

COMMERCIAL POLICY & ECONOMIC DEVELOPMENT

With Reference to Pakistan

by

Izzud Din Pal

M.Sc.Econ.(London)

A thesis presented in partial fulfilment  
of the requirements for the degree of  
Doctor of Philosophy at McGill University

June, 1958

"And because men are all members of one great whole, and the sympathy which is in human nature will not allow one member to be indifferent to the rest or to have a perfect welfare independent of the rest, the expansion of our humanity, to suit the idea of perfection which culture forms, must be a general expansion."

Matthew Arnold,  
in Culture & Anarchy.

## PREFACE

The study of the problems of economic development, with reference to the so-called underdeveloped countries, has become a popular subject in recent years. The literature dealing with various aspects of economic development is multiplying rapidly. The general approach in this literature, which is clearly discernible, is based on the discussion of the causes of economic development, and the analysis of the factors of economic growth. The trade regulations are either taken as given data, or something which the underdeveloped countries have to resort to, by virtue of their being economically backward.

Commercial Policy and Economic Development, with reference to Pakistan, is the first study of its kind; the writer, however, makes no claim to the originality of its contents. It does not answer the question: what is economic development, or what are the socio-economic causes of the backwardness of countries such as those belonging to the South and South-East Asia? Its main purpose is to analyse the role of trade regulations in the process of economic development. Only those aspects of the problem of economic development have been discussed which have been considered to be the most relevant for the purposes of this study. The approach is neither purely theoretical nor entirely factual. The writer is

conscious of the limitations of income analysis in macro terms; nevertheless, it seems to be a useful approach for the purpose of the present analysis.

The main question in commercial policy is: what is the extent to which price mechanism does or does not play its part properly in the foreign trade of a backward country? An attempt has been made here to answer this question. Some writers have discussed the trade problems such as import regulation with reference to the restrictions on the luxury imports, in order to increase the savings of the people of backward countries. We have adopted a different approach. An effort has been made in the study to correlate the problems of import restrictions with the plan of economic development and its import requirements. In this manner, we have tried to avoid the somewhat awkward question: what is a luxury import?

It is hard to restrain the temptation to dilate on all the difficulties that one encounters in one's work. The writer proposes to mention only the fact that there were serious difficulties in collecting the statistical data for this study. Pakistan's statistics are, in a way, unreliable; they lack homogeneity; they are easy to quote, but often difficult to comprehend. In spite of this limitation, the writer has made extensive use of these statistics in the study, as there was no better alternative available to him.



For information on Pakistan economy, one still has to rely a great deal on newspaper reports and the personal knowledge of events taking place in the country. The writer has been in a position to make use of both these sources. But the main limitation of these sources is that they may tend to impair objectivity in analysis and conclusions. The writer has been conscious of this weakness, and he has tried to avoid it as far as possible. Now that this work has been completed, and while this preface is being written, the writer has a feeling that this study can be greatly improved with the help of the information available from the Ministry of Commerce, Government of Pakistan, Karachi. In any case, he cannot obviously shift the entire burden of his errors of judgement, and omissions, to the lack of statistical data on Pakistan.

The study in its present form was initiated by the writer at McGill University during 1956. The work on some aspects of the subject that the writer did for the seminars of Dr. Vera Anstey and Professor J.E. Meade at the London School of Economics, during 1950-52, has also been incorporated here with some minor adjustments. While at the University of the Panjab, Lahore, Pakistan, during 1952-55, the writer had an opportunity to study, at close quarters, some problems of Pakistan economy and her foreign trade.

The writer gratefully acknowledges his indebtedness to his research director, Dr. D.B. Marsh. While leaving the writer completely free to select his approach, premises, and his conclusions, Dr. Marsh took keen interest in the progress of this work. The writer was able to eliminate several flaws of exposition and presentation, particularly in Chapters III, IV, and V, as a result of the criticism and suggestions of Dr. Marsh. Apart from the personal guidance of the research director, his World Trade and Investment was a great source of inspiration to the writer. Perhaps, it is Chapter 22 of the book — Choosing the Ends of International Policy — which originally guided the writer's interest towards the present subject.

Acknowledgement is also due to Richard W. Lindholm, formerly of the Michigan State University and now Dean of the College of Business Administration, University of Oregon, for many discussions that the writer had with him on Pakistan economy.

As usual, the writer alone is responsible for his analysis and opinions contained in the following pages.

The writer wishes to acknowledge, with deep gratitude, the cooperation that he received from Miss T. Sears, Librarian of the School of Commerce at Purvis Hall. The

prompt and efficient service of her staff, particularly Miss Joan Hill and Miss Georgi Phelan, was a source of confidence to the writer during the strains of search and research of the material required for this study.

No words can properly convey the indebtedness of the writer to his wife for her enthusiastic encouragement and for every possible help she gave him in his work.

Last but not least, the writer is grateful to the Bronfman Fellowship Committee of McGill University for providing him with a fellowship during 1955-56, and thus enabling him to begin with his work on the present study during that period.

Izzud Din Pal.

Duggan House, Montreal.

June 22, 1958.

## CONTENTS

	Page.
PREFACE.	ii
CHAPTER I. Commercial Policy - Definition and Scope.	1
CHAPTER II. The Economy of Pakistan.	12
a.The factors of Economic Development.	
b.Pakistan's Economic Development.	
c.Pakistan's National Income.	
CHAPTER III. Export.	56
a.A model of Trade Disequilibrium.	
b.Fluctuations in Pakistan's Exports.	
c.Decline in World Demand for Pakistan's Main Exports.	
d.The development of Cotton Textile and Jute Manufacture.	
e.Export Promotion.	
CHAPTER IV. Imports.	113
a.Pakistan's Import Policy.	
b.Import Needs and Foreign Exchange Requirements.	
c.Invisible Imports.	
CHAPTER V. Exchange Control.	137
a.Developmental and Non-Developmental Imports and Exchange Control.	
b.Auctioning of Import Licenses.	
c.Prospects for a Policy of Exchange Rate Variation.	

CHAPTER VI.	Terms of Trade.	158
	a. Various Meanings of the Concept.	
	b. The Role of the Terms of Trade in Economic Development.	
	c. Import Capacity.	
CHAPTER VII.	Trade Agreements.	172
	a. Trade Agreements with Various Countries since 1948.	
	b. Their Role in Commercial Policy.	
	c. Bilateralism and Multilateralism.	
CHAPTER VIII.	The Role of Commercial Policy in Economic Development.	196
	a. The Problem of Surplus Population.	
	b. Agriculture and Industrialization.	
	c. Free Trade Vs Protection.	
	d. Tariffs Vs Subsidies.	
	e. Criteria of Investment.	
CHAPTER IX.	Conclusion.	252
APPENDICES:		
	A. Pakistan's Exchange Rate, etc.	262
	B. Six Year Development Plan.	263
	C. Broad Outlines of the First Five Year Plan.	266
	D. Pakistan's Balance of Payments.	270
	E. Some Details of Protection to Industries in Pakistan.	272

F. Ecerpts from Public Enquiries Held by the Tariff Commission.	282
G. The Import of Raw Materials in Western Europe and North America, 1953-55 and 1973-75.	286
Bibliography.	287

---

## CHAPTER I.

### COMMERCIAL POLICY - DEFINITION AND SCOPE

#### I.

Commercial policy may be defined as 'all measures<sup>1</sup> regulating the external economic relations of a country.' It is that part of government policy which aims at controlling the composition, the volume, the value, and the direction of foreign trade. In this sense, it may be taken to include all the economic weapons such as tariffs, trade restrictions, shipping regulations, and exchange control.

The relationship between exchange control and commercial policy is delicate and complex. There are many aspects of exchange control, such as the tourists' demand for currency or general demand for personal remittances, which may be regarded as outside the scope of commercial policy. Many other forms of currency management such as the control of capital movements and speculation may impinge, but may not have any direct bearing, on the objectives of commercial policy. Last but not least, the techniques of currency management

---

1. G. V. Haberler: Theory of International Trade, London, 1936, p. 212.

may be used to promote the aims of trade policy by<sup>2</sup> regulating exports and imports. It is only in this sense<sup>3</sup> that the exchange control becomes a part of commercial policy. Exports and imports may be regulated through exchange rate manipulation including multiple exchange rates, payments agreements, and the allocation of foreign exchange on discriminatory or non-discriminatory basis. In so far as exchange control with all its various aspects of currency management is caused by the lack of sufficient funds available in terms of foreign assets to meet the requirements of international payments over the period of time, it may be the direct result of relatively low earnings from exports or relatively high expenditure on imports. Such a situation, whether it arises due to structural reasons or cyclical factors, can be remedied through a proper formulation of the techniques of commercial policy on the basis of international co-operation. The atmosphere of international co-operation itself may create favorable circumstances for the relaxation of exchange control.

---

2. For a description of the various uses of exchange control in Germany and other countries of Europe during the inter-war period, see H.S. Ellis: Exchange Control in Central Europe, Cambridge, Mass., 1941; Margaret S. Gordon: Barriers to World Trade, London, 1935; M.Y. Sweezy: The Structure of the Nazi Economy, Mass., 1941.
3. For further discussion on exchange control see Chapter V.



## II.

Commercial policy, in reality, is a series of administrative actions which a government takes to regulate foreign trade, and it consists of duties, bounties, and prohibitions on exports and imports. These restrictions are imposed from time to time under the pressure of the circumstances which originate from different directions. In the international sphere, the factors such as the economic depression or a boom, the membership of a currency block, changes in demand or taste, and changes in a country's competitive position will influence commercial policy. In the national sphere, there may be group interests pressing for restrictions on imports or for special promotion of exports. There may be a national plan for economic development with its priorities in industrial and agricultural sectors, and commercial policy may be regulated to promote the aims of the plan. The extent to which the commercial policy will tend to be restrictive will depend on the existing level of economic development of the country, as well as the targets of the plan. We may thus formulate areas of economic gains in which the initial guiding forces develop and determine commercial policy. These areas may be called the areas of welfare, and commercial policy may be regarded as aiming at fulfilling

its objectives within its own area as follows:<sup>4</sup>

1. International welfare in the international area;
2. National welfare in the national area;
3. Welfare of a commercial group (or groups) in the group area.

Following the classical argument, the countries entering into foreign trade will gain by promoting the export and import of goods on the basis of their respective comparative advantages. This is the pure theory of international trade in which the principle of comparative cost regulates the composition of foreign trade, and determines the international welfare. It involves an automatic mechanism, and commercial policy plays no regulatory part in it as there is free trade between the countries

The classical theory of international trade assumes that there is perfect mobility of factors of production, and that these factors of production are fully employed. Both these conditions, however, may only partially exist in the countries entering into foreign trade. In the first place, the mobility of productive agents may be imperfect due to various reasons. Secondly, there may be serious unemployment in one of the trading countries. Moreover, there are some backward economies which suffer from under-employment of human and other resources. It is quite reasonable to assume that there

---

4. Argument adapted from D.B. Marsh: World Trade and Investment, New York, 1951. Chapter 22, pp. 348-351.

is scope for them to improve their position through deliberate planning. Free trade creates a dual pattern in such economies by encouraging a highly specialized and progressive system in the export sector and leaving the rest of the economy backward and stagnant:<sup>5</sup> the total earnings from the export sector become an important part of their national income, and the cyclical fluctuations become their significant feature owing to their heavy reliance on exports. For them, free trade on the basis of the existing comparative cost position does not provide a stable economic equilibrium and, in order to make progress, they may have to deviate from its path and adopt a conscious policy for the direction of their foreign trade. The question is: will such an interference in their foreign trade promote or hinder international welfare? In other words, if commercial policy is used to increase the national welfare, will it create conflict with the requirements of international welfare? In view of the fact that some of the basic assumptions of the free trade model do not exist in backward economies, it should be possible for them to adopt what J.E. Meade calls the 'modified free trade position.' Following his terminology, we shall refer to

---

5. H.W. Singer: The Distribution of Gains Between Investing and Borrowing Countries, American Economic Review, Papers and Proceedings, May, 1950.

The problem of under-employment is more fully discussed in Chapter VIII.

it as 'second best policy' of promoting international  
welfare.<sup>6</sup>

The second best policy must be distinguished from beggar-my-neighbor policy and autarchy. The former implies international co-operation and understanding, whereas the latter, being a series of unilateral actions, may increase the national welfare and benefit domestic employment of the country, but may do so only at the cost of the rest of the world. These actions, therefore, may provoke retaliation from other countries and the initial gains derived from them might be neutralized.

There is no conflict between the aims of commercial policy for economic development and the principle of efficient allocation of national resources. The proper utilization of resources is the ultimate goal of all economic activity, and in order to achieve this goal, it is necessary to create, as a pre-requisite, a suitable economic and social atmosphere in the country. This may, however, require a deliberate policy for economic development. In the framework of such a policy, commercial policy may be adjusted to explore all the possibilities to which the infant industry argument draws attention. The problem of the development of external economies may also be fitted into this structure.

---

6. J.E. Meade, Theory of International Economic Policy, Vol. II, Trade and Welfare, London, 1955.

What forms should the protective action take is an important question which we shall have the opportunity to discuss at a later stage. But as a broad indication of the central idea of our analysis, we may here take into consideration the main results expected from such a scheme of protective action. Let us assume that when a backward country adopts the commercial policy for economic development, it has secured the assistance of all the necessary factors which, along with commercial policy, will stimulate her productive activity. The restrictions imposed by this country on her foreign trade will disturb the pattern of her external economic relations with other countries. Let us represent the other countries by country A and the backward country by country B.

The commercial policy of B may be influenced by some group interest, or as Lionel Robbins calls it, the persistent<sup>7</sup> and slow moving force of producer interest. In this case, the main advantage which will accrue will be more favorable to the particular producer interest than to the rest of the economy. This may be regarded as a step away from the main objectives of economic development, i.e., the creation of benefits for the majority of the people in the economy. The country will not gain from such a commercial policy, as it will be followed by a reduction of welfare for the larger section of the economy and, therefore, for the economy as

---

7. Lionel Robbins: The Economist in the Twentieth Century and Other Lectures in Political Economy, London, 1954, p. 129.

a whole. This will have unfavorable repercussions on A through reduction of B's demand for A's goods or, through reduction in B's production of export goods. But if we assume that the economic development of B is taking place on the basis of a plan which possesses clearly determined criteria and priorities of development, then one sector of the economy may receive precedence over the other sectors in the beginning. This may initially create a situation similar to the above predominance of the producer interest, but the development of one sector may stimulate development in other sectors, and the rest of the economy may thus be compensated in due course. Consequently, the national income and welfare will increase and, subject to price and income elasticities of demand and supply, there will be an increase in the foreign trade between A and B, followed by an increase in the international welfare. If the commercial policy of a backward country is properly formulated on the basis of the prospective advantages from the utilization of the unused resources on the one hand, and on the other, of international division of labor, it will put the mechanism of the national and the international compensation in a proper gear. Both the advanced country and the backward country will gain, and the result will be a change in the commodity structure of productive activity in the advanced country, and an increase

in the propensities of economic growth in the backward country.<sup>8</sup>

### III.

When we proceed from a simple formulation such as given above to the complex problems of economic development, it becomes necessary to examine the proper role of economic policy in them. It obviously depends on the relative importance of foreign trade for a country's economy. We shall assume in our present study that foreign trade and, therefore, commercial policy belong to the group of factors which play a secondary role in economic development as they cannot be expected to supply the basic stimulus which should come from the improvement of economic circumstances within the country, and the transformation of her social structure. For example, the tariffs, at best, would build up a wall around the existing cost structure of a country, and if the domestic investment is not sufficiently sensitive to respond to the change in the situation, the tariff duty will fail to achieve its object. The same is the case with foreign aid. Similarly, an increase in foreign demand for the domestic goods will have a multiplier effect on the national income, which might just stop at being purely inflationary or, on the other hand, might result in an increase in real productivity.

---

8. A.O. Hirschman: The Commodity Structure of World Trade, Quarterly Journal of Economics, 1942-43, pp. 565-595.

This does not mean that commercial policy has no importance for a backward country. It is certainly capable of providing strong external stimulus to the domestic economy and its success depends on the nature of responsiveness of the economy.

We shall, therefore, emphasise during the course of our analysis that, within its limitations, foreign trade plays an important part in the economic development of a backward country, and we shall explain how the techniques of commercial policy can be adjusted to increase national production in such a manner as to conform to the requirements of international welfare.

#### IV.

It is the purpose of this study to establish a proper correlation between commercial policy and economic development against the background of the economic evolution that is taking place in Pakistan. We do not propose to examine the effects of the techniques of commercial policy as such, but we shall make an attempt to apply some of the current theoretical knowledge available on the subject to the problems of trade that Pakistan is faced with, in view of her desire for a rapid development of her economic resources. We shall



emphasise various aspects of foreign trade regulation in relation to their influence on the process of economic development. But before proceeding with our examination of the export and import policies of the country, we shall give a brief outline of the economy of Pakistan in the next chapter.

## CHAPTER II.

### THE ECONOMY OF PAKISTAN.<sup>1</sup>

#### I.

The Economic progress of a country depends on various complex factors. Three principal and broad categories of these factors may be conceptually isolated: (1) The economic circumstances including consumer demand and the availability of credit; (2) The production function including improvements in the factor supply and, (3) The socio-economic propensities,<sup>2</sup> in aggregate and by social class.

The economic circumstances consist of the natural factor endowment, the level of per capita income, and the economic institutions existing in a country. These are, however, internal factors; the external conditions also are an essential part of this category, i.e., the effect of changes in the national income of other countries through changes in their demand for foreign goods and services.

- 
1. In this chapter, there are many references to the First Six Year Plan and the First Five Year Plan. The necessary details of the Plans are given in the Appendix B and C.
  2. Adapted from E.P. Reubens, Underdeveloped Countries, Discussion, American Economic Review, Papers and Proceedings, Vol. 43, 1953, p. 127. See also W.W. Rostow: The Process of Economic Growth, New York, 1952; J.J. Spengler: Theories of Socio-economic Growth, Problems in the Study of Economic Growth, National Bureau of Economic Research, Princeton, 1949, pp. 52-53.

Changes in the economic circumstances affect production as well as the techniques and skills of people. The economic progress depends on them. But these changes depend on what we may call the socio-economic propensities which permit or obstruct their course. The socio-economic propensities consist of innumerable elements such as propensity to consume, to invest, to discount the future, and to adopt innovations; they also consist of the entrepreneurial ability, the spirit of business adventure, the social customs and mores, the nature of political institutions including their stability, the family and family traditions.

All the variables involved in the above categories may be said to be the cause of backwardness of a country, collectively or in different combinations. However, the main characteristic of these variables is that they are interdependent and that it is difficult to isolate them for the purpose of determining the goals of economic policy. It is precisely due to their interdependence that upward or downward changes in economies tend to be cumulative in character.

All backward countries suffer from such cumulative processes of poverty and stagnation. Some of them possess old civilizations; others are emerging out of

primitiveness for the first time. In order to break the vicious circle of their poverty, they have to improve their economic resources, modernize production techniques, and develop a proper socio-economic framework conducive to progress. The very nature of the obstacles to such a comprehensive program inevitably require state to assume an important role in the process of economic development.

It is impossible to impose modern techniques on an economic system which is unsuited to them. Therefore, one important task to be performed by a backward country is to create a proper atmosphere for progress, which involves the removal of feudalistic structure and of primitive attitudes. This may be regarded as a gradual but not necessarily a 'stage-by-stage' process: the cumulative nature of the factors of economic progress implies that a change in one sector will have its repercussions on other sectors; also, a backward society is in an advantageous position in being able to start at a relatively higher level with the help of advanced technical knowledge available from industrial countries.

The main objective of a backward country is to develop a framework of economic progress with the help of government intervention, so as to bring the economy

to what Rostow calls the 'take-off' level.<sup>3</sup> In this respect, the problems of a backward country are different in nature and scope from the problems of advanced countries. At this point, it may be convenient to differentiate between economic development and economic growth, though both the terms have been used synonymously in discussions of underdeveloped countries.<sup>4</sup> Without attaching too literal a meaning to them, we may associate the improvements in economic welfare and expansion, quantitative as well as qualitative, in production capabilities with economic growth. Economic development, on the other hand, may be thought of as a process of change from primitiveness to the application of capitalist principles, and the development of a new social order. This process involves two most important aims of increasing national income and of gainfully absorbing the surplus population. A developing

- 
3. Rostow suggests a four-fold division of countries: (1) traditional, (2) pre- take off, (3) take-off, and (4) growing. According to him, the rate of growth in a pre-take off country is not more than 5 % per annum compared to take-off where a rise in productive investment from about 5 % to over 10 % and the development of one or more substantial manufacturing sectors takes place. The Takeoff into Self-sustained Growth, Economic Journal, Vol. 66, 1956, p. 32n.
4. For example, see W.A.Lewis: Theory of Economic Growth, London, 1955; S.Kuznets: Economic Growth: Brazil, India, Japan, Princeton, 1955; W.W. Rostow, op. cit.

economy, unlike a growth economy, is not beset with the problems of stability at a high level of production and of continuous economic change, but of modernization of a backward people. In its initial stages this modernization can be performed on the following lines:

1. To introduce social reforms, both from the point of view of community and family life; to spread education and technical training; to provide opportunities for the improvement of skill; and to encourage the spirit of imitation and innovation;
2. To widen the scope of division of labor by extending the use of money, by expanding markets and by introducing change from crude to relatively modern techniques of<sup>5</sup> production;
3. To increase demand mainly by providing income through employment, by introducing new and varied productive activities, and by expanding existing production;
4. To increase capital, in stock as well as in flow, by increasing efficiency of monetary institutions, use of machinery, tools, buildings and transportation.

---

5. R. Nurkse, Problems of Capital Formation in Underdeveloped Countries, Oxford, 1953, p. 5.

Thus, there are four fundamental factors which are relevant to the economic development of a backward country: social reforms, division of labor, demand, and capital. We may call them the four sides of the complex process of capital formation. As we shall note later, this process implies some dependence on foreign aid in the form of external savings and technical know-how due to the meagre domestic savings and capital equipment of a backward country. This explains the heavy reliance of developing economies on the import of capital goods and services which results in balance of payments difficulties for them. We propose to examine some of these difficulties in the next two chapters. Here, we shall describe, in broad outlines, the developing economy of Pakistan, in the light of the above factors of economic progress.

## II.

Pakistan's present economic position is the result of complexes of factors operating in the past history of the Indian subcontinent as well as in the current developments taking place in the country since its establishment in August 1947. The heritage of the past is significant as it shaped the pattern of economic and political life in what is now East and West Pakistan. At the time of the Moghal Empire, India was a poor country, but there was a small privileged class patronized by the court. The great majority of the Indian people eked out their living from

agriculture. There were scattered groups of artisans and craftsmen whose main source of survival was the demands of the luxury class. Large scale construction of monuments, tombs, and palaces also provided employment to the common man. When the East India Company established itself in India, it mobilized the economic resources of the country to create a colonial pattern which subordinated India to British political and economic interests.<sup>6</sup> By 1857, when the transfer of power from Company to the Crown took place, the colonial relationship had been firmly established. After 1867, the British enterprise brought further colonial pattern, as the Indian economy was developed in the field of raw material export.

Far more important in its economic impact was the division of the country into British India and Princely India, established by the Company and later confirmed by the British government. In princely India the main result was the freezing of political status quo; In British India, the absentee land-lordism and feudalism, which had emerged out of the political chaos existing in the country during the period under consideration, were not only accepted and recognized but positively encouraged on the basis of the political game of 'give and take.' The stabilization of princes and landlords not only set a style of lavish expenditure and economic waste, but it discouraged enterprise, saving,

6. Helen B. Lamb, The State and Economic Development in India, in Economic Growth, S. Kuznets, op. cit., pp.467-68.



and investment. It put the rural population at the mercy of the over-lords who emulated the consumption habits of the foreign rulers but failed to imbibe their spirit of enterprise.<sup>7</sup>

In this superstructure, the development of transportation undertaken by the British India government, hindered rather than fostered the economic progress. It was planned with British ends and there was no impetus to its evolution from the indigenous forces. In the realm of banking, the indigenous banker, side by side the protracted development of British commercial banking, created the monetary institutions which did not conform to the situation in the country.<sup>8</sup> There were no dynamic economic movements which could raise the standard of living of the people and absorb the surplus population in a productive manner. In agriculture, unlike industry, the surplus population can be absorbed through the expansion of family or household system, which is generally the unit of labor force on land in backward countries. This trend operated in full swing in the Indian society, and saved the lives of thousands of

- 
7. Without entering into the controversy of what would have happened to the Indian economy if the British had not conquered India, our purpose is only to emphasise the importance of the emergence of agricultural elite, particularly in what is now known as West Pakistan.
  8. 'For some time India had been a museum of miscellaneous British institutions and practices. Central banking.....came very late....and....it was set up on the British model and was in no way designed to meet the particular needs of the Indian situation.' Helen B. Lamb, op. cit., pp. 485-86.

people, though only on a subsistence level and interrupted only by periodic natural and other calamities, which relieved the land of its pressure of population.

In this atmosphere, some industrial activity developed, in spite of unfavorable circumstances. The First World War provided the major impetus and the post-war period saw the new struggle of tariff policy in the country. This industrial activity, however, took place almost entirely outside the areas which now comprise Pakistan. These areas continued to supply raw materials for export as well as for consumption in the newly developing industries at home; and the main source of employment for the people of this area continued to be agriculture, army, and to some extent, civil service. After the introduction of provincial autonomy this pattern had a profound influence on the political and social life of these areas. The administration of provincial governments, particularly in West Pakistan, came into the hands of the landlords for whom urban growth was a sign of potential danger to their own existence, and economic reforms were unthinkable beyond the introduction of lifeless tenancy laws.

These factors serve as an important background to the Pakistan of today, and explain the political fiasco the country has been faced with since her independence.

III.

According to the 1951 census, the population of Pakistan was 75.84 million which, according to an

Table I

Population of Pakistan

( Thousands )

I.

Year.	Total.	East Pak.	West Pak.
1941	70,400	42,300	21,200
1951	75,842	42,150	33,692
1953	80,062	--	--
1955	82,240	45,700	36,540
1960 <u>1/</u>	88,420	49,000	39,420

II.

Area.	Urban.	% of Total.	Density.	Male	Female.
Pakistan <u>2/</u>	7,863	10.4	208	40,299	35,633
Karachi	1,068	94.9	1,387	646	480
East Pak.	1,844	4.4	777	22,039	20,024
West Pak.	4,950	15.2	105	17,524	15,129

Source: Statistical Year Book, United Nations, 1955;  
Central Statistical Office, Karachi.

1. Projection.
2. Figures are for 1951.

Table II  
Age Distribution

Age Group	Observed	Corrected
All groups	100.00	100.00
0-9	28.3	28.1
10-19	25.0	22.3
20-29	11.6	17.2
30-39	11.7	12.2
40-49	8.5	8.7
50-59	5.9	5.8
60-69	2.9	3.5
70 and over	2.1	2.2

Source: The First Five Year Plan, op. cit.

Table III  
Life Expectancy  
(India)

Year	0	20	40	60
1890-1911				
Male:	23.63	28.59	17.91	9.53
Female:	23.96	28.64	19.12	10.02
1921-1931				
Male:	26.91	29.57	18.60	10.25
Female:	26.57	27.08	18.23	10.81
1941-1950				
Male:	32.45	33.03	20.53	10.13
Female:	31.66	32.90	21.06	11.33

Source: Statistical Year Book, United Nations, op. cit.

estimate, had increased to 82.43 million by 1955.<sup>9</sup> The density of population in 1951 was 208 persons per square mile.

The growth of population by age, sex, quality of people, education, training, geographical distribution, and occupations provides important demographic variables of economic development. They determine the size of labor force which directly affects the process of economic

<sup>10</sup> change. Table I gives the data on population of the country in a summary form. It indicates the predominance of the male population over the female, which perhaps is due to the higher rate of infant mortality in the latter group. The growth of total population of the country is between 1 and 1½ per cent per annum. Only 10.4 per cent people of the country are urban; the breakdown of statistics reveals that West Pakistan is more urbanized than East Pakistan.

---

9. 'It is generally believed that the urban population was under-estimated to the extent of, perhaps, 5 per cent. If proper allowance is made for this under-enumeration, the figure that is generally accepted as reliable for February 28, 1951 is 76.23 million for the country as a whole, of which 42.15 million were in East Pakistan and 34.08 million in West Pakistan.' The First Five Year Plan, Karachi, 1955, p. 209.

10. J. J. Spengler, Demographic Patterns, in Economic Development, edited by H.F. Williamson and J.A. Butterick, New York, 1954, pp. 63-102.

