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PAKISTAN

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment			
Nominal GDP 2/	63.2	63.3	60.3
Real GDP Growth (pct)	1.9	4.3	3.1
GDP by sector (pct):			
Agriculture	25.3	25.2	24.5
Manufacturing	17.7	18.3	18.6
Services	8.5	9.7	8.9
Government	6.2	6.1	6.1
Real Per Capita GDP (US$)	493	483	483
Labor Force (Millions)	36.8	37.7	38.6
Unemployment Rate (pct)	6.1	6.1	6.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	12.2	14.2	3.5
Consumer Price Inflation	11.8	7.8	6.1
Exchange Rate (Rupees/US$)			
Official	40.5	46.0	51.4
Parallel	41.6	52.2	54.2
Balance of Payments and Trade			
Total Exports FOB 3/	8.1	8.4	7.7
Exports to U.S.	1.4	1.7	1.7
Total Imports CIF 3/	11.2	10.3	9.3
Imports from U.S.	1.4	1.1	0.7
Trade Balance 3/	-3.1	-1.9	-1.6
Balance with U.S.	0.0	0.6	1.0
External Public Debt	27.9	29.7	28.6
Fiscal Deficit/GDP (pct)	6.5	5.5	4.5
Current Account Deficit/GDP(pct)	6.2	3.2	3.0
Debt Service Payments/GDP (pct)	5.9	5.0	6.3
Gold & Foreign Exchange Reserves	1.9	1.54	2.3
Aid from U.S. (U.S.$ millions)	1.9	1.9	1.0
Aid from All Other Sources 4/	154	97.1	221.1

1/ Data are for the corresponding Fiscal Years ending June 30. Rupee exchange rates used to convert to dollars are 38.9 for 1997, 43.2 for 1998, and 50.2 for 1999.
2/ GDP at factor cost.
3/ Merchandise trade.

4/ No military aid is believed to be included in these figures. Figures are for grant assistance

Sources: Various government, including State Bank of Pakistan and Ministry of Finance.

1. General Policy Framework

In late 1999, Pakistan's economy continued in financial crisis. Following a difficult 1998 due to nuclear tests, the economy stabilized due to debt rescheduling and placing back on track the International Monetary Fund's (IMF) Enhanced Structural Adjustment Fund/Extended Fund Financing (ESAF/EFF) program in January 1999. Foreign exchange reserves climbed back up and stabilized to around $1.6 billion in late 1999. Foreign investment in FY 1998-99 plunged to $376 million, due to the poor investment climate and unresolved disputes with independent power producers. The government projects a growth rate in FY 1999-2000 of 4 to 5 percent, up from 3.1 percent in 1998-99. Inflation remains under control due to slow monetary growth, lower international prices and the relatively stable rupee; it is projected to be around 6 percent.

Pakistan's economic performance has been handicapped in recent years largely because of ineffective governance and weak policy implementation. Pakistan has the potential to achieve higher growth levels if the Government of Pakistan takes effective measures to achieve macro-economic stabilization and increase economic efficiency by restructuring its power sector and introducing financial sector reforms. The biggest challenge facing American firms in Pakistan is inconsistent, sometimes contradictory policies, and a recent record of not adhering to agreements reached with foreign investors. There is also a lack of transparency in government decision-making, coupled with allegations of systemic corruption. The new military government, which took over on October 12, 1999, has targeted economic revival as a main priority. Its stated goals are restoring investor confidence through stability and consistency in economic policies, increasing domestic savings, carrying out tax reforms, turning around state enterprises, boosting agriculture, and reviving industry.

Monetary policy: Recent monetary policy has been aimed at encouraging growth in the context of price stability. The government and the State Bank of Pakistan (SBP) are attempting structural reforms in an effort to move toward more indirect, market-based methods of monetary control along with greater autonomy for the SBP. Other government monetary reforms include efforts to reduce concessionary and government-directed credit schemes, enhance competition in the banking sector, and improve prudential regulation and supervision. Prior to the coup, however, state-owned development finance institutions, had continued to make politically influenced lending decisions and, partly as a result, have weak balance sheets. The trade deficit has been reduced from about $3.1 to 1.6 billion between 96/97 and 98/99, although in late 1999 it appears that imports are increasing. The current account deficit has also been halved, falling from $4.3 to 1.9 billion. The money supply (M2) has also fallen sharply.

