative report. If some points had been understated, it was because of insufficient interaction on Pakistan’s part with the GATT Secretariat.

5. The Secretariat’s report had flagged a number of critical areas; the questions received by Pakistan from the discussants and members also helped to identify critical areas of interest. A collective assessment of Pakistan’s policy framework would enable members to take stock of the profound changes already brought about and to appreciate that, despite an environment of external constraints, Pakistan had made major strides towards the integration of its economy in the global system. To sustain the policy changes Pakistan needed a supportive approach by its trading partners. He expressed the hope that the meeting would come out with a collective message that Pakistan deserved support to enable it not only to sustain these reforms, but also to contribute towards consolidating and strengthening the multilateral trading system.

6. Pakistan was open for business. This opening up had been brought about by a comprehensive programme of economic reform aimed at rapid economic and social development. The main planks of this programme were privatization, deregulation and liberalization. The transformation extended virtually to all areas of economic activity. In sharp contrast to earlier approaches which saw the Government as the main vehicle for economic change, the Government now viewed its rôle only as a catalyst or a motivator.

7. Privatization provided opening for the private sector into the previous preserve of the public sector, including areas such as power generation, airlines, ports, shipping, highways, banks telecommunications. The public sector monopoly over generation and telecommunication had been removed. The Government had concluded memoranda of understanding with foreign investors for 30 projects, entailing an investment of US$7 billion. Operation of telephone networks was also being privatized by offering 10 per cent shares of the Pakistan Telecommunication Corporation (PTC) on local and foreign stock markets.

8. Of a total of 115 public sector units, 68 had already been sold to private investors and several others were scheduled to be privatized in the current year. The units already privatized included banks and companies in the automobiles, cement, chemicals, fertilizers, engineering, vegetable ghee, rice milling. Partial disinvestment of large corporations had also been achieved through sale of shares on the Stock Exchange as a step towards their complete privatization. These included firms in the areas of air transport, telecommunications and shipping. Sale of stocks in further areas was imminent. Such sales sought to ensure broad-based ownership and participation, including by foreign institutional investors.

9. All restrictions on investment had been completely deregulated. The requirement to obtain approval for industrial investments had been abolished. There were no restrictions on sectors open for investment nor were there monetary ceilings for investment in individual enterprises. The only exceptions were arms and ammunition, security printing and high explosives. Foreign investment was allowed up to 100 per cent of equity. Profits and capital could be remitted without difficulty. Ceilings on payments of royalties and technical fees had been dispensed with. Interest rates, technical fees and royalties were left to the market. Work permit restrictions on expatriate managers had been withdrawn. Foreign investment was fully protected by law, and access to domestic borrowing had been markedly enlarged. The financial sector had been completely overhauled. Commercial and investment banks...
were permitted in the private sector and life insurance business had also been restored to private enterprise.

10. To compliment the programme of privatization and deregulation, a supportive institutional framework had been put in place to remove possible bottlenecks and provide for a facilitative macro-economic framework. Reform in these areas had been targeted at the payments system, the trade régime, and the creation of supportive infrastructure, material and human.

11. Pakistan had adopted current account convertibility of the rupee and eliminated all multiple currency practices. Accordingly, the Government had accepted the obligations of Article VIII of the IMF Articles of Agreement. Exchange controls on investment, trade and foreign borrowing transactions had been withdrawn. Freedom to hold foreign currencies and foreign currency deposits was available to all.

12. In trade, too, there had been a fundamental restructuring of the system. The Negative List for import had been reduced drastically to less than 70 categories. Regulatory control of imports and exports had been abolished. Except for a few items subject to health and safety requirements, importers could establish Letters of Credit directly with the commercial banks. The rôle of the public sector corporation had been minimized, and they had been placed at par with the private sector. Export of cotton and rice had been completely deregulated; monopolies of state corporations on the export of these items had been ended, and they were obliged to operate like any other private sector exporter. Import of raw materials, which could be otherwise on the Negative List, was permissible if required for manufacture and export. An equally significant change in the trade régime was to permit foreign companies to undertake import and export business on commercial lines. The Government had decided to abolish the system of Import Trade Price (ITP) with effect from this month, ITP has been replaced by transaction value, as verified by pre-shipment inspection companies. Pakistan had also opened up its market for textile and clothing products in pursuance of the market access commitments under the WTO. These would be implemented by 1 July 1995.

13. The tariff structure had been overhauled and a schedule of reductions been established to provide predictability in tariff reform. Tariff rates had been gradually reduced; maximum tariffs now stood at 70 per cent inclusive of all other charges and duties. The objective was to achieve reductions to a maximum of 35 per cent, excluding only a limited number of items. Tariffs on the import of silk and blended fabric and baby garments had already been brought down to 35 per cent. The system of granting tariff exemptions or concessions on the basis of area or end-use was being phased out. Tariffs on food, fertilizers, pharmaceuticals and energy would be further reduced. All duties on exports had been withdrawn.

14. While statutory rates remained relatively high, the average incidence of import duty ranged between 20 and 25 per cent. Problems associated with transparency and predictability of the tariff structure were being addressed in earnest; Pakistan’s tariff régime would soon compare favourably with most others in the developing world.

15. Pakistan’s economic management had shifted from allocative to indicative planning; from direct state intervention to market signals. The focus was on strengthening individual initiative, private enterprise and the market mechanism. The Government’s primary task was to provide physical and social infrastructure; ensure a level playing field for economic activity; alleviate poverty; and promote fair distribution of income through tax and fiscal policies. The accent of Government policy henceforth would be to promote the development of social sectors including in education, health, nutrition, physical and human infrastructure.
16. At independence in 1947, the share of Pakistan’s agriculture in total value added amounted to 53 per cent, and that of large scale manufacturing to just 2 per cent. Today, agriculture accounted for 24 per cent, whereas the share of large scale manufacturing had increased to 18.6 per cent. Trade as a percentage of GDP had likewise increased from 4 per cent in 1971 to 30 per cent today. By any standards, these were no mean achievements.

17. The effect of reform in recent years was difficult to gauge because a variety of national and international factors, including river floods, cotton pests, and the Gulf war, had depressed production and the general economic climate. All the same, over the period 1983-84 to 1993-94, the share of agriculture in GDP had declined from 27 to 24 per cent, while manufacturing had advanced from 17 to 19 per cent. A significant inflow of foreign investment contributed to improving the reserve position from US$500 million at the end of last fiscal year to close to US$3 billion. Much of this inflow was in portfolio investments; the sustainability of these inflows would need to be followed carefully.

18. Pakistan suffered from a number of handicaps, internal and external. A growing population with resulting pressure on resources and employment, relatively weak physical infrastructure, and slow improvement in literacy rates were perhaps the most significant domestic problems. Redesigning economic management in Pakistan was predicated on the belief that the shift in Government emphasis to the social sector would reallocate funds to the pressing needs in these areas and help to improve productivity across the full range of economic activities, including trade. The primary goal was to increase efficiency in production and to promote commercialization of goods and services, with the purpose of fuller integration in the world economy.

19. Pakistan’s economy suffered from over-dependence on a few agricultural commodities and a limited number of export products. The sectors which were the main determinants of its economic advancement, namely agriculture and textiles, had fallen outside the normal rules of the GATT. Pakistan had paid a high price in terms of export losses due to restrictions maintained by major industrialized countries through the Multi-Fibre Arrangement and its predecessor agreements. Even the results of the Uruguay Round would not allow for Pakistan to realise its full potential in this area, as the Uruguay Round textiles agreement would permit the maintenance of restrictive import régimes for a long period of 10 years. Integration programmes so far announced by the major importing countries did not come up to Pakistan’s expectations of the integration process.

20. In the field of agriculture, massive subsidization by developed countries for production and export in the past had been legitimized through the Uruguay Round in return for a promise for reform in the future. Naturally, Pakistan had suffered and would continue to suffer.

21. Superimposed on these constraints was increasing recourse to the creation of regional blocks which, by definition, discriminated against those outside. A further cause for concern was in the recent trend towards a myriad of rules of origin which were often manipulated to the disadvantage of exporters especially in the context of free trade areas.

22. A large number of anti-dumping investigations had been initiated against exports from Pakistan. Many had been initiated while Pakistan was negotiating market access concessions with its trading partners. The large number of anti-dumping investigations within the last two years indicated the protectionist bias. These investigations had naturally a "trade chilling effect" on Pakistan’s most sensitive export sectors at a time when its textile industry was facing pressures of adjustment on account of higher cotton prices. Some of the investigations were prompted by the domestic industry during a recessionary phase. Ironically, the decision to accept petitions from the domestic industry was taken despite the
fact that the market conditions had definitely changed into a situation of acute shortage on account of higher international cotton prices.