Table IV  
Labor Force - 1951

Status.	(Millions)					
	Pakistan		East Pak.		West Pak.	
	No.	%	No.	%	No.	%
Total Popula- tion.	73.9	100.0	41.9	100.0	32.0	100.0
Civilian labor force.	22.7	30.7	12.9	30.7	9.8	30.7
Agricultural	17.1	23.1	10.7	25.6	6.4	20.1
Non-agricul- tural	5.6	7.6	2.2	5.1	3.4	10.6
Self-supporting but not in labor force	0.4	0.6	0.1	0.3	0.3	0.9
Dependents:						
Under 12 years of age	26.8	36.0	15.2	36.3	11.4	35.8
12 years and over	24.0	32.7	13.7	32.7	10.4	32.6

Source: The First Five Year Plan, op. cit., Vol. I, p.214.

According to the age distribution, nearly 30 per cent of the population is below the age of ten and about 20 per cent above the age of forty. Although no separate data are available for Pakistan, Table III, for India, indicates that the life expectancy is slightly higher at the age of 20 than at birth, and considerably lower at the age of forty and sixty.

The total labor force, according to the 1951 census, was 30.7 per cent of the total population of the country. This labor force is overwhelmingly masculine, partly owing to the predominance, in number, of the male over the female as mentioned above, but mainly due to the strong tradition which requires women to stay at home. Though accurate data are lacking, this labor force seems to be rising at a very high rate; according to the First Five Year Plan, there will be an increase of about 400,000 persons per annum during the plan period.

As expected, the percentage of labor force in agriculture is higher than in other sectors. But it is estimated that the proportion of workers engaged in the non-agricultural sectors is rising and, correspondingly, the proportion of workers engaged in agriculture is falling. According to a sample survey made by the First Five Year Plan, the percentage of population engaged in agriculture

in East Pakistan has fallen from 84.0 in 1951 to 73.2 in 1955; in West Pakistan it has fallen from 66.0 in 1951 to 53.9 in 1955. At the same time, the percentage of people engaged in mining, manufacturing, building and construction has been on the increase in both parts of the country. There is, however, still a great preponderance of the working force in agriculture which poses special problems of upward pressure of population in that sector of the economy. Perhaps their solution will depend mainly on the development of non-agricultural sectors of the economy, the population control, and the general rate of capital<sup>11</sup> formation in the country.

The diversion of population from rural to urban areas, however, implies far more than the mere calculation of gain in the agricultural sector expected as a result of the remedial measures taken to reduce the pressure of workers on land by providing increased opportunities in the expanding industrial sectors in cities. Human mobility, due to strong family affiliations and other traditions, is very low in Pakistan. Moreover, the majority of the people lack the spirit of adventure, are largely illiterate, and are

---

11. For further discussion see Chapter VIII.



in a low state of health and efficiency.<sup>12</sup> Economic development, in such circumstances, involves a break with the old ways of life and creates problems of resistance to change. This resistance, however, may lose its sharpness through a proper education and urbanization of labor force in the country. In the long run there may be substantial gains to the country in planning for greater urbanization and greater improvements in the existing urban centres than, say, land reclamation.<sup>13</sup> This is an important factor for a developing economy which suffers from a surplus of population.

We may now turn to the primary producing sector of Pakistan economy. The country is relatively poor in mineral resources, fuel, and power. It is rich in the supply of chromite, limestone, and rock salt. It also produces low quality coal, and recently, middle quality iron ore deposits were discovered near Kalabagh in West Pakistan. Natural gas was discovered at Sui in Baluchistan and is now being supplied to various industrial areas

- 
12. The rate of literacy is 10 per cent according to the 1951 census. As for health, main problems are food, climate, sanitation, and superstitions regarding the use of medicines and doctors.
  13. S. Enke, Speculation on Population Growth and Economic Development, Quarterly Journal of Economics, Feb., 1957, pp. 19-35. We have used the term urbanization to mean change in the mode of living and the use of proper facilities in the home as well as outside.

Table V-a

Mineral Production				(Thousand tons)
Year.	Chromite.	Limestone.	Gypsum.	Rock Salt.
1947	20.0	341.6	15.9	--
1948	18.0	346.9	--	150
1949	16.9	279.4	14.2	201
1950	18.1	303.3	16.7	137
1951	17.5	344.0	22.8	142
1952	17.0	672.4	28.8	125
1953	23.0	878.9	27.2	146
1954	21.9	822.0	31.2	147
1955	28.4	886.5	28.5	140

Source: Central Statistical Office, op. cit.

Table V-b  
Fuel & Power

Year.	Coal. (000, tons)	Crude Petroleum (000,IG)	<u>Refined</u> <u>Petroleum Products</u>		<u>Electric Energy</u>		
			<u>Motor</u> Spirit (000, IG)	<u>Kerosene</u> Oil (000, IG)	<u>Total</u> (000, Kwt)	<u>Domestic</u> (000,Kwt)	<u>Imported</u> (000,Kwt)
1947	358	13,203	--	--	70,389	51,537	18,852
1948	241	17,022	2,796	423	201,875	129,026	72,849
1949	332	32,942	6,106	994	225,114	164,482	60,632
1950	437	44,835	10,415	2,061	242,858	171,651	71,207
1951	506	47,194	11,157	1,834	299,354	225,094	74,260
1952	599	55,430	15,101	2,323	349,925	305,316	44,609
1953	584	61,676	16,950	2,385	429,714	410,518	19,196
1954	554	68,067	19,076	2,825	505,306	488,845	16,461
1955	543	72,354	19,415	2,804	--	--	--

Source: Central Statistical Office, op. cit.

Note: IG means International Gallons.

including Karachi by the Sui Gas Company. The gas reserves, according to an estimate made in October 1955, are equal to four trillion cubic feet, roughly equal to 143 million

Table VI  
Consumption of Fuel & Power  
(1949)

Item.	Unit per 000, popu- lation.	Pakistan.	U.K.	U.S.A.
Electricity produc- tion.	000 Kwt.	1.9	1,033	2,296
Coal consumption.	tons.	18	3,884	3,473
Petroleum consumption	" "	11	327	1,638
Steel consumption.	" "	1.3	194	364
Cement consumption.	" "	3.6	148	229

Adapted from the Colombo Plan, H.M. Stationary Office,  
London.

tons of coal in heating value. As shown in Table VI the consumption of some of the mineral and power resources in Pakistan is very low as compared to industrial countries.

#### IV.

In the field of agricultural production, the major crops of the country are rice, wheat, sugar-cane, jute, cotton, tea, and tobacco. The area and production of these crops are given in Table VII. The figures in that Table indicate that the production of wheat fell considerably during 1951-52 and 1952-53, while, at the same time, there

Table VII  
Production and Area of Principal Crops

Item.	1948-49	1950-51	1951-52	1952-53	1953-54	1955-56
Million acres or tons						
Rice:						
Area	21.50	22.40	22.48	23.02	24.53	23.70
Production	8.41	8.20	7.76	8.15	9.15	8.41
Wheat:						
Area	10.69	10.89	10.24	9.53	10.65	10.66
Production	3.99	3.95	2.97	2.39	3.68	3.17
Other Food Crops:						
Area	5.13	5.12	4.61	5.08	5.77	4.96
Production	1.20	1.16	0.96	0.94	1.33	1.15
Gram:						
Area	3.00	2.96	2.31	2.24	2.77	3.10
Production	0.80	0.79	0.48	0.37	0.65	0.63
Sugar-cane:						
Area	0.71	0.70	0.70	0.87	0.96	0.02
Production	1.03	0.87	0.87	1.09	1.26	1.23
Oil Seeds:						
Area	1.76	1.90	2.14	1.83	1.92	2.09
Production	0.31	0.33	0.35	0.27	0.32	0.37
Million acres or bales						
Jute:						
Area	1.88	1.25	1.78	1.91	0.97	1.24
Production	5.48	4.45	6.33	6.82	3.61	4.66
Cotton:						
Area	2.65	3.07	3.38	3.38	2.93	3.19
Production	0.99	1.52	1.65	1.90	1.44	1.65
Million acres or lbs.						
Tea:						
Area	0.07	0.08	0.08	0.07	0.08	0.07
Production	33.60	37.86	53.00	52.00	52.00	54.00
Tobacco:						
Area	0.16	0.18	0.18	0.18	0.19	0.24
Production	141.92	162.40	178.95	167.10	201.10	262.04

Source: Central Statistical Office, op. cit.

was a corresponding increase in the production of jute, tobacco, tea, and cotton. This shift from food crops to cash crops may be explained by the price changes that followed the Korean War boom of 1950-52. This also indicates the lack of planning in agriculture.

The economy of Pakistan is potentially self-sufficient in food, at least at the present level of her income and demand. Perhaps her food shortage is caused by the peculiarities of price mechanism. Or, perhaps, as the official viewpoint often emphasises, the cycle of 'too little rainfall followed by too much of it' also affects the country's capacity to produce food for her people. Whatever the causes may be, the country relies on the import of food from abroad to compensate for the shortage of the domestic supply. Between 1947 and 1955, about 1.5 million tons of food grains were imported from abroad. With further increase in the income and the standard of living of the people, the problem of food supply will assume a great deal of importance; the upward pressure of population also will put heavy strains on it.

Agriculture is the most important sector of the Pakistan economy, in being the major source of employment and income in the country. Out of the total area

of 233 million acres, about 26 per cent is under cultivation, 3 per cent under forests, 12 per cent classed as 'culturable waste', 24 per cent as unculturable waste land, and 35 per cent as unclassified land.<sup>14</sup>

Agricultural productivity per person and per acre is very low in Pakistan as compared to that of advanced countries. No reliable data are available, but the following Table gives a comparison of yield per acre between Pakistan and a few selected countries:

Table VIII  
Yield per acre of Land

Country.	1950		
	(lbs per acre)		
	Wheat.	Maize.	Paddy.
U. S. A.	1,026	2,055	2,144
U. K.	2,166	--	--
Japan.	1,332	1,036	3,361
France.	1,392	946	2,293
Egypt.	1,620	1,859	3,519
Pakistan.	768	946	1,249

Source: Economic Appraisal Committee Report, Karachi, 1952.

The main cause of low agricultural yield in Pakistan is perhaps the pressure of population on land, which unnecessarily increases the size of the labor unit per acre. The other causes are the land tenure system, the

---

14. The First Five Year Plan, op. cit., Vol. II, p. 21.

state of health and efficiency of workers, the deficiency of water supply, the defective methods of production, the inefficient marketing techniques, and the shortage of capital.

Land tenure is the core of the agricultural problem. The defective system of ownership and management can result in serious setbacks to efficiency of production and cause sharp inequalities of income. It is generally agreed that Pakistan's land system is in need of drastic reforms. Whatever work has been done in this regard in the country falls far short of the magnitude of the task, particularly in West Pakistan. East Pakistan is considerably ahead of West Pakistan; there, the State Acquisition and Tenancy Act of 1950 provides a basis for the removal of absentee landlordism. In West Pakistan, the land tenure system is primitive and positively inimical to progress. The land owners of that part of the country are the absentee landlords who, in spite of being an insignificant minority, hold the greater part of the cultivated land in their ownership. This concentration of land has been responsible for various political, social and economic maladjustments in the country.

---

15. "While taking stock of the conditions in the country, one is struck with their similarity to feudalism. Under the landlord system the cultivator has no real stake in life and can feel no interest in his land. He can have no higher motive than to continue to exist as best he can without rights, without opportunities and without status or dignity. The feudal lord exercised his powers direct, while the landlord in this country, no longer  
(Cont... next page:



V.

As compared to agriculture, the industrial sector has made better progress in Pakistan. After the partition of British India, the areas which became part of Pakistan were seriously deficient in industrial activity. According to a survey made in July 1948 there were only about <sup>16</sup> 9 cotton mills with 166,688 spindles in the country. Among other manufacturing activities were sugar and cement, but their annual production was far below the national requirements. The country did not produce even the simple and ordinary consumer goods. However, as Table IX indicates, rapid development had taken place in certain <sup>17</sup> sections of large scale industries by 1955: there had been an increase in the value of production of jute baling by 103 per cent, of cotton cloth by 300 per cent, of sulphuric acid by 500 per cent, steel smelting by

---

Cont. from page 34... enjoying judicial and administrative powers, uses his position and influence to preserve his authority. This situation is incompatible with a progressive society. The needs of industry, transport and social services demand that the cultivator should produce not only for himself alone but also for a nation wide and in many cases a world wide market.' The First Five Year Plan, op. cit., Vol. I, p. 118.

16. Pakistan Institute of International Affairs, Introducing Pakistan, Karachi, 1949, p.14.
17. Large scale industries are defined as those which employ 20 or more workers, according to the Factory Act of Pakistan.

414 per cent, steel re-rolling by 1,716 per cent, cement by 108 per cent. Also, new plants with large capacities for manufacturing had been installed in glass, paper, jute, cigarettes, and caustic soda industries.

This is a spectacular development. Yet it is no more than a beginning of the process of manufacturing for a country which was almost entirely agricultural at the time of its establishment.

As mentioned before, Pakistan is faced with the problem of rapid annual increase in her population. This is an explosive situation as the country is already overpopulated. The question is where and how to absorb the rising labor force in the economy. According to an estimate made by Colin Clark in 1951, there is little scope for further employment in agriculture in East Pakistan.<sup>18</sup> On the other hand, in West Pakistan, there is extra land available, but the shortage of water, according to him, limits the absorption capacity there to 730,000 cultivators as against 570,000 already reported to be engaged in agriculture on the basis of the 1951<sup>19</sup> census.

---

18. Pakistan Economist (Karachi), December 25, 1952, pp. 11-12 and 25-26.  
See also Economic Appraisal Committee Report, op. cit., pp. 77-78.

19. Ibid.

Table IX

Summary of Production of Large Scale Industries

Sector.	Unit.	Quantity			Value of Production 1/		Percentage change - 1948-50.
		1948	1952	1954	1948	1954	
<u>Agricultural Processing:</u>							
Cotton ginning.	000, tons	161	247	265	360.0	610.0	69
Jute baling.	Million bales	1.1	3.7	2.2	121.0	246.0	103
Tea manufacturing.	Million lbs.	43.5	53.1	55.8	87.0	116.6	28
Cigarettes.	Millions	--	3,170	4,588	--	67.8	All new capacity
Sugar.	000, tons	7	64	76	--	98.0	--
<u>Textiles:</u>							
Cotton cloth.	Million yards	88.0	174.2	345.3	86.7	347.8	300
Surplus cotton yarn.	" "	6.20	19.98	99.94	11.7	190.8	1,630
Woollen & Worsted yarn.	Million lbs.	--	1.54	7.5	--	34.0	All new capacity
Jute goods.	000, tons	--	17.57	53.14	--	64.7	All new capacity
<u>Chemicals:</u>							
Sulphuric acid.	000, tons	0.3	0.7	1.4	0.1	0.6	500
Matches.	Gross boxes	650	546	9,528	2.2	33.2	1,550
Rosin & turpentine.	000, tons	1.8	2.2	2.3	0.7	1.0	43
Petroleum Refining.	Million gallons	10.6	48.5	61.1	6.2	36.0	500
<u>Engineering:</u>							
Steel melting.	000, tons	2.0	7.8	10.0	0.7	3.6	414
Steel re-rolling.	000, tons	3.0	27.0	69.0	1.2	21.8	1,716

Adapted from The First Five Year Plan, op. cit.

Industrialization, at least in its initial stages, may not provide a satisfactory solution to over-population; but it may generate, within a reasonable period of time, overall social and economic forces which may benefit the economy and create ~~extra~~ avenues of employment for the people. There is a vital interdependence between agriculture and industry from the point of view of economic progress.

The high rate of growth of industries in Pakistan such as cotton textile and cotton yarn during 1949-55 was mainly due to the industrial policy of the government. The severe exchange control necessitated by the scarcity of foreign exchange during that period also helped this growth substantially. The first announcement of industrial policy of the federal government was made in April 1948. It has become the basis of all later policy developments. In it, the main role of government in the industrialization of the country was defined and the main targets of industrial development in the state-owned and private industries were fixed. These targets were later

- 
20. '....Pakistan Government propose that for the present the following should be owned and operated by the state: (1) Arms and munition of war, (2) Generation of hydel power, and (3) Manufacture of railway wagons, telephones, telegraphs and wireless apparatus. The Government of Pakistan must, however, reserve their right to take over or participate in any other industry vital to the security or economic well-being of the State.' Statement of Industrial Policy, Industry in Pakistan, Karachi, 1951, pp. 7-8.

incorporated in the First Six Year Plan. In January 1952, the Pakistan Development Corporation was established which created an institutional pattern highly conducive to industrial progress.<sup>21</sup> Its main object, as defined in its charter, was to establish industries such as jute, paper, fertilizers, heavy engineering, shipbuilding, cement, textile, sugar, natural gas, heavy chemicals, chemicals, pharmaceuticals, dyestuffs, and the development of power from Sui gas. By the end of June 1955, the Corporation had completed as many as 19 projects of which 15 were accomplished during the year 1954-55.<sup>22</sup>

Immediately after the establishment of Pakistan, a general scarcity of goods was felt in the country, which was the result of the large scale dislocation of people and their economic and social life, caused by the partition of the Panjab and Bengal. The liberal import policy pursued by the government during August 1947-September 1949, allowing the selected items of import, relieved to some extent, the inflationary pressure in the country. In September 1949, when the sterling pound and other currencies of the sterling area were devalued, Pakistan

---

21. Om Prakash: Industrial Development Corporation in India and Pakistan, Economic Journal, March, 1957, pp. 40-48.

22. Om Prakash, op. cit.

decided not to devalue her currency. Following that decision, various import and exchange restrictions were imposed which have remained effective since that time. However, there has been one exception: during the short spell of the Korean War boom the import restrictions were temporarily relaxed and foreign exchange was made available for various items which otherwise would have been excluded from the import list. The industrialization that started with the establishment of the country and under the sole impact of the national enthusiasm found the atmosphere extremely favorable after September 1949. The scarcity of goods and chances of easy profits encouraged the manufacturing activity through private investment.

It was a haphazard and lop-sided industrial development, and efforts were made by the government to create a balance through the selection and revision of various targets in the First Six Year Plan. Later, the balanced industrial growth became one of the main objectives of the draft First Five Year Plan. The Pakistan Industrial Development Corporation (PIDC) also played its part in this direction, and successfully led the way towards investment in the long run projects. The Corporation may be regarded as a pioneering financial adventure in the midst of shy private capital in the country.

The commercial banks of the country are the only custodians of savings of the people who can afford to save, outside the class of hoarders. But until recently these banks specialized exclusively in short-term investments. Even now they are predominantly in favor of lending for short term working capital purposes. Their activities, therefore, have exercised a depressive influence on the course of fixed capital formation in the country. Under the circumstances obtaining in Pakistan, they could have taken a more adventurous view<sup>23</sup> in business than their depositors did.

The general banking structure of the country has an air of exclusiveness. The commercial banks conduct their business in such a complicated and high-brow fashion that an ordinary citizen hesitates even to enter their offices, not to speak of wanting to open a deposit account. The co-operative banks, which are supposed to mobilize finances and regulate credit in the agricultural sector of the economy, are a weak link in the country's banking system. The result is that the atmosphere is not very conducive to the mobilization of

---

23. Of course, it is not a problem only of commercial banks. But other financial institutions such as industrial banks, insurance companies, etc., are still in a rudimentary stage of development in the country as compared to commercial banks.

savings of the people whose capacity to save is very low. Since the large majority of the population is rural, and according to rural customs the savings are kept in family hoards, or in terms of gold and jewellery, there is a need for an aggressive financial leadership to break the old-established habits.

- The business of the State Bank of Pakistan is divided in the orthodox fashion between an issue department and a banking department. The Bank had no authority to discount bills for periods exceeding ninety days to finance agricultural and industrial development projects until July 1955, when the State Bank of Pakistan Ordinance empowered the Bank to discount such bills with a maturity<sup>24</sup> of up to 5 years. At the same time, the Agricultural Development Finance Corporation was established. What effects will it have on the agricultural sector of the country remains to be seen.

Before the establishment of Pakistan, the banking business was mainly in the hands of the Hindus who migrated to India after the partition of the sub-continent and took their business with them. Of the

---

24. Economic Survey of Asia and the Far East, United Nations, Bangkok, 1955, p. 44.



foreign banks, most of their branches and head offices were already in the regions which were outside the demarcated boundaries of Pakistan. There was almost a complete financial vacuum in the country at the time of her

<sup>25</sup>  
independence. The State Bank was established in July 1948 to take over the business of central banking from the Reserve Bank of India, which had been allowed to continue to operate in Pakistan after the partition on the basis of an Indo-Pakistan agreement. The constitution of the State Bank is broadly based on the Reserve Bank of India Act of 1935. In the field of commercial banking, it was perhaps to expand banking facilities for the country's business that the National Bank of Pakistan was established in November 1949, though its initial activities were directed towards the solution of a serious crisis in the  
<sup>26</sup>  
jute trade.

The money market in the country has developed as a result of encouragement from the State Bank, but is still in a rudimentary stage.

In cities, money 'consciousness' is growing rapidly, but it is not certain how much more money

---

25. J.S.G. Wilson: Money and Banking in Pakistan, in Banking in the British Commonwealth, Oxford, 1952, p. 273.

26. Ibid.

conscious have the rural people become since independence. Although they use money as a medium of exchange in their ordinary business of life, they still have their traditional mistrust in the use of money as a store of value.

Even at this early stage of its development, the country's monetary system reflects the basic features of the economy in its working. The data given in Tables X and XI indicate the net changes in the income-and-expenditure flow in different sectors in relation to production. The supply of money shows a steady annual increase from 1948 to 1956, except for 1952. The main forces determining this change are the foreign exchange earnings as well as domestic loans, advances and investments. The reduction in money supply in 1952 was apparently due to the reduction in foreign exchange and in claim on private sector. During that year the Pakistan economy suffered from a world wide reduction in demand for her raw materials and primary products. Since then, the steady increase in money supply has been due to increases in foreign assets, and the pressure of public and private investments.

The public finance of Pakistan is a good indicator of her developing economy. Indirect taxes and

Table X

Money Supply

	1948	1950	1951	1952	1953	1954	1955	1956
1.Currency.	1,708	1,992	2,468	2,151	2,372	2,575	2,990	3,467
2.Deposit								
Money.	1,000	980	1,293	1,078	1,206	1,284	1,552	1,471
3.Money:								
(total								
1 2).	2,708	2,972	3,761	3,228	3,578	3,859	4,542	4,938
Percentage								
change.	76	83	105	90	100	108	127	138

Source: International Financial Statistics, (November 1957),  
International Monetary Fund, Washington D.C.

Table XI

	1948	1950	1951	1952	1953	1954	1955	1956
1.Gold & For-								
eign Exch-								
ang.	2,622	1,631	2,067	933	935	1,038	1,648	1,659
2.Claims on								
Govern-								
ment.	--	--	--	--	2,270	2,572	2,501	3,055
3.Claims on								
Provincial								
Govts.	--	--	--	--	98	145	122	177
4.Claims on								
Private								
Sector.	410	770	919	792	802	984	1,183	1,256

Source: International Financial Statistics, op. cit.

Note: The State Bank prior to March 1952 published all data on foreign exchange, since then only on Issue Department. Claims on Governments for the period 1948-1952 are not available.

customs revenues together make a major contribution to the government finances. As shown in Table XII, revenue from income tax has increased from Rs. 27.0 million in 1947-48 to Rs. 206.6 million in 1956-57, in the budget of the central government of Pakistan. This is an increase of 13 per cent. This source was 8 per cent of the total budget revenue in 1947-48, but has increased to 11 per cent by 1956-57. On the public expenditure side, defence service is the largest single item on the budget list. The long range public investments are met from what is called the capital budget which derives its income from budget surpluses, if any, and public loans and advances.

Pakistan's personal income tax is progressive and is applicable to all incomes above Rs. 1,500 (about \$300.0) per annum.<sup>27</sup> The Central Income Tax Act is not applicable to the agricultural income, and provincial agricultural income taxes 'do not deserve any serious consideration on account of their mild rates and low yields.'<sup>28</sup> Business tax rate is 16 2/3 per cent of taxable profits. Super tax begins above the income of Rs. 25,000 and is

---

27. Investment Opportunities in Pakistan, Government of Pakistan, 1950, Chapter VII, p. 33.

28. Pakistan Economist (Karachi), Annual 1952, p. 35.

charged within the range of 12 to 44 per cent.<sup>29</sup> There is also incentive taxation for industry. The customs revenue is mainly derived from import duties, specific and ad valorem. There are export duties only on a few items including raw cotton and raw jute. The fluctuations in customs receipts as indicated by Table XII are a reminder of the nature of the economy. The first decline in these receipts occurred in 1952-53 followed by a further decline in 1953-54. In 1954-55 there was a moderate increase in these receipts followed by greater increases in the next two years. We shall deal with some of the important effects of these fluctuations in the next chapter.

## VI.

Foreign trade is an important feature of the Pakistan economy. Raw cotton and raw jute are the major items of the country's exports. As for imports, the consumer goods formed 46.9 per cent of the total imports in 1951-52; by 1954-55 they were only 24.6 per cent. Raw materials, fuels, and cotton yarn accounted for 34.8 per cent in 1951-52 and 31.2 per cent in 1954-55. On the

---

29. Investment Opportunities in Pakistan, op. cit.

Table XII  
Central Government Budgets  
(selected years)  
(selected items)

	(Million Rs.)				
Items.	1947-48	1950-51	1952-53	1954-55	1956-57
<u>Revenue Receipts.</u>	379.8	1,692.4	1,754.6	1,634.0	1,797.8
Customs.	113.7	776.2	612.4	416.0	474.5
Taxes on Income.	27.0	132.4	175.5	193.5	206.6
Indirect Taxes including fees.	20.3	184.0	266.8	287.2	318.9
Public Utility Services.	172.5	442.2	525.5	544.2	576.9
Debt Services.	26.8	60.1	63.6	80.4	107.4
Defence Services.	11.7	48.4	46.4	39.9	38.2
Civil Administration and Miscellaneous.	7.8	48.9	64.4	72.8	75.3
<u>Revenue Expenditure.</u>	416.9	1,685.2	1,749.0	1,627.1	1,792.0
Civil Administra- tion.	28.6	113.3	222.4	162.7	216.4
Public Utility Services.	180.9	419.0	468.8	477.1	487.6
Debt Services.	9.0	69.4	76.1	--	--
Defence Services.	153.8	649.9	725.7	639.7	793.5

Source: Central Statistical Office, op. cit.

Note: All figures are for fiscal years starting April 1, of the year.  
From 1947-48 to 1954-55 are actual figures; for 1956-57 the figures relate to budget estimates.

other hand, investment goods were 18.3 per cent of the total imports in 1951-52 but they rose to 44.2 per cent in 1954-55.<sup>30</sup> As indicated by Table XIII, the balance of trade of the country has been favorable with the exception of 1949 and 1952. The total value of exports was the highest in 1951, then it declined below the 1948 level by 1953 and remained there during 1954 and 1955. As we shall note later, the favorable balance of trade has been mainly due to the severe import restrictions and exchange control. The import trade of the country, though constantly changing in composition as a result of the domestic industrial progress, is far more diversified in commodity distribution than export trade. With regard to geographical distribution, India and the U.K. together received more than 70 per cent of Pakistan's exports in 1948-49. During 1950-51 there was an increase in the exports to the EPU (European Payments Union) countries, while there was a decrease in exports to the U.K. and India. During 1954-55 the U.K. and the EPU countries together received about 46 per cent of Pakistan's exports, followed by 'other countries' and Japan. On the import side, India and the U.K. supplied 59.9 per cent of the total imports during 1948-49, and during 1951-52, Japan emerged as the largest single supplier. In

---

30. The First Five Year Plan, Vol. I, op. cit. p. 195.

Table XIII  
Balance of Trade

(Million Rs.)

Year.	Imports			Exports		
	West Pak.	East Pak.	Total	West Pak.	East Pak.	Total
1947 <u>1/</u>	80	8	88	102	83	185
1948	863	168	1,031	585	1,049	1,634
1949	1,181	516	1,697	648	831	1,479
1950	996	337	1,333	767	850	1,617
1951	1,238	579	1,817	1,241	1,285	2,526
1952	1,420	663	2,083	993	769	1,762
1953	889	318	1,217	797	655	1,452
1954	826	324	1,152	528	659	1,187
1955	794	292	1,086	639	866	1,505

Source: Central Statistical Office, op. cit.  
1. From August 15th to December 31st.

