TRADE AGREEMENTS

OF

PAKISTAN

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PREFACE

Among the meagre literature available on different aspects on Pakistan's foreign trade and commercial policy the topic of trade agreements had found no place. The purpose of this study is to present within the scope of one paper all the trade agreements concluded by Pakistan with different countries of the world, to classify them and to examine their effects on the volume of trade.

The paper has been limited to a general discussion of trade agreements. A more detailed discussion has not been attempted as the pertinent statistical and other data were not available. Certain widely accepted principles of international trade has been taken for granted without any critical examination. They are: first, a general increase in trade volume is beneficial to the economy of a given country, second, other things remaining the same a freer international trade would be beneficial both to a given country and to the world in general.

The writer wishes to acknowledge gratefully his debt to Dr. Rex V. Call without whose guidance the paper would not have been possible; however, all defects in the paper are attributable to the writer only. The writer also wishes to thank Dr. S.E. Elia for helpful suggestions. The writer is grateful to Mr. Emile Bassila for typing the paper.

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CHAPTER I

INTRODUCTION

Trade Agreements

A trade agreement is a "compact between two or more national states relating to the movement of goods between them".[1] However, there is so much diversity that it would be possible to have as many definitions as there have been trade agreements between nations. Only a very broad-based generalization would permit any kind of classification. The following types may be made out according to the purpose and scope of a trade agreement.

One type is the multilateral trading arrangement usually involving a large number of countries providing for general trading facilities among the signatory nations. Such provisions as are included in this type of an agreement are of a very general character. A case in point would be the General Agreement On Tariffs And Trade (G.A.T.T.)

The other type is bilateral trade agreement. By far the majority of trade agreements concluded among nations is of this type. It can be further classified as follows.

One type of bilateral trading arrangement involves an effort by the two countries concerned to achieve a predetermined quantitative ratio of exports to imports. The devices used to achieve such predetermined

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[1] John H.E. Fried, "Trade Agreements, International", Encyclopedia Americana, Vol. XXVI (1959), p. 747.

targets are compensation and clearing. Compensation is the more restrictive of the two; it "signifies a continuous and piecemeal equation of each parcel of exports from A by an equivalent value in exports from B".[2] Under the clearing arrangement exporters from country A to country B are paid in local currency from the funds deposited by importers in country A from country B. Such agreements owe their existence to inconvertibility of currencies and the desire to balance trade with individual countries.[3]

A second type is barter arrangements which specify commodities and quantities to be exchanged by the two countries; no medium of payment is involved. A variation of this type is that which covers one or several commodities for which prices, quantities and dates of delivery are usually specified.[4] Such agreements are generally made with state trading nations and sometimes to relieve temporary shortages or dispose of surpluses. The special arrangements made by the United States to dispose of agricultural surpluses falls within this category.

A third type is in the "form of 'goodwill agreements' containing indicative lists of goods which the signatory countries are prepared to import and export, without fixing the total value of trade covered or value of specific commodities to be exchanged".[5] Provisions for shipping,

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[2] Howard S. Ellis, "Bilateralism and the Future of International Trade", Readings in the Theory of International Trade ("Blackiston Series of Republished Articles on Economics", Vol. IV; London: George Allen and Unwin LTD., 1950), p. 416.

[3] Ibid.,

[4] United Nations, Economic Survey of Asia and the Far East 1958, p. 208.

[5] The General Agreement on Tariffs and Trade, Commercial Policy 1957 (Geneva: October, 1958), p. 36.

re-exports and guarantee of non-discriminatory treatment may be included. Payments clauses may be included within the treaty or a special payment arrangement may be concluded involving open accounts usually with swing limits or payment in convertible currencies mutually agreed upon. Such treaties are generally used as a trade promotion device specially by underdeveloped countries. A common variation of this type of arrangement is one in which both of the contracting parties mutually consent to balance their trade with each other without attaching any specific guarantees. Such clauses are usually resorted to by countries facing balance of payments problems.

Foreign Trade of Pakistan

Pakistan is of little consequence in world trade. She accounted for only 0.8 per cent of world imports and 0.65 per cent of world exports in 1952 while in 1961 it declined further as she accounted for 0.45 per cent of imports and 0.3 per cent of exports.[6] However, Pakistan herself is very much dependent on foreign trade for essential supplies of food, capital equipment and industrial raw materials as well as for the disposal of her agricultural staples and simple and semi-finished manufactures. Strictly value wise an idea of the importance of foreign trade can be gauged from the fact that during the fiscal year 1960-61 the value of her exports were 8 per cent and the value of her imports, 14 per cent

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[6] United Nations, Statistical Yearbook 1962, Fourteenth Issue (New York: Statistical Office of the United Nations, Department of Economic and Social Affairs, 1963), pp. 428-31.

of the national income (at constant prices, base - average of 1949-50 to 1952-53).[7]

Table 1 gives a total picture of Pakistan's foreign trade for twelve years, from 1950-51 to 1961-62. There was no steady trend either in the export or import group, except for the last three years during which imports rose tremendously from Rs. 1.5 billion in 1958-59 to Rs. 2.4 billion in 1959-60 and Rs. 3.1 billion in 1960-61 and exports showed slight increases compared to previous years. However, the trade deficit showed a steady rising trend during the last six years except for the year 1958-59 when the deficit was a little less than previous years (Rs. 253 million in 1958-59 compared to Rs. 628 million in 1957-58 and Rs. 727 million in 1956-57). In 1960-61 the deficit was more than double the previous year's figure of Rs. 620 million and in 1961-62 the amount of deficit was about the same.

Direction

There has been some change in the direction of Pakistan's foreign trade. Table 2 gives the relative positions of Pakistan's top ten trading partners in 1950-51 and 1961-62.

India, which accounted for 21.8 per cent of exports and 15.1 per cent of imports during 1950-51, lifted only 8.2 per cent of Pakistan's exports and supplied 3.4 per cent of her imports during 1961-62.

The importance of China (Peoples' Republic) and China declined from being among the top ten trading partners of Pakistan to places in

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[7] Government of Pakistan, Economic Affairs Division, Central Statistical Office, Statistical Bulletin, Vol. X, No. 9 (September, 1962), p. 1714.

TABLE 1

Pakistan's Foreign Trade*

(Value in million Rupees)

July - June**	Imports	Exports	Balance
1950-51	1620.0	2553.5	+ 933.5
1951-52	2237.3	2008.5	- 228.8
1952-53	1383.6	1509.9	+ 126.3
1953-54	1118.0	1286.0	+ 168.0
1954-55	1103.3	1223.0	+ 119.7
1955-56	1325.1	1783.7	+ 458.6
1956-57	2334.6	1607.6	- 727.0
1957-58	2049.9	1421.7	- 628.2
1958-59	1578.4	1325.3	- 253.1
1959-60	2461.0	1842.7	- 618.3
1960-61	3187.6	1799.4	-1388.2
1961-62	3109.1	1843.4	-1265.7

* Government of Pakistan, Department of Trade Promotion and Commercial Intelligence, <u>Pakistan Trade</u>, Vol. XIV, No. 3 (March, 1963), p. 45.

** Figures are given for fiscal years as in the source. In other tables calendar years might be used as the sources (especially State Bank of Pakistan publications) use the calendar years for their statistics.

TABLE 2

PAKISTAN'S TOP 10 TRADING PARTNERS *

	1950-51		1961-62	
	Import (% of total)	Export (% of total)	Import (% of total)	Export (% of total)
United Kingdom	26.4	12.6	20.4	16.0
United States	6.6	6.2	30.8	9.5
India	15.1	21.8	3.4	8.2
Japan	16.2	13.0	8.0	5.8
Hong Kong	3.3	4.9	0.3	1.7
China (Mainland)	6.1	3.5	0.5	0.6
Belgium-Lux.	1.8	3.3	2.0	5.9
France	1.9	6.7	1.4	4.7
W. Germany	2.4	5.3	9.4	5.1
Italy	5.6	6.0	2.8	2.4
Total	85.4	83.3	79.0	59.9

*Calculated from: Government of Pakistan, Economic Affairs Division, Central Statistical Office, Statistical Bulletin Vol. X, No. 9 (September, 1962), pp. 1660-1666, and S.M. Akhtar, Economics of Pakistan, Vol. II (Lahore: Publishers United Ltd., 1963), pp. 124-127.

1961-62 where they accounted for less than 1 per cent of exports and imports each.

Japan continued to be one of Pakistan's major trading partners; however, her share declined from 16.2 per cent of imports and 13 per cent of exports in 1950-51 to 8 per cent of imports and 5.8 per cent of exports during 1961-62.

The United States became Pakistan's largest source of imports, 30.8 per cent of total imports in 1961-62 compared to only 6.6 per cent in 1950-51. Exports to the United States increased from 6.2 per cent in 1950-51 to 9.5 per cent in 1961-62.

The United Kingdom was the best customer for Pakistan's exports (16 per cent) and the second highest source of her imports (20.4 per cent) compared to imports of 25.4 per cent (highest) and exports of 12.6 per cent (third) during 1950-51.

Belgium-Luxemburg, West Germany, Italy and France retained their position both as customers and sources of supply, together being responsible for 15.6 per cent of imports and 18.1 per cent of exports during 1961-62 compared to 11.7 per cent of imports and 21.3 per cent of exports during 1950-51.

The ten countries in table 2 together accounted for 85.4 per cent imports and 83.3 per cent of exports during 1950-51. During 1961-62 they accounted for 79 per cent of imports and 59.9 per cent of exports. In recent years, there has been a greater diversification in the direction of Pakistan's export trade. Other countries not included in the above table (2) which have increased their share in Pakistan's trade are, Union of South Africa (4.9 per cent of 1961-62 exports), Iraq (2.4 per cent of exports), Spain (2.1 per cent of exports). The Eastern European countries lifted about 4 per cent of Pakistan's total exports in 1961-62 compared to less than 1 per cent during earlier years.[8]

Composition

During the early fifties all of Pakistan's exports consisted of agricultural staples and other unprocessed raw materials and her imports in 1951, for example, of consumer goods (63 per cent), industrial raw materials (28 per cent) and capital goods (9 per cent).[9]

In recent years the composition of exports changed considerably; in 1961, for example, more than 22 per cent of her exports were manufactured goods. The structure of imports has also changed; in 1961, consumer goods made up 39.5 per cent of the total, industrial raw materials, 40 per cent and capital goods, 20.5 per cent.[10]

Balance of Payments Position

Pakistan has had large deficits in her international transactions in goods and services. Only twice since independence was she able to show a surplus on this account; once was in 1950-51 during the Korean Boom when there was a surplus amounting to Rs. 600 million and once more

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[8] Ibid., pp. 1660-1666.

[9] State Bank of Pakistan, Bulletin (October, 1963), pp. 62-63.

[10] Ibid.

during 1955-56 when she showed a surplus of Rs. 11.5 million largely as a result of temporary stimulation of exports due to devaluation. During all the other years there were large deficits in the 'Goods and Services' account ranging from Rs. 300-600 million during the early years after independence to over Rs. 1350 million in 1960-61, Rs. 930 million in 1961-62 and Rs. 1320 million in 1962-63.[11]

Most of the deficits in the Goods and Services account were covered by claims on the United Kingdom during the early years and by aid and loans from other countries during later years.[12]

The General Agreement on Tariffs and Trade and Pakistan

The General Agreement on Tariffs and Trade (G.A.T.T.) is a multilateral trading arrangement with the objective of promoting freer trade among member nations; it is a contractual agreement by which members agree among themselves regarding courses of action.[13]

The G.A.T.T. was started as a stop-gap, temporary and provisional arrangement until the International Trade Organization was fully established and ratified by individual member countries. Its purpose was to carry out a part of the substance of the International Trade Organization Charter - the part which dealt with trade policy in its narrower and more familiar

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[11] Ibid., pp. 56-57.

[12] Ibid.

