RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

L/2300
4 December 1964

Limited Distribution

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH PAKISTAN

1. In accordance with its terms of reference, the Committee has conducted the consultation with Pakistan under Article XVIII:12(b). The Committee had before it a basic document for the consultation (BOP/36), a decision by the Executive Board of the International Monetary Fund, dated 6 November 1964 (see Annex II), and documentation supplied by the Fund containing background material.

2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 11 November 1964. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. 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 the consultation with Pakistan. In accordance with the agreed procedure the representative of the Fund was invited to make a 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 Executive Board decision and background material from the recent consultation with Pakistan under Article XIV of the Fund Agreement.
>
> "With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of November 6,1964 taken at the conclusion of its recent consultation with Pakistan, and particularly to paragraph 5 which reads as follows:
>
> > 'The Fund welcomes the recent liberalization in the trade and payments system of Pakistan, including further steps to simplify and liberalize restrictive administrative practices relating to imports.

Pakistan continues to rely on multiple currency practices originating in the Export Bonus Scheme. The Fund welcomes the reduction in the number of multiple rates on the export side and does not object on a temporary basis to the existing multiple currency practices, but urges that early steps be taken to eliminate the remaining such practices. The Fund urges Pakistan to reconsider the need for its bilateral payments arrangements.'

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its recent Article XIV consultation with Pakistan. The Fund has no additional alternative measures to suggest at this time."

Balance-of-payments position and prospects

4. In his opening statement, the text of which will be found in Annex I, the representative of Pakistan noted that in spite of its balance-of-payments difficulties, Pakistan has relaxed its import restrictions whenever possible so as to allow a higher and higher level of imports, and Pakistan would have been glad to admit even greater imports but for the limitations imposed by its lack of foreign exchange. He noted also that Pakistan will soon complete its second Five-Year Plan and that total expenditures on development will have exceeded the planned amount, a further indication of the liberal character of Pakistan's import policies.

5. Members of the Committee welcomed the measures of relaxation of import restrictions which have recently been taken in Pakistan, notably the liberalizations of a wide range of raw materials and spares, and expressed the hope that Pakistan would continue to reduce obstacles to imports and to do everything possible to simplify the restrictive system.

6. Reference was made to the Fund's decision in which it was urged that Pakistan take early steps to eliminate remaining multiple currency practices, and the question was asked whether Pakistan envisaged that it might be possible to eliminate the Export Bonus Scheme in the near future. The representative of Pakistan recalled that this plan had originally been introduced in 1959 as an emergency measure to meet an acute shortage of foreign exchange. Though export receipts have since improved, import requirements have also grown so that the Government has been obliged to continue the Scheme, even though various readjustments have been made which show Pakistan's disposition to reconsider it. A further question sought information on the nature of the adjustments which have been effected in the Scheme; it was asked whether, in view of the Article XVI implications of maintenance of the Scheme, it might be possible soon

to eliminate it or, at least, to provide that as soon as any particular item, such as jute manufactures, established itself on the world market, it shall cease to qualify for bonus import licences. Another possible improvement, to which Pakistan might perhaps give attention, would be a reduction of the extent to which vouchers generated by the Scheme are transferable. In reply, the representative of Pakistan explained that adjustments have had the effect of reducing the degree of benefit obtained from exporting under the Scheme, though not of reducing the number of items eligible for export under the Scheme. As to when the Scheme might be abolished altogether, he said that he could not give any firm prediction but he would hope and expect that this might be possible within, say, two to three years. In reply to a further question, he gave his assurance that his Government's decision to extend the authority to maintain the Scheme until 1970 did not mean that a decision had been taken to continue it as long as that. Pakistan was well aware of the Fund decision on this subject. Meantime, he emphasized, it greatly facilitates imports, especially of consumer goods, many of which cannot be imported in any other way.

7. Members of the Committee commented favourably on the growth in foreign private investment which has taken place in Pakistan and on the incentives to such investment which have been provided. They hoped that Pakistan would continue to reduce obstacles to foreign private investment and to provide conditions which would promote further investment.

Alternative measures to restore equilibrium

8. It was noted by the Committee that although prices in Pakistan have, up to now, remained fairly stable, there has been no slackening in the expansion of the money supply. A member of the Committee suggested that this might be a situation which could, after some time lag, result in pressure on the balance of payments of Pakistan as well as pressure on the domestic price level. He enquired how the Government of Pakistan viewed this situation and whether there was thought to be any need for checks. The representative of Pakistan recognized that the monetary expansion did indeed call for some curb on expenditures, and he said that the recent public statement of the Governor of the State Bank had called attention to the need for greater effort by the Government to reduce reliance on the banking system. However, in the face of the very special problems confronting the Government, notably his country's urgent need for development of water resources and for dealing with the salinity problem, it was difficult to cut down on expenditure. Maximum restraint, he felt, was already being exercised.

System and methods of the restrictions

9. Attention had already been given, in earlier discussion, to the recent measures of liberalization adopted by Pakistan with respect to raw materials and spares. Appreciation was again expressed and one member expressed the hope

that the shift of items to the free list might be regarded as permanent as not as being applicable only for the current shipping period.

10. A member of the Committee suggested at this point that, in the interests of full utilization of installed capacity of Pakistan's industry, spares would better be licensed against cash rather than under tied aid, so that imports could be purchased from the cheapest source rather than from the tied source, which might not always be selling at the world price. This consideration appeared all the more important since a requirement to purchase at a premium price might in some cases discourage any purchase at all, with the result that machinery would remain idle. The representative of Pakistan agreed that most spares are purchased either under tied aid or under the bonus scheme and that either way prices tend to be high, but he noted that there were compensating advantages in some cases; for example, it was often quicker and sometimes more satisfactory to buy spares from the same source as that from which the original equipment came. He promised to transmit to his Government the suggestion that spares be imported under cash licensing but was not optimistic about its acceptance.