Table XIV  
Geographical Distribution of Trade

EXPORTS							
Countries	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55
India.	59.6	26.8	21.8	18.8	9.9	9.1	11.6
EPU(Belgium, France, Germany, Italy)	11.0	17.1	21.3	23.4	22.4	25.8	24.8
U.K.	11.6	15.5	12.6	13.9	15.4	17.9	21.4
China.	1.2	1.8	3.5	12.7	7.5	6.9	2.8
Hong Kong.	0.5	8.2	4.9	2.7	3.3	4.4	3.2
Japan.	2.6	3.7	13.0	10.9	19.1	14.1	11.9
U.S.A.	6.4	5.7	6.2	2.6	6.9	6.0	7.6
Other countries.	7.0	21.0	16.6	14.9	15.5	15.6	16.5
IMPORTS							
India.	31.8	24.3	15.1	17.7	13.5	5.3	4.0
EPU Area	6.4	8.6	11.7	12.6	13.5	20.8	16.4
U.K.	28.1	25.4	26.4	20.4	28.8	31.8	32.2
China.	7.3	3.2	6.1	1.2	0.7	1.4	0.2
Hong Kong.	0.5	0.5	3.3	2.2	0.7	0.9	0.1
Japan.	1.2	11.0	16.2	23.8	15.4	8.7	16.3
U.S.A.	8.0	9.8	6.6	6.1	8.7	7.0	9.2
Other.	16.3	17.2	14.6	16.0	18.5	23.9	21.3

Source: Central Statistical Office, op. cit.



1954-55 the U.K. and the EPU countries together supplied 48.6 per cent of the total imports followed by 'other countries' and Japan.

The data on the balance of payments as given in Table XV confirm the fluctuating nature of Pakistan's economy. The balance has been generally unfavorable

Table XV

Balance of Payments  
(current account)

	1948	1949	1950	1951	1952	1953	1954	1955
<u>Receipts:</u>	766	1,051	1,363	2,878	1,916	1,554	1,275	1,768
Jute Ex-								
port.	211	376	521	1,226	729	579	556	774
Cotton Ex-								
port.	345	283	549	1,092	807	638	370	431
Other Ex-								
port.	149	182	179	378	166	187	224	366
Other re-								
ceipts.	62	211	114	182	214	151	125	196
<u>Payments:</u>	797	1,500	1,511	2,361	2,767	1,432	1,437	1,482
Imports on								
private								
account.	365	850	976	1,521	1,860	823	807	716
Imports on								
other pay-								
ments &								
government								
account.	352	473	333	563	591	383	419	498
Other pay-								
ments.	79	178	202	277	315	226	211	267
<u>Balance.</u>	-30	-449	-148	517	-851	122	-162	286

Source: Central Statistical Office, op. cit.

Note: Figures are rounded off.

in the period under consideration except for 1950-51 and 1954-55. The former surplus was due to the Korean War boom, and the latter was the result of severe import restrictions. The deficit of Rs. 464 million in 1951-52 was reduced to Rs. 408 million in 1952-53 and to Rs. 28 million in 1953-54 obviously at the cost of a considerable reduction in trade, as the exports in this period indicate a continuous decline in value from 1951-52 to 1954-55.

## VII.

We may at this stage recapitulate our arguments. Pakistan is basically an agricultural country and her industries are still at a 'quantitative' level of production. Her per capita income is below \$100.00. Agriculture is the main source of income which contributes about 62 per cent to the total national income, as compared with manufacturing which contributes only 6 per cent. Fluctuations in agricultural production and in the export of raw materials affect the prosperity of the people of the country. The vast majority of them live on subsistence level. This subsistence living, from generation to generation, leads to lethargy and fatalism, and breeds degeneration of the human soul. The present social and economic framework of the country is defective

Table XVI  
Net Domestic Product<sup>1</sup>  
(Industrial Origin)

	At Factor Cost Prices of 1949-50 <sup>1</sup> (Figures in Brackets at current factor cost).				
	1950	1951	1952	1953	1954
Agriculture, forestry & fishing, <u>2/</u> <u>7/</u> .	10,824 (10,323)	10,495 (11,178)	10,919 (10,847)	11,662 (10,471)	11,636
Mining and quarrying.	26 (26)	30 (30)	34 (37)	36 (38)	39
Manufacturing, <u>3/</u> <u>5/</u> <u>8/</u> .	1,158 (1,150)	1,223 (1,218)	1,308 (1,325)	1,470 (1,517)	1,571
Construction, <u>4/</u> .					
Electricity, gas, water, and sanitary services, <u>5/</u> .					
Transportation, storage, and communication, <u>9/</u> .	504 (504)	513 (513)	529 (529)	536 (536)	546
Wholesale & retail trade, <u>3/</u> <u>10/</u>	1,731	1,693	1,767	1,898	1,909
Banking, Insurance, and real estate, <u>9/</u> .	51 (51)	58 (58)	68 (68)	69 (69)	71
Ownership of Dwellings, <u>11/</u> .	1,036 (1,036)	1,053 (1,053)	1,072 (1,072)	1,089 (1,089)	1,108

Cont. next page

Table XVI - Continued

	1950	1950	1952	1953	1954
Public administration and defence, <u>6/ 9/</u> .	858 (858)	1,048 (1,048)	1,032 (1,032)	1,052 (1,052)	1,049
Services, <u>4/ 11/</u> .	1,543 (1,543)	1,576 (1,576)	1,608 (1,608)	1,638 (1,639)	1,672
Net Domestic Product.	17,731	17,689	18,337	18,156	19,601
Net Factor Income from rest of the world.	-9	-9	-14	--	-9
Adjustment for change in terms of trade, <u>12/</u> .	106	193	280	-692	-406
National Income.	17,828	17,873	18,043	18,758	19,086

Source: Statistics of National Income and Expenditure, Statistics Papers, Series H, No. 10, United Nations, New York, 1957.

1. Year beginning 1 April; 2. Estimates of net output of agriculture based on data relating to physical output, prices and costs; 3. This item has been estimated by the income approach; 4. Construction is included in services; 5. Electricity etc., is included in manufacturing; 6. Includes all services of general government; 7. Physical production estimates have been revalued at base period prices; 8. In the case of large scale establishments the corresponding value has been extrapolated on the basis of estimates of population change; 9. The estimates are in current prices, the assumption being that the rise in income in this sector is equivalent to the increase in real productivity; 10. The base period value has been adjusted in accordance with changes in real products of agriculture, mining and manufacturing; 11. The period value has been adjusted in accordance with estimates of population change; 12. Estimated by deflating the current value of exports in each year, first by an import price index and second by an export price index; the difference between the two deflated figures are taken to represent the gain or loss resulting from changes in terms of trade.

in being primitive and out of date. The political structure too, unfortunately, is highly unstable. In these circumstances, the socio-economic propensities of economic development cannot be expected to work properly and effectively.

There is a need for an agricultural revolution in the country including a fundamental change in the land tenure system. Perhaps the emergence of a new industrial élite, which would expand with the further expansion of industries, would pave the way for such a revolution. In this respect, the progress made by the economy since independence would certainly have its important repercussions on the social and economic developments of the country.

The main purpose of this chapter is to provide an outline of the developing economy of Pakistan, and to serve as a background for the general theme of our argument. We have dealt with various controlling factors which influence the rate of Pakistan's economic progress. Being an open economy, foreign trade and other external forces play an important part in providing the country with strong induced effects. We propose to study them with reference to commercial policy. We shall now proceed with our analysis of the role of exports and export policy in a developing economy.

## CHAPTER III

### EXPORTS

#### 1.

There is a significant interdependence between foreign trade and economic development. The scope of this interdependence is determined by various factors such as the geography of a country, her size, her natural factor endowment, and the dynamics of her productive forces.

We noticed in the previous chapter that there is a deficiency of natural resources and industrial raw materials in Pakistan. This deficiency will increase with an increase in her manufacturing activities. As a solution to this problem, the country will have to supplement her resources either through imports or through other means employed with the help of the latest technological developments. In so far as imports will be required to augment the domestic capital formation of the country, her economic development will put extraordinary pressures on her foreign trade. Now these pressures may be relieved temporarily through foreign loans and grants, but in the long run, it is her exports which will obviously determine her capacity to import. Exports,

therefore, play an important role in the progress of a developing economy.

Exports generate income and thus affect the total national income of a country. Broadly speaking, there are three components of the national income: (1) Consumption, (2) Domestic investment, and (3) Foreign trade. All these create demand for goods and services. This demand may be divided into three parts: domestic demand for domestic goods, domestic demand for foreign goods, and foreign demand for domestic goods. Exports are the direct result of foreign demand for domestic goods, and changes in them are reflected by changes in the national income, unless their effect is counterbalanced by opposite changes in the domestic economy. If we assume that changes in exports and domestic investment take place at a faster rate than the changes in domestic consumption, then we get exports and domestic investment as the two main variables which determine the national income. The ratio of exports to the national income may be low as compared with other factors; nevertheless, the role of exports in the economy may be highly important. As mentioned above, the earnings from exports may determine the level of imports of capital goods and thus effect the rate of domestic investment. Also, exports may be important for

regional or sectoral interests; they may influence the prosperity of the highly monetized sectors while leaving the money or real income of the rest of the economy almost unaffected. The fluctuations in exports or the export earnings thus present a convenient focus for studying the changes in the national income and the rate of economic development.

Let us assume that the following pattern of the national income exists in our hypothetical world of two countries, country A and country B. In Chapter I these countries were represented as advanced and backward countries; we may now call them the growth economy and the developing economy, respectively.

Country A has a surplus in her balance of trade equal to the deficit of country B. Also, in country B the export earnings are greater than the domestic investment, and in country A, the domestic investment is greater than the export earnings. The unfavorable balance of trade of B may be due to her import of capital goods, and the country may hope to correct her external imbalance in due course with the help of her development program. But if in the meantime her export earnings fall due to, let us say,



a decrease in the foreign demand for her goods, then her economic troubles will be aggravated as her import capacity will be diminished and the income of her people will be reduced.

We have already explained the process through which exports generate income. It is called the export multiplier. This multiplier is derived from the export earnings after making adjustment for home and foreign leakages, and differs for different countries according to the magnitude of these leakages. For any country, the export multiplier will be the greater, the smaller the home and foreign leakages and, vice versa, it will be the smaller, the greater the home and foreign leakages. Or, in other words, the export multiplier varies inversely with total leakages, home and foreign, of the country concerned.

Now if there is an increase in the exports of country B from \$10 million to \$12 million, the extra income of \$2 million will be divided as usual between expenditure and savings. If the level of consumption in the country has been low, the increase in income will result in greater increase in consumption, which

will be partly offset by the consequent increase in<sup>1</sup> prices. The effects of the increase in consumption on imports will depend on the nature of the initial income

Table XVII

(Million \$ )

Country A		Country B	
1. Consumption.	\$100	1. Consumption.	\$80
2. Investment (public & private).	15	2. Investment (public & private).	5
3. deduct imports.	10	3. deduct imports.	12
4. add exports.	12	4. add exports.	10
Total: 117		Total: 83	

recipients. The rural cultivators would perhaps like to spend their extra income on the necessities of life, most of which may be available at home. The absentee landlord might want to spend his extra income on an imported luxury good, and the traders or the middlemen might decide to invest part of their extra income, or to spend it all on 'maintaining' their high standard of living. A part of this increased income may, however, be received by the government through export duty or state-trading. The government might decide to utilize its extra income to finance its development plan and thereby increase the national production. The increase in production

---

1. The formal multiplier analysis abstracts from the price effects of income changes.

or investment induced by the export multiplier will create demand for imported capital goods, since our country B is a developing economy and does not produce elaborate machines and tools.

It seems, therefore, that an increase in B's income will put heavy pressures on her imports. Her marginal propensity to import will depend on various factors, the most important being:

1. The level of production of consumer and producer goods in the country;
2. The import-content ratio of increased consumption, with given marginal propensity to save;
3. The import-content ratio of increased investment, with given marginal propensity to invest;
4. The increase in demand for domestic goods or import substitutes.

The level of production in the country will depend on the responsiveness of supply, which in turn will depend on the second and the fourth factors given above, as well as on the existing productive capacity of the country. The increase in consumption will result in an increase in imports, unless the goods demanded are available at home. In the light of these factors, it may be

assumed that the marginal propensity to import of a developing economy is much higher than that of a growth economy.

Returning to our example, we may assume that out of the extra income received by country B, 5 per cent is saved and 40 per cent spent on imports. On the basis of this assumption the export multiplier in country B will be 2.2, i.e., each additional \$1 million<sup>2</sup> will cause a change of \$2.2 million in her income. If the foreign leakage is higher, say 50 per cent, the export multiplier will be 1.8. A significant part of the real income change, however, will be offset by the price increases caused by the inherent nature of the<sup>3</sup> developing economy. But insofar as the export multiplier will induce increase in the production and import of capital goods, the unresponsiveness of supply may not be a serious problem in the long run. The major problem may be the short sudden fluctuations in the export earnings and hence in the export multiplier, which in turn may create instability in the economy.

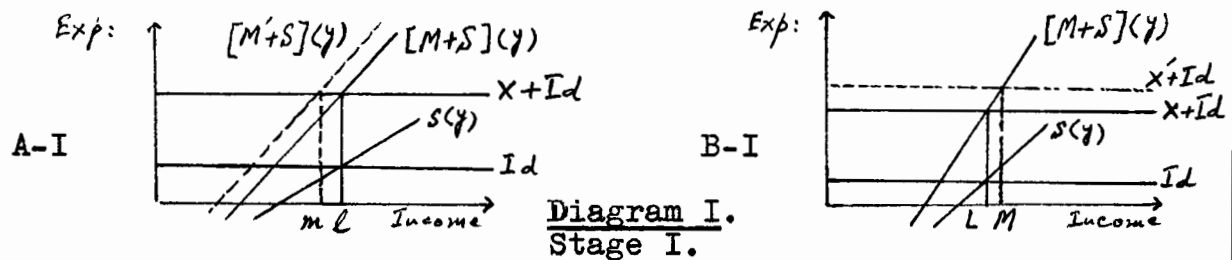
---

2. The calculations are based on the following formula:

$k = \frac{1}{s + m}$  where k is export multiplier, s is savings, and m is marginal propensity to import.

3. For the limitations of multiplier in an underdeveloped economy, see V.K.R.V. Rao: Income and the Multiplier in an Underdeveloped Economy, *Indian Economic Review*, Vol. I, pp. 55-67.

An increase in B's export earnings will induce an increase in the income of country A through B's high marginal propensity to import. The induced increase in the economic activity in A may not, however, create an increase in her demand for B's goods sufficiently great to stimulate a sustained increase in B's income. This may result in an unfavorable situation for country B. We may explain this case with the help of Diagram I.<sup>4</sup> The vertical axis of the Diagram indicates the national expenditure, and the horizontal axis the national income. The imports and savings are a function of income and are represented by the curve  $\overline{M+S}(y)$ . The curve indicates the average propensity to import and save, and the slope of the



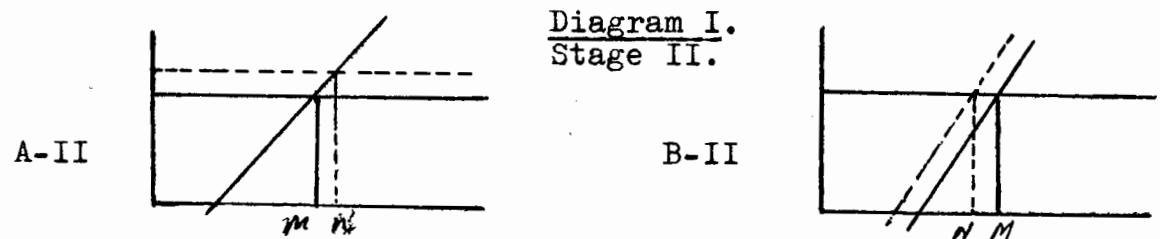
curve indicates the marginal propensities. The curves are shown as straight lines to simplify the analysis. In the Diagram we have  $M+S = X+I$ ; it is assumed that in  $X+Id$  only  $X$  varies and  $Id$  remains constant.

Diagram B-I indicates an autonomous increase in the exports of B from  $X+Id$  to  $X'+Id$ . There is a corresponding upward shift in  $\overline{M+S}(y)$  to  $\overline{M'+S}(y)$  in A-I showing an increase

4. Adapted from C.P. Kindleberger: International Economics, Homewood, Ill., 1953, pp. 172-173.

5. B's marginal propensity to import is higher than that of A because she is an underdeveloped country.

in A's imports equivalent to B's exports. Country B's income will rise from L to M; similarly, country A's income will fall from l to m. Now according to our assumption the marginal propensity to import of B is higher than that of A; this means that with an increase in her income from L to M, there will be an increase in B's imports ( a shift in her  $\angle \bar{M} + \bar{S} \angle (y)$  to  $\angle \bar{M}_1 + \bar{S} \angle (y)$  ), which will reduce her income from M to N (Diagram B-II). In other words, country B's marginal propensity to



spend back will cause a reduction in the initial increase of her income.<sup>6</sup> This will have induced effects on A's national income owing to an increase in her exports to B. At first, A's national income fell from l to m when imports from B increased, but now it will rise from m to n (Diagram A-II), the point n being either coincident with l or somewhere on the left or right of l, depending on the marginal propensity to spend back of B.

It is clear from the Diagram that the high marginal propensity to spend back of B will deprive her of the initial increase in her income. Now what will happen after stage II

---

6. The marginal propensity to spend back may be defined as follows: '....of the amount spent externally a certain proportion will flow back and contribute to income; and the size of this flow will depend upon the marginal propensity of the 'external world' to spend back.' D.B. Marsh, World Trade and Investment, op. cit., p. 252.

is too complicated for this Diagram to represent. The position of each of the two countries will be determined by their respective rate of economic growth including domestic investment — the factors which we have so far assumed as constant — and their respective marginal propensity to import and spend back.

If we take into consideration only  $I_d$  in the  $X+I_d$  curve and assume that  $X$  remains constant (not given in the Diagram), then A's national income will increase as a result of her domestic investment. In this domestic investment program, A's marginal propensity to spend back (to buy B's goods) may become very low. It is possible that after the initial absorption of B's raw materials and primary products, A's demand for these goods is considerably reduced. This may happen as a result of the low income elasticity of her demand for foreign goods during the period of her economic expansion; it may be attributed to the technological developments taking place in that country, resulting in the manufacture of heavy engineering goods on a larger scale, as well as the widespread use of artificial and synthetic materials.<sup>7</sup> This means that at the

---

7. The World Economic Survey (United Nations) for 1955 and 1956 give an account of the main trends in world trade since 1945; their analysis shows that exports of primary products did not expand in this period in spite of the increases in the industrial activities of advanced countries. See particularly World Economic Survey, 1955, Chapter II, pp. 50-86 and World Economic Survey, 1956, Chapter I, pp. 7-39.

third or the fourth stages, for which the diagrammatical representation has not been given, country A's economic activity will expand further, beyond stage II, owing to ~~the~~ high rate of her domestic investment; her national income will increase at a faster rate than it would have if her marginal propensity to spend back were high.

With regard to country B, her marginal propensity to spend back is high because she is a backward country and needs to import the producer and the consumer goods at all levels of her national income. At the second stage of the Diagram, her national income fell due to her high marginal propensity to spend back. Now let us suppose that her imports mainly consist of capital goods. The capital goods imported at stage II may stimulate her economic activity and thus raise her national income. This increase in the national income may, at the third or even the fourth stage, increase the pressure of her induced imports. On the other hand, if at stage II B's imported capital goods had not been received in sufficient quantities to generate the required economic activity at home, then stage III or IV may witness a further fall in her national income, given the same marginal propensity to import; there may then be an induced reduction in her imports. But it is highly probable that her marginal propensity to import will become



low during the downward phase of her economic activity, as she will need to maintain the import of essential goods during this period. ( Initially there may be a sudden fall in imports as a result of the reduction in the expenditure on the so-called non-essential imports, followed by the decline in the national income; but after the initial period is over, it may become difficult to have additional reductions in imports). If A's marginal propensity to import also had been high, then perhaps country B could have continued to sell her goods to A and enjoy a higher economic activity, in spite of (or perhaps because of!) her high marginal propensity to import.

The above analysis shows that country B may not be able to maintain her income at the high level reached as a consequence of the initial increase in her exports, unless the foreign response is sufficiently strong to bring about the sustained induced effects. In spite of being oversimplified, the model clearly indicates one factor: it is generally assumed that an increase in the national income of one country will cause an increase in the national income of the other, and that these increases will result in an interaction of the mutually induced effects until equilibrium is established. In actual fact the cross currents of the mutually induced effects may be so disproportionate in their intensity as to

cause a serious disequilibrium in the country with a high marginal propensity to import.

Should a country under these circumstances try to derive fuller benefits through regulation of her foreign trade? She might do this in two ways: first, by adopting a policy of increasing exports of commodities other than raw materials, in an effort to increase the average income elasticity of her exports; and second, by adopting a policy of import regulations.. The problem and the possible solutions have many implications, and it will be useful to analyse them in an empirical study<sup>8</sup> of Pakistan's trade.

## II.

As shown in Table XVIII, Pakistan's export trade has ranged between 14 per cent and 6 per cent of her national income in the period 1950-54, an average of 9 per cent. In column 4 of the Table, the sudden rise in percentage figures for 1951 was due to the Korean War boom; and the fall in the figures pertaining to 1952-54 is partly explained by the increase in the national income of the country.

---

8. In this chapter, only the problems of Pakistan's export trade are discussed; imports and import restrictions are discussed in Chapter IV.

Table XVIII

(Million Rs.)			
1	2	3	4
Year.	National Income.	Exports.	Exports as per cent of national income.
1950	17,828	1,617	9 %
1951	17,873	2,526	14
1952	18,043	1,762	10
1953	18,758	1,452	8
1954	19,086	1,187	6

Source: For national income see Table XVI, and for exports see Table XIII.

Table XIX

Venezuala.	53 %
Malaya.	52
Ceylon.	35
Cuba.	32
New Zealand	27
Australia.	17
Indonesia.	11
Brazil.	8
India.	5

Source: World Economic Survey, 1955, p. 156.

Note: Basis of calculation is the year 1953-54.

The ratio of exports to the national income of Pakistan is low as compared to that of many underdeveloped or high-income primary producing countries. For example, it is 53 per cent for Venezuela, 52 per cent for Malaya, and 27 per cent for New Zealand.

The average propensity to import of Pakistan is also low as shown in Table XXX in the next Chapter. These low average propensities to export and import indicate that Pakistan's general capacity to buy foreign goods is small.<sup>9</sup> Her main exportable goods are raw cotton and raw jute, and their total value is a small proportion of the country's national income. They form, however, 80 per cent of the country's exports. The economy as a whole, therefore, is not export-biased.

Table XX

1 Year.	2 Cotton.	3 Jute.	4 National Income.	5 Total value of 2 3 as per cent of 4.
1950	470	599	17,828	6 %
1951	586	608	17,873	6 %
1952	534	290	18,043	4 %

Source: Central Statistical Office, and Table XVI.

9. 'On the whole, the industrialised countries tend to have a higher average propensity to import than the agricultural countries.' T.C. Chang: Cyclical Movements in the Balance of Payments, Cambridge, 1951. p.27.

Pakistan's average propensity to import is low, but perhaps her marginal propensity to import is substantially high. It is extremely difficult to calculate her marginal propensity as no reliable data are available.

Table XXI

---

Percentage Distribution of Export Earnings						
Item.	1948-49	1949-50	1951-52	1952-53	1953-54	1954-55
Raw Jute.	68	44	50	37	43	49
Raw Cotton.	21	33	39	46	39	24
Raw Wool.	2	3	1	4	4	3
Hides & Skin.	2	3	2	3	3	3
Black Tea.	2	4	2	2	2	5
Other Com- modities.	5	13	6	8	9	16
	100	100	100	100	100	100

---

Source: Central Statistical Office, op. cit.

According to various estimates, the marginal propensity to import of countries in agricultural group ranges from 0.30 for Canada to 0.70 for Austria.<sup>10</sup> An estimate for India for the period 1920-1940 puts it at 0.12.<sup>11</sup> This low marginal propensity to import for India is explained with reference to certain institutional factors which are peculiar to that country, such as large spread of increase in income due to low per capita income, tendency to spend

---

10. T.C. Chang, op.cit., and J.J. Polak, International Economic System, London, 1954, p.139.

11. V.K. Sastry, India's External Trade - Some Problems, in Indian Economic Journal, Vol. III, 1955-56, pp.71-78.

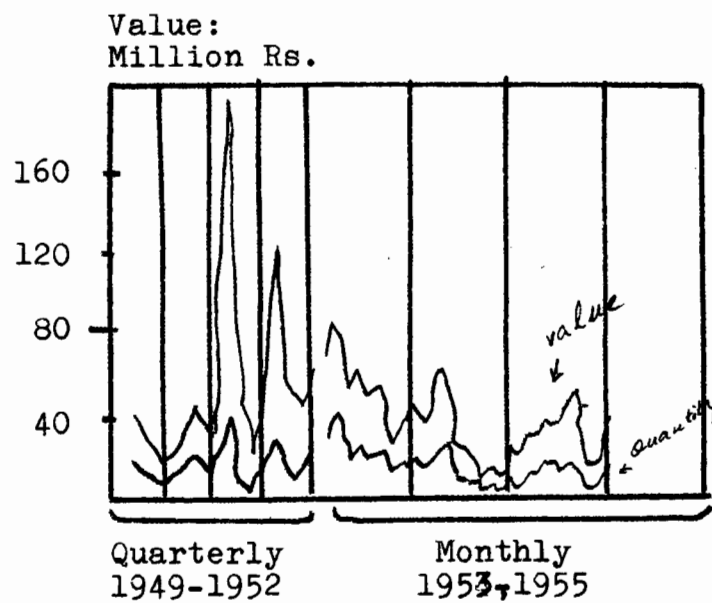
extra income on the necessities of life, and hoarding.

In any calculation of the marginal propensity to import, the effects of trade restrictions must be taken into consideration. During the period of economic expansion, the actual propensity as given in the trade figures may be low owing to the export and import restrictions, but the potential propensity may be high. The actual or the potential propensity to import of Pakistan is perhaps much higher than that of India. There are many reasons for this supposition. In the first place, Pakistan has experienced greater scarcity of goods to satisfy the ordinary needs of life since independence than has India, whose industrial and manufacturing sectors have been sufficiently developed to meet the normal consumer demand. Secondly, due to the peculiarities of trade procedures in raw cotton and raw jute, the greater part of the export income of Pakistan remains in the hands of a few people belonging to the higher classes whose marginal propensity is higher than the marginal propensity of the actual producer of the raw materials. The potential marginal propensity to import of Pakistan will gradually fall as the country will be able to produce more consumer goods and in increased quantities, following her industrialization. A better distribution of the national income in the economy will also have favorable effects from this point of view. We may assume that, at

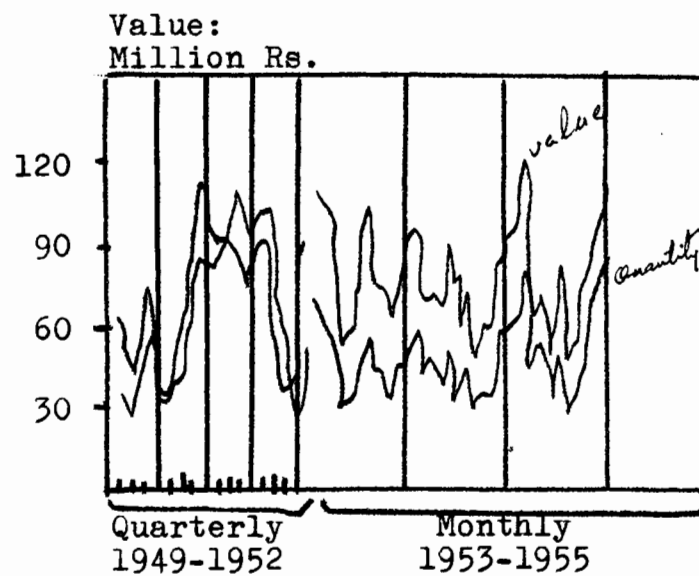
present, the marginal propensity to import of Pakistan is actually 0.18 but potentially about 0.40; in other words, for each additional dollar the actual expenditure on foreign goods is perhaps in the range of 18 cents, but if trade restrictions were withdrawn it would be in the range of 40 cents.

A study of Tables XIII and XV (Chapter II, p.50) indicates the nature of fluctuations in Pakistan's exports and export earnings. Further breakdown of the data as given in Diagram II and Table XXII, show the changes in quantity and value of raw jute and raw cotton as well as other important export commodities of the country. The fluctuations in cotton were the most violent as its value changes were wider than its quantity changes, particularly in 1950-51. The behavior of other commodities was also unstable due to their inelastic supply in the short period; for example, the quantitative changes in jute persistently lagged behind the changes in its value. Similarly, the export quantities of raw wool remained constant from 1950-51 to 1952-53, but its prices changed and the wool export earnings fell from Rs. 75 million in 1950-51 to Rs.58 million in 1952-53.

Diagram II. COTTON



JUTE



Source: From Statistical Bulletin, Central Statistical Office, Karachi, Vol. 4, No. 3.



Table XXII

Commodity Exports		(Million Rs. or lbs.)							
Commodity.	1948-49		1950-51		1952-53		1954-55		
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value	
Raw Wool.	22.4	31	29.3	75	29.3	58	24.4	50	
Hides & Skins. <sup>1/</sup>	9.8	37	14.4	65	10.2	37	8.5	28	
Black Tea.	29.9	42	23.6	31	24.7	31	26.0	56	
Other Commodities.	--	87	--	298	--	124	--	195	

Source: The First Five Year Plan, op. cit.

