DRAFT REPORT ON THE CONSULTATION WITH PAKISTAN

1. In accordance with its terms of reference the Working Party has conducted the consultation with Pakistan under paragraph 4(b) of Article XII.

2. The Working Party had before it:

(a) a basic document prepared by the secretariat, describing the system and methods of the balance-of-payments import restrictions in operation in the Federation, and including a brief statement on the effects of the restrictions which reflected the views of the Pakistan authorities;

(b) documents provided by the International Monetary Fund.

These documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultations the Working Party followed the "Plan" recommended by the CONTRACTING PARTIES for consultation under the two provisions. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Pakistan. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its last consultation with Pakistan, and a supplementary paper on developments since that consultation. In accordance with agreed procedure, the representative of the Fund was invited to make a

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1 See QRC/17
The statement supplementing the Fund's documentation concerning the position of Pakistan. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with Pakistan under Article XIV of the Fund Agreement, which consultation was concluded on December 12, 1956.

"As some time has elapsed since the conclusion of this consultation with Pakistan, the Fund has also provided a supplementary paper on Pakistan, dated October 7, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the last consultation under Article XIV of the Fund Agreement, and the results of that consultation, have been distributed to the members of this Working Party.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the general level of restrictions of Pakistan which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Working Party is drawn to the results of the last Fund consultation with Pakistan. Pending the conclusion of its 1957 consultation with Pakistan, the Fund has no additional alternative measures to suggest."

5. The Working Party heard a statement from the representative of Pakistan in which he briefly described the economic background of the country, the policies being pursued in economic development and in the application of import restrictions. In the latter field, attention was particularly drawn to the virtual elimination of discrimination against dollar imports. The full text of the statement is given in Annex I.

Balance of Payments Situation and Prospects

6. The representative of Pakistan described recent developments in the balance of payments of the country (see Annex II). It was stated that the heavy deficit in the balance of payments in 1956 had been due to the failure in crops which necessitated the import of large quantities of foodgrains. Although there had been an improvement in the crop situation, the decline in reserves had continued in 1957. In spite of the decline in gold and foreign exchange reserves, the liberalization measures taken earlier had generally been maintained. The long-term objective of the Government was to raise the
exchange reserves to a higher level but for the immediate future it had to be content with merely holding the line. In the circumstances no further liberalization of imports should be expected, but the general policy remained that restrictions on imports should be removed to the full extent as any improvement in the balance of payments would permit.

7. Members of the Working Party, noting that the principal cause of Pakistan's recent difficulties had been the failure in foodgrain crops in 1955-56, requiring large imports to meet urgent demand, enquired about the general situation of food production and supply. In answer to various questions the representative of Pakistan stated that following some years of deficiency the three or four years prior to 1955/56 had been normal in the sense that production of foodgrains was not only sufficient to meet domestic demand but gave a certain surplus for export. Deficiency had reappeared in the last two years but the current year again saw improvement. As the crops depended preponderantly on natural conditions it was difficult to prognosticate on the future. A member of the Working Party noted the improvement in cereal production in 1956-57 and enquired whether the Government of Pakistan was considering meeting more of the essential requirements of industry and other needs for imports, rather than concentrating on further accumulation of food stocks. A policy of liberalizing imports, insofar as it might have a salutary effect on internal prices and export capacity, might be worth pursuing even if this implied a slower rate of accumulation of buffer food stocks. On this point the representative of Pakistan explained that the recent need to import large quantities of food had been due purely to the unexpected successive failures in crops. In the past, steps had been taken to build up stocks to meet emergency demand, and because of the very nature of the problem it was necessary to do so for the future also, but it was hoped that with increased acreage and improvements in production methods the local need would gradually be met fully by domestic production. To that extent the pressures on the balance of payments would be eased and the need to restrict imports would be lessened.

8. The statistics available to the Working Party showed a substantial increase in exports from Pakistan to the United States in 1956. Requested by the representative of the latter country to indicate the causes and factors responsible for that increase, the representative of Pakistan referred to the intensive efforts which had been made by his Government to promote exports to various countries, including the United States with which Pakistan had always had an unfavourable trade balance, and expressed the hope that the continuing efforts being made would be accompanied by further improvements in the trade balance with that country.

