

INFORMATION

EXTERNAL RELATIONS

PAKISTAN AND THE EUROPEAN COMMUNITY

123/76

Pakistan and the European Community signed a Commercial Co-operation Agreement on 1 June 1976 at Brussels. The occasion is being marked by the publication of an information note on relations between Pakistan and the European Community, covering the following points:

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INTRODUCTION

The accession of Denmark, Ireland and the United Kingdom to the European Communities created a new situation for the independent developing Asian Commonwealth countries and their neighbours in South and South East Asia.

Until the end of 1972, India, Pakistan, Bangla Desh, Sri Lanka, Malaysia and Singapore were all enjoying trade preferences on the British and the Irish markets under the Commonwealth Preference System. This system is being wound up progressively following the enlargement of the Community. Although the value of these preferences had fallen over the years owing to successive tariff reductions negotiated in the GATT, these countries held that they stood to lose from a combination of new disadvantages from the elimination of the remaining preferences and the progressive alignment of British tariffs on the Community's tariff system.

The Community has taken a number of steps to improve the commercial position of these countries. First the EEC's Generalized Scheme of Preferences (GSP) provides free entry to the Community market for most finished and semi-finished industrial goods and for a widening range of processed agricultural products exported by all developing countries.

Moreover in the course of the negotiations which led to its enlargement, the Community entered into a special commitment in regard to the trade problems of these Commonwealth countries. This commitment is spelled out in the "Joint Declaration of Intent" (JDI) annexed to the Treaty of Accession. The text of this declaration reads in part:

"Inspired by the will to extend and strengthen the trade relations with the developing independent Commonwealth countries in Asia (Ceylon, India, Malaysia, Pakistan and Singapore), the European Economic Community is ready, from

the date of accession, to examine with these countries such problems as may arise in the field of trade with a view to seeking appropriate solutions, taking into account the effect of the generalized tariff preference scheme and the situation of the other developing countries in the same geographical area."

The first stage in the implementation of the JDI took effect on 1st January 1974, when the alignment of the United Kingdom's tariff system with that of the Community began, and it was designed to overcome problems recognised as likely to follow from that process. As foreshadowed in the JDI, most of the measures taken were within the Generalized Scheme of Preferences (GSP). Of particular interest to Pakistan were larger quotas for footwear and sports goods and for a number of agricultural products including Virginia flue-cured tobacco, and prawns and shrimps. In addition the quotas for duty-free imports of silk and cotton handloom fabrics and of other handicraft products of cottage industry were doubled.

The Community does not regard these initial measures as a final fulfilment of its obligations under the JDI. Rather is the Declaration seen as a continuing commitment. Further tariff concessions were made in the GSP offer for 1975, in particular the reduction of the number of sensitive non-textile products from 51 to 16 and the range of items admitted duty-free under the handicrafts scheme was extended. The tariff quota for tobacco was substantially increased both in 1975 and in 1976 and converted to quantitative terms to prevent its erosion through inflation. Preferential margins were raised in the same years for certain agricultural items.

The Community is, however, aware that it is not always possible for developing countries, relying entirely on their existing economic structures and administrative resources, to utilize the GSP and other favourable trade arrangements made by the Community to the full extent theoretically open to them. In this context outside assistance can be helpful in providing at least some of the market information and contacts with importers that are lacking, and even in furnishing some stimulus

towards internal economic adjustments likely to lead to better export performance.

In addition therefore to organising seminars in these countries on the utilization of the GSP, the Community developed the concept of the Commercial Cooperation Agreement. Unlike the traditional type of trade agreement, the CCA does not consist primarily of an exchange of tariff concessions but instead authorises and provides the machinery for consultation on commercial problems and trade promotion activities, and for transmitting information about import opportunities, market requirements and investment needs with a view to diversifying and developing mutual trade and to increasing cooperation between the economic operators in the Community and the partner country. Such agreements would thus be tailored to the economic position of each country and would aim at making a long-term contribution to each one's economic development. The mainspring of each agreement should be a Joint Commission to ensure its proper functioning and to make recommendations on measures to fulfill its objectives.