[13] Eric Wyndham White, "Achievements of G.A.T.T. and Prospects for the Future", United Nations Review, Vol. III, No. 9 (March 1957), p. 34.

sense. Finally, when the member states failed to ratify the charter of the International Trade Organization, the G.A.T.T. continued to function and was accepted as an international organization by its own right.[14]

In 1957 the G.A.T.T. was comprised of thirty-five signatory states who together accounted for about 80 per cent of international trade and tariff negotiations among them affected 50 per cent of their trade.[15]

The G.A.T.T. has considerable achievements to its credit. It has contributed greatly toward freer multilateral trade by making possible more stable and reduced tariffs among the majority of the trading nations of the free world.[16]

Though it has not been able to do much about quantitative restrictions to free trade, it has definitely established that such restrictions are not respectable and are condoned only when used as a temporary measure to ease difficult balance of payments situations especially by developing nations.[17]

It has provided an excellent forum for the exchange of information regarding international trade policy as well as for the speedy settlement of outstanding issues among member nations.[18] Without its existence the

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14 Raymond Vernon, America's Foreign Trade Policy and the G.A.T.T. (Department of Economics and Sociology, International Finance Section: Essays in International Finance", No. 21, Princeton, New Jersey: Princeton University, October, 1954), pp. 5-6.

15 White, op.cit., p. 35.

16 Ibid., p. 36.

17 Wytze Gorter, "G.A.T.T. after six years: An Appraisal," International Organization, Vol. VIII, No. 1 (February, 1954), pp. 15-16.

18 Ibid., p. 15.

volume of trade subject to bilateral trade agreements would have increased markedly.[19]

Pakistan was one of the original signatories to the Agreement. She has participated in the tariff negotiations and has removed or reduced tariffs on many commodities. In accordance with the G.A.T.T. objectives she has also tried to reduce quantitative restrictions as far as possible in the face of her extremely difficult balance of payments position.[20]

Pakistan's commercial policy, in its broad aspects, had been to promote and diversify her exports as regards both composition and direction and to make the best use of scarce foreign exchange by restricting imports of non-essential consumer goods and allowing greater imports of capital equipment and industrial raw materials. More recently, there has been still greater import liberalization and to pay for them a greater stimulation of exports, all within the framework of the G.A.T.T. objectives.[21]

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[19] *Ibid.*, p. 3.

[20] S.M. Akhtar, *Economics of Pakistan*, Vol. II (Lahore: Publishers United Ltd., 1963), p. 143.

[21] *Ibid.*

CHAPTER II

TRADE AGREEMENTS WITH ASIAN COUNTRIES

Burma

Trade Agreements

The first and only trade agreement between Burma and Pakistan was signed on 25th February, 1957, which came into effect from 1st March and was valid till 28th February, 1960. The agreement did not specify any commodity quotas; however, there was a clause in the agreement mentioning that both parties would try to achieve a balance in their trade. Two lists of commodities, one, containing one hundred and thirty-nine items exportable from Pakistan to Burma and the other, containing 17 items importable from Burma, were included. The main items of export from Pakistan were jute, jute manufactures, texties, and other manufactured goods, and for import from Burma were rice, rubber and so on.[1] A protocol was also attached to this agreement under which Pakistan agreed to purchase certain specified quantities of rice from Burma for the next 3 years.[2]

On expiry in 1961 this trade agreement was extended by both governments for a period of 3 years up to 1963 and again for a further 3-year period till February 28, 1966 and Pakistan also agreed to buy

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[1] Summary of trade agreement with Burma (Department of Trade Promotion and Commercial Intelligence, Government of Pakistan). (Mimeographed.)

[2] United Nations, Economic Survey of Asia and the Far East, 1957, p. 248.

during that period six hundred thousand tons of Burmese rice.[3]

Trade with Burma

Prior to 1954 trade between Pakistan and Burma was negligible, amounting to about Rs. 2 million each way. In 1954, when Pakistan started exporting jute manufactures exports rose tremendously to Rs. 64.6 million and imports rose more modestly to Rs. 15.9 consisting mainly of rice and timber. Table 3 gives a picture of trade between Pakistan and Burma.

TABLE 3

PAKISTAN'S TRADE WITH BURMA*
(Value in million rupees)

Year	Exports	Imports
1954	64.6	15.9
1955	85.3	27.1
1956	93.3	71.5
1957	81.6	75.8
1958	78.2	70.5
1960-61	68.0	109.1
1961-62	33.5	22.6

*United Nations, Yearbook of International Trade Statistics, 1958.

[3] Asian Recorder, 1960, A Weekly Digest of Asian Events (New Delhi), p. 3129 and 3233.

The steep rise in imports in 1956 was due to heavy purchases of rice because of acute food shortage in Pakistan. The trade agreement with Burma signed in early 1957 did not, in effect, increase trade between the two countries but it ensured continued importation by Pakistan of Burmese rice. The clause calling for bilateral balancing as well as protocols providing for specified quantities of rice to be purchased by Pakistan, ensured higher imports from Burma after the conclusion of the agreement. Of the 1957 imports of Rs. 758 million from Burma about Rs. 70 million was for rice purchases. The very low trade figures for 1961-62 was probably due to low imports of Burmese rice by Pakistan as there was a good harvest that year and as sufficient food grains had been stockpiled the previous year there was no need for impofts.[4]

Ceylon

Trade Agreements

Pakistan and Ceylon concluded their first agreement for 18 months (from July, 1951 to December, 1952).[5] The next agreement concluded was effective from July 1, 1955 for an indefinite period, subject to termination by either party on 6 months notice. The agreement did not specify total value or any quota, however, trading to the greatest extent was stipulated. The method of payment was not specified; two schedules of exports and imports were attached to the agreement.[6]

In addition to the above agreement a short term trade agreement

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[4] United Nations, loc.cit.

[5] Government of Pakistan, Pakistan, 1955-56, p. 112.

[6] United Nations, op.cit., 1955, p. 234.

was signed between the two countries on February 23, 1963, for the exchange of Ceylonese tea (1 million pounds) for Pakistani rice (twenty thousand tons) and potatoes (four thousand tons).[7]

Trade with Ceylon

The trade agreement with Ceylon did not have been any noticeable effect on the volume of trade between the two countries. There was as much fluctuation after (see table 4) as before the conclusion of the agreement.

TABLE 4

PAKISTAN'S TRADE WITH CEYLON *
(Value in million rupees)

Year	Exports	Imports
1957-58	5.4	6.5
1959-60	27.0	19.1
1961-62	16.6	23.4

* Government of Pakistan, Department of Trade Promotion and Commercial Intelligence, Pakistan Trade, Vol. XIV, No. 3 (March, 1963), p. 4.

7 Asian Recorder, op.cit., 1963, p. 5243.

China (People's Republic)

Trade Agreements

Upto now Pakistan has signed altogether 3 barter arrangements and 1 trade agreement with China. In March 1953 the first barter agreement was concluded to exchange ten thousand tons of cotton for two hundred thousand tons of Chinese coal.[8]

Two more barter arrangements were made in 1958; one, to exchange fifteen thousand bales of Pakistani cotton for one hundred and fifty thousand tons of China's coal; the other was to exchange one hundred thousand tons of Chinese rice for Pakistani jute and cotton of equivalent value.[9]

The first trade agreement was signed between Pakistan and China as late as January 4, 1963, providing for mutual most-favoured nation treatment in matters of trade, commerce and shipping. The main items of export from Pakistan were cotton textiles, jute, jute goods, sports goods, etc., from China, heavy machinery, coal, cement, etc. All payments were to be made in convertible pound sterling. The agreement would be initially valid for a period of 1 year and would be automatically extendable for further periods unless notice of termination was given by either party.[10]

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[8] The Contracting Parties to the General Agreement on Tariffs and Trade, International Trade, 1952 (Geneva: June 1953), p. 92.

[9] United Nations, op.cit., 1958, p. 211.

[10] Keesing's Contemporary Archives 1963-64, A Weekly Diary of World Events, Vol. XIV (Bristol), p. 19212.

Trade with China

Pakistan's trade with China has been very erratic but it is certain that the relative importance of China declined significantly after the early fifties. Since then, the volume had increased somewhat in certain years however, the balance of trade had almost always been heavily against China. The trade agreement was aimed at both increasing and stabilizing the volume of trade. Pakistan also agreed to buy more from China to reduce the usual trade deficit of China with Pakistan. It is, however too early to judge the effects, though during the first 6 months of 1963 imports from China were worth Rs. 11.5 million and exports to China amounted to about Rs. 35.4 million.[11] If this trend were to continue there would be an increase in the volume of trade and a much less decrease in the deficit of China.

India

Trade Agreements

Pakistan and India signed between them 10 trade agreements including 1 barter arrangement.

The first trade agreement between the two countries, was signed on May 26, 1948 for 1 year (from July 1, 1948 to June 30, 1949). The agreement specified the amounts of commodities to be traded. Licences were to be issued by both Governments for the commodities and quantities agreed upon.[12]

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[11] State Bank of Pakistan, Bulletin (October, 1963), p. 65.

[12] Details and quotas under the agreement are given in: Keesing's, op.cit., Vol.VI, p. 9359.

The next agreement signed in June, 1949 and effective for 1 year from July 1, continued, in modified form, the 1948 agreement. The schedules of commodities were, however, extensively revised, exports of foodgrains and gypsum from Pakistan were discontinued, the amount of raw cotton and jute was reduced. Exports of cloth, coal and cotton yarn from India were reduced in turn and paper, leather and woollen goods were omitted. Vegetable oils and tobacco were increased and a number of minor items were added.[13]

A short term barter agreement was next ratified on April 25, 1950 providing for the exchange of four million maunds of Pakistani jute against specified quantities of cotton yarn, textiles, steel, cement, etc. from India. The transaction was to be made in Indian Rupees and was to be equalized as nearly as possible. This agreement expired on September 30, 1950 after being extended for 2 months.[14]

A new agreement (the fourth) was signed on February 26, 1951, and ratified the same day. It was valid for 16 months ending June 30, 1952. It stipulated the exchange of specified quantities of Pakistani jute, hides and skins and food grains for Indian cotton piecegoods, coal, iron and steel, etc. The payments clause provided for free convertibility of current balances into pounds sterling unlike the previous arrangements under which balances had to be held in either Indian or Pakistani currencies without being able to convert them into any other currency.[15]

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[13] Keesing's, ibid., VIII, p. 11369.

[14] Keesing's, ibid., p. 11369.

[15] Government of Pakistan, Pakistan, Five Years, p. 120.

Pakistan and India concluded their fifth agreement in August, 1952, for the period ending June 30, 1953. Under the agreement licences would be issued to permit trade in commodities listed in the agreement. It excluded such important items as cotton, jute and coal, though technically no ban was imposed on the trading of these goods.[16]

In March, 1953, a 3-year agreement (starting July 1) was signed providing for the sale of jute by Pakistan and for coal shipments by India. The earlier trade agreement was also extended from June 30, to September 30, 1953. Minimum and maximum quantities were specified in the agreement.[17]

The next agreement was for 1 year from September 1, 1955. Total value of trade was not specified; Pakistan was to supply stipulated quantities of jute and hides and skins and an undisclosed quantity of cotton while India would supply specified quantities of coal, soft and hard wood, mica, etc. The agreement also provided to a limited extent for border trade between East Pakistan and surrounding Indian provinces of Assam, West Bengal. The payments clause provided that all transactions be made in rupees.[18] This agreement, which was in effect concurrently with the 1953, 3-year trade agreement, was extended first for 2 months and then again for another 3 months to January 31, 1957.[19]

A 3-year trade agreement (from February 1, 1957 to January 31, 1960), signed on January 22, 1957 provided for mutual most-favoured-

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[16] Keesing's, op.cit., IX, p. 12504.

[17] Keesing's, ibid., p. 13016.

[18] United Nations, op.cit., 1955, p. 234.

[19] United Nations, ibid., 1956, p. 223.

nation treatment and also for limited border trade. The attached commodity schedules included a number of items for which quantities to be traded were agreed upon as well as others with unspecified quantities or quantities to be negotiated later.[20] The agreement was ratified on January 31, 1957.[21]

A Limited Payments Agreement was signed on December 3, 1959, providing for the exchange of certain commodities on a self-balancing basis in addition to the normal trade under the existing agreement for which current balances were to be paid above a certain amount (Rs. 150,000,000) in convertible pound sterling. For the period December, 1959 to December, 1960, the Limited Payments Agreement stipulated the exchange of Rs. 20 million worth of goods each way.[22]

On the expiry of the last 3-year agreement a fresh trade agreement, initially valid for 2 years and extendable for another year, was signed on March 21, 1960. A protocol to the agreement replaced the Limited Payments Agreement of December 3, 1959. The number of commodities was increased and the total value of the payments Agreement was raised from Rs. 20 million to Rs. 41 million per annum each way.[23] This trade agreement, on expiry, was duly extended for another year upto March 20, 1963, however, fresh ceilings were worked out and there were some minor additions to the lists. It was also provided that any

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[20] Keesing's, <u>op.cit.</u>, XI, p. 15593.