1. Quantity in million pieces.

What is the effect of these trade fluctuations on Pakistan's national income? The data in Table XVI (Chapter II, pp.53-54) indicate a continuous rise in national income between 1950-51 and 1954-55. There were strong fluctuations in foreign trade earnings of the country during this period. Does this mean that foreign trade has no effect on Pakistan economy? The breakdown of national income figures provides an answer to this question. For example, in 1953-54 there was a sharp decline in the terms of trade which was compensated by increase in the value of minor crops (not given in the Table), expansion in wholesale and retail trade, government expenditure and manufacturing. <sup>10</sup>

12. For breakdown of figures see National Income Estimation in Pakistan, in Statistical Bulletin, Central Statistical Office, op.cit., Vol. 3, No. 2.

The national income in this period would have been higher if the terms of trade had not been so unfavorable; also, the foreign exchange earnings would not have declined so sharply in 1952 and would not have affected the domestic money supply on the one hand, and capacity to import on the other, if there had been no wide fluctuations in exports. <sup>13</sup>

Pakistan is not an export economy in the sense of being mainly at the mercy of export fluctuations as are Venezuela, New Zealand, or Ceylon. Nevertheless, her exports have a direct bearing on her national income: an export multiplier of 2.2 or 4.3 can expose the economy to strong and sharp movements of prosperity and depression. But after explaining the importance of these trade fluctuations, it is necessary to emphasise that they do not tell the whole story of Pakistan's crisis in foreign trade. There are certainly other relevant factors, perhaps less spectacular but deeper in their impact.

During the period under study, the main cause of disturbance in Pakistan's foreign trade earnings was the abnormal factor of the Korean War. Under normal circumstances and with a normal foreign demand for her goods, the real danger to Pakistan's exports is not

---

13. See Chapter II, pp. 44-46.

trade fluctuations but a decline in her foreign exchange earnings. The income elasticities of foreign demand are low for the country's exports, during the boom period; though they are high during the period of declining economic activity in the foreign countries. But Pakistan has perverse income elasticities for foreign goods; and her marginal propensity to import is fairly high during the boom period for the reasons already stated above. In other words, it seems, that Pakistan cannot enjoy the full benefits of the world economic expansion on the basis of the present composition of her exports.<sup>14</sup>

Pakistan's average annual earnings of foreign exchange during 1949-54 were Rs. 2.02 billion. According to an estimate of the First Five Year Plan, the foreign exchange earnings for the period 1955-60 will be Rs. 10,140 million, an average of Rs. 2 billion a year. This average is approximately the same as for the period

---

14. Taking into account the future prospects of the textile fibres as indicated by various economic reports such as Paley Commission Report of the U.S.A., Gordon Commission Report of Canada, and the OEEC reports for Europe, one is inclined to believe that there is not much scope for the future expansion of the textile fibres in international trade.

See also Appendix G.

1949-50. Again, according to the Plan the foreign exchange requirements for 1955-60 are expected to be as high as Rs. 14,440 million; in other words, there will be a gap of an average of Rs. 2.15 million a year between the expected earnings and the expected requirements of

Table XXIII

Expected Earnings of Foreign Exchange

1955-60

(Million Rs.)

---

1. Commodities.	9,190
2. Invisibles.	950
Total.	10,140

---

Expected Requirements

1. Non-developmental imports and invisibles.	9,140
2. Development program - Public Sector.	3,400
3. Development program - Private Sector.	1,900
Sub-Total(2 plus 3)	5,300
Total.	14,440

---

Source: The First Five Year Plan, op. cit.

foreign exchange for the above period.<sup>15</sup> The plan assumes that the country will pursue a dynamic foreign trade policy during the period, that the world market conditions would remain buoyant, and that loans and grants would be

---

15. The First Five Year Plan, Vol. 1, op. cit., pp. 191-207.

available from abroad to cover the foreign exchange gap.<sup>16</sup>  
In view of the main targets of the Plan, its calculations of the  
development expenditure and foreign trade requirements may<sup>17</sup>  
not be regarded as an over-estimate, but its  
assumptions are certainly formidable. In order to  
examine these assumptions we may confine ourselves to  
the problems of trade policy of Pakistan and the prospects  
of her foreign trade.

### III.

Two pertinent questions arise at this stage:

(1) How will the economic development of Pakistan affect  
the prospects of her foreign trade; (2) To what extent  
is the present foreign trade policy of Pakistan suitable  
for her requirements? These questions may be discussed  
with reference to the following two main problems of  
foreign trade:

1. Export stabilization;
2. Export expansion.

Export stabilization is a very elusive term.

It is usually interpreted to mean the stabilization of

---

16. The First Five Year Plan, op. cit.

17. The Plan's estimates for the development expenditure  
in terms of foreign exchange of the country are analysed  
in Chapter IV.

prices of an export commodity. Here we are concerned only with the combined earnings from all exports in a given period of time. Export stabilization, therefore, may be defined as a process of smoothing over-all foreign exchange earnings received from various items of export.<sup>18</sup> As a basis of trade policy it involves a two-fold scheme of action: regulation and diversification of exportable commodities.

Various schemes of international and national regulation of primary commodities have been suggested in the economic literature during the last thirty years. Due to a lack of effective international cooperation, more attention has been paid to national measures than international measures. Among the most popular schemes are the national buffer stocks, commodity currency, and price supports. The first scheme involves huge financial resources which a backward country usually cannot manage

---

18. The above definition is only intended to broaden the scope of the term 'Stabilization'. In so far as commodity stabilization schemes aim at the stabilization of prices of a commodity and hence at the foreign exchange earnings derived from that commodity, their purpose is the same as that of 'Export Stabilization' as defined above. The main difference between the two approaches with regard to commercial policy is that in export stabilization the emphasis is shifted from a particular commodity to total export earnings; and the national policy measures regarding the existing items of exports viz a viz the new or potential export goods become more flexible and thus more susceptible to the influence of the long run trends of the world economy.

to procure. The second proposal also may be regarded as impracticable. It may not be possible for a developing economy to allow changes in money supply in proportion to changes in commodity stocks. Moreover, the base in a commodity currency should be provided by a commodity which is expected to remain stable in its place for a long time. This may not be so with regard to any of the main commodities of Pakistan in view of her transitional pressures, the outcome of which remains to be seen.

The price support schemes, particularly the commodity boards such as in West Africa, are now generally regarded<sup>19</sup> as defective in their operation. On the one hand, they do not seem to have been successful in their aim of achieving stabilization, and on the other, they have a tendency to adopt restrictive practices. In Pakistan, the price supports were adopted for jute and cotton immediately after the Korean boom, when world prices of these commodities started to be depressed. This interlude in Pakistan's trade policy, which lasted only a few months from March 1952 to September 1952, resulted in

---

19. See P.T.Bauer and F.W.Paish, Reduction of Fluctuations in Incomes of Primary Producers, Economic Journal, Vol.62, 1952, pp.750-780; P.Ady, Fluctuations in Income of primary Producers: A Comment, Economic Journal, Vol. 63, 1953, pp. 594-607; Polly Hill, Fluctuations in Income of Primary Producers, Economic Journal, Vol. 63, 1953, pp. 468-471. See also P.T.Bauer and F.W.Paish, The Reduction of Fluctuations in the Income of Primary Producers Further Considered, Economic Journal, Vol. 64, 1954, pp. 704-729.

huge losses to cotton and jute boards.<sup>20</sup> The prices of the two commodities were fixed above the international level by the government, and later when even a revision of policy could not make the scheme workable, it was completely abandoned. Its failure in Pakistan and its defective operation elsewhere may be due to the fact that the scope and limitations of the scheme are not properly understood. The aim of the scheme is clearly 'the removal<sup>21</sup> of random fluctuations around the trend of income.' It should not, therefore, seriously delay the adaptation of supply to demand of a commodity. This is its main objective and also its most important limitation from the point of view of export stabilization.

A price support scheme, in any form, will have only indirect effects on export stabilization. It may ensure against undue inflationary pressure in the economy in the boom period, or a sudden fall in prices in a depression, but it cannot guard against the possibility of persistent reductions in export earnings of a commodity, and therefore in a country's export earnings as a

---

20. Pakistan Economist (Karachi), February 10, 1953, p. 5-6. There is some confusion about the actual duration of the Jute Price Support Policy adopted by the Government of Pakistan which the writer has not been able to clear from the sources available to him at the time of writing.

21. P.T.Bauer and F.W.Paish, op. cit., Economic Journal, 1952, p. 766.



whole. Moreover, a country may be able to influence the international prices of a commodity if she enjoys a monopoly in its production. But in all probability, this aim will be achieved by that country only at the cost of unfavorable repercussions in the long run.

In view of the limited scope for regulation policy, diversification may be adopted as an objective of export stabilization. It may be achieved by spreading exports over a large number of commodities and to a large number of countries. This will minimize the risk of fluctuations in over-all export earnings unless, of course, the world economy suffers from a wide depression affecting almost all countries and all commodities at the same time. Table XIV (Chapter II, p.50) indicates that there was far less concentration in the geographical distribution of Pakistan's exports in 1954-55 than in 1948-49.<sup>22</sup> The commodity distribution, as given in Table XXI, shows that jute and cotton together formed 89 per cent of the total exports of the country in 1948-49; in 1952-53 they were 83 per cent; their share was reduced to 73 per cent in 1954-55 mainly due to a considerable reduction in the export stocks of raw cotton,

---

22. In this process of geographical distribution of her foreign trade, the sharp reduction in India's share may be regarded as the loss of an important market for Pakistan. See Note by Zahid Hussain in Economic Appraisal Committee Report, op.cit., Appendix No. 30, pp. 351-354.

and partly due to the increase in exports of some minor commodities.

Pakistan's capacity to diversify her exports depends on the scope and variety of her production. In order to be able to introduce new commodities on the export list, or to expand the supply of the existing ones, it is necessary for her to develop her commerce and industry as fully as possible, and to encourage her cottage industries. In general, the cottage industries can expand their production more quickly than large scale industries. It is said that a large number of small items such as surgical instruments, sports goods, resins, cotton seed cakes produced by cottage industries in Pakistan can be developed as important exportable commodities of the country.<sup>23</sup> Their prospects may be regarded as substantially good from the point of view of foreign trade as perhaps they will meet far less competition and face less formidable trade barriers in other countries, than is generally the case with exports in modern times.<sup>24</sup> Thus, the diversification of exports will not only reduce trade fluctuations, it will also

---

23. The First Five Year Plan, Vol. 1, op. cit., pp. 199-207.

24. Economic Bulletin for Asia and the Far East, Vol. III, No. 1, Economic Commission for Asia and the Far East, United Nations, May 1957, p. 9.

increase the country's earnings of foreign exchange. This leads us to the second aspect of the problem, the trade expansion.

In a dynamic and an expanding world economy, Pakistan can easily expand her foreign trade by specializing in the export of goods for which the income elasticity of foreign demand is high. The role of price elasticities in foreign trade, however, is more complex, and we propose to examine it at a later stage. <sup>25</sup>

Given the income and price elasticities of foreign demand, the trade expansion may be achieved through reduction of external or internal prices of exportable goods. <sup>26</sup> The internal prices may be reduced with the help of government fiscal and monetary policies, or through wage reductions. Now in a developing economy such as Pakistan the existing level of wages may be already very low, and it may be difficult for the country to adopt the policy of wage reductions. The monetary and fiscal policies also may not be able to play their part

---

25. See Chapter VI.

26. The problem of external prices of exports to foreigners and the devaluation of the currency's external value is discussed in Chapter V.

effectively, in view of the large financial commitments made by the public authorities for the economic development of the country. What measures, then, can the country adopt to reduce prices?<sup>27</sup>

Since inflation is the major problem for the economy of Pakistan, the only practicable anti-inflationary measures that the country can adopt are the emphasis on increasing, as rapidly as possible, her productivity and the supply of her goods and services.<sup>28</sup> These measures imply a complete reorganization of her present industrial setup. The fish industry, for example, has great possibilities for development in Pakistan but is primitive and unimportant in size. The same is the case with other small scale industries of the country. The large scale industries too are in need of rationalization, in spite of being newly installed. The textile industry is a typical example of high cost

- 
27. Does this mean that, in the short period, the internal prices cannot be reduced in a developing economy such as Pakistan with the help of the commonly known economic measures, without jeopardizing the developmental process in the country? What is the rôle of import policy or devaluation of the currency in this regard? We shall try to answer these questions in the following chapters.
28. Since food is one of the basic factors of the cost of living index in a developing economy, its supply and production in relation to the rising demand of the hitherto poorly fed people will play an important part in the structure of prices in the country.

manufacturing in the country. It is admitted by the textile manufacturers that, for the promotion of export of cotton cloth, the industry will be faced with the main obstacle of high prices. The high prices are said to be the result of inefficiency of production, which is ascribed to the low productivity of workers as well as the lack of technicians.<sup>29</sup> These are indeed important factors which contribute to the high cost of cloth. In addition, the industry is highly capitalized in the form of land, buildings and machinery as everything was bought by the industrialists at a high cost during the period 1949-52.<sup>30</sup> Also, foreign competition, thanks to the national trade policy, is absolutely unknown to the manufacturers.

The above analysis indicates that the diversification and expansion of exports often involves replacement of one commodity by another on the assumption that the new commodity will earn greater foreign exchange than the one which has been foregone. This implies a change in the composition of foreign trade of a country. For a newly industrializing country, it often means the

---

29. S. Saigal, Presidential Address to ALL-Pakistan Textile Conference, The Pakistan Times, Lahore, March 13, 1954, p. 5.

30. Business News (Dacca), December 23, 1953, p. 42.

processing and manufacturing of exportable raw materials. The cotton textile industry is a typical example in Pakistan. It has already reached a high level of production in coarse and medium quality cloth, above the present needs of the country.<sup>31</sup> In jute manufacturing also, there has been a remarkable progress, particularly since 1953. How will this progress of industries affect the export capacity of the country? What chance do the new manufactured products of Pakistan have in the world market?

#### IV.

The installed capacity of Pakistan's cotton industry was 1.6 million spindles in March 1956. It was to have increased to 2 million spindles by 1957. With this increase in capacity, there has been a substantial increase in the domestic demand for the consumption of raw cotton.

---

31. Progress of Textile Industry, in Karachi Commerce (Karachi), Annual 1955, pp.26-27.

The basic assumption in this matter is that the average demand for coarse cloth of an adult Pakistani is 9 yards a year. There is no way of checking the validity of this assumption. Since the bulk of the population is rural, the domestic demand will increase if there is any substantial agricultural reform in the country.

32. Pakistan, Government of Pakistan, Karachi, 1955-56, p.127.

If we assume that one spindle working on a three-shift basis will consume approximately one bale of raw cotton in a year,<sup>33</sup> then with two million spindles there will be a demand for two million bales of raw cotton; on the two-shift basis it may be reduced to 1.3 million bales. On the other hand, the production of raw cotton in the country has been equal to an average of 1.4 million bales a year. This means that, even on a two-shift basis, virtually no raw cotton will be left for export after meeting the entire home demand.

Let us suppose, as generally asserted by government and industrial spokesmen of the country, that the

Table XXIV

Item	1948-49	1950-51	1952-53	1954-55
Cotton				
Piece Goods	269.3	300.3	89.2	
Cotton Twist				68.6
and Yarn	112.6	171.0	56.7	

---

Source: Central Statistical Office, op.cit.

domestic production of cotton cloth has resulted in substantial savings of foreign exchange to Pakistan. Let us

---

33. Economy of Pakistan, Pakistan Economist, Annual 1952, p.24.

further suppose that these savings have been as high as Rs.500 million per year, an amount equal to the peak of imports of cotton piece-goods and yarn reached during 1950-51.

The country's foreign exchange earnings from the export of raw cotton amounted to an average of Rs.570 million a year during 1948-1955. Any calculations of real savings made during this period will have to include an estimate of loss in foreign exchange due to the reduction in raw cotton exports as well as adjustment for import of machinery, parts, and for the capitalization period of the industry. Also, it will be necessary to account for an increase in the consumer demand for imported goods as the result of an increase in the income of a large number of people employed by the industry. Unfortunately, no data are available to make such a study possible. Tentatively, it may be said that, from the point of view of foreign trade and on the assumption that raw cotton, being an established item of export, would have had better chances of sale abroad than the newly produced cotton cloth, the industrial transformation of cotton has resulted in a decrease in the foreign exchange earnings of the country during the period under study. It seems that, owing to the stringent exchange



control, expenditure on the import of cotton cloth, on the average, would have remained below the 1951 peak figure, in any case below the usual earnings from raw cotton exports. Under the present circumstances, the exportable supply of raw cotton has been considerably reduced, and it is doubtful whether cotton cloth can take the place of raw cotton in the foreign trade of the country. This argument may seem to imply that Pakistan should have continued to rely on the export of raw cotton as one of her major sources of foreign exchange.<sup>34</sup> On the contrary, our main purpose is only to emphasise the problems created by the development of cotton textile as an export industry, particularly with reference to the future commercial policy of Pakistan.

The world trade in raw cotton and cotton cloth has been on the decline since the Second World War.<sup>35</sup> If this trend is any guide to the future, the trade prospects of both raw cotton and cotton cloth may be regarded as extremely uncertain, or perhaps dim. The continuous decline in the world demand for natural fibres in general has been due to

---

34. Perhaps it is on the basis of this approach that the First Five Year Plan envisages an increase of 38 per cent in the total production of raw cotton as against a nominal increase in the textile spindles. The Plan, op. cit. See Appendix C for details.

35. International Trade in 1956, General Agreement on Tariffs and Trade, Geneva, 1957.

the technological evolution taking place in the advanced industrial countries. With regard to cotton cloth, there has been a large scale development of textile industry in almost all the countries which have gained political independence during the last ten years. It seems, that had Pakistan not developed her own textile industry, her usual dependence on the export of raw cotton would have presented her with an equally uncertain situation. Now at least there is a steady home demand for the raw cotton within the country. Perhaps the solution of the paradox lies in the development of entirely different kinds of products for export to replace cotton.

#### V.

The recent development of jute manufacturing in Pakistan introduces an extremely uncertain variable in international trade. This is mainly due to the unique position of jute with regard to India and Pakistan, who are the main producers of the fibre. One of the major consequences of the partition of British India was the division of the total area of jute production along with the division of the province of Bengal: East Bengal was left with about 70 per cent and West Bengal about 30 per cent

of the total supply of jute. Before partition, East Bengal, which is now known as East Pakistan, supplied jute to manufacturers in Calcutta. With the creation of Pakistan this situation changed and the Indian jute mills were left without adequate indigenous supply of raw jute. Today, after about ten years, India's jute supply has substantially increased. At the same time, Pakistan's share of total world production has fallen to forty per cent, but there has been a rapid increase in her jute manufacturing. The prospects of a severe competition or a cartel in jute, therefore, loom large on the horizon. It is very difficult to predict the ultimate situation and the advantages or disadvantages that it will hold for India, for Pakistan, for the rest of the world, or for the world as a whole. It is, however, necessary to understand the main trends of the story.

The atmosphere of hostility that existed between the two countries during 1947 and after, directly affected their jute policies. From August 1947 to September 1949 is the period of customs warfare. There were two main factors operating in the background of this warfare. First, as mentioned before, the Pakistan supply area of raw jute was cut off from the Indian centre of jute manufacturing. This

breakdown of the established pattern of jute production and distribution created a tension between the two countries. Second, East Pakistan was left without a proper port to cope with her foreign trade including the export of raw jute. Calcutta was lost and Chittagong did not possess sufficient capacity to handle any large scale arrival and disposal of goods. This situation forced Pakistan to use port facilities available at Calcutta, particularly for the export of raw jute, until Chittagong was properly developed. India imposed export duties on the raw jute sent abroad by Pakistan via Calcutta. Pakistan demanded a share in those duties. This created a deadlock as India refused to accept the demand and Pakistan reacted by imposing her own duties on raw jute moving by land to India. India, on the other hand, immediately imposed duties on the export of jute and jute manufactures to Pakistan, and later, decided to impose her full customs tariff on Pakistan trade. In the meantime, the supply of raw jute to Indian jute mills was seriously hampered. An effort was made to resolve the deadlock through a trade agreement signed in May 1948.<sup>36</sup> This agreement lasted for one year from July 1948 to June 1949. Both countries however, were dissatisfied with its

---

36. For further discussion of this and other trade agreements see Chapter VII.

actual implementation. But during this period Pakistan developed and expanded port facilities at Chittagong for direct export of jute to foreign countries. Another trade agreement to ensure, inter alia, supplies of raw jute to India came into force for one year from July 1949; but with the non-devaluation of Pakistan's currency in September 1949, trade between the two countries stopped and the unhappy economic relations which existed since 1947 now became critical. It was not until April 1950, when another trade agreement was signed, in which India virtually accepted Pakistan's rate of exchange, that trade again started flowing between them. By this time, however, Pakistan had already started her huge program of jute manufacturing.

The continued tension between India and Pakistan including the non-devaluation of Pakistan's currency, had a direct effect on jute production on both sides of the political border, as shown in Table XXIV. While in India the area of production increased continuously from 1947 to 1956 except for a small reduction in 1952-53; in Pakistan, on the other hand, the trend has been erratic both with regard to the area under cultivation and production of jute. The first obvious impact of the customs warfare and the

unsatisfactory trade agreement was a sharp reduction in jute production in Pakistan, from 1,222,000 tons in 1947-48 to 595,000 tons in 1949-50. In India, however, there was a considerable increase in jute production from 296,000 tons in 1947-48 to 553,000 tons in 1949-50. The situation, therefore, certainly affected Pakistan's jute position unfavorably. The port facilities were insufficient and the stocks of jute were rapidly increasing. There were only two alternatives available to the country: either to reduce production or to revert to the pre-partition position of sending the raw material to India.

There were serious obstacles in the way of adopting the latter course of action. India was planning to become self-sufficient in her supply of jute and Pakistan was committed to her own declaration to start jute manufacturing in East Pakistan. In the light of her industrial plans, Pakistan's jute policy perhaps cannot be regarded as short sighted.<sup>37</sup> It is said that Pakistan's export of jute would not have increased as it did between 1950 and 1952, if the Korean war boom had not occurred at ~~that~~ time.<sup>38</sup> This may not be true, as the Indo-Pakistan Agreement signed

---

37. For opposite views see F.C. Shorter, Jute Production Policies of India and Pakistan, in the Indian Economic Journal. Vol. III, 1955-56. p.18-49.

38. Ibid. However, see Chapter V, p. 156.

Table XXV  
Area and Production of Jute

---

AREA.								
	1947-48	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56
Pakistan.	2,059	1,561	1,711	1,779	1,907	965	1,243	1,634
India.	652	1,163	1,454	1,951	1,817	1,196	1,250	1,581
PRODUCTION.								
Pakistan.	1,222	595	1,073	1,131	1,218	447	484	999
India.	296	553	590	835	822	559	523	739

---

Source: Central Statistical Office, Karachi, op. cit., Her Majesty's Stationary Office, London, England.

in February 1950 had in any case removed the major obstacle in the way of the jute trade. The acceptance of status quo as a guide to future policy at the time of independence would have meant, for Pakistan, a continuous dependence on India's demand for her raw jute; in which case, India would have continued to use East Pakistan's superior fibre for manufacturing and her own inferior and middle varieties for export to foreign countries. To Pakistan, this would have meant a great loss of foreign exchange other than Indian currency, which would have been disadvantageous to her interests with particular reference to international transactions in hard currencies such as the U.S. dollar. But her ability to export raw jute to countries other than India was limited by the relatively meagre jute manufacturing facilities available in those countries (see Table XXVI). Therefore, from the point of view of export expansion, the only solution for Pakistan was to establish jute manufacturing facilities within the country.

Table XXVI indicates the development of jute industry in Pakistan and gives a comparative data for India and other countries. Pakistan's share in the world manufacture of jute is 12 per cent on the basis of 1955-56, as



against 50 per cent for India and 38 per cent for the rest of the world. The jute industry of Pakistan had an installed capacity of 3,000 looms in 1955, which is expected to increase to 12,000 looms by 1960. At that time, the total production of industry, at full capacity, will be about 440,000 tons of manufactured jute.<sup>39</sup> The share of Pakistan in the world market by the end of 1960 will be determined by two main factors: the growth of the Indian jute industry and the growth of jute industry in other countries.

As Pakistan is the main supplier of raw jute to 'other countries', the progress of their manufacturing will depend mainly on Pakistan's capacity to export raw jute to them, which will certainly decline with an increase in the consumption of jute by her own jute manufacturers. Indian industries, however, are working below their total capacity and any scope for further increase in her production will depend on the increase in the production of raw jute in India through intensive methods of cultivation, and/or on the imports from abroad, which means from Pakistan. At present, India enjoys a virtual monopoly in the supply of manufactured jute in international trade.

---

39. Karachi Commerce, (Karachi), Annual 1955, p.24.

Table XXVI

				(Million Rs.)	
July-June.	India (000 tons).	Pakistan (000 tons).	Other Countries (000 tons).	Value of India's Jute manu- facture Export(Ind. Rs.). <u>1/</u>	Value of Pakistan's Jute manu- facture export(Pak Rs.). <u>2/</u>
1947-48	1,076	--	416	--	--
1951-52	983	1	566	2,401	--
1952-53	928	16	676	1,622	--
1953-54	901	49	678	1,106	3
1954-55	1,029	75	697	1,238	17
1955-56	1,131	130	772	1,183	68
1956-57	1,060	145	616	1,192	93

Source: Her Majesty's Stationary Office, London, England; Central Statistical Office, Karachi; International Monetary Fund.

Notes: 1. Figures for April-March of the year.

2. Figures for calendar year.

This monopoly apparently is in danger owing to Pakistan's entry in the world market with her own manufactured jute. It is expected that by 1960 Pakistan's share in the world trade of manufactured jute will substantially increase.

Let us suppose that Pakistan's share of manufactured jute in the world trade, by 1960, will be 25 per cent, and India's 75 per cent. What will the prospects be for jute under these conditions? Though real in terms of the future, it still is a hypothetical case and difficult for an exercise of prediction. Apparently, it is an oligopoly situation; and the imponderables about the situation are noteworthy and may be classified as follows: (1) The nature of the demand curve ( or curves) facing the two producers; (2) The prospects of price leadership; (3) The nature of price changes and their effect on price leadership; (4) Relative differences in the products produced by each due to differences in variety; (5) Production policies as pursued by each oligopolist.

At present, the important markets for manufactured jute are the U.S.A., Australia, Argentina, South Africa, Cuba, Canada, and Egypt. If the jute manufacturing activity declines in 'Other Countries' group, there will

be a further increase in the world demand for manufactured jute of India and Pakistan. Most of the consumers of jute are countries which are extensively engaged in agricultural production, and their demand for the commodity comes from their requirements for packaging material. The elasticity of demand for jute due to low cost of packaging in the total cost of production of a good may be regarded as low in the short period. In the long run, however, the actual or potential substitutes available in the world may seriously affect the market for jute.

The manufactured jute, in being a single product, cannot be used as an independent variable for the determination of the world elasticity of demand for jute. Its own price is directly determined by the raw jute production policies and prices, other things remaining the same. This does not only complicate the analysis but also confuses the issue of price leadership. If India, on the basis of her predominant share in manufactured jute, is taken as price leader, then how is her position going to be affected by raw jute policies of Pakistan? The

---

40. For further discussion of elasticity of demand for jute see T.P.Chatterjee, On the General Law of Demand for Raw Jute, Sankhya, Vol. VIII, 1947, pp. 271-74. Also, T.P. Chatterjee and A.R.Sinha, A Statistical Study of the Foreign Demand For Raw Jute, Sankhya, Vol. V, 1941, pp.433-38.

41. Shorter, op. cit.

world market behavior indicates that Pakistan's price policies exercise a significant influence on the world prices of raw jute.<sup>42</sup> On this basis we may say that India is price leader in manufactured jute and Pakistan in raw jute; and that there will be no fundamental differences in their respective positions during the next five years. The situation perhaps will call for oligopolistic strategies between the two producers. Will it lead to price rigidities and result in an indeterminate behavior of the jute market?