23. The rigorous observance of standards imposed on Pakistan's infant engineering industry raised a serious danger that this industry would be inhibited at a time when Pakistan was trying to diversify its exports. Exporters were, due to these standards, obliged to purchase inputs from countries to which they were to export the products. This naturally made exports uncompetitive. The frequency of circumvention charges had also raised considerable concern among Pakistan's textile industry, which was under severe adjustment pressure.

24. Such practices by Pakistan's major trading partners were eroding the confidence of the business community in the post Uruguay Round trading system. In such a situation, the business community naturally questioned the autonomous process of trade liberalization undertaken by Pakistan.

25. An account of external constraints on Pakistan's trade prospects would not be complete without mentioning the emergence of new protectionism. Obviously Pakistan was deeply concerned with these developments.

26. Despite these adverse external factors, Pakistan was committed to stay the course it had adopted. The policy shift and the reform programme had not been without pains and problems. Old ways of doing things were not given up easily. Resistance to change by those likely to lose from state patronage could not be overlooked or minimized. The Government of Pakistan was alive to these objective realities. However, given the bipartisan consensus for reforms in Pakistan, and the intellectual and conceptual realities of the contemporary world, Pakistan would continue on its chosen path. The realisation of these objectives needed the support of the international community at large.

27. The representative of Pakistan thanked Mrs. Linda Fernández-Corugedo Steneberg and Mr. Mehmet S. Onaner, for agreeing to act as discussants.
III. STATEMENT BY THE FIRST DISCUSSANT

28. The first discussant, Mrs Linda Fernández-Corugedo Steneberg, recalled some major events from Pakistan's modern history and stated that Pakistan must be given due credit for its growing reliance on market forces, deregulation of import and export régimes and for trying to open its economy to the outside world.

29. The process had been initiated with the Seventh Five Year Plan in 1988, under which domestic activity and the external trade and payments system had been liberalized, financial sector reformed and a wide-ranging privatization programme implemented. This contributed to stronger GDP and export growth, higher domestic and foreign investment and development of the private sector. These reforms coincided with domestic and external imbalances such as political unrest, the Middle East crisis in 1990-91 recession in developed countries, widespread floods, crop diseases and unfavourable terms of trade.

30. Liberalization should continue in order to eliminate inefficiencies in the economy and allow market signals to reach economic decision makers. Tariff levels were still very high, with a substantial number of non-tariff measures and lack of transparency in the tariffication and the customs clearance procedure.

31. Another feature of a restrictive nature was that all importers and exporters must be members of a professional trade, commercial or industrial association. She asked how Pakistan saw these rules contributing to economic growth and development. Pakistan's participation in world trade was very small, 0.2 per cent in 1992. The intra-industry trade rate was low and even declining; Pakistan's economy remained protected, despite the laudable reforms undertaken up until now. One objective of the Eighth Plan (1993-1998) was to limit imports to 5 per cent of GDP in real terms per annum to reduce the current account deficit. This raised the questions whether Pakistan would lower its tariffs as foreseen. For economic decision makers, predictability was an important feature, and it would therefore be of interest to learn more about the plans for the continued opening up of Pakistan's economy.

32. Women, as a resource, seemed to be underutilized in Pakistan; they were underrepresented at all levels of education, most spectacularly at university level. A high rate of infant mortality, combined with high nativity, took a heavy toll. Life expectancy for women, contrary to biological predisposition and compared with industrialized countries, was shorter than for men. Modern development theory put more and more emphasis on women's education. Not giving women the same opportunities as men wasted resources, since half of the available intellectual, enterprising and creative capacity of a country was not put to work.

33. In Pakistan's Social Action Programme 1992-93, emphasis was put on uplifting women, children and rural people. It would be interesting to learn more about this programme, and whether it would be followed up in the coming years. This was of particular interest, as the development of women, with a literacy rate less than half the male rate, seemed to be a key issue for Pakistan's economic and social progress. Educational standards were to be improved generally.

34. The private sector in Pakistan had so far showed little interest in investing in research. This was an area where the public and private sector must interact, and where Pakistan must be given more time. Pakistan was rich in natural resources, including a wide range of fuel and non-fuel minerals, but these were insufficiently exploited. A predictable research policy would also attract foreign capital. According to the Secretariats report, Pakistan viewed itself mostly as a passive recipient of packaged technology, which was at times outdated and incompatible with local conditions, which resulted in
low quality and prices. The Government of Pakistan rightly felt that the private sector must take greater responsibility in financing R&D. Perhaps the private sector had not been sufficiently exposed to market forces and was therefore not mature enough to undertake the responsibilities of research and development on its own yet.

35. In 1990, the Government launched a privatization programme, with the objective of severely limiting government participation in the production of industrial goods. By the end of 1994, 67 enterprises had been transferred to the private sector. It was hoped that the programme would be continued. A thriving private sector was a prerequisite for research of any magnitude.

36. Pakistan’s population growth was among the highest in the world. This took a heavy toll on economic resources and the environment. GDP growth had declined in the last few years, fiscal deficit increased, exports stagnated and the current account deteriorated. The Government sought 7 per cent growth of GDP per annum, against 4 per cent in 1993-94, reducing inflation to 6 per cent and reducing the burden of domestic and external debt. Could all these very ambitious goals be fulfilled at the same time; if not, what would be Pakistan’s first priorities?

37. A large part of the population was employed in agriculture, which produced some highly competitive items, such as basmati rice. Pakistan could certainly hold an even more important place in world trade for agricultural products. It seemed that state intervention in this sector was still very high, and this might not, in the medium or long term, be in the interest of the economy. It would be interesting to hear the Government’s intentions for this sector.

38. Pakistan was a member of SAARC (South Asian Association for Regional Cooperation) and also of the Economic Cooperation Organization, (ECO) together with Turkey and Iran. ECO granted a 10 per cent tariff reduction on sixteen products. The SAARC remained a framework agreement and its members had not entered into negotiations for actual exchange of trade concessions.

39. Pakistan’s trade with other Asian countries had also increased in the last few years. Experience indicated that similar economies drew the largest mutual benefits through trading with each other. In this context, the example of the European Union could also be mentioned.

40. Pakistan had played a constructive rôle in the Uruguay Round. She wondered whether Pakistan could take the lead to revitalize regional trade in SAARC, through spearheading concrete talks between the partners on mutual concessions? South Asia was one of the few areas of the world where there were no regional trade arrangements in place. Pakistan stated in its report that the growth of trading blocks was extremely worrisome to Pakistan, especially if they discriminated against non-members. This was correct, but if they did not discriminate, then the effect was positive for world trade at large, and non-members stood more strongly if they themselves were organized in a similar fashion.

41. As the textile sector accounted for around 60 per cent of Pakistan’s total export earnings, the importance of this sector was obviously paramount. The main importing countries had done injustice to Pakistan and other textile exporters over the years, both in economic terms when hitting at one of the few sectors where these countries were competitive, and from a development point of view. What these countries had given with one hand in the form of foreign aid, they had taken back with the other by imposing quotas on textiles. For all believers in the merits of free trade, it was a great disappointment that the derogation from normal GATT rules had been legalized in the Uruguay Round for as long a period as ten years. Pakistan had, on the other hand, maintained import restrictions of its own on some textile products. Given the quality and strength of the Pakistani textile sector, one wondered if these restrictions where really necessary. Even if the background was a "tit for tat" to the big importers, it weakened the argument against the restrictive big importers and, more important for
Pakistan, prevented market signals from reaching Pakistan’s textile industry. In this context it was a source of concern that the industrial sector was not diversified. It made the economy of the country vulnerable and highly dependent on just a few export products. The authorities were aware of this and were now introducing a diversification programme. It would be interesting to learn more about this programme, since the dominance of the textile sector in Pakistan’s foreign earnings was clearly the Achilles heel of Pakistan’s economy.

42. Pakistan was a country with great potential and considerable resources. It showed a strong will to change and adapt to the demands of the modern economic environment and to put order in its own house. Pakistan had played a constructive rôle in the Uruguay Round and was now undertaking great efforts to develop its human and other resources which were still subject to internal and external restrictions. It was a joint responsibility of Pakistan and its trading partners to see to it that these restrictions disappeared, so that a fuller utilization of its resources could take place, so that sustainable economic growth could be realized, so that industry could diversify, so that the agricultural products where Pakistan had a comparative advantage could be sold freely on the world market, so that its textile products could enter without restrictions the developed countries markets and so that women and men could all take part in the construction of the future Pakistan on an equal footing.
IV. STATEMENT BY THE SECOND DISCUSSANT

43. The second discussant, Mr. Mehmet Onaner, stated that Pakistan promised to be a key player in the multilateral trading system. It had embarked on a process of fundamental restructuring of its economy through deregulation and privatization, integrated within a strategy of liberalized trade, investment and exchange rate regime. After four decades of import substitution development strategy, the liberalization of the trade regime was underway.

44. Pakistan had reinforced and widened the scope of privatization recently, which started towards the end of 1980s. Now the focus was on mobilization of domestic and foreign savings and introduction of maximum transparency.