The first such Commercial Cooperation Agreement was negotiated with India and came into operation on 1st April 1974. A similar agreement with Sri Lanka took effect towards the end of 1975. Negotiations for CCAs with Pakistan and Bangla Desh have recently been successfully concluded, and the agreements are expected to enter into force within the next few months.

The two other Asian Commonwealth countries mentioned in the JDI, have indicated that they would favour a closer relationship with the Community through the Association of South-East Asian Nations (ASEAN) to which they belong.

BASIC DATA ON PAKISTAN

When it achieved independence as a dominion in the Commonwealth of Nations in 1947, Pakistan comprised two geographically separate

territories, one to the west of the South-Asian sub-continent and the other 1,500 kilometres to the East. It was then the most populous Muslim state in the world. In 1956 it became an Islamic republic within the Commonwealth. In 1971 East Pakistan severed its links with the Western wing and became the independent Peoples Republic of Bangla Desh, while the West retained the name Pakistan.

Pakistan now has a population of over 70 million, growing at an annual rate of about 3.1%, in an area of 804,000 sq.km of which approximately a quarter is cultivated.

Under a new Constitution adopted in 1973, Pakistan is a democratic parliamentary Islamic federation of the four provinces Punjab, Sind, Baluchistan and North-West Frontier. Each province has its own regional language, while Urdu is the national language and English is also widely used for official and business purposes.

The central legislature consists of the National Assembly, in which the seats are proportionate to population, and the Senate, in which the provinces are represented equally. The Head of State is the President; the head of the federal government is the Prime Minister. Each state has an assembly, to which the provincial government, under its Chief Minister, is answerable.

PAKISTAN'S ECONOMY

Pakistan's Gross National Product was \$ 10 billion in 1974/75, representing about \$ 140 per capita. Agriculture accounts for 34% of the GNP and employs 55% of the labour force. The main crops are wheat, rice, maize, cotton, sugar cane and tobacco. A major expansion of rice, sugar and cotton production is planned; indeed there is a great potential for growth thanks to the extensive irrigation system based on the Indus river and its tributaries. The IBRD sees an annual agricultural growth rate of 5% as possible over the next decade. If this is achieved, Pakistan will have attained its objective of self-sufficiency in foodstuffs at rising levels of nutrition.

Pakistan is, and for the foreseeable future will continue to be, deficient in indigenous sources of energy. Coal production provides only 8% of the country's fuel requirements. Natural gas, of which substantial reserves are available, provides close to a third of these requirements and is expected to play an increasing role, while hydro-electric capacity, which supplied 17% of energy needs in 1975, is also being expanded. However, 42% of energy needs are supplied by oil, nine-tenths of which must be imported (the oil bill for 1976 is expected to reach \$ 440 million, a seven-fold increase over 1973). Extensive oil prospecting is under way but, while there are indications of large reserves, heavy capital costs are likely to cause exploitation to be deferred for some years. Pakistan has three oil refineries with a capacity of 3.8 million tons/year.

Non-fuel mineral resources under production include gypsum, limestone, rock-salt and chromite. Recent surveys indicate the presence of substantial deposits of iron-ore, copper, manganese, bauxite and phosphate, but difficulties of access, especially to the iron-ore and copper, are likely to hamper exploitation. A 1.1 mn tons steel plant under construction near Karachi will depend on imported ore.

Pakistan is steadily expanding its industrial base, having started virtually from scratch in 1947. The index of industrial production rose 82% between 1964/65 and 1973/74. Industry now employs 18% of the work force and contributes 21% of the GNP. The leading industrial products are cotton cloth, cotton yarn, cement, sugar, cigarettes, fertilisers, steel and paper board. In recent years the expansion of fertiliser and cement production has been particularly marked. The same cannot be said of textiles, heavily dependent as they are on increasing difficult export markets; indeed capacity in the cotton spinning sector has been reduced. Overall industrial production rose 11.8% in 1972/73, 7.5% in 1973/74 and about 3% in 1974/75. In the current year a rise of some 12% is expected partly owing to the expansion of cane sugar output. The Fifth Plan (1975-80) covers a number of major industrial projects: notably for steel, fertilisers, petrochemicals and cement.