Fiscal Policy: A central element of Pakistan's economic reforms has been the effort to reduce persistent government budget deficits. The budget deficit as a percent of GDP has shrunk from 6.3 to about 3.5 percent, achieved not by improved tax collection and revenue generation, but largely by cutting expenditures, especially those budgeted for development. Defense spending and debt repayments absorb 67 percent (80 percent of current expenditures) of total federal spending, leaving little for other basic government functions and improving the long-neglected social sectors. Meanwhile, the country has a very narrow tax base; perhaps one in one hundred Pakistanis pays income tax. The country has had to rely on import and excise taxes for a very high share of revenues, thus protecting inefficient industries and encouraging smuggling, and on official transfers from external creditors. The new military government has targeted loan defaulters and tax evaders and threatened severe punishment for those who do not pay back loans and taxes. It is too early, however, to assess whether it has the political will to implement the policy.

The Government of Pakistan's medium-term adjustment program has aimed to broaden the tax base through extension of under-taxed sectors and reduction of exemptions; to shift from taxation of international trade to taxation of consumption; to move to market determination of administered prices; and to improve the productivity of public spending. Progress has been mixed. Agriculture remains very lightly taxed. In August 1999, a 15 percent General Sales Tax (GST) was levied on petroleum products, electricity, gas, and fertilizers through a revenue-neutral basis by reduction in development or additional surcharges. GST was also imposed on branded food products, selected medicines and imported fruits. The previous government faced strong resistance against bringing small businesses into the sales tax net, although the military government appears committed to carrying out the GST program. Maximum import tariffs have been reduced from 70 percent in 1994-95 to 35 percent in March 1999, as part of Pakistan's trade reform program.

2. Exchange Rate Policy

Pakistan continued a managed floating exchange rate system until July 21, 1998. From July 22, 1998 the government introduced a multiple exchange rate system comprising an official rate, a floating interbank rate (FIBR), and a composite rate. On May 19, 1999 the government unified the exchange rate after a year long period of gradual transition. The exchange rate is stable at around rupees 51.50 per U.S. dollar, with less than a 5 percent kerb rate premium. The government does not allow authorized money changers a margin of greater than half a rupee per U.S. dollar between the buying and selling prices.

In years previous to the foreign exchange crisis of 1998, Pakistan significantly liberalized foreign exchange controls. The rupee is fully convertible on current account. Foreign firms investing in Pakistan (other than banks and insurance companies) may remit profits and capital without prior approval. In response to the foreign exchange crisis of 1998, however, the government froze existing foreign currency accounts and denied access to official reserves. Subsequently, foreign currency accounts could be opened in commercial banks, but the State Bank does not provide forward cover for such accounts.

3. Structural Policies

Under the three-year IMF ESAF/EFF program of October 1997, the government has continued to carry out its commitments to structural adjustment policies and macroeconomic objectives, including (a) to reduce the external current accounts deficit (strengthen external reserves); (b) to raise the annual growth rate of real GDP; and, (C) to progressively reduce inflation. In principle, the Government of Pakistan has been pursuing a long-term strategy of deregulation, reduction of the public sector role in the economy, and opening the economy to international competition. While progress has been made, the state remains an important player in the Pakistani economy, especially in the financial sector.

Pricing and tax policies: Pakistani government agencies and public sector companies allow only exclusive agents to submit bids for tenders as an assurance that they receive only one quotation from each supplier. In the market, pricing is often complicated by the country's complex tax structure, which often includes a number of taxes and customs duties that marketers must build into their final sales prices. These include landing charges, customs duty, bank charges, insurance, and the recently introduced GST. The Government has recently done away with the "octroi" tax (a municipal toll tax). Exemptions or relief from import duties have been allowed on imported machinery. Tax relief has also been provided for expansion and balancing, modernization and replacement in existing industries.