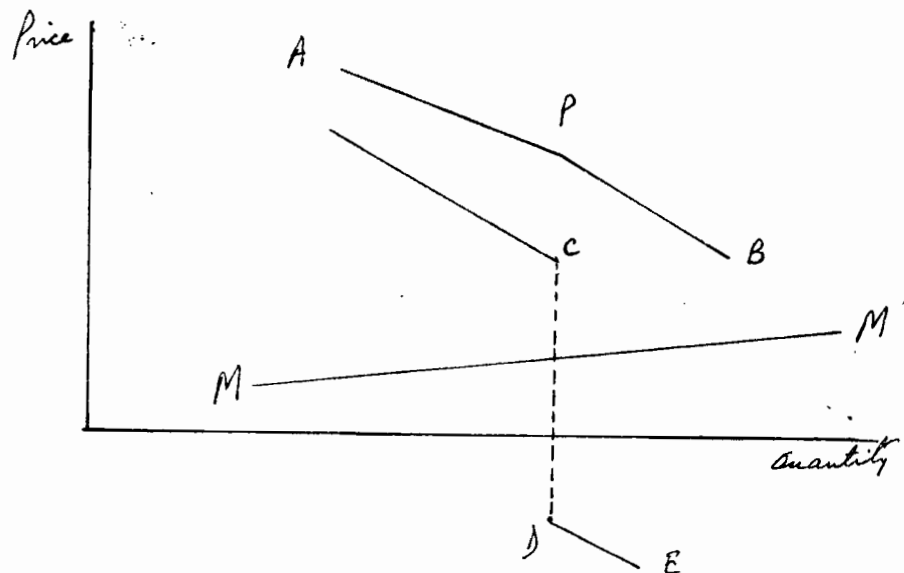


Diagram III.

The demand curve faced by the two countries will be different from the monopolist's usual demand

curve. It could be a kinky demand curve (Diagram III),<sup>43</sup> if the entrepreneurial behavior of the jute industry in both the countries indicated that price increases by one country's industry were not followed by the industry of the other country, but price reductions were followed. On the contrary, the rival industry may decide to follow price increases of the other, at least up to a point, with a view to increasing the foreign exchange earnings. In that case there will be little price rigidity and the kink in the demand curve may tend to disappear.

In the Diagram III,  $MM'$  is a continuous marginal cost curve. However, it may become discontinuous if one of the two countries is able to affect the cost of production and, therefore, the price of jute. It is, for example, highly probable that

---

43. The Diagram from Paul M. Sweezy, Demand under Conditions of Oligopoly, Journal of Political Economy, 1939, reprinted in Readings in Price Theory, American Economic Association.

In the Diagram,  $P$  is the kink,  $CDE$  is marginal revenue curve, and  $MM'$  marginal cost curve.

See also G.J. Stigler, The Kinky Oligopoly Demand Curve and Rigid Prices, Journal of Political Economy, 1947, reprinted in the Readings in Price Theory, op. cit.

Pakistan as an oligopolist-oligopsonist will be able to<sup>44</sup>  
influence the jute prices.

The possibility of price cutting policies cannot be ruled out, although the monopsonist position of one of them may introduce an unusual factor in a situation of over-all preparedness for an oligopolistic war in which, apart from financial resources, control over raw material prices may be used as an exclusive weapon. The complex situation, as soon as it ripens, will be an excellent case for an application of the theory of games.

In spite of uncertainties of the future, it is not very difficult to see where the benefit lies for both India and Pakistan, and for the rest of the world. Looking at the situation from the point of view of Pakistan's advantage, her jute policy will have to be such as to allow the country to hold her own share vis a vis the existing rival, notwithstanding the actual or potential substitutes available in the

---

44. In view of the possible erratic behavior of the marginal cost curve, it may be said that the usual kinky demand analysis is incapable of representing the jute case. For further discussion of the limitations of the kinky demand curve see G.J. Stigler, op. cit.

world market. In this policy, the security motive will have to be given the pride of place as the profit maximization approach might lead to disaster for all concerned. It is possible, at the present time, to charge higher prices for manufactured jute as the supply has been far short of demand since the Second World War, and it is possible that a collusion may take place between the two rivals. Either of the two alternatives will offer temporary gains which will harm the future prospects of jute and encourage the use of substitutes and the techniques of large-scale and bulk packaging.

## VI.

The case of jute with all its uncertainties is no different from that of cotton as considered above. The transformation that is taking place in the composition of Pakistan's foreign trade through her industrial expansion is not going to be a painless process. There will be no less serious problems to solve when, instead of exporting raw material, the country would prefer to export manufactured goods. There is a disadvantage to late-comers in the realm of international trade, as it is usually difficult to break the existing distribution of markets. This



disadvantage could, however, be overcome by developing extraordinary efficiency and high productivity together with aggressive salesmanship. At present, these factors seem to be a far cry for a backward country such as Pakistan.

In international trade, the substitution of a processed or a fully manufactured product for a raw material entails serious difficulties. A country may not want to import manufactured products from the same country from which she receives her raw materials. Therefore, a newly industrializing country may be faced with the possibility of breakdown of the existing direction of her foreign trade, and a consequent disruption of her export earnings. This is a serious problem which the newly industrializing country cannot solve merely by adopting a policy of import-substitute industries in order to save the foreign exchange. It will be necessary to take measures to maintain the existing level of exports, if not to raise it. In Pakistan, the emphasis for industrialization has been laid mainly on the savings of foreign exchange, whereas the increase of foreign exchange is equally an important matter.

The establishment of cotton textile industry in

Pakistan has been a source of stabilizing influence for the domestic producers of raw cotton, who no longer have to depend on the shrinking opportunities of export. The jute manufacturing, on the other hand, provides a challenge and an opportunity to the country to establish good markets abroad. The situation is full of high stakes, but offers greater scope for economic gain than if the country had decided to remain merely a raw jute exporter. The economy, however, would not be faced with the predicament of foreign exchange earnings if, parallel to the development of jute and cotton industries, a comprehensive industrial and trade policy had been devised to introduce new products for export. Obviously, the role of the so-called minor products and goods produced by cottage industries is in need of proper emphasis, with regard to the expansion of exports of a backward country such as Pakistan.

The only measure of export promotion taken by the Government of Pakistan until the middle of 1950 was a series of bilateral trade agreements with various countries; then the Import and Export (Control) Act of 1950 was enforced replacing the Import and Export (Control) <sup>45</sup> Act of 1947. It established four categories of export

---

45. The Act of 1947 was one of the British India Acts which were adapted by Pakistan. Its main purpose was to give controlling powers to the government.

control: (1) Where export was altogether banned; (2) Where export was licensable; (3) Where export was under the O.G.L. (Open General License); and (4) Where export was not controlled at all and no export license was needed. This Act, at best, was a negative approach to the export promotion, particularly clause No. 3 which related to goods available in excess of local requirements and whose export was subject to regulation in terms of quantities and destination. The export O.G.L. remained the basis of export policy until 1954 when an Export Incentive Scheme was put into force.

There was a general dissatisfaction with the working of the O.G.L. scheme. The Export Promotion Committee appointed by the government to examine the export policy, in its report submitted to the government in September 1952, summarized the situation as follows:

"In a world of regulated economy it is perhaps not possible to get away from the shackles of control but the present Export Control Order as it is being managed is not in keeping with the economy of this country.... No doubt, it may be necessary to regulate exports in the case of food stuffs or certain essential raw materials but certainly the present wide control on exports of major items of raw

( Cont. ...)

and manufactured products cannot be regarded consistent with the declared policy of the Government to develop and diversify its export." 46

The Committee made its recommendation for a plan according to which exporters of certain commodities "should be entitled to receive a certain percentage of the foreign exchange which they earn for the country.... (and this) ~~very~~ should be utilized for the import of those items which are not essential to the country and are generally termed as 'luxury items'." <sup>47</sup> The suggestion of the Committee was based on the assumption that such a scheme will promote exports on the one hand, and on the other, it will ensure the supplies of goods not generally imported from abroad due to the shortage of foreign exchange.

The Export Incentive Scheme was introduced as a temporary measure in June 1954 with a view to increasing the trade of commodities, other than ~~the items of export~~ 'the movement of which to foreign markets has hitherto <sup>48</sup> been disappointing.' According to this scheme, the export items were selected and, on the basis of their

---

46. Pakistan Trade, Government of Pakistan, Karachi, September, 1954, pp. 26-27.

47. Ibid.

48. Pakistan Trade, Vol. V, No. 7, pp. 11.

earnings, 30 per cent of foreign exchange was allowed to be used by exporters to import goods within the scope of a prescribed import list. The scheme was extended for one year in October 1955 with important amendments. There were now two categories of export: primary commodities and manufactured products. A retention of 15 per cent of foreign exchange was allowed on the former and 25 per cent on the latter for import of specified commodities by individual exporters. It was to expire in September 1956 but was extended for another year and was renamed<sup>49</sup> Export Promotion Scheme.

It is very difficult to examine the degree to which the scheme has been successful as no breakdown of the relevant data is available. The scope of the scheme is limited as the clause of foreign exchange retention cannot be expected to provide sufficient encouragement to exports. Perhaps a better approach would be to establish a proper relationship between the producer, the exporter, and the government advisory or regulatory agencies, with the sole purpose of keeping in touch with the latest trends in the foreign markets. The lack of

---

49. Economic Survey of Asia and the Far East, 1956, United Nations, op. cit., pp. 151-52.

business adventure and initiative on the part of the business firms can be a serious problem in export trade.<sup>50</sup> Also, it is necessary to introduce administrative efficiency, to standardize the customs procedures, and enforce proper grading of export commodities.

## VII

The basic assumption of our analysis in this chapter has been that, from the long run point of view, the scope for expansion of world trade in raw materials and primary products is limited. Perhaps the division of countries into agricultural and industrial has already become obsolete, and perhaps the new emerging pattern is in favor of mixed agricultural-industrial economies. In the new world economy, the main sources of international exchange will be perhaps the semi-processed, processed, and manufactured goods as well as machinery and services.

---

50. 'Canadian sources complain that Pakistani firms lack the habit of initiating new transactions and it has been suggested that exporters should visit Canadian International Fairs and see for themselves as to how they could meet outside competition.' Reported in the Pakistan Trade, op. cit., Vol. VI, No. 11, p. 19.

## CHAPTER IV

### IMPORTS

#### I.

Pakistan's imports can be classified into three groups as consumer goods, raw materials and fuels, and investment goods. All imports of the country are subject to government control, and the total value of import licenses issued by the government in any given period of time is determined by the availability of foreign exchange during that period.

As shown in Table XXVI, the average propensity to import of Pakistan was at the highest point during 1952, from where it fell considerably during 1953 and

Table XXVI

Year.	National Income.	Imports.	(Million Rs.)
			Per cent of National Income.
1950	17,828	1,333	7
1951	17,873	1,817	10
1952	18,043	2,083	11
1953	18,758	1,217	6
1954	19,086	1,152	6

Source: Central Statistical Office, op. cit.

1954, partly due to a rise in her national income but mainly due to the fall in the value of imports. The imports of the country follow the exports in their

upward or downward movements as indicated by a comparative study of the Tables XIII (Chapter II, p. 50), XVIII (Chapter III, p. 69), and XXVI (p. 113).

The movements in the balance of trade of Pakistan, therefore, seem to differ from those suggested by the classical mechanism of international adjustment. According to that mechanism, the exports should rise and imports fall in slump and the imports should rise and exports fall in boom conditions. In Pakistan, the exports and imports rise almost together when active balance of payments occurs (exports followed by imports), and fall together when the balance of payments is passive (imports falling less than exports). This may be due to the import restrictions, but they are not an independent factor themselves, as they change according to the changes in the foreign exchange assets. The basic explanation is provided by the nature of the economy: the export income generates demand (for consumption and investment) which has a very high import-content ratio, and the capacity of the country to buy goods abroad is determined by her ability to sell goods in the foreign markets.

The above pattern of the export-import movements seems to conform with the Keynesian scheme. If we take exports as multiplicand, as does Harrod, there will be



a positive correlation between the imports and the exports.<sup>1</sup>  
The explanation of this correlation is that imports are a function of the national income and the national income, under the assumption, is a function of exports. We may express the same idea in a different form as follows: imports are the function of foreign exchange reserves and the foreign exchange reserves are the function of exports.

Pakistan's import restrictions do not influence her exports. In other words, there are no induced exports in Pakistan's foreign trade: in terms of the size of the exports to Pakistan of each foreign country, Pakistan's imports are too small to affect the national income of the foreign countries and hence their demand for her exports.

## II.

The import policy of Pakistan may be divided into five periods: (1) August 1947 to September 1949; (2) September 1949 to June 1950; (3) June 1950 to March 1952; (4) March 1952 to July 1955; and (5) July 1955 to December 1956. The first period started with large scale economic dislocations, but as soon as the commercial and trade

---

1. R.F. Harrod: International Economics, Chapter VI, London, 1948.

agencies began to operate the demand for imports rose. As mentioned earlier, the import policy of this period was fairly liberal. The procedure of import control was similar to the rest of the sterling area, and there were restrictions on imports from the 'hard currency' area. The second period begins with the non-devaluation of Pakistan rupee and a virtual trade deadlock with India. Substantial import restrictions were imposed immediately after the non-devaluation and the previous open general license was suspended. The new open general license issued in October 1949 contained a smaller list of importable goods. Machinery, drugs, medicines, and selected chemicals were allowed free from the sterling area but were made subject to license for import from the 'hard currency' area.<sup>2</sup>

The third period is dominated by the Korean War boom. The import restrictions in this period were relaxed as a result of substantial increase in the export earnings. It is said that about 70 per cent of imports in value were made free from any kind of license.<sup>3</sup> The prices of consumer goods, particularly textile cloth and drugs, soared high during this period, and by placing them on the open general license, the government took steps to ameliorate the

---

2. Economic Survey of Asia and the Far East, 1950, United Nations, op. cit., p. 289.

3. Ibid.

conditions of the ordinary consumers in the country. By March 1952, however, the boom conditions had faded and the fourth period started under the shadow of import restrictions. There was a tightening of licenses, particularly for the dollar area, followed by further reduction of imports in August and November 1952. Whatever foreign exchange was available was mainly earmarked for the import of machinery and materials required for industrialization and development. Also, credit, loan and barter arrangements were made to supplement inflow of capital goods.<sup>4</sup> For example, an agreement with Japan facilitated imports valued at Rs.55 million on a deferred payment basis and an agreement with the U.K. resulted in a loan, repayable over 10 years, of Rs.92 million to purchase capital goods from that country over a period of 2 to 3 years.<sup>5</sup> Total imports, however, fell considerably in 1953 and marked a further fall in 1954. In the first half of 1955 there was no sign of improvement in the situation as the jute exports remained constant and cotton exports recorded a substantial reduction, perhaps more due to the decrease in physical volume of the commodity than its prices.

---

4. Economic Survey of Asia and the Far East, 1953, Economic Commission for Asia and the Far East, op.cit., pp.106-107., See also Economic Survey, 1954, pp.162-163.

5. Ibid.

The period came to a close with the devaluation of the Pakistan rupee on 31st July, 1955.

After the devaluation the unit value of imports rose sharply as the prices rose by 49 per cent, compared with the preceding year, whereas the total value increased by only 13 per cent. Import controls continued after the devaluation in spite of some increases in foreign exchange earnings. This was mainly due to the uncertainty about the future of export markets. Also, the possibility of food shortage in the country kept the foreign exchange authorities in a mood of suspense. In this period one notable development took place: the discrimination in import licensing<sup>6,7</sup> against 'hard-currency' area came to an end.

- 
6. Economic Survey of Asia and the Far East, 1956, pp. 151-52.
7. Against the background of the above survey of Pakistan's import policy, it will be useful to keep in mind the changes that have taken place in the composition of her imports during 1947-55. These changes are partly due to the continuous import restrictions and partly the result of domestic industrial progress. For necessary data see Chapter II and the table below:

Imports by Principal Commodities						
	Monthly averages					
	(Million Rs.)					
	1948	1951	1952	1953	1954	1955
Mineral oil.	2.3	6.1	8.5	8.3	8.3	9.5
Cotton piece goods.	22.4	27.5	23.0	1.2	2.5	2.2
Cotton twist & yarn.	9.4	18.0	16.0	4.0	4.0	0.9
Machinery.	4.7	11.6	14.6	10.0	22.9	20.8
Transport equipment.	3.9	5.6	7.0	2.1	3.7	4.1
Iron & Steel manufacture	--	7.2	14.0	4.9	5.6	8.1

---

Source: Economic Survey of Asia and the Far East, 1956.  
Note. Year beginning April.

### III.

The import policy for economic development may be discussed with reference to two main problems: (1) The need for a proper evaluation of the foreign exchange requirements of a developing economy; (2) The need for a proper allocation of the available foreign exchange to various items of import.

The total requirements of foreign exchange may be divided into two parts: the normal requirements of the economy, and the special requirements of development. Both interact on each other and determine each other's scope. For example, more can be made available for the developmental imports out of a given amount of foreign exchange, by restricting and rationing the other imports of the country. The success of such a policy, however, will depend on the size of the existing foreign exchange resources in the country.

The main sources of foreign exchange of a country are the exports and foreign capital.<sup>8</sup> The export earnings are determined by the elasticity of supply as well as the elasticity of domestic and foreign demand for the export goods. The availability of foreign capital is determined by more complex factors, economic and non-economic. The forces

---

8. Also, until recently the much publicized post-war sterling balances partly took care of the import requirements of some sterling area countries such as Pakistan.

which determine the utilization of foreign exchange are the same as those which determine the imports, ordinary and developmental. In the previous chapter we mentioned five categories of factors which determine the marginal propensity to import. We shall now discuss them with reference to the foreign exchange requirements.

For a simple evaluation of the requirements of foreign exchange, we need only to take into account the import-content ratio of a given increase in the volume of consumption or investment.<sup>9</sup> Then we may introduce the induced effects of each. To bring the analysis nearer to reality, we may take into account the total export earnings as affected by the supply and demand conditions, the total loss through an increase in domestic consumption of exportable products, or the total gain through an increase in consumption of import-substitutes. Thus, it is necessary to evaluate, on the one hand, the consumption-investment-export-import habits of the economy, and on the other, the prospects of export markets. We may, therefore, reorganize our previous five categories (p.61), and present them along with the additional factors in a summary form as follows:

1. The marginal propensity to save, to consume, and to invest.

---

9. It may be represented as  $f = \frac{I}{M}$ , where  $f$  is foreign exchange requirement, and  $M$  imports.

2. The import-content ratio of investment and induced investment.
3. The import-content ratio of consumption.
4. The marginal propensity to consume (a) export goods, (b) non-export goods, and (c) import substitutes.
5. The elasticity of supply of export goods, non-export goods, and import substitutes.
6. The elasticity of foreign demand for exports.

Under full employment, the increase in the production of export goods will involve diversion of resources from other industries producing non-export goods or import substitutes. There may also be some diversion of resources among the export industries, but perhaps it will be far less in magnitude than the former kind of diversion. The result of these diversions may be a reduction of prices of export goods as against other goods, and consequently, a shift in the domestic demand from non-export goods to export goods, which may affect the country's capacity to export. On the other hand, there may be a rise in the price of the import-substitutes which may result in the increased supply of import goods. If, however, the export industries are in a position to produce in sufficient quantities so as to be able to increase the export supply in spite of the increase in the domestic demand, the net export position of the country may improve.

The situation may be different if there is unemployment in the country. The export industries will now be able to increase their production without affecting the supply situation of the other industries. This may be the case with a developing economy, with two important exceptions. As mentioned earlier, the increase in the production of export goods of a developing economy may depend on the import of capital goods or machinery. Second, in spite of large scale unemployment there may be a paucity of skilled workers and ~~properly~~ processed factors of production, and the initial increase in the production of export goods may be possible only if the properly trained staff or the properly processed raw material can be diverted from the non-export industries to export industries. This may involve all the problems similar to the case of the non-competing groups. However, the time element is important for the improvement of the supply conditions as proper facilities for training and education may be instituted in due course, and the supply of the processed raw materials may also be increased. But this program too may have a high import-content ratio, at least in the initial stages of economic development.

In order to reduce the pressures on the foreign exchange, it may be necessary for a developing economy to impose



temporary import restrictions and to make sure the availability of capital goods required to improve the domestic supply situation. The justification of such an action may be found in the relative importance of priorities from the point of view of economic welfare. By sacrificing some of its present demands for consumer goods and, therefore, by releasing foreign exchange for education of personnel as well as import of capital goods, the economy in fact may be preparing itself to reach a higher level of prosperity. After reaching that level of prosperity it should be able to compensate for the losses incurred during the process of change.

#### IV.

This is, however, one side of the story. The other side is equally important. Import restrictions will release the already earned foreign exchange for use in matters of priorities, but they will not solve the problems of induced demand for imports both for consumer goods and producer goods. This raises some pertinent questions about the criteria of investment from the point of view of foreign trade. The import-substitute industries, for example, may not be able to pay for themselves in terms of the cost of imported

machinery and raw materials, not to speak of other induced imports. The domestic industries may put still higher pressures on foreign exchange, as they will create demand for imported machinery, parts, and other induced goods without creating any saving of foreign exchange similar to that of import-substitute industries.<sup>10</sup>

The development of export industries may be regarded as the most important objective of trade policy of a backward country. But given the elasticity of supply of export goods, the increase in exports will depend on the elasticity of foreign demand for imports. The elasticity of foreign demand may be higher than, equal to, or less than, the ratio of change in the foreign exchange requirements of the country. In the first case, there may be a surplus on trade account; in the second a balance, and in the third case, a deficit, other things remaining the same. It is in the third type of a situation that import restrictions become necessary.

If we assume that our developing economy adopts the policy of severe import restrictions on consumer goods, then the pressure on her foreign exchange will come mainly from the economic development programs.

---

10. For further discussion of this problem see Chapter VIII. Domestic industries are those which produce goods neither to replace imports nor for export.

The more ambitious the development plan, the higher will be the pressure on foreign exchange. Being an open economy, the developing economy cannot, therefore, ignore the problems of external mechanism arising during and after the development process. From the point of commercial policy, this is an important limitation on the targets of economic planning, for if the pressure on foreign exchange is too high and the import restrictions are not accompanied by a proper export program, the net result, in terms of economic welfare, may not be favorable to the country. The country, in such a situation, may be willing to make her import policy more restrictive, whereas the proper course of action may be to adopt a 'go-slow' policy with regard to economic development. The availability of external aid, however, is an important variable which may reduce the existing burden of development in terms of the external mechanism.

It is generally recognized that backward countries are in need of external aid to carry on their economic plans. The question is not about the external aid as such, but its magnitude and size. Various estimates are available according to which the size of foreign assistance required for the economic development of backward countries has been measured. A United

Nations' report discusses the problems of an annual net increase in national income of 2 per cent in under-<sup>11</sup>developed countries. The report comes to the conclusion that a little more than half of the total capital required by underdeveloped countries will have to be procured from external sources to enable them to fulfil their objectives of development. The dependence on external finance in the First Five Year Plan of India was 10.8 per cent; it is 16.6 per cent in the Second Five Year Plan. In both plan periods, therefore, the dependence on external finance is much lower than the estimated ratio given in the United Nations report, particularly in view of the fact that the Indian Plan envisages a 3 per cent rise in the per capita national<sup>12</sup> income as against 2 per cent of the United Nations.

Pakistan's First Five Year Plan envisages a 4 per cent increase in the growth of the national income per capita during the plan period. It assumes dependence on foreign finance to the extent of 36.3 per cent, a figure lower than the United Nations estimate but higher than the Indian ratio. The actual dependence of the Plan on external finance would have been 45.6 per cent if the

---

11. Measures for the Economic Development of Underdeveloped Countries, United Nations, op. cit., 1951, p. 79.

12. Methods of calculation in either case are not known.

expected earnings of Rs. 1.1 million in terms of foreign exchange had not been accounted for in the calculations (See Table XXIII, Chapter III, p. 78). As mentioned before, the Plan is based on the assumption that the total foreign exchange earnings will be the same during the plan period as they were during the five years preceding the plan. This seems to be the most important limitation of the Plan. Table XXVIII gives a breakdown of the foreign exchange position as expected by the Plan during the plan period. It is clear from the data that cotton and jute together are expected to provide 73 per cent of the total foreign earnings, with raw cotton and raw jute as 56 per cent and manufactured cotton and jute as 17 per cent. In other words, these two commodities will continue, according to the Plan, to hold the same position in Pakistan's foreign trade as in the previous years. We have already examined the trade prospects of these commodities in the previous chapter, and on the basis of the conclusions drawn there we may say that the approach of the Plan towards the foreign trade problems of Pakistan is unrealistic. Nevertheless, the Plan hopes that by 1960 there will be substantial increase in the foreign exchange earnings derived from these commodities, about Rs. 400 million

Table XXVII

(Million Rs.)

I.		
Item.	Amount.	Per cent of total amount.
1. Public Savings.	1,500	12.9
2. Private Savings.	5,900	50.8
Total.	7,400	63.7
3. External Finance.	4,200	36.3
Grand Total.	11,600	100.0

II.		
1. Total import content of Development Plan.	5,300	45.6
2. Foreign Exchange Available (net of non-developmental requirements)	1,100	0.10
3. Net Deficit.	4,200	36.3

Source: The First Five Year Plan, op. cit.

Table XXVIII

Expected Foreign Exchange Earnings  
1955-60

(Million Rs.)

1. Raw Jute.	3,675
2. Jute Manufacture.	1,190
3. Raw Cotton.	2,020
4. Cotton Manufacture.	600
5. Wool.	250
6. Hides & Skins.	155
7. Tea.	270
8. Other Commodities.	1,090
9. Invisibles.	950

Source: The First Five Year Plan, op. cit.

more than the total earnings derived in 1955-56. It is claimed by the Plan that with this increase in earnings the country will be able to finance its future economic plans.<sup>13</sup> It is, however, assumed that the import restrictions imposed by Pakistan will remain severe and rigorous for an indefinite period.

It is doubtful whether the increase in the foreign exchange earnings as expected by the Plan, even when actually realized, will be enough to cope with all the requirements that will continue to expand in the country. The anticipated industrial development will create, by 1960, partly direct and partly circuitous increases in the import requirements, and perhaps it will not be possible for the country to reduce them by means of import restrictions without endangering the development process. Also, there will be the problem of inflationary spiral in the economy. In either case the result will be the widening of the gap in the already unfavorable balance of trade. The Plan somehow seems to ignore all the secondary repercussions involved in the development of the country. Its forecast for

---

13. The First Five Year Plan, Vol. 1, op. cit, pp. 15-18.

replacement parts and spares as well as the imported raw materials is based on the estimates of current consumption, which in itself is below the normal level owing to the fact that many industries in the country are working under capacity.<sup>14</sup> With an increase in production, the requirements of stocks will tend to increase and the result will be an increased pressure on the foreign exchange. There are no provisions in the export sector of the Plan to take care of such expected increases in the demand for imports.

It does not mean that an economic plan should envisage big changes within a short period of five years or so, but it should seek to establish the foundations for a future expansion of exports, at least corresponding to the expected increases in the import requirements. The only justification for the import restrictions is that they provide temporary relief to the country from the external pressures, and an opportunity to correct her external disequilibrium. The Plan does not seem to care for this point of view, as it 'cannot now foresee the time when the country will be able to abandon import licensing and exchange control.'<sup>15</sup>

In most areas of production the targets of the

---

14. The First Five Year Plan, Vol. 1, p. 200.

15. Ibid.



Plan are negative in so far as they concentrate mainly on the earnings of foreign exchange by substituting domestic goods for imported goods. Within its limitations, it is a useful and an essential objective to fulfil. For example, if the country can be made self-sufficient in food supply, it will be undesirable to let a situation develop in which the food imports become necessary. Perhaps this can be said for some other targets of economic development as well. But an emphasis on import substitution without a parallel scheme of proper export promotion will lead to a contraction of foreign trade.

V.

It is obvious from the above analysis that the import policy cannot be taken as an independent factor in foreign trade, and the import restrictions, on their own, cannot solve the balance of payments problems. These restrictions are not a cure but only the symptoms of the maladjustments existing in the economy. They may provide short term palliatives, but in the long run the balance and stability will be achieved only through the export expansion. If a development plan fails to give proper emphasis to the export orientation of the economy, it may be regarded as visionary rather than practical. Thus

the task of raising national income in a backward country is two-fold: on the one hand, it is necessary to reform the pre-capitalist sectors of the economy in order to raise their standard of efficiency and, on the other, it is important to establish and expand industries specializing in easily marketable goods. It is the export industry sector which, due to the subsistence nature of the economy, will be loaded with responsibility for capital formation.

## VI.

So far we have assumed that the estimates of foreign exchange requirements are based on the given data. However, the given data may not represent what is called the irreducible minimum. In the first place, the calculations of investment ratio in relation to time may be over-estimated. There are frequent instances in Pakistan where the imported machinery or technical services had to wait a long time before they could get properly placed in the development process. This leads us to the second point; foreign capital can be assimilated in the economy at a rate determined only by the domestic economic activity. Industrialization is a long process; the time limit may be two generations

as set by some writers or longer, but certainly it is not the foreign capital that will accelerate the speed<sup>16</sup> of industrialization.

The second limitation is population. Generally speaking, higher targets are set by underdeveloped countries with regard to their development plans in order to raise the standard of living of the people as well as to provide for the future increase in population. This duality of purpose in fact results in very high estimates of development needs and puts extra-ordinary pressures on the internal and the external sources of finance. One obvious step required to reduce this burden seems to be the adoption of conceivable means to control the present rate of hyper-increase in population. Almost nothing is being done in Pakistan in this regard, and whatever has been done in other backward countries is equal to the scratching of the surface. Population control is a complex problem and one is bound to encounter social and religious prejudices as well as economic difficulties in its solution. But like other aspects of economic development this aspect also presents the people and the governments of backward countries with a challenge

---

16. D.T. Lakdawala, International Aspects of Indian Economic Development, Bombay, 1951, p. 29. See also A.J. Brown, Industrialization and Trade, London, 1943, p. 27.

that they have to meet.