45. Agriculture played an important role in Pakistan's economy, accounting for 24 per cent of GDP and 48 per cent of the labour force. Agricultural and agro-based products accounted for 80 per cent of Pakistan's exports.

46. The primary goal of the present Eighth Plan (1993-1998) was to achieve growth above that of population and ensure food security, self-sufficiency and exportable surpluses. In the framework of reform, in accordance with the National Agricultural Policy, most prices were now set by market forces and State intervention was limited. However, a system of support prices protected farmers against volatility in markets. Could Pakistan comment on the results of the Uruguay Round in market access in agriculture, as well as subsidization, both for production and exports and their implication on current Pakistani policy measures? The achievement of more technically advanced farms, supplying higher quality and diversified products, was dependent on, inter alia, an organized seed industry, developed power and water supplies and less fragmented land holdings.

47. Another important sector where substantial changes had occurred since the beginning of the structural reform programme was industry. At present, the share of manufacturing in GDP was close to 19 per cent and the sector employed more than 12 per cent of the workforce. Since 1988, over 100 industrial enterprises had been privatized. Liberalization in foreign trade and foreign investment policies contributed to industrialization. Despite those measures Pakistan's industry remained protected by high tariffs and other means. This cast a shadow on the policies of export orientation and diversification.

48. Although foreign direct investment in Pakistan had risen steadily in recent years, it remained well below the levels in Asian countries. While Pakistan offered cheap labour, a large domestic market and access to regional markets, this should be reinforced by an improved economic environment. Increased protection of intellectual property rights would facilitate foreign investment and encourage the transfer of technology.

49. In Pakistan, a large number of Government agencies had trade-related powers, but this fact should not be an impediment to the activities of the domestic and foreign business operators. Under Imports and Exports (Control Act), 1950, the Federal Government prescribed the procedure for trade in the Import-Export Procedures Order. SROs could amend or alter existing laws, introduce tariff and tax exemptions, concessions and legal interpretations. Did Pakistan envisage the elimination of this complicated structure of decision making and discretionary powers?

50. It was welcomed too that all para-tariffs had been merged into the customs duty and there was an ongoing effort to lower tariff rates. He sought further information on the 2 per cent additional sales tax levied on 28 import items and clarification regarding the provision, in the Import Policy Order 1994, that prohibited items might be imported by or for public sector agencies under certain conditions.
51. A number of major competitive export products of Pakistan were subject to export taxes. On the other hand, many traditional exports were included in the Negative List. Those restrictive measures should be reviewed thoroughly with a market-oriented approach. He asked whether the Trading Corporation of Pakistan had a monopoly in exports of products of smaller economic units and non-traditional items.
V. STATEMENTS BY PARTICIPANTS

52. Participants commended Pakistan for the implementation of its macroeconomic adjustment and structural reform programme initiated in 1988, which included substantial trade liberalization, privatization and deregulation. Continuation with the programme would ensure stable, long-run growth. Pakistan’s active participation in the Uruguay Round, especially in textile-related areas, was also stressed.

53. The representative of India pointed out that Pakistan had reduced the number of items in the Negative List from 300 to 70 between 1988 and 1994 and, at the same time period, the average statutory tariff had been cut from 77 to 70 per cent, with plans for reduction to a maximum of 35 per cent by 1997. Import licensing and the restricted list would be abolished within a definite time frame. Further liberalization of the foreign investment régime and abolition of industrial licensing were also on the cards. Pakistan was thus doing its best to open its economy to the outside world.

54. He stated that the economy of Pakistan, like that of India, was vulnerable to external trade barriers. A particular feature of Pakistan’s exports was heavy dependence on cotton products. Pakistan was deeply interested in the integration of the textiles sector into the GATT. He hoped that developed countries would play a positive rôle in enabling developing countries to integrate their economies into the global economy. Erecting further trade barriers would make this process difficult, if not impossible.

55. He stated his confidence that the Government of Pakistan would soon initiate necessary measures under GATT/WTO principles, to enable India and Pakistan to realize the full potential of their bilateral trade.

56. The representative of Argentina stated that Pakistan’s economy had been insulated from international competition for decades and was heavily dependent on the export of basic commodities such as cotton. This heavy concentration on a limited range of products made Pakistan’s economy vulnerable to distortions in external markets. Pakistan’s reforms were aimed at liberalizing trade and industrial activity; he noted the gradual dismantling of the restrictive import licensing system, the relaxation of the foreign investment régime and of procedures for establishing industries. However, the tariff system remained complex, due to the use of concessionary and other non-statutory rates. Although liberalization of the import régime had brought about an improvement in the external position, the balance of payments was still under pressure; although it had improved relative to the previous two-year period, it was not yet possible to speak of a sustained improvement. Pakistan, as a net importer of services, encountered serious external obstacles with respect to the mobility of factors in which it enjoys a competitive advantage.

57. The adoption of a closed economy could not be achieved from one day to the next, and Pakistan’s efforts to improve its export and industrial profile should be supported. An example of this was the integration of the textiles sector into the multilateral system. Agriculture was also moving in the right direction, taking into account the reasonable requirements of food security, and it was intended to diversify into non-traditional products. The representative of Argentina asked whether data could be provided on Pakistan’s export performance which would make it possible to predict a steady trend in the development of this scheme. He asked whether the adjustment assistance programme would end in the current year and sought information on its specific objectives. He wondered whether cattle breeding standards could be maintained by permitting the import of pedigree livestock and plans to include certain drugs, motor vehicles, wheat, petroleum, oil and lubricants in the tariff-cutting plan. What were the "high-priority" domestic industries referred to in Chapter IV of the Secretariat report.

58. The representative of Canada stated that the removal of most non-tariff measures on imports was a major step forward in Pakistan’s reform programme. It was, however, of concern that Pakistan
had only bound 33 per cent of its tariff lines under the Uruguay Round. He asked if Pakistan intended
to increase the number of bound tariff lines as part of its ongoing reform programme. He welcomed
Pakistan’s tariff reduction programme and asked for confirmation that implementation could continue
as originally planned.

59. High tariff escalation was of particular concern in sectors such as forestry and non-ferrous
metals where it could be questioned whether such protection served Pakistan’s economic development
needs. He asked whether Pakistan intended to update the anti-dumping and countervailing measure
regulations of the Import of Goods Ordinance Act, 1983 to reflect the new Agreement on Subsidies
He also asked whether the Rules of Origin, 1973 were applied to goods to qualify for m.f.n. treatment;
and how this varied from the rule of origin set out in Part A of the Economic Cooperation Organization
(ECO). He asked if these rules of origin systems were based on a value content calculation or a change
in tariff classification, production processes or some combination of the above and how the calculation
was made in the case of value content calculation (i.e., was it based upon price or costs and what was
the required level)? How was this calculated if tariff classification was the basis for rules of origin?
Could Pakistan provide a table describing the various rules of origin, similar to that provided by Canada
during its TPR last autumn?

60. The representative of Japan expressed the view that tariff bindings undertaken by Pakistan during
the Uruguay Round expressed its willingness to be integrated more closely in the world trade system.
He welcomed that under the Import Policy Order, 1994 foreign affiliated corporations were allowed
to register in Pakistan as importers. Free convertibility of the currency introduced by Pakistan was
also a positive development which greatly facilitated economic activities.

61. In the Negative List, a number of items were included whose importation was restricted for
religious, health and security reasons. He hoped that these criteria would be used in compliance with
WTO rules. The same consideration was relevant to export restrictions where export prohibitions were
based on ambiguous religious, health and safety criteria. He pointed out that, at present, higher tariff
rates were applied on some raw materials than on final goods which rendered related manufacturing
uncompetitive.

62. In respect of the new rules on preshipment inspection, introduced on 1 January 1995, he hoped
that they would facilitate importation procedures. Finally, he noted that Japanese investors expressed
concern over the general security situation in the province of Sindh; the sophisticated investment
procedures and problems related to infrastructure (electricity supply, telecommunication). Improvements
in these areas could lead to more investments.

63. The representative of Hong Kong noted Pakistan’s important trade liberalization. However,
that there was room for further liberalization in such areas as food, textiles, leather and paper. Some
non-tariff measures were less than transparent. These included the requirement for firms to be registered
as importers, where the registration requirements included stringent conditions regarding the employment
of a high percentage of Pakistan nationals at managerial and executive levels and importers might be
required within a period of three years to submit documents on import prices to prove compliance with
the regulation that no imports shall be made except at the most competitive rates. There was no
information on how this rule was implemented in practice; in the interests of the public, the Government
might temporarily or permanently, suspend the importation of any item so as to prevent dumping,
speculation, exaggerated imports, formation of monopolies and the exploitation of consumers, or it
might restrict imports from countries resorting to discriminatory measures against Pakistan exports.
64. The representative of Egypt noted that Pakistan's exports were highly concentrated in cotton and textiles, which represented almost 60 per cent of its export earnings. This made Pakistan's trade vulnerable to external distortions. He asked the delegation of Pakistan to elaborate on plans to diversify industrial exports. The SAARC Preferential Trading Arrangement (SAPTA) was still a framework agreement; members had not yet entered into negotiations for exchange of concessions. He asked Pakistan to give more information on possible progress in this field.