Some indicators of production

Agricultural production 1974/75

Wheat	7.0 million tons
Rice	2.15 " "
Maize	735,000 tons
Sorghum	295,000 "
Millet	287,000 "
Pulses	601,000 " (1973/74)
Sugar cane	21 million tons
Cotton	624,000 tons

Livestock numbers 1972

Cattle	12.5 million
Sheep	11.7 "
Goats	10.0 "
Buffaloes	9.6 "

Mineral production 1973/74

Coal	1.04 million tons
Crude Oil	1.6 million barrels
Natural Gas	136 billion cubic feet
Limestone	1.9 million tons
Rock Salt	279,000 tons
Gypsum	118,000 tons

Industrial production, 1973/74

Cotton Cloth	708 million yards
Cotton Yarn	837 million lbs
Cement	3.1 million tons
Sugar	589,000 tons
Urea	566,000 tons

PAKISTAN: TOTAL TRADE

Total Trade (\$ million)

	1965/66	1971/72	1972/73	1973/74	1974/75 (provisional)
Imports	605	639	791	1,371	2,088
Exports	253	591	826	1,034	1,039
Balance	-352	-48	+35	-337	-1,049

Source: IBRD Report, EUI Annual 1975 and 1/1976.

About half of Pakistan's exports in 1974/75 were of manufactured goods. She is the world's largest exporter of cotton yarn and cotton yarn/cloth (\$ 213 mn) accounted for about one fifth of total exports; woollen carpets (\$ 40 mn), leather (\$ 37 mn) and sports goods (\$ 20 mn) being the other main manufactured items. Rice (\$ 233 mn) and raw cotton (\$ 159 mn) were the leading primary commodity exports. Imports consist of a wide range of industrial goods, metals and ores, grains and pulses and, of course, oil.

The Community was Pakistan's main trading partner in 1973/74 (27.5% exports and 28.8% of imports) but in the first nine months of 1975 the Middle East jumped into first place as a market for Pakistani exports (30.8%). The Middle East, the United States and Japan follow the EEC as suppliers of imports.

Since independence Pakistan has consistently had substantial regularly deficits on the balance, except in 1972/73 when high commodity prices and import restrictions combined to produce a short-lived surplus. In 1973 however the Pakistan trade balance underwent a triple blow. The oil import bill, the effects of the August 1973 floods, and the rising cost of fertilisers and many other essential import items contributed to the 1973/74 deficit;

the import bill rise of 52% in the next year and stagnation in export earnings (with cotton yarn exports falling by almost \$ 100 mn) owing to the international recession gave rise to the huge deficit in 1974/75. Figures for the first quarter of 1975/76 suggest that the situation continues to deteriorate, imports rising by 18.1% over the same period of the previous year and exports declining 4.7%.

EC / PAKISTAN TRADE

Trade with the EEC Nine (EUA million)

	1972	1973	1974
EC imports from Pakistan	207.6	177.7	237.9
EC exports to Pakistan	243.1	226.0	346.2
Pakistan's deficit	-35.5	-48.3	-108.3

Sources: OECD (1972/73), ECSO (1974).

Note: the 1972 figures include trade with Bangla Desh.

The Community's share of Pakistan trade has been falling in recent years taking 23.9% of her exports and furnishing 22.2% of her imports in 1974/75 (previous year 27.5% and 28.8%). This decline has also applied to the USA, Eastern Europe and S.E. Asia, and is due mainly to the rapid expansion of trade with Iran and the Arab countries. About two thirds of the value of the exports in 1974 consisted of manufactured goods (carpets, cotton fabrics, yarn, leather and clothing, in that order) and one-third primary products (animal feed-stuffs, sugar (molasses), raw cotton, wool and fish, in that order). Manufactures represent over 85% of Community exports to Pakistan, machinery and transport equipment representing one half and chemicals almost a quarter.