Regulatory policies: As part of an integrated investment promotion strategy, Pakistan has undertaken a comprehensive program to bring the economy into a fully market-oriented system. In a new policy, announced April 1999, foreign investment on a repatriable basis has now been allowed in manufacturing, infrastructure, hotel/tourism, agriculture, services, and social sectors. Key features of Pakistan's investment climate include a general policy of permitting foreign investors to participate in local projects on an up to 100 percent equity basis, easing of work permit and remittance restrictions on expatriate managers and technical personnel, no requirement of government approval to set up an industry with a few very limited exceptions, statutory protection against expropriation, and no restrictions on borrowing by foreign entities.

4. Debt Management Policies

Pakistan remains dependent on foreign donors and creditors to meet its financing needs. Even with IFI assistance, Pakistan has run a current account deficit in recent years. Both annual debt servicing requirements and the current account deficit have hovered around 3 percent of GDP in recent years, while gross external public debt is over 50 percent of GDP.

Until 1998, Pakistan had an excellent record of honoring external debt obligations. However, during the foreign exchange crisis of 1998, foreign exchange reserves declined to less than $450 million in November 1998. Arrears accumulated to over $1.5 billion. Pakistan came to the brink of a general payments default. The 1998 foreign exchange crisis led to IFI rescheduling late in the year and rescheduling with Paris and London club creditors. Pakistan still awaits an IMF tranche originally due for disbursement in July 1999. The disbursement was delayed by failure of the late Sharif government to implement IMF conditionality regarding fuel prices and continuing World Bank concern over the independent power project (IPP) dispute. With the recent coup, continued IFI support remains uncertain.

5. Significant Barriers to U.S. Exports

Pakistan is a member of the World Trade Organization (WTO).

Import Licenses: In recent years Pakistan has significantly reformed its previously restrictive import regime. Import licenses, formerly common, have been abolished on all "freely importable" goods, i.e. on all items not on the negative list (68 items banned mostly for religious, health or security reasons). All importing firms in the private sector must register as importers with the Government of Pakistan's Export Promotion Bureau and must have valid registration at the time of the import. Certain detrimental import restrictions, mostly questionable fees, have continued, including for soda ash. U.S. pharmaceutical manufacturers have faced discriminatory application of the internal sales tax between imported pharmaceutical raw materials and the same domestically produced raw materials. The imported raw materials also usually receive preferential tariff rates only if the same materials are not manufactured locally. The Pakistan government has also adopted a discriminatory policy against transnational pharmaceutical manufacturers by insisting that they can only register products that are on sale in the country of incorporation of the respective company, while local companies are not held to such a standard.

Services Barriers: The new 1997 investment policy promised liberalization in services. Pakistan's offer in the WTO financial service negotiations in December 1997 included the right of establishment for banks, and grandfathered acquired rights of foreign banks and foreign securities firms. In the past foreign banks generally have been restricted to a few branches, faced higher withholding taxes than domestic banks, and experienced restrictions on doing business with state-owned corporations. New foreign entrants to the general insurance market are virtually barred. Foreign firms wishing to compete in the life insurance market face sever obstacles. Those few foreign insurance companies operating in Pakistan faced various tax problems and long delays in remitting profits. Under the WTO Agreement on Basic Telecommunications Services, Pakistan made commitments to provide market access and national treatment for all local, domestic long distance and international basic voice telecommunications services and private leased circuit services as of January 1, 2004. Packet-switched, e-mail, Internet, circuit-switched data services, and trunked radio services can be provided only through the network facilities of Pakistan Telecommunications Corp. until 2003. Up to 100 percent foreign investment on licensed services may be permitted; there will be no foreign ownership restrictions as of January 1, 2004. Pakistan also adopted some pro-competitive regulatory principles regarding transparency of regulations, interconnection and numbering, and competitive safeguards. Motion pictures face high tax rates, especially the practice of including the royalty value in the dutiable value of films imported for showing in theatres, which have sharply cut their export into Pakistan. Theater owners also lack the authority to set admission prices according to market conditions.