65. The representative of Turkey stated that despite the considerable efforts and substantial steps taken by Pakistan towards greater reliance on market forces and opening its economy to external competition in recent years, it was still a high tariff with substantial tariff escalation in areas such as food, textiles, leather, paper and petroleum. Pakistan had recently integrated the additional import fee, Iqra surcharge and regulatory duties into a single customs tariff. However, there was still lack of transparency due to numerous exemptions and concessions extended to SROs, with broad discretionary power enjoyed by the administration.

66. He sought clarification on the standardization requirements for imports in Pakistan. He asked Pakistan to give details on the South Asian Association for Regional Cooperation (SAARC) and the SAARC Preferential Trade Arrangement (SAPTA). Pakistan's heavy dependence on cotton and cotton-based manufactured exports made it vulnerable to external distortions and, in particular, to restraints under the MFA. Under those circumstances and, particularly, after offering additional tariff concession for the imports of most of the textile and clothing products recently, he believed that Pakistan had a legitimate right to seek more favourable market access for its major export items, i.e. textile and clothing.

67. The representative of Korea stated that Pakistan's recent economic reforms would improve Pakistan's own competitiveness and strengthen the multilateral trading system, based on the WTO. Until recently, bilateral trade between Pakistan and Korea had been rather modest. Pakistan's tariff system and customs valuation methods were a source of concern. He joined other delegations in encouraging more transparency and predictability in the implementation of tariffs. Under Pakistan's law on anti-dumping and countervailing procedures, exporters and foreign producers under investigation were given 30 days to raise different views. This fixed period might not be sufficient for complicated cases. Was there some flexibility for extending this period when it was deemed necessary? Were different procedures established for the reply to the questionnaires as stipulated in Article 6 of the Agreement? Aggrieved parties had the right to address the Tariff Commission for a review of the decision within 15 days of that decision; this time limit did not seem to be long enough to prepare their cases. He asked whether there were procedures in Pakistan for review of anti-dumping and countervailing duties, as required by Article 11 and Article 21 of the respective WTO Agreements.

68. The representative of Australia stated that despite tariff reductions, Pakistan remained a high-tariff economy and tariff escalation appeared substantial. She asked for details on further tariff reductions; reducing tariff peaks and dispersion in tariff rates; reducing the extent of tariff escalation and simplifying the application of its tariff system; and reducing the administrations wide discretionary powers to accord concessions and exemptions according to specific circumstances or the end use of the product. Did Pakistan intend to ensure that there was not an overall increase in the level of tariff protection? What instruments were used to limit imports on the Negative List? Was the Negative List used to restrict imports for balance-of-payments and/or industry protection reasons? Were restrictions applied on an m.f.n. basis? What was the timeframe for the reduction in the product coverage of the Negative List?

69. In the light of Pakistan's self-sufficiency policy in wheat, she asked for clarification about the potential contradiction between lower than world market wheat prices and the self-sufficiency objectives. Did Pakistan see the role of private wheat traders increasing or changing in the future? Was Pakistan aiming for self-sufficiency in dairy products? If so, what was the estimated timing? What methods
did Pakistan intend to use to phase out imports of dairy products? Had any plans been made to eliminate or reduce export restrictions and taxes?

70. The representative of Switzerland commended Pakistan for its reforms which would help its integration into the world economy. However, the share of bound tariffs was still relatively low, tariffs were high and a number of non-tariff measures were still in place which had an adverse effect on trade. He encouraged Pakistan to continue reforms.

71. The representative of the United States stated that the integration of textiles trade into the GATT would greatly affect Pakistan's trade; therefore, Pakistan's commitment to reduce barriers to trade in this product area was appreciated. Further opening of Pakistan's market and bindings of tariffs, removal of import licensing and investment restrictions and other measures would provide cheaper inputs for Pakistan's exports and encourage additional foreign investment.

72. She expressed concern about prohibitive tariff rates in a number of important sectors, especially agriculture. The scope of bindings was limited and bindings were at substantially higher rates than applied tariffs. Tariff escalation was also a problem. She urged Pakistan to accelerate tariff liberalization, particularly in sectors that might benefit growth, such as industrial inputs and capital goods. She expressed concern about Pakistan's commitment to include previously existing bindings in its Uruguay Round schedule. She urged Pakistan to improve transparency in its tariff regime; although basic tariff rates were published, there were many exemptions and exceptions to the general rules under SROs. She asked whether Pakistan planned to accelerate tariff reductions, and, if so, when? What was the current status of Pakistan's Article XXVIII negotiations? When did Pakistan expect to conclude these negotiations? Did Pakistan have plans to abolish SROs; if not, was there an intention to set up a transparent process with clear, strict criteria delineating the few cases in which SROs could be allowed?

73. The representative of the United States expressed concern regarding the Negative List. She stated that Pakistan's economy would be best served by eliminating discriminatory taxes. She urged Pakistan to establish a firm schedule for the removal of measures maintained for BOP reasons and hoped that Pakistan would be ready to eliminate such measures by the next scheduled consultation with the BOP committee in early 1996. She asked for confirmation that items subject to balance-of-payment restrictions were limited to the Negative List, and sought information on plans to covert balance-of-payments measures to price-based measures.

74. She asked for clarification of Pakistan's commitment to eliminate minimum export pricing and the 40 per cent export tariff on cotton. She expressed concern on Pakistan's use of export subsidies to promote competitive industries and encouraged Pakistan to reduce such measures in accordance with its obligations under the Uruguay Round Agreement on Subsidies and Countervailing Measures. In respect of customs valuation, she asked what measures Pakistan had taken to meet its obligations under the WTO. She encouraged Pakistan to join the Government Procurement Code and expressed concern about procedural requirements and preferences in place. She asked whether any minimum requirements existed in law or regulation, regarding publication of tenders and bid deadlines. Did any forum exist for foreign bidders to challenge procurement decisions? Were preferences still in place? Had there been administrative discretion in applying them?

75. It was a matter of concern that foreign investors in non-industrial sectors did not receive statutory guarantees of national treatment. Discriminatory treatment was applied against foreign firms wishing to raise funds in the domestic credit market. She asked what specific implementing measures Pakistan had taken to meet its TRIMs obligations and whether Pakistan planned to extend protection under the foreign private investment law to non-industrial sectors. Could Pakistan clarify whether it had lifted
all restrictions against hiring foreigners for managerial and technical positions? Could Pakistan describe any restrictions against foreign participation in Pakistan's privatization programme? Did Pakistan still permit discriminatory treatment against foreign firms wishing to raise funds in the domestic credit market?

76. She supported Pakistan's commitment to bring its trade policy régime into conformity with its TRIPS obligations under the Uruguay Round Agreements and encouraged Pakistan to accelerate its implementation as rapidly as possible. At present, Pakistan's patent law provided for process but not product patent protection for pharmaceuticals and agrichemicals. In addition, Pakistan had no provision for registering service marks. What was the timetable for legislation to improve Pakistan protection of intellectual property rights and to bring Pakistan into compliance with its TRIPS obligations? What specific action was Pakistan considering to fulfil its TRIPS obligations? Was Pakistan prepared to accelerate implementation of its TRIPS obligations? Had Pakistan fulfilled obligations under Article 70:8 and 70:9 of the TRIPS Agreement?

77. She commended Pakistan for its commitment to improve the labour standards of its workforce and noted that Pakistan had created an internal task force to improve labour law and policy and that the Government had signed a Memorandum of Understanding with the ILO aimed at reducing the use of child labour. At the same time, concern remained about Pakistan's adherence to international recognized worker's rights. Specifically, she was concerned about recent issues raised by the ILO with regard to Pakistan's laws and regulations which appeared to violate Convention 87 on Freedom of Association and Convention 98 on the Right to Organize and Bargain Collectively. Specific issues included exemption from labour laws in export processing zones and restrictions on recourse to strike activity. She hoped that Pakistan would continue to consult with the ILO and seek to revise its labour laws in accordance with international norms.

78. The representative of Poland welcomed the commitments undertaken by Pakistan in the Uruguay Round, although the scope of tariff bindings was still not satisfactory. He urged Pakistan to make further efforts towards reversing the country's inward-looking, isolationist policies and pursuing greater integration into the multilateral trading system. He asked for a more detailed assessment of the Uruguay Round results for Pakistan's trade and economy. He also asked whether tax exemptions on income originating from exports fell under "export subsidies" in terms of Article 3 of the Agreement on Subsidies and Countervailing Measures. Was the non-compulsory "deletion" programme under the TRIMs Agreement?