## VII.

Before concluding this chapter we may briefly mention the invisible imports of Pakistan. The main items of the country's invisible expenditure abroad are travel, family maintenance, agency services, education expenses, profits on foreign capital, interest and dividends, apart from government expenditures on embassies and missions in foreign countries, etc. The invisible receipts are income from shipping, foreign government offices and staffs, profits and losses of business, commissions, income taxes, etc. As Table XXIX indicates, the balance on invisible account in

Table XXIX				
	(Million Rs.)			
Item.	1951-52	1952-53	1953-54	1954-55
Receipts.	219	179	119	123
Payments.	354	233	227	211
Balance.	-135	-54	-108	-88

Source: The First Five Year Plan, op. cit.

Pakistan's balance of payments has been unfavorable from 1951-52 to 1954-55, the period for which complete information is available. This unfavorable balance has persisted in spite of severe control on foreign travels and other payments made by the people. All these

payments are, in large part, connected with foreign trade; therefore, it is extremely difficult to reduce them below a certain level. The receipts too are associated with the economic development of the country, and they will tend to increase with an increase in national shipping, insurance, and banking. The regulation of invisible imports has a direct bearing on foreign trade as well as on the prospects of external finance; and the persistently unfavorable balance of invisible payments is in need of a more positive solution than a mere imposition of import restrictions on it.

#### VIII.

The main conclusion that we may draw from our analysis of this and the previous chapter is that the solution of a backward country's economic problems lies in a dynamic export program. Import restrictions may be beneficial only when they are adopted as a supplementary measure. The export program itself will be in need of changes with regard to the composition of exportable products, as well as the administration and the procedure of foreign trade. Such a trade policy will be compatible with the aims of national and international welfare. Of course, its effectiveness

will depend on the techniques of trade policy. There is the exchange rate regulation to determine the external prices of goods, as well as exchange control to allot foreign exchange to various items of import on a preferential basis. There is the problem of favorable terms of trade and their role in economic development. There are quota systems, quantitative restrictions, subsidies, and international and bilateral agreements. All of these are in need of a critical examination from the point of view of commercial policy for economic development. As mentioned in Chapter I, exchange control has a unique position with regard to commercial policy. We now propose to study its role in the foreign trade of a developing economy.

## CHAPTER V

### EXCHANGE CONTROL

#### I.

The problem of the allocation of foreign exchange resources was discussed in the previous chapter, and there it was emphasized that control over foreign exchange was necessary from the point of view of economic development. We made an attempt to establish a case in favor of preferential allocation of foreign exchange to various types of imports. There remains the question regarding the most suitable methods of exchange control.

Let us suppose that a country divides its foreign exchange budget into two parts: (1) the developmental imports and, (2) the non-developmental imports.<sup>1</sup> Now the precise requirements of the developmental imports, on the basis of a development plan, may be known to the administrative authorities and it may be a simple matter for them to issue licenses for the import of goods. However, such is not the case with the non-developmental imports, as decisions about them may imply serious difficulties. In the first place,

---

1. The non-developmental imports include the consumer goods as well as the raw materials required by various industries, outside the scope of the development plan. See Table XXIII and Table XXVII.

there is the problem of selection of various categories of imports; secondly, it is necessary to determine their quantities, and thirdly, it is essential to decide who will import them. Under free trade all such decisions are made through price mechanism. Under exchange control, the foreign exchange authorities usually prefer to decide all these matters themselves.

If the government is the final authority in determining the volume and composition of non-developmental imports, then the foreign exchange administration will have to predict accurately the needs of the economy, determine quantities of imports, and decide about the list of authorized importers. This may involve complicated administrative machinery and may call for a double-coincidence between government decisions and the needs of the individual consumers, producers and importers. As these needs cannot be entirely fulfilled due to the shortage of foreign exchange, the quantitative import licenses may create the problems of scarcity-value of imported commodities and result in windfall profits to the importers.<sup>2</sup>

Price mechanism can be introduced in the administration of the non-developmental imports. The entire

---

2. H.S. Ellis, Exchange Control in Central Europe, op.cit.



foreign exchange budget for the non-developmental imports may be allocated to various imports through auction sales of import licenses. Or to make the price-effects discriminatory, the non-developmental imports may be divided into various categories and premium may be imposed on each category according to the relative essentiality of the imported goods.

## II.

Pakistan's foreign exchange system is of a type which does not allow price mechanism to operate. The administration of the control is carried on by the State Bank of Pakistan as an agent of the central government, under the Foreign Exchange Regulation Act of 1947. The ministry of commerce of the central government makes actual allotments of import licenses twice a year, in January and in June, on the basis of its latest import policy. Only authorized importers may apply for import licenses which are granted according to a quota fixed separately for East Pakistan and West Pakistan. Normally the announcement of the policy is made before the shipping period opens and licenses are issued in time to allow shippers and importers to arrange for their consignments of goods. There are, however, instances when delays in this machinery of control

have taken place and have caused abnormal difficulties to foreign exporters as well as the domestic importers.

Severe penalties are imposed on those Pakistan residents who make irregular use of foreign exchange. In order to deal with evasions and exchange frauds, the assistance of special police and the intelligence branch of the government is employed.<sup>3</sup> In spite of all the measures taken to tighten up the control, the aims of the control authorities have not been fully realized. It is almost impossible to regulate the usual practice of under-invoicing of exports or over-invoicing of imports. It is also difficult to impose effective control over the foreign exchange earnings of residents which they derive from trade commissions, etc. The result is a multiplication of administrative machinery. Although it is difficult to estimate how far the evasions outstrip the enforcement of control, the heavy social and economic costs involved in the control system are imperative.

There is a strong element of unpredictability in the exchange control system. When the import license is issued only for a specified shipping period and the import list is subject to bi-annual revision, there is

---

3. Exchange Control in Pakistan, State Bank of Pakistan Bulletin, February, 1955, Karachi, pp. 5-9.

no certainty that a commodity once imported will be imported again and in the same quantity. This, for example, is the case with the imported raw materials and fuels used by various industries in Pakistan. It would be advantageous to the economy if certain items of consumer and producer goods were imported once a year but in greater quantities rather than twice a year and in smaller quantities. The present system of exchange control, therefore, does not seem to fulfil the purpose for which it was primarily instituted; neither from the point of view of the consumer nor the producer.

In order to be advantageous to Pakistan, the exchange control system should be devised in such a manner that the economic forces are given a chance to play their part without hindering the allocations within the scope of the total foreign exchange budget, and without allowing abnormal profits to traders. It may be said that the windfall profits which accrue to the importers under the exchange control system can be reduced with the help of import taxes and price control. In the first place, the effectiveness of such a policy may be doubtful in view of the well-known limitations of taxes and price controls. Secondly, even if the windfall

profits are successfully regulated, the situation will not improve as the final decision for fixing up quantities of imports will still be left with the administration. 'It is much better to specify the total amount which can be spent on imports and then auction the import licenses.' <sup>4</sup>

### III.

Imports can be regulated through auctioning of the import licenses without incurring the high administrative costs involved in the exchange control system. In auctioning, the revenues derived from the scarcity-value of the imported goods will go directly to the public treasury, and can be made available from there for developmental purposes.

There are two main factors which determine the scarcity-value of imported goods and whether the benefit from the scarcity-value will accrue to the importing country or to the exporting country: (1) the location of license holders as between the exporting and the importing countries, i.e., whether the import license is issued to the importer or to the exporter: (2) the extent of competition among foreign exporters. <sup>5</sup> With regard to the first condition,

---

4. Colin Clark, Report on Pakistan Economy, The Pakistan Economist, op.cit.

5. J.E. Meade, Theory of International Economic Policy, Vol.I, Balance of Payments, London, 1951, Chapter 21, p.285.

the import licenses are normally issued to the importer and not to the exporter. The second condition depends on the type of the license, the kind of the product, and the extent to which the exporters are organized. If it is a special-country license then the exporter from the specified country will get a chance to raise his price without any fear of competition from the exporters of other countries. If its is a global license, there will be free competition among the exporters.

Some products are subject to natural or other kinds of monopolistic practices. It is necessary, therefore, to know the type of the market with regard to the product for which the import license is issued. Also, an exporter may belong to an international cartel and may determine his prices in accordance with his agreement with the cartel regarding his share in the world market.

1  
It seems that the foreign exporters of the products which are imported by the developing countries are highly competitive.<sup>6</sup> Pakistan, therefore, would gain by adopting the auction system rather than by allowing the present exchange control system to continue.

---

6. Economic Bulletin for Asia and the Far East, Vol. VII, No. 3, United Nations, op. cit., p. 56.

#### IV.

The import license auctioning may be done on the basis of a global quota if the foreign exchange resources of the country allow her to buy her goods anywhere in the world. But the country may be suffering from the 'convertibility' problem, and the foreign exchange earned by her may not command universal acceptability. There are two major foreign currencies which are earned by Pakistan: the sterling pound and the U.S. dollar. The U.S. dollar is a scarce currency for the country and the sterling pound is inconvertible into dollars beyond a certain limit. This means that the import licenses have to be issued according to the area in which the foreign exchange can be utilized. In other words, the foreign exchange position of Pakistan is such that it necessarily involves discrimination in her imports.

As we noticed in the previous chapter, Pakistan recently withdrew her policy of discrimination against the dollar area. In all probability, this is the result of the American Aid received by the country in recent years. Discrimination, however, is still being practiced in the form of regulation of specified imported goods.

Convertibility is a world-wide problem whose

solution depends on factors which are beyond the scope of Pakistan's commercial policy. The latest developments towards co-operation between the sterling area and the European Payments Union have certainly broadened the area of trade and payments settlement for Pakistan.

V.

In what respect is the system of import license auctioning different from multiple exchange rates? In a sense, the effects of both on imports may be the same: given the elasticities of supply and demand, the effects of price determination through auctioning of imports may be similar to the auctioning of foreign exchange (or of fixed rates of exchange for different kinds of imports). Also, there is one advantage in the multiple exchange rate system as compared with the auctioning system, that it is comparatively easy to administer. From the point of view of a single country, multiple exchanges may provide better and more effective results. But if other countries also practice multiple exchange rates then the cross-section of exchange rates may emerge in such a manner as to counter-balance the mutual benefits derived by the countries practicing such exchange rates.

This may happen even in the case of quantitative

restrictions if the trading countries start retaliating against each other. The system of auctioning of import licenses may also suffer from the same weakness. Nevertheless, there are important differences between the multiple exchange rate system and the system of import license auctioning. In the first place, the fluctuations of exchange rates, to borrow a phrase from Haberler, 'leap to the eye' far more effectively than the changes in bids under the auctioning system. Secondly, the multiple exchange rates lead to the evasion of foreign exchange and encourage disturbing speculation of capital. The system of import license auctioning is free from such flaws as the rate of exchange under this system remains fixed and uniform. It is, however, by no means an ideal system but seems to possess some advantages which may be summarized as follows:

1. The system of import license auctioning will shift, from the importers to the government, all profits which are derived from the scarcity value of imports.
2. There will be full scope for adjustments in the rate of exchange without involving any changes in the auctioning system.
3. The system will allow and encourage the



more efficient importers to outbid the less efficient ones.

The system of import license auctioning can be used to transform detailed import restrictions, imposed on innumerable items of import, gradually into restrictions on broad groups of commodities. In this manner, the system can be made more flexible and can be dispensed with in time, or reduced to the minimum level. Moreover, the system can be improved from the point of view of price mechanism. The auctioning of import licenses can be done on the basis of quantity quota or a value quota of the imported commodities. It is the quantitative quotas which are popular with the backward countries. First, auctioning may be introduced for these quantitative quotas and then the quantity quotas may be turned into value quotas.

The exchange control system has a tendency to perpetuate import restrictions, but under the system of import license auctioning the gradual liberalization of foreign trade may be achieved without disturbing the process of economic development.

## VI.

What part can the exchange rate variation play in the foreign trade of a developing economy? The

question has short run as well as long run implications. We have assumed a fixed rate of exchange throughout our analysis. The fixed parity, however, may be changed as an emergency measure; it may also be changed to bring about currency adjustment in the light of the secular movements taking place in the world economy. This may be called a policy of 'adjustible peg.' The downward adjustment of exchange rate (depreciation) may make exports cheap and imports dear and, vice versa, the upward adjustment ( appreciation) may make exports dear and imports cheap. Thus changes in prices of goods followed by changes in the exchange rate may cause an increase or a decrease in demand for exports and imports. The final outcome of these changes will depend on price elasticities. Four elasticities are involved in the process of adjustment:<sup>7</sup> the elasticity of domestic supply (net of domestic demand) and elasticity of foreign demand (net of foreign supply) of exports; elasticity of domestic demand (net of domestic supply) and elasticity of foreign supply (net of foreign demand for imports). Also, the substitutes available in the domestic or foreign markets and the quality of goods involved may be taken into consideration for a proper evaluation of the exchange rate adjustment.

---

7. D.B. Marsh, op. cit., Chapter 15, p. 203.

Under conditions of full employment, it may not be possible for a country to increase the domestic supply of her export goods with the help of depreciation. The prices of goods in terms of domestic currency may increase and it may become necessary for the country to keep them low by adopting the financial policy for internal balance. It may be to the advantage of such a country to use import restrictions instead of depreciation<sup>8</sup> in order to improve her balance of trade. If, however, there is unemployment in the country, exchange depreciation may accelerate domestic production and thus improve the balance of trade subject, first, to the foreign elasticity of demand,<sup>9</sup> and second, to the net income-induced effects of increased exports on domestic demand. The final result will depend on the effect of depreciation on the national income of the importing countries and the consequent repercussions on the national income of the depreciating country.

If, for example, the importing countries adopt neutral financial policies, the improvement in the balance of trade of the depreciating country may be less than if they had decided to adopt inflationary financial policies.

---

8. S.S. Alexander, Devaluation versus Import Restrictions as an Instrument for Improving Foreign Trade Balance, International Monetary Fund, Staff Papers, Vol. 1, 1950-51, pp. 379-396.

9. S.E. Harris, Exchange Depreciation, Cambridge, Mass., 1936.

There are, therefore, many factors involved in currency depreciation which determine its net effects on the depreciating country's balance of trade. If import restrictions and import regulations remain constant, then with the sum of elasticities of foreign demand for exports and domestic demand for imports as greater than unity, the currency depreciation should improve the balance of trade of the depreciating country. But in the real world, not only the problem of elasticities becomes complicated, the existence of currency blocs and vast differences in size and growth of countries add to the hazards of exchange depreciation.

In order to apply the theory of exchange depreciation to Pakistan, it is necessary to modify some of its assumptions. Jute and cotton are the major exports of Pakistan. The situation regarding jute production, as explained in Chapter III, calls for remedies fundamentally different from exchange depreciation. The same is the case with cotton: if the world production of cotton was less than the international demand, perhaps a country such as Pakistan, with a small share in the world trade of cotton, could have been able to increase the price of the commodity and derive greater revenue from its export. Under the present circumstances, the currency depreciation will reduce, instead of increasing, the

foreign exchange earnings of the country and will also turn the terms of trade against her.

The other aim of exchange depreciation - making imports more expensive in terms of domestic currency - has also serious limitations for Pakistan. As the imports are already severely restricted by the country and as the imported goods already possess a high scarcity-value the net result of depreciation (given the rate of fall in the external value of the currency) on non-developmental imports will depend on two factors: (1) how much reduction the importer (or the auctioning authority!) is ready to bear in his margin of profits; (2) to what extent is the consumer ready to bear a further increase in the price of imported goods as a result of the depreciation. With a mild depreciation the importer may be willing to sell the same quantities of his imported goods as before, at the former price. If, however, the depreciation is large, the imports will be reduced as the importer will try to shift the burden of higher cost to the consumer, and the consumer will reduce his consumption unless his demand for the good is inelastic. In that case, even if depreciation fails to accelerate exports, it will certainly increase the inflationary pressure in the economy. Also, it will affect the

industrial activity by increasing the prices of the imported raw materials, fuels, and capital goods.

The situation seems to be worse when we take into consideration the effects of depreciation on the developmental imports. After depreciation, the developmental imports will become more expensive, and in view of the limited foreign exchange budget available for them, either more foreign exchange will have to be made available to the developmental imports at the cost of non-developmental imports, or the developmental imports too will have to be reduced. In either case the effect on the process of economic development will be unfavorable.

It seems that depreciation is not a satisfactory device to solve the foreign trade problems of a country such as Pakistan. The main purpose of this device is to improve the balance of payments situation through price-effects. And price-effects do not operate effectively in the foreign trade of a developing economy.

What is, then, the scope for currency appreciation? Currency appreciation may not result in increased imports; the prices of imported goods for the domestic consumer may remain unchanged and the profit margin for the importer may increase. This is quite possible when a large scale mach-

inery of import restrictions exists in a country, as it does in Pakistan. Also, as a result of currency appreciation it will be difficult for a developing economy to sell her exports in a highly competitive world market. Thus a case against depreciation does not establish a case in favor of the appreciation of currency.<sup>10</sup> Each will stand or fall on its own merits.

Perhaps there is no single point where the rate of exchange of a developing economy may be said to be in equilibrium. Possibly, it is a series of points. The rate of exchange may be fixed at any one of these points after taking account of the relevant external and internal factors, and may be kept there until the extraordinary circumstances compel the country to appreciate or depreciate her currency. The best guide for a developing economy seems to be the existing pattern of her foreign trade, and the best policy seems to be the maintenance of the old-established parity with other countries, particularly the advanced countries. For an illustration of this point, we may discuss the non-devaluation decision of Pakistan, following the devaluation of the sterling pound in September 1949.

---

10. Cf. R.F. Kahn: The Dollar Shortage and Devaluation, *Economia Internazionale*, Vol. 3, 1950, pp. 89-113.

VII.

The following reasons were given by the Government of Pakistan in support of its non-devaluation decision:

(1) Pakistan's balance of trade with the dollar area was favorable; (2) The price elasticity of foreign demand for her products was low; (3) The non-devaluation would increase export earnings and lower the cost of imports<sup>11</sup> to the country.

The statistical information on Pakistan's balance of payments for the period 1949-50, released by the Government of Pakistan in 1951, does not indicate any

Table XXX

Pakistan's Balance of Trade  
1949-50

	(Million Rs.)	
	July-December 1949.	January-June 1950.
Dollar area:		
Exports.	20.8	56.1
Imports.	63.7	91.4
Sterling area:		
Exports.	128.9	185.0
Imports.	307.4	301.6

Source: Pakistan's Balance of Payments, Government of Pakistan, Karachi, 1951.

---

11. Foreign Trade of Pakistan, Government of Pakistan, Karachi, 1949, pp. 50-51.



favorable balance of trade of Pakistan with the dollar or the sterling area. As Table XXX shows, neither during the period July-December 1949 (which includes the date of non-devaluation), nor in the following six months, was there any improvement in Pakistan's balance of trade with the dollar or the sterling area. After June 1950, the Korean War suddenly boosted the world demand for her exports and her position improved.

With regard to the elasticity of foreign demand, it is necessary to take into consideration the position<sup>12</sup> of Pakistan's competitors in the world market. The important factor is her membership of the sterling area. When the rest of the sterling area countries devalued their currencies in terms of the U.S. dollar, their products became cheaper in terms of the U.S. dollar, as compared to Pakistan's products.<sup>13</sup> Also, within the sterling area, Pakistan's non-devalued rate of exchange became, in effect, an 'over-valued' rate, as all other member countries devalued their currencies to maintain their previous parities with the sterling pound. Under the circumstances, it would have been difficult for Pakistan to sell her products either in the sterling area or the dollar area markets if the Korean War had

---

12. See also Chapter III.

13. Particularly when the prices of cotton, wool, tea, and to some extent, jute are determined in the international market.

not intervened. In the short period between the non-devaluation decision and the Korean War, the prices of most of the export products of Pakistan remained dull at a lower level, according to the quotations available for Karachi and Dacca.<sup>14</sup> This meant a loss to the dealers in terms of the domestic currency, and a loss to the government in terms of foreign exchange.

How did the non-devaluation affect Pakistan's imports? The prices of most of the imported goods either remained stable or increased and did not show any sign of reduction.<sup>15</sup> The importers in the country explained this situation by saying that the foreign exporters had raised their quoted prices for Pakistan. This might or might not have been true. At the time, the daily press almost unanimously blamed the importers for profiteering and for not letting the consumer enjoy the benefits of the non-devaluation.

It seems that Pakistan should have devalued her currency in September 1949 in order to maintain the old parity of her rupee with the sterling pound. From this point of view, the recent revaluation of the rupee (July 1955) was only a move to restore the status quo ante.

---

14. Economic Appraisal Committee Report, op. cit., particularly Appendix 10.

15. Ibid.

We may now summarize our argument of this section: It is desirable for a country such as Pakistan to maintain, as far as possible, the parity between her currency and the currencies of important countries, e.g., the United Kingdom. It is difficult to determine an equilibrium rate of exchange for Pakistan. Perhaps it is indeterminate within a fairly wide range in which the functions of the rate of exchange as a connecting link between foreign and domestic price levels is uncertain. This does not mean that the exchange rate variation is of no consequence for the country. Along with other measures, it is a useful device for providing some relief to the country from extraordinary inflationary pressures. Such pressures are never a remote possibility for a developing economy.

## CHAPTER VI

### TERMS OF TRADE

#### I.

In Chapters III and IV we discussed various aspects of the problem of foreign exchange earnings and of import capacity. This problem can be described in terms of the earning power of exports in relation to the expenditure on import requirements. The prices of exports and imports have a direct bearing on this relationship. We propose to examine them from the point of view of commercial policy for economic development.

The terms of trade are an elusive concept, and perhaps more elusive is their role in international trade and national income. In other words, it is very difficult to estimate the real gains or losses that may accrue to a country with favorable or unfavorable terms of trade. However, their importance cannot be denied; in recent times, the movements in them have been given considerable attention with regard to the exposition of the process of economic development of backward countries.<sup>1</sup>

The concept is used in various meanings. There

- 
1. See, for example, *Instability in Export Markets of Underdeveloped Countries*, United Nations, 1952; *Commodity Trade and Economic Development*, United Nations, 1954; *Measures of Economic Stability*, United Nations, 1951. See also the Bibliography attached to this study.

are four well known varieties of terms of trade: (1) Commodity terms of trade, (2) Single factorial terms of trade, (3) Double factorial terms of trade, and (4) Income terms<sup>2</sup> of trade.

The commodity terms of trade are the ratio of export prices to import prices. A fall in this ratio from the base year signifies deterioration in commodity terms of trade, and a rise indicates an improvement in them. If we assume that production, costs, tastes, composition of exports and imports remain constant, then an increase in the index of terms of trade may reflect a net gain to national income. These are, however, heroic assumptions, particularly if the period of time taken into consideration is long.

It is possible that the commodity terms of trade of a country may improve due to scarcity of an export product caused by floods or fire. This cannot be regarded as a real improvement for the economy. Similarly, price indices may not indicate changes in productivity which is the sine qua non for determining the real gain.

The concepts of single and double factorial terms

---

2. See Jacob Viner, *Studies in the Theory of International Trade*, New York, 1937; W.W. Rostow, *The Process of Economic Growth*, op. cit.; G.S. Dorrance, *The Income Terms of Trade*, *Review of Economic Studies*, 1948-49.

of trade seek to correct some of the above defects of the commodity terms of trade. In single factoral terms of trade the commodity terms of trade are corrected for changes in the productivity of export goods; and in double factoral terms of trade the commodity terms of trade are corrected for changes in the productivity both of exports and imports. Robertson calls the double factoral<sup>3</sup> the 'true' terms of trade. The double factoral or the true terms of trade are preferable to the single factoral terms of trade. They are the most relevant indicator of real gain to a country. If productivity of A's export industries increases at a faster rate than the productivity of B's export industries, then the commodity terms of trade of A will deteriorate but her factoral terms of trade will improve.

Income terms of trade are so called because they indicate the behavior of the volume of exports in relation to the volume of imports over a period of time. They are derived from the multiplication of net barter terms of trade by volume index of exports, or what amounts to the same thing, the value index of exports divided by the price level of imports. This concept is also called

---

3. D.H. Robertson, Terms of Trade in Utility and All That, London, 1952, Chapter 13, pp. 174-181.

the 'import capacity.'<sup>4</sup> The income terms of trade, like other variations of the concept, have their limitations. They are just as incomplete a measure of changes in real income as commodity terms of trade. For example, 'if the export price level remains unchanged while the quantity of exports increases and the price of imports also increases proportionately, the index will not change,' and yet these are precisely the conditions under which the country would be worse off.<sup>5</sup> On the other hand, it is possible that the capacity to import may increase while there are losses, instead of gains, from the change in the terms of trade. This may happen when the percentage increase in the quantity of exports is more than the percentage decrease in the export prices, import prices remaining unchanged or decreasing less than export prices.<sup>6</sup> It is difficult, therefore, to determine conclusively the results of movements in income terms of trade unless all the relevant information on the value and the volume of exports and imports is kept constantly in view.

- 
4. See Chapter IV. See also Gains from Trade in the ECAFE Countries - July 1950 to June 1953, Economic Bulletin for Asia and the Far East, Vol. V, No. 1, United Nations, op. cit.
  5. R.E. Baldwin, Secular Movements in the Terms of Trade, American Economic Review, Papers and Proceedings, 1955, p. 265.
  6. Economic Bulletin for Asia and the Far East, Vol. VIII, No. 1, United Nations, op. cit., p. 19.

Table XXXI  
Pakistan's Terms of Trade

Year.	Unit Value of Imports				Unit Value of Exports					Terms of Trade.
	Total	Food, Drinks & Tobacco.	Raw Material	Manufac- tured products.	Total	Jute	Cotton	Wool	Tea	
1949	90.1	91.0	91.6	90.1	95.8	91.8	106.9	103.3	101.2	106.2
1950	75.0	85.9	77.0	71.8	88.6	78.7	115.1	124.7	107.8	118.0
1951	95.8	110.7	78.5	91.1	119.4	99.4	175.6	204.6	85.7	124.5
1952	83.9	99.8	88.5	79.8	87.6	72.5	130.8	104.6	84.6	103.4
1953	82.5	94.0	76.7	80.6	61.5	60.1	84.3	158.3	84.4	79.9
1954	82.2	116.9	73.6	74.0	65.9	52.2	92.1	154.9	113.1	81.5
1955	98.3	150.0	79.9	89.2	75.2	60.2	92.1	137.3	166.8	75.4

Source: Central Statistical Office, op. cit.

Note: Base = April 1948 to March 1949 = 100.



## II.

Pakistan's commodity terms of trade are given in Table XXXI. These terms of trade were most favorable to the country in 1951; they fell considerably during 1952 and became greatly unfavorable during 1953, and continued in the downward trend for the rest of the period under consideration. The breakdown of data in the Table confirms our previous statements regarding the violent fluctuations in the value of jute, cotton, wool, tea, hides and skins. The unit values of imports indicate that both raw materials and manufactured goods remained stable as compared to food, drinks and tobacco. The total import unit values moved within the range of 75.0 to 98.3 during 1950-55. The total export unit values moved between 61.5 and 119.6 during the same period. It is clear, therefore, that since the end of the Korean boom the terms of trade of Pakistan continued to be unfavorable to the country. The main explanation of this phenomenon seems to lie in the behavior of export prices.

Before we discuss the price changes in exports and their causes, we shall examine the income terms of trade of Pakistan, i.e., the country's capacity to import. Table XXXII gives data on Pakistan's capacity to import in terms of the

U.S. dollar, at 1949 prices. The Table shows that there was an increase in import capacity of the country during 1950; during the rest of the period, there was a continuous decline. This trend in the import capacity of Pakistan is very much unlike the trends of most developing economies of Asia. For example, Ceylon, Burma, India, Malaya and Philippines indicated short term fluctuations in their import capacity, but no continuous decline. <sup>7</sup>

Table XXXII

Pakistan's Import Capacity

		Million U.S.\$ 1949 prices
1949	351	
Increase in capacity over 1949		
1950	410	
1951	270	
1952	143	
1953	50	
1954	44	
1955	70	

Source: Economic Bulletin for Asia and the Far East,  
Vol. VIII, No.1.

Like most other backward countries, Pakistan's terms of trade are determined by price changes in a small number of export items which dominate her foreign trade.

---

7. Economic Bulletin for Asia and the Far East, op.cit.

The price changes in imports are distributed over a fairly wide range of products, and usually the upward movement of prices in one category of imports is counter-balanced by a downward movement of prices in another, and consequently the import index number remains stable.