9. In answer to a question whether the elimination of discrimination had had favourable effects on internal costs and prices, the representative of Pakistan said that although it would be difficult to cite any specific instances as evidence, it was generally believed that the lowering of import costs by allowing merchants to purchase from the cheapest source could not but have the effect of
lowering local costs of production. As the policy of non-discrimination had been pursued for several years, any comparison of the costs and prices would have to be made with those prevailing some time ago; such a comparison would be unlikely to yield precise or useful results.

10. A member of the Working Party enquired whether the growing production of processed jute goods in Pakistan meant that supplies of raw jute to foreign markets would be curtailed in future. The representative of Pakistan stated that at present the Government was exercising control on production and acreage and production could be easily increased if there were a greater demand. Raw jute constituted more than 45 per cent of Pakistan's exports and the Government was keen to maintain this export at reasonable prices and meet the external demand in full to enable jute to compete with synthetic and other substitutes. This position would not be affected by indigenous production of processed jute goods.

11. Members of the Working Party, especially those representing countries in the dollar area, expressed gratification at the progress which had been made by the Government of Pakistan in liberalizing imports and in removing discrimination. They emphasized the desirability and advantages of reducing to the minimum the discriminatory element in restrictions.

Alternative Measures

12. Referring to Part II of the Plan for Consultations, the representative of Pakistan described the measures which had been taken by his Government with a view to contributing to the restoration of equilibrium (see Annex III). Basically emphasis was placed on economic development in both the industrial and agricultural sectors. As regards short-term measures, attention was called to the limit to which fiscal and monetary measures could be relied upon in an essentially agricultural economy with a low standard of living. In particular, as imports and production were both concentrated on meeting the essential requirements of the population, there was little scope for increases in taxation. The change in the par value of the Pakistan rupee in 1955 had resulted in curtailing the purchasing power, and in the current year certain measures in the credit field had been taken, notably the introduction of selective credit controls by the State Bank.

13. For further information on the plans being followed in the field of economic development, the representative of Pakistan referred to the International Monetary Fund's background paper of 16 November 1956, noting that the development programme was a predominant factor in any determination that the Government might make regarding the level of monetary reserves and restrictions. He stated that in 1950 the Government drafted a Six Year Development Plan. Emphasis in that Plan was on development of agriculture, transportation and communications. In 1951 a two year priority Plan was introduced raising the total volumes of expenditures. This expansion was made possible because of substantial accretions
to the foreign exchange resources of the country resulting from the Korean boom. A Five Year Plan was published by the Planning Board of the Pakistan Government in May 1956 and was being further scrutinized pending final ratification by the Government. In pursuing the policy of economic development, special attention was paid to the maintenance of an even pace of progress and to the avoidance of giving impetus to uneconomic or non-competitive industries.

14. A member of the Working Party wished to know whether the plans of economic development took adequate account of the requirements of the rapid increase in population; whether the increase in food production would keep pace with the rising demand resulting from economic development or whether increases in food requirements would put lasting strains on the balance of payments. The representative of Pakistan pointed out that in the development programmes particular stress was laid on agriculture. Within the last few years very sizeable projects had been undertaken which aimed at increasing the production of foodgrains. As a result of these measures it was expected that the increase in production would be at a much higher rate than the increase in population.

15. A member of the Working Party called attention to the substantial rise in budgetary deficit in the fiscal year 1957-58, and the inflationary dangers involved in heavy borrowing from the State Bank. The representative of Pakistan replied that budgetary deficits could be met in the present circumstances mainly by borrowing from the Central Bank. A developing economy should always be prepared to face the problems of inflation but the Pakistan Government was fully aware of the dangers and was therefore keeping a close watch on the situation. At the request of members of the Working Party, the representative of Pakistan described the manner in which the "counterpart fund" was operated. It was noted that the fund, accumulated through the selling of imported foodstuffs, was not always spent by the Government to meet its own needs; to that extent the inflationary effect should be mitigated.