79. The representative of New Zealand commended the tariff reduction commitment on tallow from 55 per cent to 15 per cent and was looking forward to a continuation of this approach in sectors such as meat, especially sheepmeat, and dairy products. The scaling down of mechanisms aimed at the artificial control of import flows would enhance Pakistan's export capabilities and effectiveness in the international market. He expressed concern that tariffs were still relatively high; one sector where New Zealand exporters had encountered difficulty was in relation to wool tops. Lack of definition in the classification of items had proved a problem for New Zealand exporters. Uniformity of tariff application must be a priority if international traders were to work within an open and defined system. He supported the Secretariat's call for Pakistan's trading partners to implement the Uruguay Round results to create a trading environment that would foster Pakistan's reform process.

80. The representative of Hungary stated that the WTO system had created a more favourable environment for Pakistan's economic and trade policy reforms. Four decades of Pakistan's inward looking trade policies had weakened its export competitiveness. He urged Pakistan to introduce greater transparency in the tariff system, reform customs valuation practices and eliminate the different sales tax treatment on imported products.
81. The representative of Morocco said that, as a result of reforms, Pakistan had become an exporter of manufactures. Consolidation of the reform process would indicate that the changes were irreversible. Developments in textiles were crucial for Pakistan, given the high share of these products in Pakistan's exports. He asked whether there was a linkage between the results of the textiles and clothing negotiations and the removal of textile items from the Negative List.

82. The representative of Indonesia, speaking on behalf of ASEAN members, noted that Pakistan was still a high-tariff economy. Both as developing countries and as exporters of textiles and clothing, Indonesian and Pakistan share a great interest in integration of the sector into the WTO system. Hence, a consistent implementation of the Uruguay Round was very important in establishing a healthy trading environment. He asked for more information about diversification plans for industry, since the concentration on textiles sector had been playing a very important rôle in Pakistan's economy.

83. The representative of the European Communities stated that Pakistan's tariffs remained very high. The EC would have wished Pakistan to have made an additional effort in the Uruguay Round to reduce tariffs and increase bindings; the low level of bindings (33 per cent) made by Pakistan was disappointing. The number of import prohibitions also remained significant. Although Pakistan maintained that some of the products were on the list for balance-of-payments reasons, full details were not available; more transparency would be welcome. Pakistan's tariff system remained very complex; with numerous concessions and exemptions. Applied rates were often lower than statutory rates. Escalation was also considerable and the perverse effect of encouraging industrial activities geared to the domestic market, rather than promoting export industries. He hoped that Pakistan would simplify the tariff structure and introduce more transparency. Safety and health-related requirements also hindered imports into Pakistan. Several preferences were granted to state-owned corporations and domestic producers in the award of government procurement contracts.

84. On the export side widespread taxes, restrictions and incentives risked jeopardizing efforts to promote a healthy and competitive export sector. The "deletion" programme for the engineering industry protected the intermediary industry and discouraged investments necessary for competing in external markets. The European Communities supported Pakistan's privatization programme and encouraged acceleration in the pace of the programme. It was the understanding that the Government of Pakistan now planned to transfer a further 30 companies to the private sector this year. It was important to provide investors with detailed and accurate information on the financial situation of these companies.
VI. REPLIES BY THE REPRESENTATIVE OF PAKISTAN AND ADDITIONAL COMMENTS

85. The Chairman invited the representative of Pakistan, in giving the replies, to focus on four major subjects: Pakistan's macroeconomic reform and structural adjustment; trade policy and trade régime; sectoral questions and external environment.

Macroeconomic reforms and structural adjustment

86. The representative of Pakistan said that Pakistan was fully committed to economic liberalization, deregulation and privatization. The outward orientation of Pakistan's current economic stance, and policy would go on uninterrupted in the medium-term and long-term perspective.

87. In 1993-94, the budget deficit had been brought down to 5.8 per cent of GDP from 8 per cent in 1992-93, mainly through tightening of expenditure control. To contain the fiscal deficit at a sustainable level, the Government had taken measures in the 1994-95 budget to generate Rs. 27.9 billion as additional revenue. Other measures, including an anti-smuggling drive and realization of tax and loan arrears, aimed to reduce the deficit to 4 per cent of GDP.

88. Inflation remained one of the most serious problems facing the country. The average consumer price inflation rate, for 1989-90 to 1993-94 had been 9.75 per cent. During the last five years, the money supply (M2) had grown at an average rate of 18.6 per cent, fuelling inflation. The high growth of domestic liquidity was attributable to lack of financial discipline in the past. It was presumed that the financial discipline of 1993-94 would have a favourable impact on prices. Domestic credit and budget discipline in 1993-94 was partly offset by accumulation of foreign exchange reserves, which were critically needed from the balance-of-payments point of view. With foreign exchange reserves now being comfortable, future monetary expansion should remain in line with domestic credit expansion, and thus would be less inflationary. Other factors contributing to inflation in Pakistan had been supply shocks, such as virus-induced reduction in cotton output, leading to a sharp rise in cotton prices, and a weather-induced reduction in wheat output. The continuation of financial discipline and recovery in output of strategic agricultural and industrial commodities should keep prices under control.

89. The current account deficit had fluctuated over the last decade from US$0.5 billion in 1982-83 to US$3.7 billion (7.1 per cent of GDP) in 1992-93. In the period 1989-90 to 1993-94, it had declined to 4.6 per cent of GDP. The trade deficit had declined from 10.4 per cent of GDP in 1982-83 to 3.6 per cent in 1993-94. The surplus on the invisible account had shrunk from 8.6 per cent of GDP to 0.02 per cent in the same period.

90. One important objective for Pakistan was to accelerate the pace of development in infrastructure and energy. Over 46 per cent of the public sector allocation in the Eighth Plan was assigned to fuel, power, water, transport, communication, physical planning and housing. The private sector would also be encouraged to participate in the development of these areas on its own or in association with the public sector. The concept of public-private partnership was being extended to physical infrastructure sectors.

91. In the current economic plan, it was recognized that women in Pakistan had lagged behind men because of cultural patterns, traditions, poor health conditions, low education and school enrolment. Accordingly a high priority was given to the development of women. The Constitution of Pakistan guaranteed equal rights for women and prohibited discrimination against them; it also provided for their fuller participation in all spheres of national life. To look after the interests of women, a separate Ministry for Women Development had been created in 1979, which implemented special programmes...
for women development. During the Seventh Plan, the Ministry for Women Development had sponsored a variety of small projects in collaboration with Federal and Provincial Departments and NGOs. Against the Plan allocation of Rs. 900 million, total utilization was estimated to be Rs. 648 million (at 1987-88 prices) indicating 72 per cent utilization rate. The thrust of policy during the Eighth Plan would be (i) improving education status (ii) expanding health facilities, and (iii) providing more openings for income generation. In addition, removal of discrimination in education and employment and better information and communication on their rights and responsibilities would be ensured. The Eighth Plan allocation for the new programmes for women development by the Ministry for Women Development was Rs. 2.1 billion.

92. Privatization would continue. An additional 35 units had been identified for disinvestment. Modalities for disinvesting two nationalized banks were being examined. The sale of public sector assets would be in accordance with a plan that had clear cut economic and social objectives, to secure a more broad-based ownership of industrial assets so that people could fully participate and benefit from the process of industrialization.

93. The critical linkages between the investment régime and intellectual property rights were recognized. Inter-agency consultations were continuing to overcome Pakistan's known reservations on protection of patents.

94. Pakistan was signatory to a large number of ILO conventions. A Memorandum of Understanding had been signed with ILO on the critical area of child labour. The recommendations of the Task Force on Labour were being considered by the Government and adoption of these would remove the expressed concerns on this "new issue". Pakistan's position, like other developing countries, remained that linkage of labour standards with trade could be used as a cover for new forms of protectionism.

95. The first discussant asked the representative of Pakistan to provide some further details on research and development policies, as this area played an essential rôle in Pakistan's economic development. She also requested Pakistan to explain the influence of Pakistan's plan to limit yearly import growth to 5 per cent on the implementation of the tariff reform.

96. The second discussant sought information on the sectoral coverage and content of the memoranda of understanding concluded with foreign investors. He also raised the question whether Pakistan wanted to take some measures to prevent some possible negative impacts of high portfolio investments in the country.

97. The representative of India stated that trade issues should not be linked to labour standards; labour standards could be used for disguised protectionism. The labour standards issue was not part of the TPR process and was not directly related to the GATT or the WTO.

98. The representative of Canada sought information on the sectoral coverage of the 35 units recently selected for privatization.

99. The representative of the European Communities also asked how Pakistan would implement the limitation of the yearly import growth to 5 per cent.