Changes in export values are of two kinds: cyclical and structural. The former may be the direct result of short term movements in supply and demand. The structural movements, on the other hand, may be due to long run changes in demand, productivity, technical knowledge, and in the co-efficients of production.

If the exports consist of raw materials and primary products, their supply in the short period will be limited. Any fluctuations in their demand will have greater effect on their prices than on the prices of manufactured goods whose supply is relatively more flexible and therefore, more easily adjustable. This phenomenon may also partly explain the long term movements in terms of trade of backward countries.

Historically the trends of terms of trade have been against those countries which specialize in the production of raw materials and primary products. From the point of

view of precision, there may be flaws in the data which are usually presented to support this argument, 'but the general story which they tell is unmistakable.'<sup>8</sup> The cyclical fluctuations pushed the prices of primary goods to the bottom every time and, in this manner, deprived them of any gains which they had otherwise achieved. The production of manufactured goods, on the other hand, stopped much before their prices tended to reach the bottom.<sup>9</sup>

Other factors responsible for the long run deterioration in the terms of trade of backward countries are no less important. The most important seems to be the lack of diversification of the economy. It appears in the form of the overwhelming predominance of agriculture: the lack of industrial atmosphere in the developing economies leads them to a situation where the productivity of their agriculture remains either static or tends to deteriorate at a rapid speed. Under these circumstances, the supply responses to the market phenomena remain weak. Thus the static nature of the economies of the backward

---

8. H.W. Singer, op. cit. p. 477.

9. Raul Prebisch: The Economic Development of Latin America and its Principal Problems, United Nations, op. cit., 1949. The perverse behavior of the income elasticities of the importing countries, i.e., the greater than unit elasticity during depression and lower than unit elasticity during boom conditions, may also be taken into consideration with regard to this point. See Chapter III.

countries engaged in agriculture has continuously limited their capacity to shift resources from one kind of production to another. Inflexibility of domestic resources may be an advantage during the upward pressure of foreign demand, but it is a serious defect if the long run trends of the world market are unfavorable, as they have been for backward agricultural countries. If an economy is not capable of adjusting itself to the long run trends of the world economy, it will be faced with unfavorable prices for its exports and hence unfavorable terms of trade. For adjustments to short term fluctuations, there is a need for greater flexibility, vigilance and foresight.

### III.

We may now examine the remedies of the secular decline in the terms of trade. Usually the terms of trade are discussed with reference to a two-country model. J.S.Mill's formulation of the equation of international demand gives the impression that the terms of trade are solely influenced by one factor; the interaction of demand of two countries for each other's goods. The assumption of constant costs further simplified the matter for Mill and his followers. The formulation of Mill's theory in terms of Marshallian reciprocal demand curves improved the analysis but did not change the basic weakness of its

assumptions. The Marshallian approach helped to establish the fact that, given certain demand conditions between two countries, the imposition of a tariff by one of them will improve her terms of trade.<sup>10</sup> The actual circumstances of the world do not seem to conform to the rigorous assumptions of this kind of analysis of the terms of trade. In the first place, it is necessary to keep in mind the associated effects of a third or a fourth country in a two-country model. The outcome of such associated effects on the terms of trade of a country might appear in the form of an indeterminate situation.<sup>11</sup> Secondly, when a large number of commodities enter into export and import trade, the index of their unit value is affected by too many diverse factors. It is a bit unreal to lump all these factors into a 'two-commodity' analysis.

The terms of trade, like other economic values, are determined by the interaction of supply and demand.

- 
10. See, for example, Tibor De Scitovsky, A Reconsideration of the Theory of Tariffs, Review of Economic Studies, Vol. 9, 1942, pp. 89-110. Reprinted in the Readings in the Theory of International Trade, American Economic Association, 1949.
  11. For further discussion see F.D.Graham, Theory of International Values, Princeton, 1948; G.A.Elliott, Theory of International Values, Journal of Political Economy, Vol. 58, 1950, pp. 16-29; G.S. Becker, A Note on Multi-Country Trade, American Economic Review, Vol. 42, 1952, pp. 558-68.

In the short period, the demand may be a more important factor in relation to supply, but in the long run the supply determines the terms of trade. In other words, the terms of trade are determined by the shiftability of the resources of supply, given the change in demand. Translating this idea in terms of the above analysis, we may say that the terms of trade are determined by the extent to which the two countries are capable of adjusting their supply situation in relation to changes in their reciprocal demand. Obviously, a backward agricultural country has a less flexible supply than an advanced industrial country. This may be regarded as a reasonable explanation of the secular trends and of the cyclical fluctuations of primary products as against the manufactured goods. This means that the terms of trade are not a matter of primary products versus manufactured products, but of primary producing countries versus manufacturing countries.<sup>12</sup> If the primary producing countries could improve their overall supply situation by diversifying their economies, even the primary products would command better prices, unless of course they were under the shadow of a secular decline in demand.

---

12. C.P. Kindleberger: Terms of Trade - A European Study, New York, 1956, Chapters 9, 10, and 11.

Looking at the problem from this angle, we may say that the terms of trade belong to the field of domestic economic policy rather than commercial policy. Commercial policy may provide a temporary gain to a country suffering from unfavorable terms of trade, that too only if there is no retaliation from other countries. All countries cannot improve their terms of trade simultaneously, to the same extent. If a country's terms of trade are unfavorable, the proper remedy may lie in the improvement of her domestic economy, both by means of short term and long term measures.

One of the main causes of deterioration in the terms of trade of a backward country may be the pressure of demand for developmental imports. Such a deterioration in terms of trade may be regarded as a consequence of the dynamic repercussions of the international sector on the domestic economy, and the long run effect may be a<sup>13</sup> noticeable increase in national income.

The main purpose of the terms of trade is to show a net gain or loss to national income from foreign trade. The favorable or unfavorable terms of trade will affect the standard of living of the people if all other

---

13. Baldwin, op. cit.



contributing sources remain unchanged. However, if the domestic economy is dynamic, there will be no secular decline in the terms of trade, and it will be then easier for the country to remedy the short term fluctuations in her foreign trade as well.

#### IV.

We may now come back to Pakistan's terms of trade. Her terms of trade have been unfavorable, particularly since 1953, owing to a decline in the export value of her goods. Before 1953 the country was able to derive huge benefits from favorable terms of trade as a result of the Korean War boom. Most of the export duties at that time imposed on cotton and jute were<sup>14</sup> considerably transferred to the foreign importers.

The data given in Table XVI indicate that, in the short period, the changes in Pakistan's terms of trade affect her capacity to import more than her national<sup>15</sup> income. It seems that during the process of economic development, there should be no emphasis on favorable terms of trade in Pakistan's commercial policy; the main emphasis should be on increasing the import capacity by increasing the export earnings. In Chapter III, we have already discussed the possible methods that Pakistan can adopt to increase her export earnings.

---

14. See Economic Survey of Asia and the Far East, 1951, op.cit.

15. See Chapter II, p. 53-54.

CHAPTER VII<sup>1</sup>

TRADE AGREEMENTS

I.

The trade agreements play a predominant part in Pakistan's commercial policy. It is, however, difficult to examine their effects on her foreign trade owing to the paucity of statistical information. We shall make an attempt to formulate a general trend on the basis of the available data, and then draw some tentative conclusions. For this purpose, we shall first give a brief history of Pakistan's trade agreements along with the necessary explanation of the trade procedures involved in them, and then analyse their place in the commercial policy for economic development. The way seems to be difficult, but perhaps well worth trying.

Pakistan and India started their independent lives in August 1947 with a standstill agreement which, in matters of trade, meant the maintenance of the status quo ante.

- 
1. The main sources used in the preparation of this chapter are The Pakistan Trade, op. cit., Board of Trade Journal of Her Majesty's Stationary Office, London, The Economist, London; also, considerable information was obtained from the publications of the Economic Commission for Asia and the Far East, and General Agreements on Tariffs and Trade.

According to the agreement, no customs duties or any other kind of prohibitions were imposed on the movement of goods and services between the two countries. The pattern of domestic trade that existed before the partition of the subcontinent continued after the partition until the agreement expired in February 1948.

It is said that at the time of the partition a close cooperation in matters of trade between India and Pakistan was taken for granted.<sup>2</sup> The well known fact, however, is that after the partition the political atmosphere was very unfavorable for such a cooperation between the two countries. Pakistan, certainly was in no mood to continue the existing pattern of trade with India, as both in the official and the business circles large scale plans for the industrialization of the country were brewing. It seems that India was anxious for some sort of customs agreement with Pakistan; in March 1949, it was revealed by the then commerce minister of India that the question of customs union had been raised by the Indian delegation at a meeting held between the two countries in April 1948.<sup>3</sup> The question was raised again at the Inter-Dominion Conference held in December 1948. According to the Minister of Commerce, it was

---

2. Colin Clark, op. cit.

3. The Commerce (Bombay), March 26, 1949, p. 568.

agreed that both countries should examine separately the feasibility of a customs union between them. Since then, nothing has been heard of the proposal in either of the two countries.

With the termination of the Indo-Pakistan standstill Agreement, Pakistan was free to decide her new trade policy. Three trade agreements were signed during 1948<sup>5,6</sup> with Japan, India, and Czechoslovakia respectively.

The trade agreement with India was signed in May 1948, and was made effective for one year from July 1948. Under this agreement, India agreed to supply the specified quantities of various goods including coal, cloth and yarn, steel, pig iron and scrap, paper and board, jute manufacture, chemicals and pharmaceuticals, asbestos and cement sheets. Pakistan, on the other hand, was to supply raw jute, raw cotton, food grains, raw hides and skins, rock salt and potassium nitrate. The commodity composition of the agreement reflected the mutual needs of the two countries as the sources of supply were now separated by the partition of the subcontinent.

---

5. The trade agreement with Japan was never ratified by the two countries.

6. Pakistan - 1955-1956, op. cit.

A payments agreement, for one year, was also concluded between India and Pakistan with effect from July 1948. Its main features were as follows: (1) There would be no exchange control between the two countries; (2) The central bank of each country would hold the currency of the other up to Rs. 15 crores as against its own currency; (3) When payments from one country to the other would exceed the limit of Rs. 15 crores, the settlement would be made in the sterling pound up to Rs. 10 crores; (4) The deficits exceeding Rs. 10 crores between the two countries would be settled in blocked sterling. This payments agreement was signed mainly with the intention of ensuring that payments difficulties should not hamper trade between the two countries.

The Indo-Pakistan trade agreement did not show signs of success from the very beginning. Pakistan's food supplies were damaged by floods and she could not fulfil her commitments to India. The Indian jute mills were slow in buying Pakistani raw jute and their total purchases were far below the agreed quota. The stocks of raw jute, therefore, were rising in Pakistan and were depressing the jute market. The Indian supply of coal to Pakistan was also far below the original commitment. The situation was worse with regard to other commodities. The agreement

was renewed and revised in October and December 1948.

The trade agreement signed with Czechoslovakia in September 1948, for one year, provided for the exchange of goods on the basis of agreed quantities. Pakistan agreed to export raw cotton, raw jute, hides and skins, as against import of 74 items from Czechoslovakia which included cotton textile, sugar, chemicals, shoes, woollen yarn, woollen fabrics, motorcycles, cycles and parts.

In 1949, trade agreements were signed with Egypt, India, Japan, Poland and France, respectively. The agreement with Egypt was a mutual declaration by the two countries regarding their desire to expand their foreign trade to each other. The agreement provided for the most-favored-nation treatment between the two countries.

The trade agreement with India (July 1949) was the second agreement that Pakistan signed with that country. The first agreement failed to fulfil its objectives and had, by the time the negotiations for the second agreement began, resulted in a huge surplus of Rs. 50 crores in favor of Pakistan. The main hurdle in the way of real improvement in the relations between the two countries was the lack of goodwill between them. It was thought that the second agreement would remove that hurdle; it was hailed by the optimists in both countries as the beginning of a new era in the

Indo-Pakistan relations. However, this trade agreement too was destined to be a failure, though in a different manner. The devaluation of the sterling pound followed by Pakistan's non-devaluation of the rupee gave a severe blow to all hopes for the settlement of trade issues between the two countries. India refused to accept the new rate of exchange of Pakistan's currency, and all trade and payments between them stopped. The second trade agreement, however, provided for the exchange of goods between the two countries as follows: India was to export 23 items to Pakistan which included coal, cloth, cotton yarn, jute manufacture, railway stores materials, sea salt, tobacco, and chemicals; Pakistan was to export to India raw jute, raw cotton, hides and skins, mustard seed, and rock salt.

As mentioned earlier, there was a surplus of Rs. 50 crores for Pakistan as a result of the exchange of goods provided in the first trade agreement. At the suggestion of Pakistan, the Indo-Pakistan payments agreement was revised to provide for larger margins for the settlement of the rupee account between the two countries, in terms of the sterling pound.

The Japan-Pakistan trade agreement, for one year, was signed in July 1949. It provided for the export of raw

cotton, raw jute, wool, hides, and animal by-products from Pakistan to Japan, and the export of cotton piece-goods, cotton yarn, textile machinery, hydro-electric appliances and equipment from Japan to Pakistan. It is very difficult to examine the actual results of this agreement as the relevant data are not available. It seems, however, that Pakistan's supply of raw cotton was almost equal to the agreed quantities; but the supply of raw jute was far below, and of raw wool far above, the agreed quantities.<sup>7</sup>

The agreement with Poland was also signed in July 1949. It provided for the export of raw cotton, raw jute, wool and cow hides from Pakistan to Poland; and various items including coal, iron and steel products, cotton and wool textiles, chemicals and textile machinery from Poland to Pakistan. The actual exports of Pakistan, as compared to the agreed quantities, were higher for jute and lower for cotton.<sup>8</sup> Imports from Poland were below the agreed quantities.<sup>9</sup>

The France-Pakistan Trade Agreement was signed in

---

7. Foreign Trade of Pakistan, op.cit.,p.45.

8. Ibid. Foreign Trade of Pakistan, op.cit.

9. Economic Appraisal Committee Report, op.cit., Appendix 7.



November, 1949; it provided for a bilateral exchange of 10 items of Pakistan for 92 items of France. Pakistan's exports consisted of raw jute, raw cotton, raw hides, cotton seed cakes, wool, breeding bulls, tea, hand-made sports goods, horses, and cotton seeds. Exports from France included machinery, consumer goods, pharmaceuticals, and patent medicines. The actual trade ended with a surplus for Pakistan as a result of lower volume of trade between the two countries.<sup>10</sup>

In 1950, Pakistan concluded trade agreements with ten countries: Germany, Czechoslovakia, India, Poland, Italy, Switzerland, Japan, Austria, Hungary and France, respectively. The agreement with Germany was signed in January 1950 and was valid till September 1950. It included a provision for the most-favored-nation treatment. The specified commodities in the agreement were as follows: raw cotton, raw jute, animal by-products, crude drugs, food and agricultural products, and chromium ore from Pakistan; and chemicals, finished metal products, iron and steel products, textile and paper mill machinery, optics and fine mechanics, electrical goods, etc. from Germany to Pakistan. The value of Pakistan's exports was U.S.\$42 million as against U.S.\$41

---

10. Foreign Trade of Pakistan, op.cit.

million of Germany's exports. No detailed account of the actual working of the agreement is available, but it seems that the actual volume (and value) of trade was much below the stipulated quantities in the agreement.

The agreement with Czechoslovakia was the second trade agreement of Pakistan with that country. It was broadly similar to the first agreement which ended with a trade surplus in favor of Pakistan. The second agreement provided for increased imports from Czechoslovakia to Pakistan.<sup>11</sup> The values and the quantities of goods to be exchanged were agreed upon in the agreement, with 5 items from Pakistan against 117 items from Czechoslovakia. This agreement, too ended with a surplus in favor of Pakistan.

The trade agreement with India was signed in February 1950 and ratified in April 1950. It was Pakistan's third trade agreement with India and perhaps more important than the other two, in being a first step towards breaking the trade and payments deadlock existing between them, following the non-devaluation of the Pakistan rupee in September 1949. The agreement was valid for four months only and provided for the supply of raw jute from Pakistan against payment in the Indian currency. With these Indian

---

11. See Article I (b) of the Agreement, Pakistan Trade, op.cit., April 1950.

rupees Pakistan agreed to purchase a number of commodities from India. This procedure of payment was adopted to avoid the exchange rate controversy which was still very much alive between them.

Pakistan's trade agreement with Poland was a renewal and an extension of the previous agreement between the two countries. However, the new agreement, contained the provision that contracts made during the period of the agreement for the purchase of machinery and other capital goods would not be rendered void until six months after the expiry of the agreement. The actual trade that took place under the agreement was below the agreed quantities with Pakistan's exports exceeding her imports.

In July 1950, an agreement was signed with Italy which was valid until June 1951. According to this agreement, exports from Pakistan were to consist of 18 items against 124 items from Italy. Pakistan was to supply goods such as raw cotton, raw jute, raw wool, chrome ore, sports goods, and handicraft articles; Italy was to supply various goods including textiles, iron and steel manufacture and stationary. It was provided in the agreement that 'if either party considers that the flow of goods is taking place in a manner which would seriously affect the balance

of trade between the two countries.....

.....consultations will proceed on the following lines:

- a) to leave the adverse balance unadjusted with a view to correcting it during the following year;
- b) to increase immediately exports from the country that has run into an adverse balance of trade, and
- c) to curtail immediately exports from the country with a favorable balance of trade.<sup>12</sup>

It was further provided that 'any one or more of the above mentioned measures may be adopted to meet the situation after due consultation.'<sup>13</sup>

The trade agreement with Switzerland was signed in September 1950. It was agreed that Pakistan would supply raw cotton, raw jute, wheat, rice, hides and skins, sports goods, tea, carpets and rugs, guts, dried fruit, resin, turpentine, and handicrafts; Switzerland was to supply cheese, condensed milk, chemicals and drugs, electrical instruments, optical instruments, watches, small and millwork

---

12. Pakistan Trade, op.cit., October 1950, p.20.

13. Ibid.

machinery, cotton and rayon piece goods, etc. The agreement required that the two contracting parties consult each other in the event of a serious dislocation in the balance of trade. It also provided for extra imports of cotton and rayon piece goods by Pakistan if the balance of trade did not deviate from the estimated quantities of goods given in the agreement. The actual trade was below the agreed value of goods and resulted in a heavy deficit in Pakistan's balance of trade with Switzerland.<sup>14</sup>

The agreement with Japan was signed in October 1950. This was the third Japan-Pakistan trade agreement. It provided for a balanced trade between the two countries based on the exchange of goods valued at 34.8 million from each side. According to Article IV of the agreement, Japan agreed 'to make available technical assistance, qualified technicians, tools, machinery and other products required for Pakistan's industrialization.'<sup>15</sup> The trade agreements with Austria and Hungary, concluded in October, and with France in November 1950, provided for a bilateral exchange of goods between Pakistan and each of these signatory countries. The actual trade resulted in a favorable balance to Pakistan with Austria and France, and an

---

14. Economic Appraisal Committee Report, op.cit. Appendix 7.

15. Pakistan Trade, op.cit., February 1951, p.16.

unfavorable balance with Hungary.

The year 1951 saw some important developments for Pakistan in the area of her trade agreements. The previous agreements with Czechoslovakia, France, Germany, Hungary, Italy, and Japan were extended for another year in each case. New trade agreements were concluded with Spain, Iraq, Norway and Ceylon, apart from two important agreements concluded with India and the U.K.

The Pakistan-Spain trade agreement was made effective from January 1951, for one year. The agreement contained provisions for the processing of raw jute in Spain on behalf of Pakistan. The raw jute to be exported from Pakistan for this purpose was in addition to the quantities of jute otherwise specified in the agreement. This step was perhaps taken to fill up the needs of jute manufactures, imports of which had stopped due to the Indo-Pakistan trade impasse referred to above.

The fourth Indo-Pakistan trade agreement, concluded in February 1951, brought to an end the 18 month old battle between the two rupees. It was hailed in India as a 'welcome improvement in the economic relations between the two countries,' and in Pakistan as a 'vindication of

Pakistan's non-devaluation decision of September 1949."<sup>16</sup> The agreement was made possible by the declaration of the Government of India that, "they were prepared to have exchange transactions conducted on the basis of the existing par value of Pakistan currency."<sup>17</sup> But the agreement on the new exchange rate brought with it the extension of exchange control on all payments between the two countries. The settlement of their dispute, however, gave them a chance to establish, once again, the normal trade relations between them.

The Pakistan-U.K. trade agreement signed on April 2, 1951 replaced the twelve year old Indo-U.K. trade agreement of 1939. The 1939 agreement was signed by the then Government of India and the U.K. to adjust and revise some of the provisions of the Ottawa Pact of 1932, popularly known as the Imperial Preference. When Pakistan inherited the agreement of 1939 there was a feeling in the country that it was in need of modifications to suit her requirements. The then commerce minister, in his speech delivered in the Pakistan Constituent Assembly, in April 1951, put the matter as follows:

"The fact that some of the concessions

---

16. Pakistan Trade, op.cit., March 1951, p.13.

17. Ibid.

granted by the United Kingdom to the Indo-Pakistan subcontinent ceased to be of any consequence to Pakistan while the concession received by the United Kingdom in return remained intact, was sufficient to realize that the 1939-Agreement had lost its balance to our disadvantage."<sup>18</sup>

The main factor which forced Pakistan to seek revision of the pact was the development of her textile industry. "Both from the point of view of the volume of trade and loss of revenue, cotton textile constituted the most important item in the Agreement."<sup>19</sup> In the new agreement, preference was abolished on more than 30 items, including cotton piece-goods. Since this agreement, most of the tariff concessions have been negotiated by Pakistan through the G.A.T.T.

In 1952, Pakistan concluded trade agreements with Austria, Italy, Germany, Czechoslovakia, France, India and the U.S.S.R. The previous trade agreement with Spain was extended for another year. The agreement with Austria provided for Pakistan's exports to Austria consisting of raw materials, and of Austrian exports to Pakistan consisting of metals, manufacturing, electrical appliances,

---

18. Pakistan Trade, May 1951, p. 3.

19. Ibid.



machinery and scientific instruments. Pakistan-Italy trade agreement was broadly similar to the previous trade agreement between the two countries, as mentioned above. The Pakistan-France agreement was also based on the previous agreement signed by the two countries. The agreement with Germany provided for the exchange of raw materials from Pakistan with iron, steel, and machinery from Germany. The agreement with Czechoslovakia provided for the exchange of 4 Pakistani commodities for 11 Czech products. The trade agreement with the U.S.S.R. was a barter contract, and it was signed in August 1952. It provided for the supply of 150,000 tons of wheat from the U.S.S.R. in exchange for 22,000 tons of jute and 13,150 tons of cotton from Pakistan. The value of the goods involved on each side was about £6 million. The Indo-Pakistan trade agreement of 1952 contained fewer items for trade, signifying the contraction of trade between the two countries - a trend which continued in spite of (or because of?) various trade and other agreements.

Pakistan concluded trade agreements again in 1953 with various countries such as France, Indonesia, China, India, Japan, and Italy. Perhaps only two of these

are worth mentioning here. The agreement with India was the first long term agreement made by Pakistan with any country. Its contents were never published.

The agreement with Japan was the first to provide credit arrangements for Pakistan's imports. The agreement was aimed at facilitating, inter alia, the import of capital goods and machinery from Japan to Pakistan. Article III of the agreement reads as follows:

"In respect of the capital goods to be exported from Japan to Pakistan, the Government of Japan and the Government of Pakistan agree to give facilities to exporters and importers for concluding contracts for the supply of such goods on the basis of deferred payment. For this purpose the price of capital goods shall be fixed in sterling....."

The method of deferred payment was explained in Section A of the Article VII as follows:

- (1) "The Government of Japan agree to permit:
  - a. the exporters of capital goods in Japan to export such goods to Pakistan and to settle payments therefor by receiving remittance in sterling in instalments extending over a period of five years from the date of the contracts, provided such contracts are concluded within the currency of this Trade Agreement at commercially competitive prices.
  - b. the exporters of capital goods to open a non-resident rupee account in a bank in Pakistan,

and in order to ensure the fulfilment of the terms of the contracts, to receive deposits from the importers to that account in such instalments, as may be mutually agreed upon between exporters and importers concerned.

- c. the exporters, if they so desire, to invest the amount available in their non-resident account in Government of Pakistan securities.
- d. The Government of Pakistan agree to permit the importers of capital goods in Pakistan upon due authorization by exporters of such goods, to make remittances to the exporters in Sterling out of the amount held in non-resident account of the exporters till the full C.I.F. value of the capital goods in sterling has been remitted in instalments over a period of five years from the date of the contract as follows:
  - a. about 10 % of the c.i.f. value of the capital goods at the time of placing the order;
  - b. about 15 % of the c.i.f. value of the capital goods on proof of shipment of such goods from Japan to Pakistan and, therefore, the balance in approximately equal half-yearly instalments over a period of five years from the date of the contract."

In 1954, trade agreements were concluded with Germany, France, Yugoslavia, Italy, and Japan, respectively. Apart from the agreement with Yugoslavia, the other trade agreements were similar to the previous ones signed by Pakistan with those countries, respectively. The agreement with Yugoslavia provided for Pakistan's exports to Yugoslavia to the value of £2.995 million and imports from Yugoslavia worth £3.098 million.

In 1955 the previous agreement with Japan was extended and a new agreement was signed with India. The trade agreement with France, like the previous Pakistan-France trade agreement, provided for the bilateral exchange of goods between the two countries.

In April 1955, Pakistan signed separate agreements with the Governments of the U.K. and Hong Kong, providing for the import of cotton textile and yarn worth \$7.7 million in exchange for primary commodities made available to Pakistan by the United States. Similar agreements were also concluded with six other countries.

Pakistan concluded about 16 trade agreements in 1956. The countries with which these agreements were signed included the U.S.A., Japan, U.K., and the U.S.S.R. Two types of agreements predominated throughout this year. According to the first type, the primary commodities received from the U.S.A. were bartered for manufactured products from other countries. The second type of agreements were concluded mainly to procure food for the country. Such agreements were signed with Burma, the U.S.A., and the U.S.S.R.

## II.

Our main purpose in presenting the above survey was to bring out the broad trends of Pakistan's commercial policy as indicated by her trade agreements with other countries. We may now summarize these trends as follows:

1. Most of the trade agreements were statements of intentions rather than binding commitments for exchange of goods. Some agreements included provisions for the single country license;
2. The trade agreements concluded up to 1954 provided mainly for the exchange of Pakistan's raw materials with manufactured products of other countries; the agreements signed during 1955 and 1956 included substantial quantities of jute manufacture, sports goods and cottage industries products;
3. Most of the agreements did not allow credit margins or credit provisions, short term or medium term. The agreement with Japan, with the single exception of the U.K., is unique in this sense;
4. The agreements did not ensure and guarantee

the supply of goods as there was disparity and fluctuations in their deliveries from the contracting parties;

5. In most cases the agreements provided for the stipulation that trade in goods would take place through normal private channels, and that, it would not be confined to commodities mentioned in the trade agreements.

### III.

The importance of trade agreements depends on the functions they are supposed to perform. During the early thirties, when most of the European countries including Germany were suffering from payments difficulties, bilateralism grew as a solution to their trade problems. The commonest device for securing trade balances between any two countries was compensation and clearings. Germany, under the Schacht plan of the thirties, discovered an opportunity to sell her goods in exchange for the much needed raw materials and primary products, through bilateral agreements. Other countries such as the U.K. made an attempt to improve their share of the world trade through milder forms of bilateralism, i.e., imperial preference.

Since the Second World War, bilateralism has flourished partly due to the rise of planned economies, and partly as a result of exchange and payments difficulties faced by various countries. Pakistan has her own reasons for turning towards bilateralism. Apart from the perennial scarcity of foreign exchange, there was the problem of ensuring the supply of goods for which India had been the main source before partition of the country. The policy of trade agreements was started with a view to solving this immediate problem. It was referred to as the diversification of trade in the official policy statements. Moreover, there had been the general problem of finding markets for the primary commodities and of procuring essential consumer and producer goods. In some cases, the solution to these problems was sought in single country licenses; but in most cases, trade agreement was used to make propaganda in the business communities of the signatory countries and thereby publicize what each country could export or import. Apart from a few barter agreements, the agreed quantities were never taken to represent the binding commitments.

The main advantages to Pakistan from such trade agreements seem to be as follows. In the first place,

the trade agreements indicate a possibility and scope for relaxing the import restrictions, at least up to the specified maximum limits of the goods mentioned in the agreements. Secondly, in some cases the country has been able to get essential goods through barter, which it would have been difficult to get otherwise due to the payments difficulties. Thirdly, the supply of capital goods on credit has been made possible by trade agreements. However, all these advantages are of a limited nature. The trade agreements have failed to solve the problems of Pakistan's foreign trade.

The dilemma of Pakistan's foreign trade will not be solved by bilateralism or good-intentioned trade agreements. Bilateralism requires a double coincidence of wants as well as willingness on both sides to buy almost equal quantities of goods. Also, the other contracting party may not necessarily be the cheapest market to buy from or the best market to sell to. These are all the disadvantages for a newly industrializing country. It is in the best interests of a developing economy to seek participation in a competitive world market rather than take refuge in bilateralism.