[21] Asian Recorder, <u>op.cit.</u>, 1957, p. 1273.

[22] Details in: United Nations, <u>op.cit.</u>, 1959, p. 159.

[23] Government of Pakistan, <u>Pakistan</u>, 1959-60, p. 85.

unutilized balance for the first 2 years under the Payments Agreement would be carried for utilization during the third year.[24]

A fresh trade agreement came into force on September 1, 1963, between the two countries, to be initially valid for 2 years with provision for extension for another year. The attached Schedule 'A' (list of exportable commodities from India) contained two hundred and fifty-six items and Schedule 'B' (list of commodities exportable from Pakistan) contained one hundred and thirty-eight items. Article II of the agreement prowided for mutual most-favoured-nation treatment.[25]

Trade with India

Immediately after independence, almost half of Pakistan's trade was with India, but as soon as the disorders and dislocations caused by the Partition were over, her dependence on India decreased. The extent of the decline up to the present can be gauged from the fact that India lifted 59.6 per cent of Pakistani exports and supplied 31.8 per cent of her imports in 1948-49 which declined to 11.9 per cent of exports and 4 per cent of imports in 1954-55 to 6 per cent of exports and 3.9 per cent of imports in 1960-61.[26] For the period 1961-62 the absolute figure for Indo-Pakistani trade were Rs. 151.5 million worth of goods imported by India and Rs. 107 million worth of commodities imported by Pakistan from India.[27]

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[24] Asian Recorder, op.cit., 1962, pp. 4372 and 4648.

[25] Summary of Trade Agreement with India (Department of Trade Promotion and Commercial Intelligence, Government of Pakistan). (Mimeographed.)

[26] S.M. Akhtar, Economics of Pakistan (Lahore: Publishers United Ltd., 1963), pp. 124-27.

[27] Government of Pakistan, Economic Affairs Division, Central Statistical Office, Statistical Bulletin, X, No. 9 (September, 1962), pp. 1660 and 1663.

Almost all the trade between the two countries was covered by trade agreements. During 1951-52 when the existing trade agreement provided quotas for many items of trade the figure rose to Rs. 375 million of exports from Pakistan and Rs. 324 million of imports from India. Under the next trade agreement for the period 52-53 in which jute, coal and cotton were excluded (all main items of trade between the two countries) the volume of trade slumped to Rs. 250 million both ways. Moreover, the programmes set out in the agreements were not always fulfilled. For example, both exports and imports "fell far below programme figure even before the dispute between the two countries over devaluation".[28] After India devalued her currency and Pakistan did not trade came to a halt in spite of the trade agreement. Again, during a review of the 1957, 3-year agreement a communique issued read, "the volume of trade between the two countries had fallen despite the presence of natural advantages for the sustenance of a larger volume of trade".[29] Similarly, during the review of the first year of operation of the 1960 trade agreement it was revealed that Rs. 120 million worth of targets were unfulfilled during 1960-61.[30]

An interesting feature of the agreements between the two countries is that specific targets, quotas and ceilings were present even in the latest agreement whereas with most of the rest of the world, the agreements had been, for the last five years or so, of a goodwill and trade

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[28] United Nations, op.cit., 1949, p. 275.
[29] Asian Recorder, op.cit., 1959, p. 2816.
[30] Asian Recorder, op.cit., 1961, p. 3936.

promoting nature without any specific commodity quotas. The explanation lies in the rather cool political relationship between the two countries as well as geographical contiguity.

Indonesia

The first and only trade agreement between Indonesia and Pakistan was signed for an initial period of 1 year starting January 1, 1953. Lists of commodities exportable from both countries were included. The more important among the exportable items from Pakistan were sports goods, cottage industry products and books and journals and among the exports from Indonesia were rubber, copra and oil. The total value of trade was not specified neither was the mode of payment. A clause in the agreement provided for extensions indefinitely if neither party gave notice of termination.[31] This agreement, therefore, was duly extended annually till June 20, 1963 with some minor additions most important being jute manufactures for export from Pakistan in 1957. In 1958, the mode of payment was specified to be in convertible pound sterling and it had been incorporated into the agreement since then.[32]

Trade between the two countries has been negligible. The total volume for 1960-61 was only Rs. 11 million both way and still less in 1961-62 (Rs. 6.2 million both ways).[33]

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[31] United Nations, op.cit., 1955, p. 234.

[32] United Nations, ibid., 1958, p. 212.

[33] Government of Pakistan, Statistical Bulletin, X, No. 9 (September, 1962), pp. 1662 and 1666.

Iran

Pakistan and Iran signed a trade agreement on May 20, 1962, for a period of 1 year and renewable for further periods unless notice of termination was given by either party. Payment was to be made either in convertible pound sterling or any other convertible currency chosen by mutual agreement. There were 29 items in the list of exports from Pakistan, mostly manufactures, raw juts, hides and skins. The list of imports from Iran contained 24 items which included dried fruits, herbs and vegetable oils. The trade agreement was meant "to strengthen and promote the commercial relations between the 2 countries.[34]

Concurrently, there exists, between the 2 countries, another agreement on domicile, commerce and transit trade signed on November 17, 1959.[35]

After the signing of the agreement on domicile and transit trade, trade between the two countries rose to Rs. 15 million annually.[36] There was a further increase to Rs. 20 million for the year 1962-63 when the trade agreement was signed on May 20, 1962.[37]

Iraq

Altogether, Pakistan and Iraq signed between them 3 trade agreements including 1 barter deal.

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34 Summary of trade agreement with Iran (Department of Trade Promotion and Commercial Intelligence, Government of Pakistan). (Mimeographed)

35 United Nations, op.cit., 1959, p. 159.

36 Asian Recorder, op.cit., 1962, p. 4372.

37 Government of Pakistan, Statistical Bulletin, X, No. 9 (September, 1962), pp. 1662 and 1666.

The first agreement was signed initially for a period of 1 year from March 31, 1951 to March 30, 1952 which was then extended for another year.[38]

The barter deal was concluded on November 11, 1959 to exchange Iraqi dates for Pakistani tea and manufactures. Payment was to be made in Pakistani Rupees. The deal was for Rs. 3 million worth of dates against jute goods not exceeding 60 per cent of total and tea not less than 20 per cent.[39]

Another trade agreement was signed on May 12, 1962, which would be initially valid for 1 year and would be automatically extendable for similar periods indefinitely, unless notice of termination was given by either party. It granted mutual most-favoured-nation treatment with respect to exports and imports, storage and transit. Main items of export from Pakistan were, jute and jute goods and cotton textiles; from Iraq were dates, petroleum and petroleum products.[40] This agreement, which came into force from September 18, 1962, initially for 1 year, was extended last upto September 17, 1964.[41]

Trade between the two countries which was worth Rs. 8-10 million annually during the period from 1950 to 1952 (mostly imports from Iraq) declined to Rs. 3 million in 1953. During 1961-62 Pakistan exported Rs. 43.6 of goods to Iraq (8 times the previous year's figure). The

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[38] Government of Pakistan, Pakistan, 1955-56, p. 112.

[39] Government of Pakistan, Pakistan, 1959-60, p. 85.

[40] State Bank of Pakistan, Annual Report, 1961-62, p. 27.

[41] Summary of trade agreement with Iraq, (Department of Trade Promotion and Commercial Intelligence, Government of Pakistan). (Mimeographed.)

last trade agreement effective from September 1962 was to increase trade between the two countries greatly, especially, imports from Iraq.

Japan

Trade Agreements

Pakistan and Japan signed 10 trade agreements the first 2 of which were not enforced.

The first operative agreement with Japan was for the period July 1, 1949 to June 30, 1950. It provided for the exchange of specific quantities of certain commodities between the 2 countries.[42]

Another agreement, ratified on December 31, 1950, for the period October 1, 1950 to September 30, 1951, provided for Pakistani exports of food and raw materials totalling £ 24,812,000 to Japan and imports worth £ 29,812,000 from Japan. This agreement was extended till December 31, 1951 by a protocol.[43]

On April 10, 1953 the two countries signed an agreement under which Japan agreed to buy from Pakistan specified goods worth £ 32,000,000 and to supply Pakistan with capital goods and heavy machinery, among other things, worth at £ 6,000,000 on long-term credit basis without charging any interest.[44]

The next agreement (valid for one year from September 15, 1954) provided for trade worth £ 56,000,000 between the two countries. The deferred payments arrangement negotiated in the previous agreement was

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[42] Keesing's, <u>op.cit.</u>, VI, p. 10527.

[43] Keesing's, <u>op.cit.</u>, VIII, p. 11171.

[44] Kessing's, <u>op.cit.</u>, IX, p. 12894.

continued. This agreement was extended to January 31, 1956; however, the total value of trade to be carried on during the period was not specified and it was agreed upon that payments would be made in pound sterling.[45]

Thereafter, starting in early 1956 four trade agreements, one after another, were signed between Pakistan and Japan, each was valid for 1 year. None of these agreements specified the total value of trade to be transacted and only indicative lists of commodities were attached. The last of these agreements expired on August 31, 1960.[46]

Instead of concluding another trade agreement on the expiry of the last one the two countries signed a Treaty of Friendship and Commerce on December 8, 1960, to be initially valid for 5 years. It provided mutual most-favoured-nation treatment to nationals in regard to their investment, property, business and so on.[47]

Trade with Japan

As has been mentioned before Japan is one of Pakistan's major trading partners. A rather permanent feature of the trade between the two countries has been large trade deficits with a very few exceptions against Pakistan (Table 5). The explanation lies in the fact that Pakistan was importing heavy and expensive industrial equipment under the credit facilities offered by Japan in the trade agreements while there was a limit to the export of raw cotton and jute (which made up over

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[45] United Nations, op.cit., 1955, pp. 168 and 234.

[46] Government of Pakistan, Economic Survey, 1960-61, p. 121.

[47] Government of Pakistan, Pakistan, 1960-61, p. 68.

TABLE 5

PAKISTAN'S TRADE WITH JAPAN*

(Value in million rupees)

Year	Exports	Imports	Balance
1958	106.6	142.8	- 36.2
1959	126.2	97.5	+ 28.7
1960	135.3	263.5	- 128.2
1961	118.4	249.7	- 131.3

* State Bank of Pakistan, Bulletin (October, 1963), pp. 64-65.

90 per cent of Pakistan's annual exports to Japan) that Japan could absorb. Nonetheless, in certain years Pakistan was able, under agreements, to dispose large portions of her cotton crop to Japan; for example, in 1952-53 she disposed two-fifths of her cotton crop to Japan.[48] The last trade agreement with Japan (September, 1959) provided for the issue of single-country import licences valid for Japan against her offtake of certain quantity of raw cotton from Pakistan.[49] Such clauses were included in agreements usually when the Pakistani authorities expect large crops and resulting undisposable surplus.

Pakistan and Japan had trade agreements working almost always from 1949 to 1960. Trade figures for the 2 years after Partition from British India are not comparable with later years because of the chaos

[48] The Contracting Parties to the General Agreement on Tariffs and Trade, International Trade, 1959 (Geneva: June, 1960), p. 113.

[49] Government of Pakistan, Pakistan, 1959-60, p. 85.

prevailing then, and so the effect of trade agreements on the volume of Pakistan-Japan trade cannot be gauged. However, it can be said with certainty the trade relationship between the two countries has reached a stage of maturity where discontinuance of specific trade agreements will not lead to any substantial decrease in volume of trade. This was proved when in early 1961, specific trade agreements between the two countries were substituted by a Treaty of Friendship and Commerce without any decrease in trade.