16. Members of the Working Party welcomed the statement by the Pakistan Government which showed its Government's awareness of the problems and dangers of inflation and its determination to restore equilibrium through internal measures.

System and Methods of Restrictions

17. The Working Party took note of the system and methods of restrictions as described in the basic document prepared by the secretariat. In discussing the licensing procedure the attention of the Working Party was called to the difficulties caused to importers and exporters by delays in the issue of import licences. It was noted by a member of the Working Party that complaints had been raised by traders in his country about the time required for obtaining licences in Pakistan. The hope was expressed that as a result of the Pakistan Government's recent action to decentralize the administration of import control, there would be an improvement in the situation. The representative of Pakistan informed the Working Party that the question of avoiding delays in issuing licences had already been under consideration and that the plans for decentralization had been adopted principally with a view to lessening the possibility of hardships of this nature. He pointed out, however, that in a country such as Pakistan, the long distances which often separated the administrative organs from certain localities were a factor which contributed to such delays.
18. The Working Party discussed with the representative of Pakistan questions relating to the use of bilateral agreements. A member noted that the IMF, at its last consultation with Pakistan, had urged that Pakistan should as far as possible eliminate the use of bilateral agreements, and pointed out that although considerable progress had been made since that time, there had entered into force new bilateral agreements with certain countries. The representative of Pakistan, asked to comment on the extent to which attention was given by his Government to the interests of countries whose trade was conducted purely on a multilateral basis, stated that such agreements as entered into by Pakistan provided for bilateral quotas only for a small proportion of the trade between the countries concerned, and that only an infinitesimal part of Pakistan's imports was covered by such bilateral quotas. In the import policy, provisions were always made for imports from other countries, for items which were included in bilateral quota agreements. The agreement recently concluded with Japan was necessary inasmuch as Japan was Pakistan's important customer, taking about 30 per cent of her total exports of cotton. Such agreements were concluded not because of any desire for them but because of external factors beyond the control of the Pakistan Government, including, for example, the relative scarcity of sterling and the unwillingness of some countries to enter into any trading relations except on a bilateral basis.

19. A member of the Working Party thought that the arrangement by which Pakistan sought to encourage other countries to purchase her cotton would appear not to be very different from one of barter and as such would be unlikely to confer any particular advantage on the country which sold raw materials and foodstuffs. The representative of Pakistan explained that there was nothing in these agreements to resemble barter. He noted, however, that his Government fully appreciated that bilateral quotas involved some discrimination and in certain circumstances might lead to a disadvantage in the real terms of trade. In the agreements his Government had entered into, however, the element of discrimination was extremely small since, as noted above, the trade affected constituted only a minute proportion both of Pakistan's total trade and of the trade covered by the particular agreements. Measures were taken to keep a check on prices in order to protect the interests of importers. Furthermore, as Pakistan's obligations under such agreements were merely to issue licences, and as global licences were also available for the same items, importers were generally able to make purchases at reasonable prices.

20. The representative of Sweden pointed out that there were instances where it was understood that the entire import quota for an item was reserved for a bilateral partner; Sweden's export of hardware to Pakistan had been stopped because licences were being issued for imports from Japan only. Sweden fully appreciated the difficulties of Pakistan, but as a country applying free list treatment to Pakistan goods, would wish to see that its exports were not unduly discriminated against. The representative of Pakistan pointed out that it was usual to issue global licences as well for items for which single country licences were issued. Further the trade affected by such licences was negligible compared
with total imports which were virtually admitted without discrimination. He noted that the aim of his Government was to ensure non-discrimination to the fullest extent possible.

21. Members of the Working Party expressed appreciation of Pakistan’s policy of non-discrimination, and the hope that further efforts would be made to reduce the remaining elements, and eventually to eliminate the last vestiges of discrimination. The representative of Pakistan referred to certain factors – such as the non-convertibility of currencies, restrictions in certain markets, bilateral policies of other countries – which rendered it difficult for his Government fully to achieve the objective of non-discrimination. The fundamental policy of Pakistan, however, was to reduce discrimination and the use of bilateral arrangements to the minimum.