100. The representative Argentina sought clarification on the rules for capital transfers by resident nationals.

101. In reply to questions, the representative of Pakistan stated that the Government of Pakistan had established a number of research and development institute both federal and provincial levels.
Foreign investors also participated in R&D activities, for example in geological research. Recently, exporters established an Export Development Fund which was also utilized for the support of export-related R&D. The objective of the Government was to limit real import growth to 5 per cent a year; however, it had no specific instrument for the implementation of this goal.

102. Privatization included practically all sectors, including cement, chemicals, engineering and fertilizers. The rôle of the Government would be limited to essential services such as defence or utilities. The monopoly of the Government in electricity generation and distribution was eliminated and this area was free for private investments.

(2) Trade Policy and Trade Régime

103. Pakistan's trade policy was fairly transparent. Key instruments were published in the Official Gazette and received full press coverage. Tariff schedules were approved by Parliament as part of the annual budget and thereafter notified in the Finance Act. Subsequent changes were made through Statutes, Regulations and Orders (SROs) in exercise of powers under the Finance Act. These changes, addressing corrections required on account of concerns by the business communities, were made with Cabinet approval. Firms engaged in business activity were fully familiar with the SRO system and remained fully abreast of the changes. There was no official discretion involved. Despite this, the authorities recognized that improvements were necessary. Accordingly, the number of SROs as well as tariff exemptions and concessions, was being reduced. Since the publication of the Secretariat report, the number of SROs had been cut from 216 to 105 and would be reduced further in the next two years. However, because of international and national requirements, the SRO system could not be abolished altogether. Other trade policy instruments did not present any problem of transparency. The Import Policy Order was fairly clear on both the substance of Import Policy and the attendant procedures. Abolition of import licensing had removed the harassment about which the business community complained. The Government fully recognized the need to eliminate discretionary powers through a gradual, step by step approach.

104. Pakistan was pursuing a well defined tariff reform programme with the following salient points: tariff levels in general were to be reduced from the present 70 per cent to 35 per cent between 1994-95 and 1996-97; minimum tariff rates were to be set at 10 per cent except on four groups, food, fertilizer, pharmaceuticals and energy products; tariff dispersion would be limited to a 4-6 tiered tariff structure with maximum and minimum rates of 10-35 per cent. Of the 6,454 tariff lines the Pakistan Customs Tariff, actual imports were made under 2,900 lines. At present, only 690 tariff lines had been transposed at 7th and 8th digit level, but the transposition of the remaining items was in hand. This would further enhance the transparency, classification and description of imported goods; it was Pakistan's understanding that transposition of 2,900 tariff lines at the 7 or 8-digit level and the withdrawal of exemptions and concessions (SROs) would create full transparency in the tariff régime.

105. Pakistan was constantly striving to improve its GATT bindings beyond 33 per cent. Industry needed breathing space and adjustment to compete at 35 per cent tariff levels; Pakistan agreed to review the high peaks and would not escalate the tariff rates beyond GATT bindings. To address the concerns of multi-national companies and national industries manufacturing consumer goods the National Tariff Commission (NTC) would identify items which would require protection as a result of reduction in the duty rates and would quantify appropriate protection levels for a specified time period.

106. Anti-Dumping Regulations were now being drafted. These would reflect the WTO standards and guidelines, including review mechanism and a time frame for questions and replies. While the
Anti-Dumping Law of 1983 did not reflect the guidelines of the anti-Dumping Code, it had never been implemented.

107. It was not practicable to extend the General Sales Tax (GST) to the retail level across the board. As a first step, a 2 per cent fixed sales tax would be levied on the retail price on 49 items, 28 imported and 21 locally produced, such as motor cars, syrups, squashes, juices, all sorts of paints, pigments, dyes, enamels and manufactured tobacco. Full details would be provided. The GST net had also been expanded; coverage had increased from 486 to 863 items, 108 imported and 169 domestic.

108. Pakistan was following the Brussels definition of value. This must be phased out to adhere to the WTO Agreement; Section 25 of the Customs Act had to be changed. As a first step, the International Trade Price (ITP) system had been abolished. The pre-shipment inspection agency verified the transaction value of goods. Pakistan would require the five-year transition period to implement the WTO Agreement.

109. The requirement for importers and exporters to register with the Export Promotion Bureau and to be members of a Chamber of Commerce and Industry or Exporters’ and Importers’ Association dated back to 1961. It was intended to prevent fraud, facilitate Government’s handling of trade complaints and disputes referred by foreign Governments and firms and encourage the development of Chambers of Commerce as institutions. The registration requirements helped to bring a certain discipline to cooperation among the business communities and promote dialogue between Government and business. Documentation requirements for registration were simple; namely, identity card, national taxation number and proof of membership. The Government was keen to develop a consensus on regulation issues and recognized that these requirements posed problems for foreign firms. Since foreign firms were now allowed to participate in import trade, it would be appropriate to re-examine the practices. This issue would be seriously taken up during the preparation for Trade Policy 1995-96. Pakistan would be happy to consult with foreign firms, their partners or representatives to evolve a revised system.

110. Pakistan’s negative list consisted of about 70 8-digit tariff lines. Of these, 63 represented textile products. As a part of its Uruguay Round market access contribution, Pakistan had committed itself to remove quantitative restrictions on textile products from 1 July 1995. The maintenance of remaining items on the Negative List was justified on account of religious, moral and security considerations; removal of these restrictions would lead to adverse public reactions which would endanger the trade liberalization process. Some minor items (ivory, antiques) were maintained on the Negative List under international treaties relating to wildlife, environmental pollution and trading in antiques. Items on the Negative List could be imported with specific authorization by the Ministry of Commerce in consultations with the Ministries concerned.

111. Currently, the state trading enterprises did not enjoy any monopoly of trade in commodities for which they had been initially given exclusive trading rights and privileges. The private sector not only participated in the trade earlier reserved for state enterprises, but had even taken over the bulk of that trade. The maintenance of state trading enterprises was partly to enable the private sector to develop fully into this trade and partly to undertake domestic procurement. Since the private sector did not yet have the necessary financial resources, the commodity corporations played a useful rôle in assuring farmers of secure procurement possibilities at normal commercial prices. The Cotton Corporation’s rôle in exports had diminished because of absence of surpluses. This Corporation was now engaged in purchasing cotton from central Asian States because the private sector was not equipped to handle the difficult logistic problems involved in transportation through Afghanistan. The Trading Corporation of Pakistan was entrusted with specific import tasks where the private sector was reluctant to participate, despite the legal rights to do so. A major consideration in not terminating these state
trading corporations was that their employees held long-term contracts which could not be terminated without financial cost to the Government and for human considerations. They continued to provide expert advice to the Ministry of Commerce regarding commodity trade problems.

112. Pakistan had not signed the Tokyo Round Agreement on Government Procurement. Under WTO there was no obligation to sign the plurilateral agreements. Article II of GATT did not mandate national treatment for procurement by Government agencies. The bulk of Government procurement business in Pakistan remained with foreign firms because major projects were financed with foreign assistance or developed by foreign firms. Despite the price preference, Government decisions were, inter alia, conditioned by "consumer preference". The price preference accorded to domestic suppliers had been recognized by some of the international institutions as a measure conducive to develop the private sector. Price preference had also been tolerated because of complaints regarding dumping practices by some state trading countries. Price preference helped to overcome the disadvantages faced by the domestic firms on account of lack of financial resources and high interest rates.

113. Compliance with standards requirements on exports was ensured by the customs authorities. Pakistan’s standards requirements did not apply to imported products. However, relevant Government Departments were authorized to established quality and safety requirements for imported goods. Customs authorities ensured compliance with these requirements at the import clearance stage.

114. There were no duties on exports. However, exports were subject to provincial levies. Exports were also subject to export development surcharge at a rate of 0.25 per cent of the f.o.b. value. This levy had been accepted by the private sector on a voluntary basis to generate funds for research and development and setting up of institutions for human resource development.

115. Earnings from the export of items were exempt from income tax on a graduated scale according to the degree of value addition, ranging from 25 to 90 per cent. Earnings from exports were subject to an across the board tax of 1 per cent of f.o.b. value.

116. The second discussant asked whether the Trading Corporation of Pakistan (TCP) still had the monopoly right to export some items, such as products of small-scale enterprises or non-traditional Pakistani export items.

117. The first discussant requested the representative of Pakistan to give information on the present and future status of trade prohibitions in respect of India and Israel.

118. The representative of New Zealand sought clarification on whether the abolition of the International Trade Price System by Pakistan meant that Pakistan would necessitate a reservation under Annex 3 of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 in respect of minimum values, when it joined the Agreement.

119. The representative of Australia asked for confirmation that the only items which remained on the Negative List for balance-of-payments reasons were textiles and clothing products. She also sought information on the instruments used to limit the imports of products on the Negative List.