Nepal

The first ever trade agreement between Pakistan and Nepal came into force from October 19, 1962 to be valid for 2 years. The list of exports from Pakistan contained 47 items mostly manufactures and the exports from Nepal were mostly raw materials (14 items). Most-favoured nation treatment in matters of trade and commerce was provided by both countries. A protocol regarding a special payments Agreement was also signed governing the exchange of certain specified goods to the value of about Rs. 10 million each year for the first year.[50]

Prior to this agreement trade between Pakistan and Nepal was almost nil. The agreement was signed by both parties "animated by the desire to promote trade and strengthen economic relations."[51]

Philippines

On September 29, 1961 the first trade agreement between the

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[50] Summary of trade agreement between Nepal and Pakistan (Department of Trade Promotion and Commercial Intelligence, Government of Pakistan). (Mimeographed.)

[51] Ibid.

Philippines and Pakistan was signed. It was initially valid for 1 year with provision for automatic extension every year unless terminated by either party. It accorded treatment, by both countries, no less favourable than that accorded to a third country with respect to customs duties and all other charges for importation and exportation. The list of exportable items included timber, hemp, refrigerators from the Philippines and jute, jute manufactures, cotton textiles from Pakistan. The list was not exhaustive but only indicative of the potential items.[52]

Trade between the two countries did not increase noticeably as a result of the agreement.

Syria

The first agreement with Syria was for a period of 1 year from December, 1955. It provided for the exchange of raw produce and manufactures without any undertaking for achieving a minimum trade level or for bilateral balancing.[53] The next agreement originally valid from September 1957 to September 1958 was extended upto September 1960. This agreement provided for payments in pound sterling and granted most-favoured-nation treatment mutually.[54] However, before the end of the period it was superseded by the April, 1960 Agreement with the United Arab Republic.[55]

In spite of the agreements trade between the two countries remained at a very low level never rising over the Rs. 1 million figure even.

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[52] Government of Pakistan, Department of Trade Promotion and Commercial Intelligence, Pakistan Trade, XII, No. 12 (December, 1961), p. 32.

[53] United Nations, op.cit., 1956, p. 220.

[54] United Nations, ibid., 1957, p. 260.

[55] Government of Pakistan, Economic Survey, 1960-61, p. 145.

CHAPTER III

TRADE AGREEMENTS WITH WEST EUROPEAN COUNTRIES

Austria

Pakistan and Austria altogether signed 3 trade agreements between them.

The first agreement was for an initial period of 1 year from November 19, 1950, which on expiry was extended upto June 30, 1952.[1]

The next agreement which was also for 1 year from July 1, 1952 was not ratified by either country and consequently, did not become operative.

The last agreement concluded between the two countries was for an initial period of 1 year from December 24, 1956 with provision for automatic renewal year after year unless terminated by either party. The indicative lists of commodities included jute, cotton, hides and skins, tanned leather, sports goods and furs for export from Pakistan and pig iron, aluminium and alloys, iron and steel goods, asbestos sheets, chemiccals, photographic equipment, etc. for export from Austria to Pakistan. No specific targets or quotas were agreed upon. Payment was to be settled in pounds sterling.[2] The agreement continued to be renewed annually from 1956 onward.

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[1] Government of Pakistan, Pakistan, 1955-56, p. 112.

[2] United Nations, Economic Survey of Asia and the Far East, 1957, p. 260.

Prior to the conclusion of trade agreements, trade between Pakistan and Austria was negligible. It was worth less than Rs. 1 million in 1948 and only Rs. 3.4 million in 1949. After the conclusion of the first trade agreement in 1950 the volume of trade rose to Rs. 12 million during 1950-51 and Rs. 13.8 million during 1951-52. The volume again fell to Rs. 9 million in 1952-53 when there was no trade agreement in force.

Unlike the first agreement the second operative trade agreement (December, 1956 to December 1957), did not lead to any significant rise in volume of trade (the volume in 1957 was worth Rs. 7.9 million compared to Rs. 6.9 million in 1956).[3]

During 1960-61 and 1961-62 the volume of trade between the two countries was worth Rs. 9 million and Rs. 10.4 million respectively. The small increase during this period over 1957 (the first year of operation of the current trade agreement) was due to the more liberal import policy of the Government of Pakistan.

Belgium

Pakistan and Belgium concluded their only trade agreement initially for a period of 1 year beginning March 15, 1952. It provided for automatic renewal indefinitely unless renounced by either party on 3 months' notice. The agreement did not specify any target or quota to be fulfilled by either nation.[4] As provided, the agreement was then automatically renewed year after year.

The trade agreement between Belgium and Pakistan did not have any

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[3] United Nations, Yearbook of International Trade Statistics, 1958, p. 411.

[4] Government of Pakistan, loc. cit.

effect on the trade between the two countries. The volume of trade in 1952, when the trade agreement was in force, was smaller by Rs. 34 million than the previous year's figure of Rs. 114 million when there was no trade agreement in operation. The decrease in total volume was, however, not due to the agreement but to the lower price during that year of Pakistani raw jute (which accounted for 90 per cent of the value of Belgian imports from Pakistan).

Finland

Finland and Pakistan concluded a general type of goodwill trade agreement on October 10, 1962. The agreement granted mutual most-favoured-nation treatment in respect of customs charges and all other charges applicable to importation, exportation or transit of commodities. The agreement is yet to be ratified.[5]

The volume of trade between the two countries was worth only Rs. 1.2 million during 1960-61 and Rs. 2.1 million during 1961-62. Without actual statistics it cannot be said for certain what effect the trade agreement has had. However, even the connections made during the exchange of trade delegations ought to have increased the meagre volume of trade carried on in the previous years.[6]

France

Pakistan and France have concluded 10 trade agreements up to the present.

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[5] Government of Pakistan, Pakistan, 1962-63, p. 52.

[6] State Bank of Pakistan, Annual Report, 1961-62, p. 32.

The first agreement was for a period of 1 year starting November 11, 1949. The agreement specified the quantities or values of commodities to be exchanged. Another similar agreement was reached, upon the expiry of the 1949 agreement, for 1 year from November 30, 1950.[7]

The next Franco-Pakistani agreement was also of the same type (from January 1 to December 31, 1952). It provided for the exchange of specified quantities of commodities to be exchanged between the two countries. Trade would be carried on by issuing licences and payment would be made in pound sterling.[8]

Another agreement, for 1 year from January 1, 1953, was again signed. Under this agreement France would import Rs. 200 million worth of Pakistan's cotton and jute while Pakistan would import a variety of French goods, mostly manufactures. It was agreed upon that at the end of the period balances would be settled in pound sterling.[9]

Next an 18-month (from January 1, 1954 to June 30, 1955) trade agreement was concluded with the usual commodity quotas and targets. However, an innovation was the inclusion of a payments clause whereby cotton exports would initially be paid for in French francs and imports from France would be initially financed from this franc account and the balance, if any, would be settled in sterling.[10]

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[7] Government of Pakistan, Pakistan, 1955-56, p. 112.

[8] United Nations, Economic Survey of Asia and the Far East, 1952, p. 104.

[9] Ibid., 1953, p. 107.

[10] J. Russell Andrus and Azizali F. Mohammed, The Economy of Pakistan (London: Oxford University Press, 1958), p. 277.

After the expiry of the 18-month agreement 3 one-year trade agreements were signed consecutively, between Pakistan and France. All the 3 agreements provided for payments in pound sterling. The July 1, 1956 to June 30, 1957 trade agreement, however, had a special clause according to which Pakistan undertook to issue single-country licences for imports of specified non-essential goods when the French purchases of cotton exceeded a specified level.[11]

Two limited trade agreements were next signed between the two countries. The purpose of these agreements was to remove the difficulty which Pakistani exporters of certain specified goods were facing in exporting them to France. The first of these agreements was signed on January 12, 1961 for a period of 1 year. Under the agreement Pakistan would issue licences upto the value of £ 45,000 for French goods and in return France would provide quotas upto the value of £ 70,000 for the import of Pakistani goods.[12] The second agreement was also for 1 year from July 1, 1962. It stipulated the issuance of licences by Pakistan of licences exclusively valid for France to the amount of £ 52,500 and France for Pakistan to the amount of £ 90,000.[13]

The trade figures for 1948 and 1949 (Rs. 45 million and Rs. 76 million respectively) compared to that of 1950 (Rs. 180 million) when the first agreement was concluded shows to what extent it increased the

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[11] The Contracting Parties to the General Agreement on Tariffs and Trade, International Trade, 1956 (Geneva: June, 1957), p. 235.

[12] Government of Pakistan, Pakistan, 1960-61, p. 67.

[13] Government of Pakistan, Department of Trade Promotion and Commercial Intelligence, Pakistan Trade, XIII, No. 9 (September, 1962), p. 47.

volume of trade between the two countries.

Unlike most of the other European countries with which Pakistan has been conducting trade under general types of trade agreements, French agreements with Pakistan are still governed by specific quotas. The reason is the unwillingness of French importers to buy Pakistani goods if left to themselves; as a result of this the last two limited trade agreements had to be signed.

However, the agreements providing for specific commitment have not always been successful. Under the 1953 trade agreement France had agreed to buy Rs. 200 million worth of Pakistani goods but had actually bought only Rs. 98 million worth.

A peculiar feature of Franco-Pakistani trade in recent years has been the appearance of trade surplus for one country in a certain year and deficit the next year with surplus again appearing the year after (table 6).

TABLE 6

PAKISTAN'S BALANCE OF TRADE WITH FRANCE*
(Value in million rupees)

Year	Exports	Imports	Balance
1958	45.3	136.5	- 91.2
1959	64.9	37.6	+ 27.3
1960	78.0	123.3	- 35.3
1961	78.9	53.0	+ 25.9

* State Bank of Pakistan, Bulletin (October, 1963), pp. 62-63.

The explanation is in the fact that when the authorities find a deficit for one country in a certain year they regulate quotas in such a way as to clear it up in the next year given the handicap that the actual exporting and importing is done by private traders. The larger deficits for Pakistan are owing to the great liberalization of imports of capital goods and industrial raw materials which are the major components of Pakistan's imports from France.

Germany (Federal Republic)

Upto 1955 Germany (Federal Republic) and Pakistan had not concluded any formal trade agreement. But discussions had been held every year since 1950 and 'Agreed Minutes' of those discussions had been published.

The first trade agreement between the two countries was signed for 18 months, from January 1, 1955 to June 30, 1956. It provided for the export of twenty thousand tons of cotton and eighty thousand tons of jute from Pakistan to Germany and for the import of heavy machinery, chemicals etc. from Germany to Pakistan. Pakistan agreed to issue single-country licences for the import of certain commodities from Germany.[14]

In 1956 a 1-year trade agreement starting July 1 was signed providing for mutual most-favoured-nation treatment. The agreement was of a general indicative type without specific quotas. A special clause in the agreement provided for payments to be effected through accounts

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[14] United Nations, Economic Survey of Asia and the Far East, 1955, p. 168.

kept in accordance with the existing Anglo-German Monetary Agreement consistent with the obligations of Pakistan as a member of the sterling area.[15]

The next agreement, signed on March 9, 1957 for an initial period of 1 year beginning July 1, with a provision for indefinite extension unless terminated earlier by either party, provided for the exchange of Pakistani raw materials for German industrial products. The special payments arrangement agreed upon in the previous agreement was continued. However, it no longer provided for the issuance of single-country licences but Pakistan undertook to regulate the issue of licences in such a way as not to reduce substantially the scope of German exports. This agreement was thereafter extended from year to year.[16]

Trade between the Federal Republic of Germany and Pakistan had been at a high level since 1950 amounting to Rs. 154 million in 1950 and Rs. 178 million in 1951. The trade agreement helped to increase trade still further (table 7) to Rs. 210 million in 1955-56 (when the first agreement was in operation). The payments arrangement concluded in the

TABLE 7

PAKISTAN'S TRADE WITH GERMANY FOR SELECTED YEARS*

(Value in million rupees)

Year (July-June)	Exports	Imports
1954-55	92.4	81.4
1955-56	114.9	96.2
1956-57	112.2	133.8
1957-58	138.0	166.6

S * Government of Pakistan, Economic Affairs Division, Central Statistical Office, Pakistan Statistical Yearbook, 1962, p. 256.

[15] United Nations, ibid., 1956, p. 232.