22. A member of the Working Party referred to the half-yearly licensing programmes followed in Pakistan and observed that if a measure of continuity was not followed in the items permitted under these programmes, it would have a disturbing effect on the continuity of trade. He noted the practice of administering the import programme on the basis of allocations of exchange to individual importers and the limited facilities for new importers. There was a danger that the interests of exporters in other countries could be adversely affected if the system precluded them from selecting the most effective import agents. With regard to adequate publicity given to the licensing policy and the list of permitted imports, he asked for an assurance that these were always published.

23. In answer to this the representative of Pakistan stated that the system under which import licensing policy was drawn up every half-year was adopted in order that full account could be taken of developments in export earnings which varied seasonally and were subject to fluctuations. The present system of providing quotas on the basis of previous imports, which might lead to a certain amount of difficulties to new-comers, was receiving attention. The semi-annual import policies and related regulations etc., were always published in the Government Gazette.

24. According to the documentation before the Working Party, some 311 items were permitted to be imported in 1955, while in the second half of 1957 the number of items was only 240. A member of the Working Party, referring to this change, wished to know to what extent the number of items reflected the degree of restriction. The representative of Pakistan replied that the list of items published in the official Gazette related to items for which licences were issued; all other items were not licensable except in the case of certain industrial goods, etc., which could be imported under special schemes. The list was revised every half-year in the light of the essentiality; domestic requirements, supply conditions of the individual items; insofar as a larger total allocation might be provided for the import of a smaller number of items, the number of items licensable gave only a limited indication of the level of restrictions.
Effects of the Restrictions

25. Certain members of the Working Party urged that, as promptly as the payments position permitted, Pakistan relax its restrictions, particularly on imports of those products which were produced locally, and hoped that no opportunity would be lost to make the producers aware of the temporary nature of the restrictions. The representative of Pakistan stated that while his Government was keen to provide competition to local producers as far as possible, the present balance-of-payments situation did not permit the import even of certain essential goods to a desirable extent. In conclusion the representative of Pakistan reaffirmed that his Government was doing all it could to ensure that as large a volume of imports as possible was admitted.
ANNEX I

INTRODUCTORY STATEMENT BY THE REPRESENTATIVE OF PAKISTAN

1. You have already invited attention to the relevant documents. My delegation is thankful to the secretariat and the representatives of the International Monetary Fund for preparing these useful and comprehensive documents which contain detailed information on the various aspects of the import restrictions applied by Pakistan. These papers have been before the members for some time and I shall not take the time of the Working Party in repeating their contents. I would only say that there has been no change in policy or circumstances after the preparation of these documents.

2. Pakistan's earnings of foreign exchange depend mainly on export of a small number of agricultural and primary commodities. Trade in these products is characterized by uncertainties of production, fluctuations in prices and vicissitudes of demand abroad. To reduce this inherent instability in the economy of the country and to introduce balance, a planned programme of industrialization has been undertaken for the past seven years. Progress in this programme has been rapid and it has resulted not only in self sufficiency in a wide range of manufactured goods but also in their export which has been showing signs of increase every year in case of certain important items. Establishment or expansion of only such industries as can earn or save foreign exchange is permitted. Setting up of new industries requiring the use of imported raw materials in any appreciable degree is not allowed. Foreign and private investment in industry is encouraged. Of late more stress is being laid on the development of agriculture.

3. The system of import licensing followed by Pakistan is virtually non-discriminatory. The licences issued are valid for all countries of the world and importers can make their purchases from the best and cheapest source. Through these measures unnecessary damage to the commercial or economic interests of any particular country is avoided.

4. In principle the use of import control and restrictions is considered as a temporary expedient. In actual practice the import restrictions have continuously remained in force for a long time due to the persistent nature of the balance-of-payments difficulties.