120. The representative of Pakistan replied that the TCP had no longer any monopoly or exclusive export or import rights. Imports of some items from India were prohibited while from Israel, all imports were under prohibition. Imports included in the Negative List were importable on the basis of a specific authorization granted by the Ministry of Commerce under the current Import Policy Order. This authorization had not yet been used. The Negative List included only textile items for balance-of-
payments reasons. Suspension of the ITP system did not affect Pakistan's position in respect of possible reservation under Annex 3 of the Agreement on Implementation of Article VII.

(3) **Sectoral policies**

121. The representative of Pakistan said that the self sufficiency goals mentioned in the Eighth Five-Year Plan were essentially indicative. With the imposition of income tax on agricultural income, moves towards market-oriented agricultural policies had been accelerated. Market oriented policies had been implemented in the cotton and rice sectors. There was no subsidization of these crops. Wheat received subsidization for the benefit of consumers; wheat import had been opened to the private sector. The consumer subsidy was also available on imported wheat. Government imported wheat through open tenders. The current high tariffs on dairy products were expected to be brought down as a part of tariff reforms. The aggregate measure of support for agriculture was negative. Ceiling bindings on agricultural commodities had been made at 100 to 150 per cent. This compared favourably with the tariffification and subsidization levels of other countries.

122. The concessional credit facility and the dual cotton pricing system had been phased out. Access to fibres, yarns and cotton substitutes had been improved by allowing imports at reduced tariffs. Pakistan had committed itself to remove QR's on textiles appearing in the Negative List by 1 July 1995. The tariffs on selected textile products would be reduced during the phase-out period to 35 per cent for garments, 25 per cent for fabrics and 15 per cent for fibres and yarns.

123. Diversification of exports would be ensured with the completion of tariff reforms. Major incentives for the upstream textile industry, namely preferential credit and dual cotton pricing, had already been phased out.

124. The second discussant asked Pakistan to assess on the results of the Uruguay Round agriculture negotiations, from the point of view of market access, domestic support and border controls. He also sought to have more information on Pakistan's policies on diversification of production and exports.

125. The representative of the European Communities requested the representative of Pakistan to clarify the income tax situation for agriculture and asked whether Government wheat tenders were published.

126. The representative of Australia asked when self-sufficiency in dairy products was intended to be achieved by Pakistan, and by what methods.

127. In reply, the representative of Pakistan stated that regarding production and export diversification, the cotton area should be consolidated and more resources should be allocated to non-traditional sectors such as fruit and vegetable production and processing. One of the main policy instruments for diversification was the reduction of tariffs on imports to sectors to be selected for diversification. During the agricultural negotiations in the Uruguay Round it had been recognized that the Aggregate Measure of Support (AMS) in Pakistan was negative, therefore there was no need for Pakistan to change its policies in this respect. In the last decade, agricultural support prices had been notional, as international prices had never declined far enough to procure products at those prices. Support prices should be considered as a guarantee for producers that the Government would come to their rescue if prices declined below a certain level. In that critical situation the Cotton and Rice Corporations would procure products from the producers at support prices. This was the main reason why the existence of these corporations was tolerated. According to Pakistan's calculations, one consequence of the Uruguay Round would be that prices of its major agricultural import products would go up and small farmers would be subject to tougher competition on the domestic and international markets. Taxes were imposed on agriculture,
however, at very low levels. Wheat tenders were published in local newspapers. Despite self-sufficiency objectives, Pakistan allowed the exports of a number of dairy products to provide incentives to producers.

(4) **External environment**

128. The representative of Pakistan said that, despite reservations about the drift towards regional arrangements, Pakistan recognized that if it kept within the legal confines of the GATT, they could contribute to increased trade possibilities. The abolition of regional textile quotas as a part of the Single European Market was a positive contribution. On the other hand, rules of origin stipulated by some other regional arrangements were negative. The two regional arrangements in which Pakistan participated had advanced cooperation in some areas other than trade. The complementarity of production and trade structures prohibited possibilities of reaching a stage achieved by regional arrangements among the developed countries. Therefore, Pakistan had to depend on the international markets for exports and hoped for their liberalization.

129. Pakistan had ratified the WTO; Ministries were working out the measures necessary to implement the individual agreements. New legislation on countervailing and anti-dumping measures and copyrights was being developed. The success of WTO would no doubt hinge on the adoption of obligations by the major trading nations, the speed with which they brought their domestic legislation into conformity with the negotiated agreements and the understanding they displayed towards the adjustment difficulties of countries representing small shares of world trade.

130. While most of the textiles quotas remained in place, through a higher level of growth modification in the existing agreements had mitigated the most rigorous aspects of the quotas. A positive development had been the removal of quotas on a number of cotton products which were now covered through the Designated Consultations Levels (DCL) stipulated in the Pakistan-US bilateral additional agreement. Further access had been provided through enhanced flexibilities in the bilateral understanding reached with the European Union. There was considerable concern in the business community about erosion/withdrawal of GSP for textiles in the European Union. Rigorous implementation of the standards regulations combined with rapid enforcement of pre-shipment inspection and quality controls had reached the point of technical barriers to trade. NAFTA rules of origin were encouraging a shift of textiles production from Pakistan to NAFTA regions as a pragmatic necessity to overcome the barriers to access created by these rules of origin.

131. Finally, the representative of Pakistan promised that replies to questions that had not been answered during the meeting would be supplied in writing at a later stage.
VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

132. This joint meeting of the Trade Policy Review Body of the WTO and the Council of GATT 1947 has now completed the first review of Pakistan's trade policies and practices. These remarks, made on my own responsibility, summarize salient points raised during the discussion; they are not intended to substitute for the collective evaluation and appreciation of Pakistan's trade policies and practices. Details of the discussion will be reflected in the minutes of the meeting.

133. The discussion developed under four themes.

(a) Macroeconomic reforms and structural adjustment

134. Participants commended Pakistan on its macroeconomic adjustment and structural reform programme which had ended four decades of inward orientation. Pakistan was encouraged to continue with its programme, thus ensuring the basis for stable, long run growth.

135. Some participants noted that Pakistan's balance of payments was still under pressure, due in part to natural disasters. They urged Pakistan to disinvolve its use of the GATT balance-of-payments provisions as the situation improved.

136. Some members suggested that infrastructure weaknesses impeded economic growth. The utility of improving education was stressed. In this connection, attention was drawn to the low participation rate of women in the economy. The private sector appeared to show little interest in research, contributing to the low quality of Pakistani goods.

137. A number of participants felt that measures could be taken to improve the flow of direct investment into Pakistan, including broader application of national treatment, simplification of procedures and improved intellectual property protection. The need to accelerate privatization was stressed and questions were raised regarding local content legislation. Some concern was expressed about Pakistan's adherence to internationally recognized labour standards, although others emphasized that this was not a subject for discussion in this forum.

138. In reply, the representative of Pakistan affirmed his Government's commitment to economic liberalization, deregulation and privatization, despite various constraints. To this end, fiscal and monetary discipline was actively pursued under the Structural Adjustment Programme; however, the external current account situation remained difficult, both because of the debt service burden and a reduction in worker remittances and despite an improved trade balance. The outward-orientated economic policy would continue uninterrupted in the medium- and long term.

139. One of the primary objectives of economic planning was to accelerate development in infrastructure, particularly in energy, transportation and communications. Over 46 per cent of public expenditure in the Eighth Plan was assigned to these areas. Partnership between the public and private sectors was being encouraged.

140. Women had historically lagged behind men in Pakistan's development. High priority was now given to the rôle of women, with a special Ministry for Women Development created in 1979 and specific programmes pursued under the Sixth and Seventh Plans. The thrust of policy during the Eighth Plan was on education, health, and encouraging income generation for women; in addition, removal of discrimination in education and employment and better information and communication on women's rights and responsibilities would be ensured.
141. Privatization would continue; 35 additional units had been identified for disinvestment and modalities for dis-investing two nationalized banks were also being examined. The critical linkage between investment policy and intellectual property rights was recognised, and inter-agency consultations were continuing with a view to overcoming Pakistan's reservations on protection of patented products.

142. Pakistan was signatory to a large number of ILO conventions, and had signed a Memorandum of Understanding with the ILO on the critical area of child labour. The recommendations of the Task Force on labour were being considered by the Government and adoption of these should remove the expressed concerns on this "new issue". Pakistan was concerned, like other developing countries, that linkage of labour standards with trade could be used as a cover for new forms of protectionism.

(b) Trade policy and trade régime

143. Participants welcomed Pakistan's trade liberalization. Reductions in barriers had improved efficiency. The introduction of a three-year tariff reduction programme was seen as a positive step. Some members asked whether the continuation of trade liberalization was consistent with the objective of the Eighth Plan (1993-1998) to limit the real growth of imports to 5 per cent a year.

144. Participants welcomed the abolition of Import Trade Prices for customs valuation and the introduction of transactions value, as verified by pre-shipment inspection. Pakistan was urged to move quickly to implement the provisions of the Customs Valuation Agreement.