Standards: The Pakistan Standards Institution (PSI) has so far established about 4,000 national standards for agriculture and food, chemicals, civil and mechanical engineering, electronics, weights and measures, and textile products. Testing facilities for agricultural goods are inadequate, and standards are inconsistently applied, resulting in occasional discrimination against U.S. farm products. Sometimes a U.S. exporter will encounter difficult with "quality" standards, usually in the context of protecting some domestically manufactured product.

Investment Barriers: Pakistan has liberalized its foreign investment regime and officially encourages investment. Investors often face unstable policy conditions, however, particularly on large infrastructure projects. The Government of Pakistan has refused to recognize its contractual commitments to independent power producers, and has harassed these producers. These actions have severely damaged Pakistan's climate for foreign investment. Security concerns can also be disruptive factors influencing company choice of location of facilities and areas of operation. Local content requirements occur in the automobile, electronics, electrical products, and engineering industries under Pakistan's "deletion program," but these will have to be phased out before January 1, 2000 in order for Pakistan to comply with the WTO Agreement on Trade Related Investment Measures (TRIMS).

Government Procurement: The government, along with its numerous state-run corporations, is Pakistan's largest importer. Work performed for government agencies, including purchase of imported equipment and services, is often awarded through tenders that are publicly announced or issued to registered suppliers. Lack of transparency, however, has been a recurrent and substantial problem. The Government of Pakistan nominally subscribes to principles of international competitive bidding, but political influence on procurement decisions has been common, and decisions have not always been made on the basis of price and technical quality alone.

Customs Procedures: Investors sometimes complain that the incentives advertised at the policy level are not implemented on-the-ground, particularly with respect to customs. Pakistan has replaced its controversial pre-shipment inspection valuation system with an import trade price system run by the Pakistan customs agency. This change, however, has not eliminated complaints. In numerous disputes importers have asserted that import trade prices are arbitrarily set by customs officials. Investors also cite frequent changes in rates, and charge that customs officers often demand bribes. In July, Pakistan passed legislation to comply with the WTO Customs Valuation Agreement. Customs authorities are presently transitioning to the new system with plans for full compliance by January 1, 2000.

6. Export Subsidies Policies

Pakistan actively promotes the export of Pakistani goods with measures such as government financing and tariff concessions on imported inputs, and income and sales tax concessions. These policies appear to be equally applied to both foreign and domestic firms producing goods for export. Pakistan has established export processing zones with benefits such as tax holidays, indefinite carry forward of losses, exemption of imports from taxes and duties, and exemption from labor laws and various other regulatory regimes.

7. Protection of U.S. Intellectual Property

Pakistan is party to the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and is currently revising its laws to become TRIPS compliant by January 1, 2000, as required by TRIPS. Pakistan is a member of the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, and the World Intellectual Property Organization, but is not a member of the Paris Convention for the Protection of Industrial Property. Pakistan has been on the U.S. Trade Representative's "special 301" Watch List since 1989 due to widespread piracy, especially of copyrighted materials and slow efforts to implement its patent mailbox obligations under the TRIPS agreement. Present U.S. concerns include continuing high piracy levels; a TRIPS inconsistent copyright law;

nominal fines for infringers; lack of patent protection for pharmaceutical products; a TRIPS inconsistent term of patent protection; and trademark infringement.

Patents: Current law protects only process patents, though the government has stated its commitment to eventually offering product patents in accordance with WTO obligations.

Trademarks: Since 1994, Pakistan has required that pharmaceutical firms label the generic name on all products with at least equal prominence as that of the brand name. This trademark labeling requirement serves to dilute in the minds of consumers the differences in quality, efficacy and safety among different products. There also have been occasional instances of infringement, including trading for toys and industrial machinery.

Copyrights: The markets for imported computer software and, until recently, film videos, are nearly 100 percent pirated. Piracy of copyrighted textile designs is also a serious problem. Some counterfeit products made in Pakistan are exported to other markets. At least one local firm, however, is now distributing legitimate, copyrighted videotapes produced by U.S. film studios. As a result of strengthened law enforcement, some other pirate outlets are taking steps to offer legitimate products. Sustained stronger enforcement needs to be paired with action by the courts to prosecute and sentence violators.