11. A question was also asked about new facilities offered by Pakistan to permit newcomers to obtain licences to import. While it was agreed that the alternative of confining licences to established importers risked the creation of a monopoly position for them, one member of the Committee felt that Pakistan might perhaps take care that licences were not distributed in such a way that goods ordered could not afterwards be serviced properly.

12. A question was asked whether foreign exchange ceilings applied to products under the automatic licensing procedure did not in fact constitute a certain restriction on imports. It was agreed that the ceilings probably do check reordering, even though the procedure is, within its limits, "automatic".

13. Early in the consultation, one member of the Committee enquired whether Pakistan felt that barter deals, of which some had recently been reported, were of benefit, considering that they may involve the diversion of exports from sale at better prices for convertible exchange. The representative of Pakistan did not believe that his country had any intention of entering into such agreements on an extended scale. Recent agreements, such as one with India and another with Yugoslavia, had been confined for the most part to the exchange of one commodity for another in small amounts; on the other hand, he affirmed that the price being obtained was always taken into account so that no deals were being made at a loss.

14. A member of the Committee referred to the decision of the International Monetary Fund urging Pakistan to reconsider the need for its bilateral payments arrangements and recalled that at the last consultation with Pakistan in this Committee recommendations in the same sense had been made. He expressed the hope that Pakistan would in fact consider the elimination of the few remaining bilateral payments arrangements.

Effects of the restrictions

15. It was noted that Pakistan's import system remains complex, possibly as a result in part of the recent welcome measures to relax restrictions. It was felt that the system might well confuse traders, and the Government of Pakistan itself might find it advantageous to take this opportunity to simplify the system by shifting some items, including some under Open General Licence and some others now or until recently under the bonus scheme, to the free list. Even though the bonus scheme had represented some easing of import restrictions when it was first introduced, it was felt that now might be a good time to attempt a consolidation of the Open General Licence lists, the free list and other imports which were in fact being licensed freely, in such a way that no item would receive worse treatment than it does at present.

General

16. The Committee thanked the representative of Pakistan for the interesting and informative responses which he had given to the Committee's questions. The representative of Pakistan promised to bring the views and suggestions of members of the Committee to the attention of his Government.

ANNEX I

OPENING STATEMENT BY THE REPRESENTATIVE OF PAKISTAN

I take this opportunity to present the background document prepared by the Government of Pakistan in compliance with Article XVIII:12(b), which explains the balance-of-payments position existing at present.

The basic document gives information, to begin with, on the legal and administrative basis of the restrictions, relating to import and export trade of Pakistan, methods used in controlling imports, treatment of imports emanating from different sources, etc.

It will be observed that the legal and administrative basis of the trade regulations in Pakistan has been in existence since over fourteen years. It would, however, be seen from past and recent import performance, that the regulations were being applied positively and were being relaxed from year to year so as to allow imports at higher and higher quantum. It will also be seen from the document that different methods and means had been adopted, to allow imports with least hindrance.

The volume of imports from year to year would have been higher still if it had not been due to the limitations imposed by foreign exchange earnings through exports. Even having this limiting factor it has been the constant effort of the Government of Pakistan to use the foreign exchange at its disposal to the maximum extent possible so as to enable the country to obtain consumer as well as capital goods from abroad.

The Committee may be aware that Pakistan will be completing the Second Five-Year Plan of development by the middle of next year, and will immediately embark thereafter on the Third Five-Year Plan. In the current Plan period, the country would have spent Rs.2,445 crores exceeding the original target by Rs.145 crores. This fact further establishes that the Pakistan Government has followed liberal policies to allow imports into the country.

I have, therefore, no reason to doubt that the Committee after examination of the document, will be satisfied with the performance of Pakistan in respect of Article XVIII:12(b).

ANNEX II

International Monetary Fund Executive Board Decision Taken at the Conclusion of the Fund's Consultation with Pakistan on 6 November 1964

The Government of Pakistan has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

Industrial output continued its rapid rise and a significant increase in agricultural production was obtained in 1963/64. During the first four years of the Second Plan national income is estimated to have increased by about 22 per cent as against the goal for the full five-year period of 24 per cent. Prospects for the last year of the Plan are considered good. The outline for the Third Five-Year Plan calls for a further increase in real national income by 1970 of at least 30 per cent.

The monetary measures introduced in the summer of 1963 have not resulted in any reduction in the credit expansion. Credit to the private sector has continued its rapid rise and the public sector which had become a net borrower in 1962/63 greatly increased resort to the banking system in 1963/64. The increase in money supply during 1963/64 amounted to over 17 per cent, only slightly less in relative terms than in 1962/63. The Fund, while noting that domestic prices appear to have remained relatively stable so far, agrees with the monetary authorities that there is need to proceed cautiously in the future and hopes that in particular the reliance of the public sector on the banking system will be reduced.

The balance of payments in 1963/64 reflects in part the impact of the rapid monetary expansion occurring in the last two years. There was a loss of reserves in spite of a good performance in exports during the year. However, part of the reserve loss was attributable to temporary factors, mainly consisting of pre-financing of imports to be paid for with foreign aid.

The Fund welcomes the recent liberalization in the trade and payments system of Pakistan, including further steps to simplify and liberalize restrictive administrative practices relating to imports. Pakistan continues to rely on multiple currency practices originating in the Export Bonus Scheme. The Fund welcomes the reduction in the number of multiple rates on the export side and does not object on a temporary basis to the existing multiple currency practices, but urges that early steps be taken to eliminate the remaining such practices. The Fund urges Pakistan to reconsider the need for its bilateral payments arrangements.

In concluding the 1964 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Pakistan.