[16] United Nations, ibid., 1957, p. 266.

next agreement encouraged Pakistan to increase her imports of industrial equipment and industrial raw materials from Germany. As a result of the facilities accorded by the arrangement imports jumped from Rs. 96.2 million in 1955-56 to Rs. 133.8 million in 1956-57 (when the special payments arrangement was in operation for the first time).

Greece

Greece and Pakistan signed their first agreement on January 17, 1963 which came into force immediately. It would be valid initially for 1 year and would be renewable from year to year. It was a general type of agreement to promote trade without quotas or specific targets. The schedule of exports from Pakistan contained 33 items including cotton fabrics, jute goods, sports goods, etc. The schedule of exports from Greece listed 34 items including dried figs, rice and some manufactured goods. The agreement also granted mutual most-favoured-nation treatment with respect to importation and exportation charges.[17]

The volume of trade was very low in the previous years. During 1960-61 Pakistan exported Rs. 4.7 million worth of goods to Greece and imported only Rs. 33 thousand worth and in 1961-62 exports to Greece were worth Rs. 5.0 million and imports only Rs. 121 thousand. The trade agreement was meant to promote trade, especially imports from Greece. Only actual performance will show whether it has been successful. Trade statistics for the period after the agreement are not yet available and so no comment can be made.

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[17] Summary of trade agreement between Greece and Pakistan (Department of Trade Promotion and Commercial Intelligence). (Mimeographed)

Italy

Italy and Pakistan have concluded 6 trade agreements up to now. The first agreement was for a period of 1 year from July 1, 1950 which upon expiry was extended up to October 31, 1951.[18]

The next agreement was also for 1 year from January 1, 1952. It provided for the export from Pakistan of specified quantities of raw jute, cotton, cotton seeds, chrome ore and hides and skins. Exports from Italy to Pakistan were to include textiles of all kinds, industrial equipment, iron and steel, cement and paper. It was stipulated that both countries would strive to achieve a balance in their trade by the proper issuance of licences. Payments were to be settled in pounds sterling.[19]

Another 1-year trade agreement was concluded between the two countries to be effective from July 1, 1953. It provided for the exchange of specified quantities of certain commodities. A clause in the agreement provided that Pakistan would issue single-country licences valid for Italy if the Italian purchase of Pakistani cotton exceeded a certain specified level. The agreement was later extended up to the end of the year.[20]

Another agreement was signed on February 8, 1956 which was approved by both governments on April 20, 1956. Under this agreement mutual most-favoured-nation was granted, however, the previous single-country

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[18] Government of Pakistan, <u>Pakistan</u>, 1955-56, p. 112.

[19] United Nations, <u>Economic Survey of Asia and the Far East</u>, 1951, p. 205.

[20] Contracting Parties to the General Agreement on Tariffs and Trade, <u>International Trade</u>, 1953 (Geneva: June, 1954), p. 113.

licencing commitment was allowed to lapse.[21]

The last agreement between the two countries was signed on January 10, 1961, initially for a period of 2 years, with provision for indefinite automatic renewal for further periods of 1 year. Commodity quotas were provided for and a special payments arrangement was incorporated into the agreement which allowed Pakistan to offset her imports against exports for the same period and to settle balances at the end of the period in convertible pounds sterling.[22]

The first trade agreement between Pakistan and Italy spurred a great expansion in the already large volume of trade conducted between the two countries. The value of trade increased from Rs. 112.3 million in 1949-50 (when there was no agreementin force) to Rs. 230.8 million in 1950-51 and Rs. 234.8 million in 1951-52 (when trade agreements were operative).

The volume of trade then declined mainly due to a fall in the prices of Pakistani staples which resulted in low export earnings. Imports were curtailed to balance thus reduced returns from exports.

The two governments tried to revitalize trade by including a special payments arrangement in the 1961 trade agreement. However, this move failed to increase the volume which was worth Rs. 145 million in 1961 (the first year when the payments arrangement came into force), Rs. 10 million less than the previous year. The arrangement was supposed to increase Italian purchase of Pakistani cotton which did not materialize

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[21] United Nations, Economic Survey of Asia and the Far East, 1956, p. 232.

[22] Government of Pakistan, Budget, 1960-61, p. 37.

because trade between the two countries had reached a stage where neither extra arrangements nor lack thereof would have much effect.

Norway

The first and only trade agreement between Pakistan and Norway was signed for an initial period of 1 year from May 22, 1951 which was then extended upto November 21, 1952 and thereafter continued to be automatically extended indefinitely for further periods of 6 months.[23]

The volume of trade between Norway and Pakistan did not undergo any change as a result of the conclusion of the general type trade agreement. Trade figure for 1950-51 (the year prior to the signing of the agreement) was Rs. 5.3 million and for 1951-52 (the year in which the agreement came into effect) it was Rs. 5.7 million.

Portugal

Portugal and Pakistan signed their first trade agreement provisionally for 1 year from June 16, 1958. The attached list of exports from Pakistan included jute and manufactured products, from Portugal included fertilizers, glassware, refractory products etc. It was a general indicative type of agreement granting mutually most-favoured-nation treatment. The agreement also included provisions for trade with Portugese India (Goa), of which no details were specified. The agreement was later extended automatically year after year.[24]

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[23] Government of Pakistan, Pakistan, 1955-56, p. 114.

[24] United Nations, Economic Survey of Asia and the Far East, 1958, p. 223.

As in the case of Norway, the Pakistan-Portugal trade agreement did not boost trade between the two nations. The level of trade which was worth Rs. 13.5 million in 1957-58 (year prior to the conclusion of the trade agreement), remained more or less the same amounting to Rs. 13.4 million in 1958-59 (when the trade agreement was in force).

Spain

The first trade agreement between Spain and Pakistan was signed on January 22, 1951 for 1 year. It provided for the exchange of certain specified commodities. Licences were to be issued by both countries to balance in their trade. Payment was to be made in pounds sterling. This agreement was extended upto June 30, 1952.[25]

The next agreement signed for a period of 1 year from July 1, 1952 was not ratified and therefore, was not implemented.

The balance of trade between Pakistan and Spain was always favourable to Pakistan both before and after the conclusion of the trade agreement. Imports from Spain in the year prior to the agreement amounted to Rs. 4.1 million (1950), during the year when the agreement was in force it rose to Rs. 12 million as a result of specific commitments and the year after when the agreement had expired it fell to Rs. 1.6 million (1952).[26]

Further trade agreements were not concluded between the two countries as Spain could not absorb more of Pakistan's basic raw materials which

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[25] United Nations, **ibid.**, 1952, p. 104.

[26] Government of Pakistan, Pakistan, 1951-52, p. 67.

were the bulk of Pakistan's export and as importers did not find Spanish manufactured goods of a quality comparable to other European goods. So the volume of trade would be optimum, it was adjudged, if left to normal channels of importation and exportation.

Switzerland

The only trade agreement between Switzerland and Pakistan was for a period of 1 year from September 9, 1950.

In the year 1951, when the trade agreement was in force the Pakistan-Swiss trade volume increased to Rs. 16.5 million (mostly imports from Switzerland) compared to Rs. 7 million during the previous year and Rs. 10 million during the year after the expiry of the agreement.

No further agreements were concluded as Switzerland could absorb only a very limited amount of Pakistani raw materials which could be purchased by Switzerland without recourse to any special agreement. The same applied for Pakistani imports of Swiss watches, optics and medicine. Moreover, the Swiss franc being a hard currency, Switzerland did not need to balance trade with any country for reasons of currency inconvertibility.

CHAPTER IV

TRADE AGREEMENTS WITH EAST EUROPEAN COUNTRIES AND THE REST OF THE WORLD

Bulgaria

Bulgaria and Pakistan signed their first trade agreement on February 23, 1962 for an initial period of 1 year with provision for automatic renewal for further similar periods. Both the parties granted each other the most-favoured-nation treatment with respect to customs duties. It was agreed that all payments would be effected in convertible pounds sterling unless otherwise agreed to by both parties. The agreement did not provide any quota or specify any target; however, two schedules, one for exportable items from Pakistan and the other for exportable items from Bulgaria, were attached.[1]

Prior to the conclusion of the trade agreement trade between Bulgaria and Pakistan was practically non-existent, amounting to Rs. 7,000 during 1960-61. As a result of the implementation of the agreement the volume rose to Rs. 2,200,000 for the 5-month period starting July 1, 1962. The trade agreement had the positive effect of establishing commercial relationship with a country which had practically no trade connection with Pakistan previously.

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[1] Government of Pakistan, Department of Trade Promotion and Commercial Intelligence, Pakistan Trade, XIII, No. 9 (October, 1962) pp. 44-46.

Czechoslovakia

Pakistan and Czechoslovakia signed altogether 5 trade agreements one of which was not implemented.

The first agreement was concluded for a period of 1 year from October 21, 1948. It provided for the exchange of specified quantities of Pakistani raw jute, cotton, hides and skins with Czech manufactured goods, both capital and consumer and sugar.[2]

The next agreement was concluded for the period from January 15, 1950 to December 31, 1950. The provisions in the agreement were similar to those in the previous agreement. It was later extended upto March 31, 1951.

The third agreement, signed and ratified by both Governments, was, however, not implemented.

The next agreement was signed on August 15, 1956 initially for a period of 1 year, being extendable for further periods. It provided most-favoured-nation treatment mutually. Payments were to be settled in pounds sterling. This agreement was thereafter extended from year to year.[3]

The two countries concluded a barter deal in November, 1959 for the exchange of specified commodities valued at Rs. 6.5 million each way. Payment was to be made in Czechoslovak crowns. This deal was in addition to the existing general type trade agreement signed in August 1956.[4]

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[2] United Nations, Economic Survey of Asia and the Far East, 1949, p. 280.

[3] Asian Recorder, 1956, A Weekly Digest of Asian Events (New Delhi), p. 979.

[4] United Nations, Economic Survey of Asia and the Far East, 1959, p. 168.

Czechoslovakia was one of the countries with which Pakistan concluded her earliest trade agreements. It proved very favourable to the trade between the two countries. During the period of operation of the first 2 agreements (1948 to 1951) trade volume was at a relatively high level (table 8). As the agreements were discontinued the volume fell to Rs. 7.6 million in 1952 and Rs. 6.4 million in 1953.

The result of the next agreement concluded in 1956 was not as impressive but volume did rise to Rs. 8.2 million compared to the previous year's figure of Rs. 4.3 million.

TABLE 8

TOTAL ANNUAL TRADE BETWEEN PAKISTAN AND CZECHOSLOVAKIA FOR THE PERIOD 1948-1956*

(Value in million rupees)

Year	Value
1948	19.7
1949	24.7
1950	35.3
1951	34.0
1952	7.6
1953	6.4
1954	5.5
1955	4.3
1956	8.2

* United Nations, Yearbook of International Trade Statistics, 1954, p. 415 and ibid., 1958, p. 423.

Hungary

The first agreement between Hungary and Pakistan was concluded for the period from November 27, 1950 to December 31, 1951, which upon expiry was extended upto June 30, 1952. The agreement stipulated a balance in specified commodities between the two countries through the issuance of licences. It was agreed to settle all payments in pounds sterling.

A similar trade agreement was signed for a further period of 1 year from July 1, 1952. The main items of interest for export from Pakistan were jute, cotton, skins, tea, surgical instruments and sports goods and from Hungary were cotton cloth, machinery and manufactures.[5]

Then for the next 3 years there were no trade agreements in operation between the two countries until another agreement was signed on July 30, 1956 for 1 year upto July 29, 1957. The agreement was of a general nature with indicative lists of exportable goods from both countries attached. Both parties granted most-favoured-nation treatment to each other. Payments were to be settled in transferable pounds sterling. The agreement could be renewed for similar periods unless terminated earlier by either party. Accordingly, it was renewed annually.[6]

The first two trade agreements with Hungary helped to increase trade between the two countries. When the trade agreements were discontinued after June, 1953 the volume of trade fell to Rs. 2 million for

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[5] United Nations, Economic Survey of Asia and the Far East, 1952, p. 104.

[6] Asian Recorder, op.cit., 1956, p. 957.

the period 1953-54 compared to Rs. 6.3 million in 1951-52 and Rs. 5.9 million in 1952-53 when trade agreements were in force (table 9).