New technologies: The impact on U.S. exports of weak IPR protection in Pakistan is substantial, though difficult to quantify. In the area of copyright infringement alone, the International Intellectual Property Alliance estimated that piracy of films, sound recordings, computer programs, and books resulted in trade losses of $80 million in 1998.

8. Worker Rights

a. Right of Association: The Industrial Relations Ordinance of 1969 (IRO) gives industrial workers the right to form trade unions. A presidential ordinance in December 1998 banned all union activity in the Water and Power Development Authority (employing 130,000 workers) for two years. The Essential Services Maintenance Act of 1952 (ESMA) restricts union activity in sectors associated with state administration, meaning government services and state enterprises. The IRO prohibits anti-union discrimination by employers. Under the law, private employers are required to reinstate workers fired for union activities. However, workers usually do not pursue redress through the courts because they view the legal system as slow, prohibitively expensive, and corrupt.

b. Right to Organize and Bargain Collectively: The right of industrial workers to organize and to freely elect representatives to act as collective bargaining agents is established in law. Legally required conciliation proceedings and cooling-off periods constrain the right to strike, as does the government's authority to ban any strike that may cause "serious hardship to the community" or prejudice the national interest. The government also may ban a strike that has continued for 30 days. The government regards as illegal any strike conducted by workers who are not members of a legally registered union. Police do not hesitate to crack down on worker demonstrations. The law prohibits employers from seeking retribution against leaders of a legal strike and stipulates criminal penalties for offenders. The law does not protect leaders of illegal strikes.

c. Prohibition of Forced or Compulsory Labor: The Constitution and the law prohibit forced labor and slavery, including forced labor by children. The 1992 Bonded Labor System (Abolition) Act outlawed bonded labor, canceled all existing bonded debts, and forbade lawsuits for the recovery of existing debts. However, provincial governments, which are responsible for enforcing the law, have failed to establish enforcement mechanisms. The Government of Punjab, has now reportedly enhanced its activities, particularly in regard to bonded and child labor. Illegal bonded labor is widespread. It is common in the brick, glass, and fishing industries and is found among agricultural and construction workers in rural areas.

d. Minimum Age of Employment of Children: Child labor is common and there are insufficient resources and inconsistent commitment to stop it. The Constitution prohibits employing children aged 14 years and under in factories, mines, and hazardous occupations. The 1991 Employment of Children Act prohibits employing children under age 14 in certain occupations and regulates working conditions. Under this law, no child can work overtime or at night. According to a 1996 survey by the government and the ILO, 8.3 percent (over 3.6 million) of children between ages of 5 and 14 work. Few regard this survey as accurate, however, believing it understates the true dimensions of the problem.

e. Acceptable Conditions of Work: The federal minimum wage for unskilled workers is rupees 1,950 ($38) per month, but it applies only to industrial and commercial establishments employing 50 or more workers. Federal law provides for a maximum workweek of 48 hours (54 hours for seasonal factories) with rest periods during the workday and paid annual holidays. These regulations do not apply to agricultural workers, workers in factories with fewer than 10 employees, and contractors. In general, health and safety standards are poor. Provinces have been ineffective in enforcing labor regulations, because of limited resources, corruption, and inadequate regulatory structures.

f. Rights in Sectors with U.S. Investment: Significant investment by U.S. companies has occurred in the power, petroleum, food, and chemicals sectors. U.S. investors in industrial sectors are all large enough to be subject to the full provisions of Pakistani law for worker protection and entitlements. In general, multinational employers do better than most employers in fulfilling their legal obligations, providing good benefits and conditions, and dealing responsibly with unions. The only significant area of U.S. investment in which worker rights are legally restricted is the petroleum sector, where the oil and gas industry is subject to the Essential Services Maintenance Act. That Act bans strikes and collective bargaining, limits a worker's right to change employment, and affords little recourse to a fired worker.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		50
Total Manufacturing		(1)
Food & Kindred Products	22	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		31
Banking		143
Finance/Insurance/Real Estate		107
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		416

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.