5. Pakistan has bilateral trade agreements in force with a number of countries. These agreements, with the exception of one namely that with Japan, are non-discriminatory in nature as they do not involve any bilateral quotas. The agreed schedules or lists represent only estimates of trade in a given period and imports from agreement countries also take place against global licences. In effect therefore the agreements are designed to achieve expansion of trade on a multilateral basis. Due to scarcity of pound sterling experienced by certain countries and strictly bilateral policies followed by others, this policy of non-discrimination has been causing loss of some markets to Pakistan's exports, particularly that of cotton, exports of which to certain Eastern European countries has stopped totally. In view of the soundness of the policy and the overall advantages of a multilateral system it is the present intention of my Government to continue this policy as far as practicable.
ANNEX II

STATEMENT BY THE PAKISTAN REPRESENTATIVE ON THE BALANCE-OF-PAYMENTS POSITION AND PROSPECTS

1. Pakistan is self-sufficient in food-grains and normally has small export surpluses, but failure of crops necessitated heavy imports of food-grains in 1956 and 1957. This factor mainly led to a considerable increase in the level of total imports in 1956 compared to 1955. The deficit on goods and services account of the balance of payments in 1956 amounted to Rs. 810 million against a surplus of Rs. 23 million in 1955.

2. Total gold and foreign exchange assets declined from an equivalent of US $329 million in June 1956 to $282 million in December 1956. Due to the continued import of food-grains in 1957 and steps taken towards liberalization in 1957 there has been a further substantial decline in the foreign exchange reserves with the result that they have been near the minimum statutory requirement. The special features of the country's economy, namely the seasonal character of exports, element of uncertainty in them, the expansionary needs of a developing economy and sizable future liabilities for repayment of external loans point to the dire need of reducing the existing unbalance in payments and of increasing the present unsatisfactory level of the foreign exchange reserves. This would, however, be a long-term objective. The short-term aim of the import control is to conserve foreign exchange for the import of essential supplies, in particular spares and raw materials for industries, so that the unused capacity is utilized for fuller production.

3. During two years heavy purchases of food-grains have offset small gains in exports especially of jute manufactures and cotton textiles. These purchases are still continuing and in the circumstances there is no immediate prospect of relaxation or elimination of restrictions. In a longer period, improvement in the production of food-grains for the realization of which all possible measures are being taken may result in further liberalization in the form of import of essential items for which there is a pent-up demand in the country.
ANNEX III

STATEMENT BY THE PAKISTAN REPRESENTATIVE ON
ALTERNATIVE MEASURES TO RESTORE EQUILIBRIUM

The nature of the problems of Pakistan's balance of payments in essence is such that equilibrium can be restored only by increased production in the country, both in the agricultural and industrial sectors. Efforts are being directed to achieve this end as rapidly as possible, at the same time avoiding the undesirable trends which may accompany too ambitious plans or too quick a growth. In addition, foremost attention is being paid to export promotion.

In a country where 80 per cent of the population is employed on agriculture, lives in rural areas and has comparatively conservative habits towards the use of modern techniques of credits like the banking systems, there is a definite limitation to the adoption of internal fiscal and monetary measures.

So far as taxation measures are concerned, the present position is that goods on which increased taxation in various forms might be most useful are largely excluded from importation programmes. The imports consist mainly of such essential items as raw materials, spares of machinery, drugs and medicines, oils and fuels, and transport equipment. The increased rate of taxation on them would inflate the cost of domestic production and the general level of prices. Similarly, it was desirable to have comparatively low interest rates in a developing economy in order to stimulate production. Besides, commercial banking in Pakistan was being operated on a conservative basis and the needs of the economy were not being satisfied to the full extent. Nevertheless, as a result of policies followed by the Government, certain corrective measures have emerged in these spheres as well. Consequent on devaluation of the Pakistan rupee in August 1955, the rupee price of imports increased by 40 per cent in terms of local currency. Besides, the devaluation had resulted indirectly in an increase in the cost of imports since most import duties were on an ad valorem basis. In a country where purchasing power was limited, its further curtailment as a result of the above-mentioned factors has already attracted wide criticism. Further, in June 1957 the State Bank imposed certain selective credit controls with a view to checking the hoarding of imported goods and to directing credits to more essential purchases. Measures have also been sponsored by Government and private insurance and banking interests to encourage savings particularly in moderate and low income groups.