145. Concerns were expressed over:

- the general registration requirement for companies engaging in foreign trade and the restrictions on employment of foreign managers;
- the high level of tariffs, with tariff peaks and substantial escalation;
- the low number of tariff bindings and the discretionary power available to state authorities under Statutes, Regulations and Orders (SROs), which reduced transparency;
- the use of export prohibitions, particularly on agricultural products, and of minimum prices, taxes and charges;
- the extension of export support through such measures as tax credits on export earnings; Pakistan was urged to bring such measures into conformity with the Uruguay Round Agreement on Subsidies and Countervailing Measures;
- lack of clarity in the use of standards on imported products;
- the justification for an additional 2 per cent sales tax imposed on 28 import items.

146. Participants also welcomed the reduction of the Negative Import List to 70 items and the elimination of the Restricted List. Questions were raised about the inclusion of textile products on the Negative List.

147. Questions were also asked about remaining trade privileges of the Trading Corporation of Pakistan and information was sought on advantages given to domestic enterprises in government procurement; in this connection, Pakistan was urged to join the Agreement on Government Procurement. Some members also urged Pakistan to bring its laws on anti-dumping and countervailing measures into accordance with the Uruguay Round agreements.

148. The representative of Pakistan stated that trade policy was traditionally fairly transparent, with key instruments published in the Official Gazette. Businesses were familiar with the SRO system; no official discretion was involved. The number of SROs, tariff exemptions and concessions was being steadily reduced. Fuller rationalization of the tariff structure by July 1996 should remove any problem
of perceived lack of transparency. Other trade policy instruments were not thought to present any problem of transparency.

149. The 5 per cent real import growth target was indicative, with no instruments to enforce it, and would not slow the liberalization process.

150. The general maximum tariff would be reduced to 35 per cent by financial year 1996/97, with minimum rates set at 10 per cent except for food, fertilizer, pharmaceuticals and energy sector imports; tariff dispersion would be limited through a 4-6 tiered tariff structure within the above maxima and minima; and further integration of the Pakistan tariff into the Harmonized System would be undertaken. This, together with the withdrawal of exemptions and concessions under SROs, would bring about full transparency in the tariff régime. However, the SRO system could not be abolished altogether.

151. Pakistan aimed to increase its scope of GATT bindings beyond 33 per cent. As a first step, imports of textiles were allowed at high bound rates, to give the industry breathing space for adjustment. Pakistan agreed to review its tariff peaks and would not escalate tariff rates beyond GATT bindings. The National Tariff Commission (NTC) would identify items that might require temporary protection as a result of tariff reductions. The NTC was also entrusted with anti-dumping functions under the Tariff Act 1990. Regulations being drafted would reflect the Uruguay Round standards and guidelines.

152. It was not yet practicable to extend the General Sales Tax (GST) at retail level across the board; however, as a first step, a 2 per cent fixed sales tax had been levied on the retail price of 49 items. Full details would be provided. The GST net had also been expanded from 486 to 863 items.

153. Pakistan currently followed the Brussels Definition of Value; this would be phased out under the Uruguay Round Agreement. As a first step, Import Trade Prices had been abolished; the pre-shipment inspection agency was responsible for verifying the transaction value of goods. Pakistan would need the five years’ transition period to implement the Uruguay Round Agreement.

154. The requirement that importers and exporters be registered with a government agency and be members of a Chamber of Commerce and Industry or an Exporters’ and Importers’ Association was originally intended to prevent frauds and facilitate handling of trade complaints and disputes. It was recognized that the system was outdated. Consultations with the business community, including foreign firms, on this issue would be initiated in spring 1995.

155. The Negative List consisted of about seventy 8-digit tariff lines, including 63 textile products on which restrictions were maintained for balance-of-payments reasons. Under the Uruguay Round, Pakistan was committed to removing quantitative restrictions on textile products form 1 July 1995; in addition, the achievement of current account convertibility left little rationale for maintaining such restrictions. The maintenance of remaining items on the Negative List was justified on account of religious, moral, security considerations or under international treaties.

156. The three state trading enterprises were established in 1972-73 partly to protect farmers against exploitation and malpractices. These corporations no longer enjoyed any trade monopolies. Their rôle now was, in part, to undertake procurement where the private sector did not yet have the necessary financial resources. The Cotton Corporation’s rôle in exports had diminished because of absence of surpluses; in fact the Corporation was engaged in 1994/95 in purchasing cotton from Central Asian states, because the private sector was not equipped to handle the difficult logistic problems involved in transportation through Afghanistan.
157. Like many other developing countries, Pakistan had not signed the Tokyo Round on Government Procurement Code. The bulk of government procurement business in Pakistan remained with foreign firms under foreign financing of major projects. Small-scale procurement remained with Pakistani firms, partly because of lack of sufficient interest by foreign firms; in addition, most local firms acted on behalf of foreign businesses. Price preferences for domestic suppliers were recognized by international institutions as a measure conducive to developing the private sector; and tolerated because of complaints regarding dumping practices by some State trading countries.

158. Pakistan’s standards requirements did not apply to imported products. Relevant ministries were authorized to establish quality and safety requirements for imported goods, with Customs ensuring compliance.

159. There were no duties on exports. However, exported goods were subject to provincial levies and to an export development surcharge of 0.25 per cent of the f.o.b. value. Twenty-six products were prohibited for export; items subject to quota restrictions, minimum price restrictions, special procedures and quality control restrictions and contract registration requirements were published. Export earnings were exempt from tax on a scale ranging from 25 to 90 per cent, but exports were subject to an across-the-board tax of 1 per cent of f.o.b. value.

(c) Sectoral questions

160. Participants welcomed the market-oriented measures introduced in agriculture and industry. Questions were asked about Pakistan’s self-sufficiency in dairy products, subsidies on domestic and imported wheat and restrictions on imports of meat.

161. Participants recognized that, with about 60 per cent of exports in the cotton group, Pakistan was vulnerable to changes in the external environment. Questions arose about diversification of exports.

162. The representative of Pakistan emphasized that the self-sufficiency goals of the Eighth Five Year Plan were essentially indicative. Moves towards market-oriented agricultural policies had been accelerated; self-sufficiency would be achieved through such policies. Cotton and rice were not subsidized; however, wheat, as a basic food, received consumption subsidies, which were also extended to imports. Government imported wheat through open tender, and wheat imports had been opened to private trade. Although tariffs on dairy products were high, they would be reduced under tariff reforms. Ceiling bindings on agricultural commodities, at 100 to 150 per cent, compared favourably with those of other countries.

163. To subject the textile and clothing industry to increased competition, the concessional credit facility and dual cotton pricing system had been phased out; moreover, access to fibres, yarns and cotton substitutes had been improved by allowing imports at reduced tariffs. Pakistan was committed to removing textiles from the Negative List by 1 July 1995; tariffs would be reduced to 35 per cent for garments, 25 per cent for fabrics and 15 per cent for fibres and yarns. It was hoped that diversification of the export sector would result, including into non-traditional items.

(d) External environment

164. Participants commended Pakistan for its active participation in the Uruguay Round, especially in the textile and clothing area. Participants urged Pakistan to implement fully its obligations under the WTO as soon as possible.
165. Questions were raised about Pakistan's policy towards regional integration, including exchanges of concessions under the South Asian Association for Regional Cooperation.

166. Participants recognized that a favourable external economic environment was needed for the consistent implementation of Pakistan's reform programme. In this regard, the full implementation of the Uruguay Round commitments, especially on textiles and clothing, was of crucial importance.

167. The representative of Pakistan replied that Pakistan had ratified the WTO in full recognition of the higher level of obligations required. Ministries were currently working out measures necessary to implement individual agreements. The success of the WTO would, however, hinge on the implementation of the obligations by the major trading nations and the understanding they might display towards the adjustment difficulties of countries representing small shares of world trade.

168. Despite reservations about the drift towards regional arrangements, Pakistan recognized that, if kept within the legal confines of the GATT, these could contribute to increased trade.

169. Most quotas on Pakistan's textile exports remained in place. However, modification of the existing agreements had mitigated the rigour of the quotas; some had been removed and in other cases enhanced flexibility had been extended. There was considerable concern about the erosion or withdrawal of GSP for textiles in the European Union. The rigorous implementation of standards, combined with rapid enforcement of pre-shipment inspection and quality controls, had reached the point of becoming a technical barrier to trade. NAFTA rules of origin were encouraging a shift of textiles production from Pakistan to the NAFTA region.

Conclusion

170. My conclusion from this review is that Pakistan has been warmly praised for its adjustment efforts and the liberalization being undertaken. Pakistan was encouraged to continue this process steadfastly. The proposed tariff reform and the elimination of textiles from the Negative List are particularly welcome; members clearly hope that these will be reinforced by an increased number of tariff bindings. At the same time, a supportive external environment is important.