

into India is permitted. Methyl bromide is an ozone-depleting substance and is to be phased out in the near future. In addition, climatic conditions in Canada do not allow for the fumigation at the required temperature during the winter months. Canada is making representations requesting the removal of this condition.

## OTHER ISSUES

### Investment

Foreign direct investment is allowed in all sectors, except for arms and ammunition, atomic energy, railways, coal and lignite, ore mining, magnesium, chrome, sulphur, gypsum, gold, diamonds, copper and zinc. FDI ceilings and approval processes have been progressively relaxed, so that a large majority of sectors are now open to 100% foreign equity, via the automatic approval route. Ceilings on FDI remain in a diminishing number of sectors, such as insurance (26%), defence (26%), banking (74%) and telecom (49%). In certain cases, approval has to be obtained from the Foreign Investment Promotion Board under the Ministry of Finance. Canada is seeking increases in these ceilings.

## Pakistan

### Overview

Having identified financial and fiscal reform as a priority, the government, under President Pervez Musharraf, has implemented a comprehensive agenda of macroeconomic stabilization and economic and governance reforms. Various positive effects are apparent, such as reduced domestic and external debt, reduced fiscal deficit, low inflation, an increased current account surplus, and foreign exchange reserves of more than \$17 billion. Pakistan's economy has grown at a pace not seen in the preceding six years. In 2003, GDP grew at 5.1%, exceeding the target rate of 4.5% and almost doubling the 2.8% growth rate achieved in 2002.

Despite the comprehensive reform package and improvements in the fiscal position, poverty has grown from 17% to 30% since 1993 and the number of poor has increased by 12 million. There are great discrepancies in the distribution of income between Punjab and the other three provinces, and between the military and the civilian population. The bulk of the national budget is spent on debt servicing, the military and administration. Very little is spent on health and education. These factors, coupled with an unstable political environment, call into question the sustainability of Pakistan's economic reforms.

Notwithstanding a challenging business environment, bilateral trade totalled \$575 million in 2003, on Canadian exports of \$300 million and imports of \$275 million. For Canada, this is a remarkable improvement over 2002 numbers, when Pakistan held a 3:1 trade surplus with our country. The increase in Canadian exports can be largely attributed to growth in canola shipments, once canola was accorded tariff treatment equivalent to that for other rapeseeds. Canadian export figures are likely much higher when account is taken of transshipment through the United States and regional ports such as Dubai and Singapore. Additionally, services, in particular engineering, are excluded from the figures. Textiles and clothing represent the lead export item from Pakistan; pulses and lentils are the ranking Canadian export.

Aware of the benefits associated with North American Free Trade Agreement, Pakistani entrepreneurs have been showing interest in Canada both as a business and an investment destination. In addition to local (sourcing) offices in Canada, initiatives have included investment proposals for textile plant, automotive parts and banking.

### Market Access Results in 2003

- Canola seed exports from Canada surged once Canada secured tariff treatment for canola seed on par with that given by Pakistan to other rapeseeds.

### Canada's Market Access Priorities for 2004

- Continue to press the Pakistani government to ease the ban on the import of livestock from Canada.