TABLE 9

TOTAL ANNUAL TRADE BETWEEN PAKISTAN AND HUNGARY*
(Value in million rupees)

Year	Value
1951-52	6.3
1952-53	5.9
1953-54	2.0
1954-55	1.5

* Government of Pakistan, Economic Affairs Division, Central Statistical Office, Pakistan Statistical Yearbook, 1962, p. 213-15.

However, the next agreement concluded in July 1956, failed to boost trade. The reason was that the general type agreement concluded was not suitable for increasing trade with communist countries where trade is carried on by state organs, the experience has been that specific commitments are required to ensure growth in trade volume.

Poland

Altogether Poland and Pakistan concluded 5 trade agreements , including 2 barter agreements. One other agreement signed on June 27, 1952 was not ratified by either party and did not become operative.

The first agreement, concluded for a period of 1 year from July 1, 1949, provided for the exchange of specified quantities of specified commodities. The main items of export from Pakistan were raw jute, cotton, hides and skins and from Poland were manufactured goods, both capital and consumer and sugar. It stipulated the issuance of licences to achieve a balanced trade. Payments were to be effected in pounds sterling.[7]

A similar trade agreement was concluded by the exchange of protocols. It was to be valid for 1 year from July 1, 1950.

The next operative agreement was signed on February 4, 1956, initially for 1 year from the date of signature, with provision for indefinite automatic renewal for further similar periods. The agreement granted most-favoured-nation treatment mutually. It was a general type of agreement without any specific commitment. Payments were to be settled in pounds sterling unless otherwise agreed to by both countries. Later this agreement was renewed from year to year.[8]

In addition to the existing agreement 2 barter deals were concluded. One, signed on August 8, 1958, was for the exchange of fifty thousand tons of Polish coal for Pakistani cotton of equal value. The other, signed in 1960, was for the import of twenty thousand tons of Polish cement against the export of Pakistani raw cotton and jute.

The first 2 trade agreements between Pakistan and Poland were very effective in boosting trade between the two countries. The volume of trade rose from Rs. 2 million in 1948 to Rs. 19.3 million in 1949 and

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[7] United Nations, Economic Survey of Asia and the Far East, 1949, p. 280.

[8] United Nations, ibid., 1956, p. 232.

Rs. 50 million in 1950. When the agreements were discontinued the volume fell to Rs. 9.3 million (1952).

The general type agreement of 1956, though not as effective as the early trade agreements, was able to increase trade volume to Rs. 20.5 million (1956) compared to the previous year's Rs. 16 million.

Soviet Union

The Soviet Union and Pakistan signed 3 trade agreements, 2 of which were barter deals.

The first agreement between the two countries was a barter deal for the exchange of specified commodities valued at approximately £ 6 million. It was signed on September 16, 1952.[9]

The next one was a general indicative type trade agreement initially for 1 year from September 3, 1956, with provision for automatic extension indefinitely. Payments were to be made initially in Pakistani rupees but balances at the end of each period would be convertible into pounds sterling. It also granted, mutually, most-favoured-nation treatment. This agreement was later extended from period to period.[10]

In addition to the existing trade agreement another barter deal was concluded between the two countries to exchange fifty thousand tons of Soviet cement for Pakistani jute of equal value, and Soviet bicycles and watches valued at Rs. 400,000 for Pakistani shoes.[11]

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[9] Keesing's Contemporary Archives, 1952-54, A Weekly Diary of World Events, Vol. IX (Bristol), p. 12471.

[10] Ibid., 1955-56, p. 15010.

[11] United Nations, Economic Survey of Asia and the Far East, 1959, p. 168.

The Soviet Union was the most important trading partner of Pakistan among the East European countries in the years immediately after independence. The total volume of trade between the two countries amounted to Rs. 53.2 million in 1948 and Rs. 57.1 million in 1949. Then there was a sharp decline to Rs. 17.2 million in 1950. The barter agreement of 1952 temporarily increased the total volume to Rs. 63.2 million. Thereafter trade between the two declined steadily to almost nothing in 1956 (Rs. 1.3 million only). The reason for such an unusual decline did not arise from economic factors but could be traced to a trade policy influenced by political relationship.

However, as a result of the 1956 general type trade agreement the volume picked up and was worth Rs. 25.2 million and did not decline after that. In spite of this, in the first quarter of 1963 Soviet representatives in Pakistan charged the Pakistani authorities with an uncooperative attitude towards expansion of trade with the U.S.S.R. Further expansion of trade with the U.S.S.R. is certainly possible.

Yugoslavia

Yugoslavia signed 4 trade agreements with Pakistan including a barter deal.

The first trade agreement signed on February 19, 1949 for a period of 1 year starting April 1, 1949, provided for the exchange of specified quantities of certain commodities. Pakistani raw jute, cotton, hides and skins were to be exchanged for Yugoslav manufactured goods both capital and consumer and maize.[12]

The next agreement was concluded initially for 1 year from May 15, 1954 with provision for renewal upon expiry. For the first year the total value of goods to be exchanged was fixed at £ 3 million from Pakistan and £ 3.1 million from Yugoslavia. Payments were to be made in pounds sterling.[13]

In June, 1959 a barter deal was contracted by Pakistan with Yugoslavia for fifty thousand tons of Yugoslav cement in exchange for Pakistani jute of equal value.

The May, 1954 agreement was renewed annually till April 1960 when a new trade agreement was concluded under which Pakistan agreed to export 38 items including cotton and manufactures, jute and manufactures, hides and skins, rice and optical instruments to Yugoslavia and in turn import from Yugoslavia 59 items including electrical goods, iron and steel products, machinery, chemicals and dyes. It was more comprehensive than the previous agreements.[14]

In spite of the specific commitments the first agreement with Yugoslavia failed to promote trade. The volume of trade in 1949-50 was very low being worth only Rs. 3 million of which Rs. 2.5 million was accounted for by exports from Pakistan. The reason is that neither Government had ratified the agreement and consequently did not feel bound by it.

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[12] Ibid., 1949, p. 280.

[13] Ibid., 1954, p. 223.

[14] Asian Recorder, op.cit., 1960, 3171.

The next agreement was successful in increasing the volume of trade to Rs. 8 million in 1955. However, the 1960 agreement was most effective of all in boosting trade; the volume jumped to Rs. 19 million worth during 1960-61.

Australia

Pakistan and Australia had their only trade agreement for the period from January 5, 1952 to December 31, 1952. It was agreed to achieve a balanced trade by issuing licences. Payments were to be made in pounds sterling.[15]

The effect of this agreement on the already high level of trade existing between the two countries could not be gauged as trade statistics combined the figures for the normal trade conducted between them as members of the commonwealth with those of the trade under the agreement.

Cameroon

Pakistan signed her first and only trade agreement with Cameroon on November 11, 1962 initially for 1 year from October 6, 1962 with provision for automatic renewal upto 1966. It was a general type of agreement with lists of exportable goods from both countries attached.[16]

Before the conclusion of this agreement Pakistan had absolutely no trade with Cameroon. It is expect at least to establish connections and make a beginning to the commercial relationship between the two countries.

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[15] United Nations, Economic Survey of Asia and the Far East, 1951, p. 163.

Morocco

Morocco and Pakistan concluded their first trade agreement initially for a period of 1 year from April 1962 with the usual provision for indefinite automatic renewal. The agreement was of a general nature granting, mutually, most-favoured-nation treatment with respect to matters relating to customs, etc. Pakistan was to export certain manufactured goods and import raw materials from Morocco.[17]

Prior to the implementation of this agreement trade between the two countries was nil. As a result of the connections established under the agreement a beginning was made in commerce with Morocco. For the 3-month period July to September, 1962 the total volume between the two countries was worth Rs. 1.1 million.

Somalia

Somalia and Pakistan concluded their first ever trade agreement on August 19, 1963. It would be valid for 1 year and would stand renewed from year to year unless terminated by either party 3 months before the expiration of the yearly period. The list of commodities for export from Pakistan contained 55 items, mostly manufactures, and the list of Moroccan exports contained 18 items, mostly unprocessed raw materials.[18]

This agreement was intended to open up trade channels between Morocco and Pakistan which hitherto had no commercial relationship.

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[17] State Bank of Pakistan, Annual Report, 1961-62, p. 27.

[18] Summary of trade agreement with Somalia (Department of Trade Promotion and Commercial Intelligence, Government of Pakistan). (Mimeographed).

United Arab Republic (Egypt)

Pakistan and Egypt concluded 5 trade agreements between them including 2 barter deals.

The first of these agreements was valid for 1 year from July 1, 1949. It provided for the exchange of specified quantities of rice, cotton yarn, textiles, cigarettes and leather from Egypt for jute, hides and certain minor exports from Pakistan.[19]

The next agreement was similar in nature and was also valid for 1 year, starting July 1, 1950.

For the next 9 years there was no trade agreement in operation until April, 1960, when the two countries concluded a 1-year trade agreement of a general nature providing for mutual most-favoured-nation treatment. It would be extendable for another year.[20]

In addition 2 barter agreements were also signed in 1960, one for the exchange of forty thousand tons of Egyptian rice for Pakistani raw jute and sports goods; and the other for the exchange of Egyptian cement for Pakistani jute.[21]

The first two trade-agreements, with their specific quotas, proved effective in expanding trade between Egypt and Pakistan from Rs. 5.1 million during 1948-49 (when no trade agreement was in operation) to Rs. 30.7 million during 1949-50 and Rs. 14.2 million during 1950-51 (when trade

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19 Government of Pakistan, Pakistan, 1955-56, p. 112.

20 Ibid., 1959-60, p. 85.

21 State Bank of Pakistan, Annual Report, 1960-61, p. 24.

agreements were in force). After the discontinuance of the trade agreements trade declined heavily to Rs. 2.9 million in 1959.

The 1960 trade agreement and barter deals boosted the trade volume to the all-time high figure of Rs. 48.9 million during 1960-61. During 1961-62 it was worth Rs. 19.9 million, much less than the previous year as there were no barter deals during that period.

United States of America

The only trade agreements between the United States and Pakistan were a series of agreements for the sale of surplus farm products, Under the U.S. Public Law 480, to Pakistan. The sale proceeds would be utilized in Pakistan for development purposes as well as for the maintenance of certain specialized U.S. agencies in Pakistan. These agreements were in part responsible for the phenomenal increase in Pakistani imports from the United States after 1956 (table 10). The dip in 1959 was caused by

TABLE 10

PAKISTAN'S IMPORTS FROM THE UNITED STATES DURING 1955-61*
(Value in million rupees)

Year	Value
1955	127.5
1956	123.1
1957	572.8
1958	514.6
1959	398.6
1960	774.4
1961	755.2

* State Bank of Pakistan, Bulletin, (October, 1963), pp. 64-65.

stringent measures taken by a new Government to check imports and avoid a drain of already depleted foreign exchange resources. The trend changed the following year as positive assurances of aid in substantial amounts were received from a number of countries.

CHAPTER V

CONCLUSION

The Pattern of the Agreements

During the past 16 years the trade agreements programme undertaken by Pakistan has witnessed 3 distinct phases. The whole process was evolutionary in character, the nature of the programme changing with time. There were, however, certain exceptions to this general trend and those will be discussed later.

The First Phase.

The first phase began with the conclusion of the earliest trade agreements and ended roughly between 1955 and 1956. Most of the trade agreements entered into during this phase had certain features in common. The agreements were of a specific nature wherein both parties agreed to achieve a pre-determined ratio either in terms of the quantities of specified goods to be exchanged or in terms of the total value of trade to be carried on between the two countries during a given period. The device used to achieve this objective was to issue licences to balance actual trade as closely as possible. The mode of payment was in pounds sterling or in Pakistani rupees or in the currency of the other partner in the trade agreement.

A combination of 2 currencies was also used sometimes. For example, the January 1954 trade agreement with France provided that a part of the French imports (cotton) from Pakistan would be paid for in French francs which in turn would be utilized by Pakistan to finance as much of her imports from France as possible, and the rest of the transactions would be settled in pounds sterling. What is of most significance is that whatever the variations in the mode of payment in individual trade agreements contracted during this period all of them incorporated the common feature that the currencies used to make payments were inconvertible. The Indian rupees or Czech crowns held by Pakistan could not be used to pay for imports from Japan or France. This kind of an arrangement differed from the strictly bilateral clearing arrangement wherein exporters from one country to a second were paid as and when importers from the second country made their payments. Any outstanding claim would have to be settled by further agreements about the mode of such settlement. Exporters, and importers settled their payments, under the agreements concluded by Pakistan, with Government agencies or banks which held the foreign currencies. The burden of balancing was left to the state which tried to solve the problem by regulating the issuance of licences in the proper way.