In 1974 Pakistan utilized the Community's GSP system to a value of EUA 115 million, making it the seventh largest beneficiary after Jugoslavia, Hong-Kong, Brazil, India, South Korea and Singapore.

EC / PAKISTAN RELATIONS

Pakistan entered into diplomatic relations with the EEC on 15 June 1962.

Sectoral Agreements

A first agreement between the Community and Pakistan, on handicraft products, entered into force on 1 September 1969. Initially it provided for a zero-tariff quota of EUA 5 mn for a wide range of such products from Pakistan and India. In fulfilment of the JDI the quota was enlarged in 1974 to EUA 10 mn in respect of the enlarged Community. An exchange of letters concluded on 13 May 1970 made Pakistan a beneficiary to the Community's Schemes providing for duty-free import quotas of EUA 1 mn each for handwoven fabrics of cotton and of silk. Under JDI commitments the quotas were doubled to EUA 2 mn each in 1974 and that for silk was further increased to EUA 2.2 mn in 1975.

Within the framework of the LTA (Long Term Agreement on Cotton Textiles) an agreement between Pakistan and the Community came into operation on cotton textiles. Expiring on 30 September 1973 it was extended to the end of the year and continued on a de facto basis during 1974 pending the conclusion of the MFA (Multi-Fibre Agreement) which replaced the LTA. On 15 October 1974 the Council approved directives authorizing the Commission to open negotiations on the implementation of the MFA between Pakistan and the Community. These negotiations were successfully completed on 3 July 1975. Though retaining restrictions on some particularly sensitive products the agreement gives Pakistan greatly improved access for textiles (estimated at double the present volume by 1977) to the Community market.

The Commercial Co-operation Agreement

Pakistan first enquired in April 1963 about the possibility of a comprehensive trade agreement with the Community, but the matter was not pursued until June 1973 when, against the background of the Joint

Declaration of Intent, Pakistan renewed the request for such a relationship. On 14 October 1974 the Commission's proposals for a Commercial Co-operation Agreement with Pakistan were accepted by the Council and the Commission was authorized to negotiate a five-year non-preferential Agreement. The negotiations have been concluded and the agreement was initialled by the negotiators in Islamabad in March 1976.

The principal feature of the agreement is the establishment of a Joint Commission which will examine difficulties affecting Pakistan's trade with the Community and propose measures of economic cooperation to facilitate and promote it.

Community Aid to Pakistan

a) Trade Promotion and Regional Integration

Under its programme of trade promotion assistance to the non-associated developing countries the Community has since 1974 financed and given expert advice on Pakistan's participation in trade fairs within the EEC, visits by Pakistani trade delegations to the Community and publications of brochures about Pakistan and its export potential. As a member country of RCD,⁽¹⁾ together with Iran and Turkey, Pakistan is further a beneficiary to the Community's financial assistance to regional integration among non-associated developing countries.

b) Food Aid

Since 1968 Pakistan has been an important beneficiary of the Community's Food Aid programme. Large quantities of cereals (ranging from 10,000 to 80,000 tons per year), butter oil (since 1973) and milk powder (since 1972) have been sent to Pakistan, both under the Community's regular food aid assistance and as disaster relief.

(1) The RCD: the Regional Co-operation for Development.

"External Relations"

Information notes

Copies of the following information notes are still available and can be obtained on demand from:

Directorate-General of Information
Commission of the European Communities
Rue de la Loi 200

B - 1049 Brussels (Belgium)

- 82/75 The Community system of generalised preferences
91/75 The East European countries and the European Community
97/75 Iran and the European Community
100/75 Yugoslavia and the European Community
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115/76 List of agreements with third countries, signed by the European Community.
116/76 The United States and the European Community - recent trade developments.
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