As the agreements provided for balanced trade they were necessarily of short durations, usually 1 year. Even when extensions were agreed upon fresh quotas or ceilings were worked out by both parties. Sometimes short extensions of 2-3 months were made in order to make up targets agreed upon but not fulfilled during the original period.

Out of a total of 40 trade agreements signed during this period only 5 were of different types. Of them 3 were barter deals and 2 were general type agreements, one each with Belgium and Norway.

The Second Phase.

The second phase of the trade agreements programme began with the world wide resumption of free convertibility of currencies. Targets and quotas, which used to be a permanent feature of previous trade agreements, were left out. No guarantees of balanced trade were given, no efforts were to be made to achieve balanced trade.

Instead of targets and quotas of specified commodities there appeared indicative schedules of exportable commodities from both countries that were parties to an agreement. Even such schedules did not limit the scope of trade between the two countries; they were not exhaustive, but represented the goods that were of the greatest interest to the two parties to an agreement. The targets and quotas were barriers to the maximization of world trade. They prevented the free market forces of price, quality, etc. from playing their part in determining the volume and composition of international exchanges and substituted a system of negotiated trade which could have no relation to the principle of comparative costs. However, they were necessary and served useful purposes as will be seen later. The exclusion of quotas and targets from the later trade agreements and their modification from specific arrangements to general 'goodwill' agreements was a step in the right direction towards the removal of artificial barriers to the growth of international trade.

A clause in each agreement accorded each other the most-favoured-nation treatment. This meant that no third country would enjoy privileges which were not granted to the country receiving such treatment. This treatment was granted with respect to customs duties, and charges for exports and imports. In some cases it was extended to include shipping charges and other minor matters as well.

In contrast to the agreements concluded during the first phase, the payments clause under these agreements provided for settlement in convertible currencies, usually pounds sterling. In some cases, payments were made initially in local currencies and balances after a given period were settled in convertible pounds sterling.

The trade agreements during this period tended to be valid for longer terms. The agreements were usually concluded initially for 1 year with provision for automatic renewal. The absence of targets and quotas, which had to be checked for fulfillment after a given period and which also had to be revised, made it possible to have those long-term trade agreements with automatic renewal facilities. This aspect of trade agreements of longer duration was of definite advantages to all countries concerned. Long-term arrangements provided the basis for long-term planning. It freed the administrative machinery of considerable burden. Bureaucratic forces had less restrictive influence over international trade thus contributing to a healthy growth.

During this phase there were a few exceptions to the general trend of agreements. They were the agreements with India, France, Italy and the United States. Pakistan continued to have specific agreements with predetermined quotas with the first 3 countries and she imported surplus farm commodities from the United States under agreements. With India, the political relationship was such that both countries agreed only specific agreements could serve their purpose of continued flow of trade in the face of unstable and unpredictable political relationship. The case of

France and Italy was different; experience had taught that Pakistani exporters had difficulty in selling to those countries, hence to guarantee such transactions, agreements with specific commitments were concluded. Moreover, both of these countries carried on most of their trade under specific agreements. In the case of the United States the sale proceeds of surplus farm commodities were given to Pakistan as aid for development purposes. These amounted to Rs. 85 million in 1961 and Rs. 106 million in 1962.

The third phase

The third phase of the programme did not start as a result of the termination of the second phase but it started as an offshoot. The two phases were complementary in character, they existed side by side. This third phase was characterized by the conclusion of trade agreements with a number of new countries; countries with which Pakistan had no previous trade agreements. And with most of these countries Pakistan had no trade at all and with those that she had trade, the magnitude was insignificant. In all other respects these agreements were similar to those concluded during the second phase. They too were agreements of a general nature usually valid for a long period. Most-favoured-nations treatments were mutually accorded in these agreements as well. Payments were also to be settled in convertible currencies.

The barter deals

Apart from these 3 phases in the trade agreements programme there was another group of agreements that could be treated as a separate class. These were the barter deals contracted by Pakistan with several countries. These did not form a phase as they were not confined to a specific period and were not continuous but were the results of contingencies. These deals were made at a point of time to be implemented over a very short period of time. Both values and quantities of goods to be exchanged were agreed upon beforehand. No formal medium of payment was involved in such a deal.

The Significance of the Agreements

Trade Agreements were always important for Pakistan's foreign trade (table 11). In 1948-49 about 49 per cent of exports and 40 per cent of imports were made under trade agreements. There were only 3 agreements in force at the time, one each with India, Czechoslovakia and Yugoslavia. The high percentage of trade under agreements is explained by the fact that a very large share of Pakistan's trade was conducted with India during this year (about 45 per cent of exports and 35 per cent of imports); later the share of India declined considerably.

During the Korean boom of 1950-51 Pakistan's exports increased considerably but the exports to the United Kingdom and the United States increased more than proportionately and as there were no trade agreements with these countries the percentage of exports under agreements fell to 39. The lower percentage figures for 1952-53 (31 for exports and 20 for imports) was due to the absence of the usual trade agreement with Japan and the presence of a very limited one, without the main items interest, with India. The increase in the percentage of exports and decrease in the percentage of imports during 1956-57 when as a result of the devaluation of Pakistan's currency there was temporary stimulation of exports

TABLE 11

ANNUAL EXPORTS AND IMPORTS UNDER TRADE AGREEMENTS EXPRESSED AS A PERCENTAGE OF TOTAL ANNUAL EXPORTS AND IMPORTS*

Year (July - June)	Exports under Trade Agreements (%)	Imports under Trade Agreements (%)**
1948-49	49	40
1949-50	48	35
1950-51	39	39
1951-52	39	39
1952-53	31	20
1953-54	51	25
1954-55	47	30
1955-56	44	30
1956-57	50	26
1957-58	46	33
1958-59	42	35
1959-60	39	33
1960-61	31	25
1961-62	32	25

* Calculated from: Government of Pakistan, Economic Affairs Division, Central Statistical Office, Statistical Bulletin (Karachi: 1949-62).

** Import figures did not include imports from the United States under U.S. Public Law 480, as complete statistics were not available.

and decline in imports. The decline in recent years (1960-61 and 1961-62) in the share of trade under agreements in total trade was due to increasing trade with United States and the discontinuance of trade agreements with Japan after August, 1960.

Far more significant than the percentage figures of trade under agreements were the other purposes that were served which cannot be measured or valued in numerical terms.

The trade agreements in general enabled Pakistan to maintain a higher level and smoother flow of trade than would otherwise have been possible under the circumstances. These in turn facilitated the implementation of the development plans and the industrialization efforts which Pakistan had undertaken in order to emerge from a state of economic backwardness. Other more specific advantages of the trade agreements programme are discussed in the following pages. The earlier classification of agreements into phases would help to indicate the purpose which each of those groups served.

The first phase

The agreements concluded during the first phase was vital to the very existence of Pakistan's foreign trade. The inconvertibility of currencies during the period made balanced trade an absolute necessity as large favourable balances with some countries would not help to pay for imports from other countries; Japanese yen would not buy French goods. Only a system of trade agreements could keep up the flow of trade essential to Pakistan.

The inconvertibility of currencies and the consequent imposition of the quota system and exchange control tended to choke the flow of international trade. It was the trade agreements programme that helped to keep up the level of international trade. An advantageous side effect was the opportunity to regulate imports according to the priority of needs of the national economy.

The second phase

The full restoration of currency convertibility on a global scale began in 1955 when British authorities decided to use their monetary reserves to support the transferable sterling rate in order to prevent any significant discount from the official sterling - dollar rate. At the same time the European Monetary Agreement came into effect restoring formal convertibility of European currencies.

With the convertibility of currencies restored, the justification of the continuance of a trade agreements programme would seem to have disappeared. However, trade agreements did not disappear; they were modified; from bilateral contracts with specific commitments they changed into general, goodwill arrangements. The only, but useful purpose they served was to allay the fear of resumption of restrictions in trade and the consequent discrimination among countries. They were a line of defence to fall back upon, in case restrictions were reimposed, at a time when countries were cautiously venturing toward a freer world trade after years of muffling restrictions. The agreements provided an atmosphere in which suspicious countries could trade more freely without fear.

These agreements were in no sense restrictive, the inclusion of the 'most-favoured-nation' treatment clause in all the trade agreements guaranteed equality of treatment at a time when the memory of past discriminations and preferential treatments were still fresh. All this explains why Pakistan as well as other countries clung to trade agreements even when they outlived their previous purpose.

This type of agreement did not benefit Pakistan in any special way. The general effect was an expansion of international trade. Pakistan too achieved a growth in her foreign trade which increased from Rs. 2.2 billion worth in 1954-55 to Rs. 3.1 billion in 1955-56 and Rs. 3.9 billion in 1956-57.

The third phase

The third phase of the programme, the conclusion of a large number of new trade agreements, was an important part of Pakistan's recent trade policy of boosting her exports. The chronic balance of payments difficulties and the need for liberal imports to keep her development plan going left the only alternative open, a large increase in the volume of trade. In view of the low prices and the declining market for traditional staples (jute and cotton), the best policy was to push the exports of simple manufactures which she started producing quite efficiently 3-4 years ago. Pakistan's traditional industrially advanced trading partners cannot absorb any substantial quantity of such products. Hence the need for the development of new trading partners willing to buy what she produces. Of the 8 new countries with which Pakistan has signed trade agreements since late 1961, four (Cameroon, Finland, Morocco and Somalia) had no trade connections at all previously, and the other four (Bulgaria, Greece, Nepal and the Philippines) had some trade but very insignificant in volume. These new agreements are not expected to achieve spectacular results but they constitute a beginning which might, with proper care, pay handsome dividends.

It might be pointed out here that trade agreements are not substitutes for marketing techniques like advertising, product display, fairs and so on for establishing direct contact with export markets. However these have to be carried out by private firms and exporters. The trade agreements provide and opening which have to be followed up by more specific contacts by private enterprise.

The barter deals

The barter agreements were a class by themselves. They did not constitute a permanent or even a temporary long-term aspect of Pakistan's trade. They were not normal features; their need arose out of contingencies. Once these emergencies passed, their usefulness ceased and they were discontinued.

Pakistan concluded altogether 10 barter deals up to now. The first one was with India in 1949-50. It was the only way Pakistan could get essential supplies of Indian coal for her railways in the face of the trade deadlock caused by Pakistan's refusal to devaluate her currency (following the devaluation by other members of the Sterling Area) and India's refusal to accept the undevaluated Pakistani currency. The barter deal solved the problem of essential supplies until the deadlock was broken and trade was again normalized.

Pakistan concluded 2 barter arrangements with China and Russia during 1952-55 involving Pakistani jute and cotton in exchange of Russian and Chinese coal, iron and steel. This was the period of recession immediately following the Korean boom. As the prices of staples had dropped very low, the barter arrangements afforded an advantageous deal for surplus staples (jute and cotton).

All the remaining 7 barter deals were contracted during the period 1959-60. These agreements were with China (People's Republic) Iraq, Poland, the Soviet Union, United Arab Republic (Egypt) and Yugoslavia. They provided for the exchange of Pakistani jute and cotton for cement, coal and food stuffs. Again, these deals were characterized by special advantages gained as a result of the barters. The prices of cotton and jute had declined heavily during this period owing to a general slump in the textiles market as well as to the sale by the United States of surplus cotton in international markets at low subsidized rates. Coal, cement and food stuffs, all in short supply in Pakistan were obtained for cotton and jute which were not selling well in the international market.

Apart from the barter deals with Egypt and Iraq, all the other barter agreements were concluded with communist bloc countries. These agreements were definitely advantageous to Pakistan in that she obtained necessary goods in exchange for surplus staples. However, the other trade agreements concluded with communist countries were similar in all respects to those signed with Western countries.

Somewhat similar in purpose to the barter deals were clauses in the agreements with Japan, France and Italy, under which Pakistan agreed to import certain goods from those countries if their purchase of Pakistan's cotton exceeded a specified level. These clauses appeared at times when international prices were low or when Pakistan expected surpluses.

Objections to Trade Agreements

The most vigorous objection to trade agreements is made on the ground of their effects on trade.

Bilateral trade agreements have been condemned for their restrictive effects on international commerce. They are said to be more restrictive in scope and effect than other devices such as under - and over - valued exchange rates, multiple exchange rates and quantitative limitations. Bilateral trade agreements are criticized by proponents of freer international trade mainly because they give rise to discriminatory monopolies in international trade wherein one country would stand to gain through agreements at the expense of the other country. Such an accusation would have been valid against the trade agreements concluded by Pakistan in the first phase of the programme. The need for bilateral balancing could have given rise to discriminations; for example, a creditor country could have been forced by the debtor country to allow an advantageous settlement for fear of losing the whole amount.

However, the general nature of agreements concluded after the end of the first phase were in no way discriminatory. As argued before, the possibility of discrimination was ruled out by the inclusion of the 'most-favoured-nation treatment' clause as well as by the provision for payments in convertible currencies.

Another objection to trade agreements has to do with administrative aspects. A comprehensive system of trade agreements with targets and quotas for different countries requires a huge and complicated administrative machinery for proper functioning. This tends to give rise to bureaucracy and increased costs. In Pakistan a Ministry of commerce both supervises and ratifies trade agreements. Despite a huge staff at times "there were wide margins of difference between targets prescribed and purchases made."[1] However, these were true for the agreements under the first phase and the general "goodwill" type arrangements concluded later did not needed much administering.

Instruments of Commercial Policy

A commercial policy "refers to the government measures that bear on the current account of the Balance of payments, especially trade in merchandise."[2] The nature of such a policy is determined by the purpose which it is designed to serve.

The trade agreement is an instrument of commercial policy. Other instruments of commercial policy are: the tariff, quantitative restrictions and exchange control.

Tariffs are taxes or customs duties imposed on merchandise crossing out of the boundaries of a nation. As a protective or restrictive device the tariff has influences of a general nature. When a protective tariff is imposed, external producers of the goods on which tariffs are imposed have to be more efficient than domestic producers to be able to sell in the domestic market. However, there is no bar on their sales

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[1] S.M. Akhtar, Economics of Pakistan (Lahore: Publishers United Ltd., 1963), p. 140.

[2] Roland L. Kramer, Maurice Y. d'Arlin, and Franklin R. Root, Internationa Trade: Theory, Policy, Practice (Cincinnati, Ohio: South-Western Publishing Co., 1959). p. 188.

if they can manage to absorb the effects of the added costs. Therefore, the degree of protection afforded by tariffs is relative since it is subject to market responses and to price changes as well as to the height of duties and to the comparative costs of production and consumption.

Tariffs do not discriminate between different foreign sources of supply. An individual country can probably improve its trade balance if it is able to impose tariffs without inviting relatiation. But usually tariff retaliation has been found to be general, causing an overall decrease in total international trade. Tariffs are most useful when a particular country wants to afford a certain degree of protection to domestic industries from external competition. It is also important to governments as a source of revenue.

Quantitative restrictions in the form of quotas regulate imports directly by specifying the exact quantity or value of products that will be permitted to be imported during some specified period. Quotas are absolute and inflexible in operation. They discriminate among foreign supplying countries that are competing for whatever trade is left after the restrictions are imposed. Quantitative measures of restriction, like tariffs, are tools of national economic policy designed to regulate the international trade of a nation. Unlike tariffs, however, they impose absolute limitations upon foreign trade and inhibit market responses; this makes them extremely effective under distressed economic conditions. They are highly useful in bringing about the necessary adjustment to a disturbed balance of international payments. As they are effective tools of restriction, they make potent weapons for retaliation and bargaining.

The direct interference of governments in the foreign exchange market is known as exchange control. Exchange control restricts the right of holders of a currency to exchange it for other currencies. The effect of exchange control is similar in nature to that of quantitative restrictions as any form of exchange control limits the volume of goods that can be imported into a country during a given period of time. There are many objectives of exchange control. Foremost among them are the suppression of balance of payments disequilibrium, the facilitation of national planning and the protection of domestic industries. It affords insulation to the domestic economy from outside disturbances. It is more selective than automatic or free market processes of adjustment. The control authorities may choose which particular imports are to be reduced and which particular foreign currencies are to be economized.

All the three instruments of commercial policy, tariffs, quantitative restrictions and exchange control discussed above are restrictive in nature. The main indictment against them is that they interfere with international specialization and trade in accordance with comparative costs.

Another device of commercial policy is the multilateral agreement. This consists, as the term implies, of an agreement among a group of nations on certain aspects of international trade. The range and effectiveness of such an agreement is greatly limited by the diversity of member nations making it difficult to arrive at any significant common base for agreement. Hence such an agreement can only be of a general nature and therefore of not much significance as an effective tool of commercial policy. However, it serves the very important purpose of pioneering further international cooperation among nations and experience in learning to live with one another. When left to themselves individual countries tend to be selfish in their conduct of international trade, often giving rise to serious conflicts of interests. When a country is a party to a multilateral agreement, selfish group interests within the country have less influence to her multilateral commitments. Concessions can be given and obtained without hurting national prestige or purse which is usually extremely difficult in bilateral agreements in which often one party stands to gain at the expense of the other. It is much easier for a group to smooth out difficulties in trade relationships than it is for individual countries. This has been amply proved by the GATT.

Bilateral trade agreements are not always independent tools of commercial policy. They are used in their most restrictive form to facilitate the operation of foreign trade when other restrictive measures tend to choke it. For example, the imposition of quotas and exchange control shrinks foreign trade, in such circumstances bilateral trade agreements serve to keep trade channels open and ensure the availability of essential supplies vital to the national economy. Unlike the other devices bilateral trade agreements have a wide latitude of operation starting from the highly restrictive form involving bilateral balancing to the general nature 'goodwill' agreements which impose no restrictions at all, leaving the operation of trade open to the influence of price, quality and other forces of free market adjustment. The effect of a trade a greement will depend on the provision it includes and these are open to infinite variations. This fact indicates the widely differing and multitude of purposes for which trade agreements may be used.

There is wide acceptance in the academic world of the benefits of free trade both for individual nations as well as for the world in general and there is equal acceptance in the practical world of restrictions to trade. All countries of the world have erected some sort of barrier or other to international trade. In this context a unilateral renunciation of trade restrictions on the part of any one country, especially one as vulnerable as Pakistan, would be fatal to her economy; she would be swamped by other countries in no time.

There is, however, nothing special about one form of restriction or instrument of commercial policy or another. Each has its advantages and disadvantages and what decides the appropriateness of one device or another is its ability to achieve the objectives of commercial policy. Generally, more than one device, a combination, is used to attain such objectives as are deemed essential to the prosperity of the country.

Future of Pakistan's Trade

In the foreseable future a number of events will affect Pakistan's trade. It would be worthwhile to analyze their effects.

Effects of Britain's Entry into the Common Market

Britain's role in the world trade has been outward looking. Dependence on imports has made the United Kingdom a ready market, particularly for the commonwealth countries. As far as Pakistan is concerned Britain is her largest customer, her offtake during 1960-61 was worth Rs. 281 million representing about 16 per cent of the total exports for that year.

The chief concern for Pakistan is that Britain's entry into the Common Market and her acceptance of common tariffs against third countries would mean not only the end of preferential treatment for some of Pakistan's exports but also the erection of a tariff barrier in favour of the Common Market countries. The principal exports of Pakistan as well as many other developing countries are subject to high tariff, internal taxes and quantitative restrictions of a discriminatory nature in some of the countries of the European Common Market, while those products are admitted duty-free and without restrictions to the United Kingdom. If Britain joins the Common Market without suitable provisions for the future trade of Pakistan and other developing Commonwealth countries with special emphasis on the types of products which come from those countries, Pakistan and the others would find it extremely difficult to maintain and develop their export trade.

On the other hand an advantage that might accrue is that when Britain joins the Common Market, her low tariffs will be included in the arithmetic average and as a result the average for the Common Market as a whole will be lower than before. If this happens, the revised pattern of trade should, before long, enable countries like Pakistan to settle to slightly higher tariffs but vaster and expanding markets.

Effects of the Common Market

The basic idea in a common market is the removal of all barriers between the member countries with respect to the movement of goods and factors of production and some sort of common tariff policy with respect to the rest of the world. The object is to promote greater inter-regional trade, achievement of economies of scale in production, and optimum utilization of resources of the region through the fullest exploitation of the principle of comparative advantage or cost and thus the achievement of a higher living standard for the people of the region.

The effects of such an economic integration can be analyzed in terms of trade creation and trade diversion. Trade creation may result on account of greater specialization within the region and higher incomes earned by its people. This latter may lead to the expansion of trade even with the outside world. In the shortrun, however, considerable trade diversion may take place, if the net effect of tariff changes is to raise their average level for the outside world. That is precisely what will happen when the Common Market integrates fully and give effect to the common tariff.

On representation by the Government of Pakistan that the application of common tariffs will affect her exports to the Common Market countries adversely compared to exports before the imposition of such tariffs, the Common Market authorities have agreed to negotiate a trade agreement with Pakistan which will provide quotas for Pakistan's main exports to the Six. This agreement is due to be signed in late 1964 and it will ensure that the application of new tariffs does not reduce Pakistan's exports to the area substantially.

A Trade Agreements Policy For Pakistan

There is nothing sacrosanct about trade agreements. They are merely instruments of commercial policy and are useful as long as they serve to implement such a policy. Pakistan conceives of international trade as an instrument of economic development to the exclusion of other ends. There are 3 objectives that Pakistan's commercial policy should achieve in order to aid the development effort. They are: first, the temporary protection of new industries from harsh external competition in order to give them the opportunity to stand on their feet; second, to curb the import of non-essential consumer goods and facilitate the import of capital and other goods necessary for the purpose of development; and third, the expansion of exports in order to reduce the balance of payments disequilibrium and to pay for the import component of the development plans.

The first two objectives can be better attained by means other than trade agreements. They were discussed before. It is the third objective, the promotion of exports that requires the use of trade agreements. There is no doubt about the fact that considerations of price and quality are of primary importance for export performance. However, they are not enough by themselves. International trade is not free from discriminatory restrictions. As long as these exist trade agreements will be needed to bargain for and attain the best possible concessions mutually. A case in point is the trade agreement due to be signed with the Common Market in late 1964 which was referred to earlier. A similar agreement could be negotiated in case of Britain's entry into the Market so that there is no sudden cut off in Pakistan's exports to that country thus jeopardising her economic stability. The agreement would be for a transitional period giving her the opportunity to find new markets. These agreements would be of a specific nature involving quotas.

The use of trade agreements for the promotion of exports can be justified by the fact that since 195-'51 the considerable diversification in Pakistan's foreign trade (especially exports) has been made possible by the conclusion of trade agreements with countries with which she had little or no trade before.

Further trade agreements of a specific nature would continue to be necessary for the maintenance and expansion of trade with Communist Bloc countries. These countries carry on their trade through state organs and as they have no price determination system through the interplay of free market forces, foreign trade is carried on the basis of specific concessions granted for specific concessions obtained. Trade agreements are most suitable for maintaining and expanding commerce with these countries.

The 'goodwill' agreements that Pakistan has been concluding recently does nothing except establish trade connections or reiterate the willingness to go on maintaining such connections. It does not interfere with the free play of market forces and quality, price, etc. form the basis for competition. Such agreements ought to be concluded with all countries which are willing to sign such agreements.

As regards barter deals, they cannot be ruled out. Primary commodities make up the bulk of Pakistan's exports, and their market is notoriously unstable. So, if certain advantageous settlements can be made through barters at times, involving surpluses of such commodities no great harm would be done to the cause of free trade.

Pakistan as a member of the General Agreement on Tariffs and

Trade subscribes to the objective of freer multilateral trade as the ultimate goal to strive for. But as long as trade agreements are concluded by other countries she will be wise to follow the general trend. No unilateral renunciation of trade agreements by her will help the cause of freer trade. On the other hand, a vigorous trade agreements programme to boost her exports and solve her chronic balance of payments problem and thus permanently remove the quantitative restrictions she imposes, would serve much better the cause of freer international trade.

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