We are now in a position to discuss the role of



commercial policy in economic development with a view to establishing some criteria of international economic policy for a developing economy.

## CHAPTER VIII

### THE ROLE OF COMMERCIAL POLICY IN ECONOMIC DEVELOPMENT

#### I.

The main purpose of commercial policy for economic development is to stimulate the domestic capital formation through various national and international measures. The choice between these measures, or the forms of commercial policy, depends essentially on the nature of the domestic economy as well as the goals of economic development. In order to proceed with our analysis, therefore, we must mention briefly the sort of domestic policy for economic development that we have at the back of our mind.

Economic backwardness is a complex phenomenon.

The backward countries, almost in all cases, are predominantly agricultural; a large number of them are also faced with the problem of over-population. Most of the advanced countries are predominantly industrial, and most of them do not suffer from the pressures of population, in relation to their economic growth. It has become, therefore, almost a matter of faith with the developing countries that, in order to break the vicious circle of their poverty, they must industrialize. Some economic

experts in the West are skeptical about the role of industrialization in raising the standards of living<sup>1</sup> of the backward people. They would like the developing countries to concentrate mainly on agriculture as it is the present source of livelihood for them.

Why is agriculture inefficient in the backward countries? In Chapter II, we mentioned various factors responsible for the low productivity and yield of agriculture in Pakistan. We noticed that the land tenure system of the country is defective, the methods of cultivation are primitive, and the labor force engaged in agriculture suffers from malnutrition and ill-health. Above all, we noticed that the agricultural sector of the country is over-populated. Now if through some state action the land tenure system could be reformed, the methods of cultivation could be modernized, and action could be taken to improve the health of the people, would agriculture become more efficient and productive? Perhaps these measures would somewhat improve the production of land per acre; the production per capita would not improve as there would still

---

1. See for example Jacob Viner, International Trade and Economic Development, Oxford, 1953, F. Benham, The Colombo Plan and Other Essays, London, 1956.

be too many workers on the land.

This problem is often referred to as 'disguised unemployment' or 'under employment.' Whatever terminology one may wish to adopt, the problem poses different questions from those of unemployment known in the industrial societies.<sup>2</sup> The disguised unemployment or under-employment in developing economies is a structural problem of a static variety. It is not a temporary phenomenon which is caused by the cyclical fluctuations of economic activity; it is a long run problem. We may define the agricultural under-employment as a situation where, with given techniques and factors of production, the elimination of some workers may not cause any decrease in production. As long as the eliminated workers can be put to better uses elsewhere in the economy, the under-employment will exist. If the techniques of production are changed then this under-employment will become more serious.

Due to the abundant supply of cheap labor, many processes of agricultural production in the developing economies have become labor intensive over ~~the~~ the period of time. In order to increase production substantially

---

2. Joan Robinson, Disguised Unemployment, Economic Journal, 1936, pp. 225-237.

it may be necessary to introduce some capitalistic techniques in agriculture, and to dispense with some of the labor intensive methods. It is clear, therefore, that no improvement in agriculture can be made effective without reducing the surplus workers from land. The problem might be simple if other avenues of employment were available to the workers. Then, there will be only the marginal shift of factors of production involved, from one sector to the other, and the marginal gain will be determined by a zero loss to agriculture on the one hand, and on the other, at least some gain to the non-agricultural sectors.<sup>3</sup> If opportunities for alternative employments are meagre, or nil, there will be only two solutions available to the country: either the surplus population be allowed (or persuaded) to migrate to other countries where more labor is needed, or to establish and develop the alternative employment opportunities for it

- 
3. It may be said that this argument ignores the consequences of breaking up the family units attached to the agricultural land. But, in the first place, it is not necessary to divert all the surplus workers to cities; away from their families; it ought to be possible to develop some kind of occupations for them within the rural areas. Secondly, when the unnecessary duplication of work in agriculture is as great as the writer himself has witnessed in his native surroundings of what is now West Pakistan, perhaps the social complications arising as a result of the elimination of the present duplicity of work may be nothing as compared with the economic gains from the proper use of the manpower resources in the country. See also Chapter II, pp. 26-27.

within the country. Large scale emigration may be regarded as out of question due to the racial, ethnical, and cultural problems involved in it. More often than not, migration means a loss of better kind of people who may be more useful in their own countries than elsewhere abroad, particularly from the point of view of the backward countries.

The second alternative, perhaps for the lack of proper terminology, is often referred to as 'industrialization', by the spokesmen of the backward countries. We may at this stage define this term. By industrialization, we mean the expansion of commercial, financial, and manufacturing activities as well as the personal services in the country.<sup>4</sup> If we divide the economy into agricultural and non-agricultural sectors, we may call the development of the non-agricultural sectors as industrialization. The manufacturing aspect of industrialization is the most complex and difficult to decide. There is an obvious choice there between what is known as the heavy industries and the light industries. Perhaps the problem can be

---

4. For further discussion see Eugene Staley, *The Future of Underdeveloped Countries*, New York, 1954; Singer, op. cit., *The Mechanics of Economic Development*, *Indian Economic Review*, Vol. 1, 1952-53.

determined with reference to the specific circumstances of a country.

The industrialization of a developing economy, as seen in the context of the above observations may be regarded as a supplementary economic activity in the country, not a replacement of agriculture. Agriculture as such has no causal relationship with poverty; it becomes a problem when, instead of being a commercial pursuit, it turns into a 'mode of living' for families which may be increasing in numbers as well as size. In other words, the real problem is the 'poor' agriculture, and it is not possible to visualize any suitable means of improving it without the help of the non-agricultural sectors. At times, objections are raised against the emphasis on the industrialization of backward areas, and Denmark, New Zealand, Australia, Iowa or Nebraska are cited as the outstanding examples of high-income agricultural areas.<sup>5</sup> But perhaps the example of these countries supports our contention. There is a vast difference between the percentage of economically active population engaged in agriculture in these countries and in the developing countries. It ranges from 21 for New Zealand

---

5. Viner, op. cit., International Trade & Economic Development, op. cit., p. 44.

to 29 in Denmark.<sup>6</sup> "The high income agricultural countries or areas are no longer 'agricultural' in the sense in which underdeveloped countries are agricultural, for, in the latter, 50 to 85 per cent of the working population gets its living directly from Land."<sup>7</sup>

Agriculture and industrialization, therefore, cannot be taken as two alternative measures with a strict choice between them for the backward countries. In fact both are interdependent. Industrialization will help to make agriculture more productive; more efficient agriculture will mean higher national income which will have induced effects on the demand for industrial goods and services. A proper coordination between agriculture and industrialization will result in the widening of the domestic market; it will also increase the capital<sup>8</sup> endowment of the country. It is said that the industrialization, instead of solving the problem of population, will

---

6. Statistical Year Book, United Nations, op. cit.; W.S. Woytinsky and E.S. Woytinsky, World Population and Production, New York, 1953.

7. Staley, op. cit., p. 303.

8. It is said that in order to industrialize, a backward country should first put the agricultural sector in order, and then with the help of agricultural surplus, try to foster industrialization. This argument is correct only insofar as it emphasises the need for extra food production in a developing economy.



aggravate it, because the general health and life expectancy of people will improve and consequently the rate of population growth will increase. But these results will follow with any kind of improvement in the backward countries. It becomes then possible to argue that, 'if only misery can check the growth of population, all improvements are worse than vain, for they only permit a large population than before to live in misery.'<sup>9</sup>

Population is a serious problem in backward societies, and perhaps even the cruel shadows of the Malthusian devil, which often loom large on the horizons of these societies, have not been able to check the consistent growth of their population. If economic equilibrium can be achieved only by further promoting the abominable activities of the devil of death through misery, it becomes difficult then to decide whether our goal is the economic equilibrium or mankind. However, population cannot be taken as an ineluctable fact in any analysis of economic development. For the sake of their own progress, the people of backward areas will have to reconcile themselves with the need of making birth

---

9. K.E. Boulding, Economic Analysis and Agricultural Policy, Canadian Journal of Economics, August 1947, p. 442.

control as an integral part of their industrialization programs.

## II.

In Chapter II, we surveyed the progress that Pakistan has made since her establishment. Following the jargon of modern economic planning, we may divide the economy into two sectors: public and private. In the private sector of the economy the major event has been the establishment of heavy and medium size industries. In the public sector the achievements are difficult to judge, but the 'planned' targets as mentioned in the development plans do give a broad indication of the government activities. The Six Year Plan was based on the following targets of economic development: out of the total funds estimated as the revised cost of the plan, 25 per cent was allotted to agriculture, 17 per cent to industry, 23 per cent to fuel and power, 24 per cent to transportation and communications, and 11 per cent to social capital development. The First Five Year Plan envisages public expenditure in various sectors of the economy as follows:

1. Village Aid and Rural Development	3.0 %
--------------------------------------	-------

---

10. The First Five Year Plan, op. cit.

2. Agriculture.	10.9 %
3. Water and Power Development.	32.0 %
4. Industry.	13.0 %
5. Transport and Communications.	20.0 %
6. Housing and Settlement.	9.5 %
7. Education and Training.	7.1 %
8. Health.	3.5 %
9. Social Welfare.	0.4 %
10. Labor & Employment, & Miscellaneous.	0.2 %

The Plan gives more emphasis to water and power development, as well as transport and communications, than to other aspects of development. Public expenditure in the industrial sector is low, as it is the private enterprise which is mainly responsible for its development. Similarly, agriculture is the responsibility of the provinces, and so is education and welfare. The contributions of the central government to these items are low, as they are in addition to what the provinces will spend on them. The general purpose of the plan is only to supplement the efforts of the private sector and the provincial governments towards economic development.

Both agriculture and industrialization are being emphasised in Pakistan's planning. Perhaps enough is not being done in each direction; may be, the main cause for this is the lack of economic organization. However, the country needs food in order to keep her

people away from starvation, and industries in order to increase her exports.

The above discussion brings out the importance of adopting a coordinated plan of economic development in the country. This coordination of various aspects of planning, however, involves structural changes, not marginal calculus. It is similar to the problem of a mountaineer who, in order to reach the highest peak in a mountain range, may have to abandon the mountain which he has already climbed, or is in the process of climbing, and go to the next mountain. We can best illustrate this point in the words of Professor Meade:

(The mountaineer)....."can always get higher as long as he moves uphill, whenever, he is on a slope, the marginal conditions for maximizing his height are not fulfilled; by moving a little way in the uphill direction he can always reach a higher point .... (but) he may not be on the highest peak of the mountain range; he might be able to get still higher if he came down again and went up the next mountain."11/

### III.

What part can commercial policy play in bringing about the structural changes in a backward country? In other words, what results will follow when free trade policy is adopted by the country, and on the other hand,

---

11. J.E. Meade, Trade and Welfare, op. cit., pp. 119-20

what gains or losses, if any, will accrue to the country if she adopts the policy of conscious direction of her foreign trade?

The free trade argument is based on the assumption that the 'unrestricted international exchange of goods increases the real income of all the participating countries. The price mechanism, under competition, automatically ensures that each country specializes in the production of those goods, and only those goods, which it can obtain more cheaply, taking account of transport costs in this indirect manner, than by producing them<sup>12</sup> itself.' The case for free trade, then, is the case for efficiency of competitive price system.

The efficiency of competitive price system implies certain important conditions the fulfilment of which is a necessary pre-requisite of free trade. These conditions<sup>13</sup> may be stated as follows:

- "(1) Given productive resources within each country, all fully employed, and no mobility of factors of production between countries;
- (2) Given tastes and technical knowledge;
- (3) Perfect mobility of factors between industries

---

12. Haberler, op. cit., p. 221.

13. Joan Robinson, The Pure Theory of International Trade, Review of Economic Studies, 1946-47. p. 98.

within each country;

- (4) Perfect competitive conditions within each industry.
- (5) Annual value of imports and exports equal for each country."

We may include surplus labor in the productive resources available in a backward country. As long as this surplus labor exists there is no full employment. Now if a small capitalist sector exists in the economy side by side the subsistence agricultural sector, productivity in the capitalist sector will be higher than that of the agricultural sector. In the agricultural sector the labor productivity may fall to zero, or near zero, but wages will not fall below the subsistence level.<sup>14</sup> The wages in the capitalist sector will be slightly higher than in the agricultural sector. In spite of surplus labor available in the agricultural sector, the labor may never become a free good. How will this situation affect the foreign trade of a backward country? Let us illustrate the problem with the help of our two countries A and B. Talking in terms of marginal productivities, if one day's labor

in A produces 3 food or 3 cotton manufacture  
in B produces 0 food or 1 cotton manufacture

---

14. For further discussion see Harvey Leibenstein, Theory of Underemployment in Backward Economies, Journal of Political Economy, Vol. 65, April 1957, pp.91-103.

then the Law of Comparative Cost thus stated would require that the backward country (B) specialize in cotton manufacture and the advanced country (A) in food production.<sup>15</sup> This is how the existence of surplus labor will affect the prospects of specialization in the backward country. Of course, the use of labor-cost in the classical framework of the argument implies that labor is a scarce factor; it is the surplus labor which keeps the productivity of agriculture low in a backward society, by whatever standard we may wish to measure it in real terms. The conditions of agricultural over-population seriously distorts the classical argument for free trade, at least for trade between over-populated agricultural countries and the advanced industrial countries which are also rich in agricultural land.

The assumption of constant tastes and constant technical knowledge is unreal with regard to a developing economy. In reality, such an economy is in a transitional phase: the tastes are constantly changing, and consumption and economic habits are shifting their patterns. If we abandon the assumption of constant technical knowledge, the assumption of given factors of production then becomes

---

15. W.Arthur Lewis, Economic Development with Unlimited Supplies of Labour, The Manchester School, Vol.22, 1954-55, p.185.

irrelevant. Any improvements in technical knowledge will have direct bearing on the factor endowment of the country.

The assumption of perfect mobility of the factors of production implies that their allocation in the economy should take place in such a manner as to equalize their rewards according to their marginal productivity in each sector. In the real world, the element of non-competing groups, ignorance of the market, prejudice in favor of a place or a position, and such other social and economic factors may hinder perfect mobility. Above all, the existence of surplus labor and the lack of diversification of the economy may be considered as the most unfavorable conditions for perfect mobility of factors of production. The assumption of perfect mobility implies that the economy has reached a certain level of growth in various sectors so that marginal shifts from one sector to the other can operate to equalize prices and wages. Such conditions do not exist in a developing economy.

The last of the above assumptions is the most formidable for a developing economy. It entails that the price levels in the trading countries are flexible so that automatic mechanism succeeds in establishing an equilibrium between them.



Now this mechanism will operate either through wage level fluctuation or exchange rate variation. If we assume that the rate of exchange is fixed and the trading countries are on the gold standard, the country with the favorable balance of trade will suffer from higher prices and the country with unfavorable balance of trade will have deflationary pressure on her economy. The exports of the former will be discouraged, and similarly, the exports of the latter will be encouraged. Now if the latter country becomes a surplus country the same process will operate again, starting with a reduction in her exports.

Two conditions are necessary to make this mechanism possible: first, the banking systems of both the countries should allow full impact, on their economies, of the surplus or deficit in their balance of trade; Secondly, the banking principles followed in both the countries should be identical. Both these conditions are difficult to fulfil.

According to the classical argument, the rate of interest regulates the economic activity in the economy. In fact, the use of the interest rate policy may be limited because of the lack of interest sensitivity of investment and capital use.<sup>16</sup> In a backward country, interest rates

---

16. Joan Robinson, op. cit.

may be still less effective; The subsistence sector may be completely insensitive to changes in the rate of interest, and in the capitalist sector there may be serious limitations on its use as an instrument of economic policy.

We noticed in Chapter III that it might be difficult to establish foreign trade equilibrium between country A and country B if a serious disparity existed in their income elasticities for each other's goods. From this point of view, the fifth condition of competitive price system also has its limitations. In fact, the price and income elasticities cannot operate effectively in the foreign trade of a developing economy unless she is in a position to expand her monetary sector, to increase the production of her import-competing goods, and raise the level of national investment.

We may conclude this section by saying that free trade is an ideal which cannot be completely fulfilled, for, the conditions which are necessary for its fulfilment may never exist in their entirety in any country, at any level of economic growth. The above observations have been made mainly with a view to emphasising the weaknesses and difficulties of free trade. They may not be taken as an argument in favor of the abandonment of the ideal. A developing economy cannot derive the

full benefits of free trade unless it reaches a certain stage of maturity in her economic development. The assumptions of free trade in fact indicate the lines of action that a developing economy should adopt in order to achieve the goal of economic development. Various factors are involved in such a line of action which may be summarized as follows:

1. The price mechanism cannot be expected to operate effectively in a developing economy unless the agricultural sector is modernized and the non-agricultural sectors are expanded;
2. The income and price effects may be erratic in their behavior owing to the lop-sidedness of the economy. The demand and supply may also lack shiftability and substitutability due to the same reason;
3. In order to make the economic system of the developing economy properly competitive, the problem of the surplus labor must be solved;
4. Stated in terms of the marginal cost, the Law of Comparative Cost requires an agricultural country with a surplus of population to specialize in goods produced in her small capitalist sector (i.e. manufactured goods)

for export rather than goods produced in her agricultural sector.

#### IV.

We may now make an attempt to answer some other aspects of the question that we posed at the beginning of Section III.

The modernization of agriculture and industrialization are the two desirable objectives of economic development that a country should adopt in order to raise the standard of living of her people. Industrialization will not only provide the new avenues of employment, it will also bring with it new techniques and skills for the people. "A purely agricultural country is likely to be unprogressive even in its agriculture."<sup>17</sup> However, industrialization has its complexities, and it entails various difficulties and bottlenecks; we may call them the controlling factors of industrial progress. First, there are the problems regarding the urbanization of the surplus rural population, which have already been pointed out in this study. The other controlling factors may be enumerated under five headings: (1) Machinery; (2) Entre-

---

17. J.K. Galbraith, Conditions for Economic Change in Under-Developed Countries, Canadian Journal of Economics, November 1951.

preneurial ability and management; (3) Skill; (4) Social over-head capital and external economies; (5) Long run economies of production. These five categories do not exhaust the list, but they serve as a basis for a discussion of the problem.

Capital deficiency is a serious matter for a backward country. The poor classes, who form the bulk of her population, live on a subsistence level; usually their capacity to save is almost zero. The upper classes may consist of the landed aristocracy, or the nouveaux riches or a combination of both, depending upon the country's social framework. They may lack investment traditions or may confine themselves to occupations which bring them quick rewards.

The institutional framework is an important limiting factor for the growth of financial resources. It may be unsuitable for mobilizing savings for medium and long term investments. Also, technical know-how is an integral part of capital, and if the country is deficient in this respect the prospective investors may be discouraged. The solution of the problem may lie in improving the financial system on the one hand, and on the other, in establishing corporations like the Pakistan Industrial

Development Corporation to serve as pioneering entrepreneurs. Also, the capital and technical know-how may be imported from abroad. The foreign capital may, however, hesitate to participate in the industrial development of the country if it suffers from social and political instability. These are all important aspects of industrial development, but they essentially belong to the domestic economic policy.

Commercial policy may, however, have a direct bearing on one aspect of the above problem. The country may decide to impose tariffs on foreign products with a view to fostering the domestic industrialization. It may result in the import of capital in the form of ~~manufacturing~~ activity behind the tariff walls by the producers of the 'protected' good. In this manner, the protective measure may succeed in inducing foreign capital to set up what<sup>18</sup> Nurkse calls the 'tariff factories.' But the movement of this kind of capital may not take place in large volumes. Essentially, the real inducement to foreign capital is the nature of the domestic market, as well as the relative efficiency of economic organization in the country; and if these factors are favorable, there may not be any necessity to encourage the 'tariff factories.'

---

18. Nurkse, op. cit., p. 106.

The import of machinery can be facilitated with the help of suitable measures of trade policy. As we mentioned in Chapter IV, the country's imports can be divided into developmental and non-developmental; the developmental imports can be encouraged through preferential regulations. It is necessary, however, to add that this approach assumes that the domestic economic policy is sufficiently dynamic and that the export expansion program is being vigorously implemented.

The entrepreneurial ability and management are outside the scope of commercial policy. The entrepreneurial functions can be divided into various elements, and in the advanced countries there is a tendency for each of these elements to be carried out as functions by separate persons or groups. In the backward countries, these entrepreneurial functions are, in most cases, performed by one person; he is rarely a technical innovator and 'more frequently his task is one of technical adaptation - the application of technologies evolved in the industrial countries to the particular conditions of the less developed country.'<sup>19</sup> Obviously, the development of entrepreneurial ability is a social as well as an economic problem; in a backward

---

19. Processes and Problems of Industrialization in the Underdeveloped Countries, United Nations, op. cit., p. 30.

society, the government as an entrepreneur or promoter of entrepreneurship can play an important role in this regard.

The skill and training of manpower which are important aspects of industrialization can be promoted directly by the domestic economic policy. The lack of industrial development may be the cause as well as the effect of scarcity of skill and of trained manpower; but the problem is outside the scope of commercial policy.

Social over-head costs and external economies are important elements of economic development. They are in fact the solid foundations on which a progressive society is built. In this study we have often referred to what is known as the proper atmosphere for economic development. The creation of this atmosphere is essentially a part of the general problem of over-head capital and external economies. Now the building of roads or the digging up of canals may only require the use of simple capital and labor, but the bridges, buildings, and schools may require the type of capital which may only be obtained from advanced countries. The development of the social over-head capital, in this sense, may imply extra pressures on the foreign exchange resources of the country.



The long run economies of cost are a complex phenomena. The scope of these economies is determined by the above factors such as the over-head capital, the entrepreneurial ability, skill, etc. When these factors are themselves undeveloped, the problem becomes more complicated. It is necessary, however, to mention that the economies of production, in so far as they are part of the total external economies, imply an interdependence of various sectors, or of various industries, in a country. We propose to discuss this problem with reference to the role of protective measures in a developing economy.

V.

Two main structural arguments for protection are relevant for our present study: (1) The infant industry argument; (2) The diversification argument. The infant industry argument says that an industry deserves protection in which a country possesses no experience, or in which the country lacks sufficient experience, but otherwise may be better suited to its development. The argument has been so widely used and interpreted that it might be better to recall the actual words of John Stuart Mill, who originally propounded the proposition as follows:

"The only case in which, on mere principle of political economy, protecting duties can

be defensible, is when they are imposed temporarily ( especially in a young or a rising nation ) in hopes of neutralising a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority one country over another in a branch of production often arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire, may in other respects be better adapted to the production than those which were earlier in the field..... it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture, and bear the burden of carrying it on, until the producers have been educated up to the level of those with whom the processes are traditional." 20/

Mill's argument underlies the fact that the industry seeking protection should be able to dispense with protective duty after a time. Though he mentions young industries in parenthesis, Mill's main exposition is in terms of skill and experience which always take time to acquire. That Mill had in his mind the problems and difficulties of what Taussig calls the 'false starts and initial losses' is clearly indicated by the last sentence of the above quotation. It is to solve these difficulties that the infant industry argument was developed. To what extent can the protective duties be effective in this regard is another matter. An uncompromising free trader might

---

20. J.S. Mill, Principles of Political Economy, Book V, Chapter X, para 1. The underlining provided.

say that if an infant industry can't grow without protection, perhaps it is not worth bothering about.<sup>21</sup> Also, it is said that infant industry may never grow properly behind the tariff walls and the protective duties may thus perpetuate. In spite of such objections, it seems, that within its limitations, the argument is valid and applicable.<sup>22</sup> The first objection is based on the implicit assumption of perfect competition which may never exist. Under the impact of various imperfections and the time-lags, many a new venture may remain buried and hidden, and it is only a monopolist or semi-monopolist large sized firm with huge financial sources at its disposal which may be inclined to start a new line of production. A firm which is relatively competitive will certainly hesitate to come forward unless some sort of guarantee is given to it ensuring the market for a reasonable period. The ultimate test of infant-industry argument is that the firm receiving protection should be able to stand on its own feet after the expiry of protection. There are many instances in the industrial history of the U.S.A. and other countries when the 'infant' industries have firmly established themselves; not only

---

21. Haberler, op.cit., pp.280-283.

22. Kindleberger, op.cit., p.190.

that, they successfully compete in the international market.<sup>23</sup> A case against infant industry argument, therefore, cannot be established on pure deductive reasoning in international trade. As Taussig says, ".....if the industry does accept the challenger, or is clearly able to do so without danger of defeat, then the free trader who maintains that all the protection was unnecessary, and that the same development would have taken place in any case, is fairly called on to show just how and why it would have taken place."<sup>24</sup>

The infant industry argument is not fully applicable to a developing economy, particularly if this country is on the very first stage of her development.<sup>25</sup> The argument assumes that all conditions of development exist in the country except a particular kind of skill in which she may be lagging behind. A developing economy suffers from a general backwardness in almost all phases of economic life. In other words, when the whole economy is 'infant' the structure of the argument changes basically. In that case, the main stimulus to the economy will have to

---

23. Kindelberger, op.cit.

24. F.W. Taussig, Some Aspects of Tariff Question, Cambridge, Mass., 19-, p.27.

25. i.e. in a pre-take off period,

be provided by measures taken mainly within the scope of the domestic economic policy. In the field of commercial policy selective import controls can play an important role provided they are properly coordinated with the development plan. However, there may be a case in favor of protection to an industry on the grounds that its establishment will encourage the growth of other industries. Particularly, if the pioneer firm, or industry, falls outside the scope of the development budget in the foreign exchange resources of the country, it might be in need of some encouragement through protection against foreign competition. Such a protective policy will be justified on the grounds that the growth of one infant will help the growth of other infants as "it is difficult for one infant to learn without thereby affecting the knowledge of other infants."<sup>26</sup>

Another possible case may be of an industry which, if established, could serve as a supplement or a subsidiary to another industry already established, and thus help increase the economies of production as well as contribute towards the widening of the market. Here again protection can provide the necessary impetus to the new

---

26. J.E. Meade, Trade and Welfare, op.cit., p.256.

industry if the policy is properly integrated with the general economic plan.

The infant industry argument, when modified for the purpose of establishing a case for protective policy of a developing economy, does not remain an infant industry argument. It becomes an argument for external economies. These external economies are of a special kind, and can be considered in terms of a simultaneous development of all the basic factors of industrial development as mentioned in section IV of this chapter. These factors may not get sufficient stimulus to grow if the industrial plans regarding different kinds of plants are uncoordinated, and investment decisions are made at different points of time. The external economies will take place merely because of the simultaneity of investment decisions and not necessarily due to their being better foresighted or superior.<sup>27</sup>

The second structural argument regarding the diversification of the economy also needs to be specially adapted to the requirements of economic development. In its usual form, the argument favors measures taken to

---

27. T. Scitavsky, Two Concepts of External Economies, Journal of Political Economy, Vol.62, 1954.

reduce the dependence of a country on a single export (or a small group of commodities with the largest percentage share of exports). The purpose of diversification policy, as mentioned in Chapter III, is to minimize the uncertainties of foreign markets and to avoid the economic fluctuations that the above ~~kind~~ of specialization involves. The role of protection in the diversification policy will depend on the nature of economic changes required for the fulfilment of such a policy; for example, it may be considered necessary to foster a mixed agricultural-industrial economic structure in the country, and protection may play only a secondary ~~part~~ in it, the main burden being on the domestic economic policy.

Some important points emerge out of the above discussion, which may now be summarized:

1. Protection should be granted mainly to those industries whose establishment will encourage and assist the establishment of other industries.
2. Protection policy should be flexible, favoring ad valorem rather than specific duties, and subject to periodic revisions.
3. The aim of the policy should be to withdraw

protection from an industry at the expiry of a given period of time regarded as sufficient to indicate whether the industry has grown out of infancy, or whether it is incapable of establishing itself.

## VI.

We may now turn to Pakistan's policy of protection. The policy began with the establishment of the Tariff Commission in April 1950. The Commission was set up 'to (1) consider and recommend protective measures or other forms of assistance necessary for the protection of an industry and (2) to report from time to time on the progress made by the industries in implementation of the approved recommendations.'<sup>28</sup> The Commission was empowered to study the case for protection to an industry only where a reference was made to it.

The Tariff Commission holds public enquiries on industries seeking protection, and gives opportunity to all interests involved in the production or import of the relevant goods to present their case. Then the Commission makes its own study of the case keeping various

---

28. Pakistan, 1955-1956, op. cit., p. 106.



criteria of judgement in mind, which are as follows:

- "1. the industry should possess certain natural advantages such as the availability of raw materials, existence of internal markets and requisite supply of labor...;"
- "2. the industry should be essential to the security or economy of Pakistan....;"
- "3. the industry should be able to expand and yield increasing returns within a reasonable period of time."
- "4. ....the industry must be established on sound lines and conducted with reasonable efficiency....", "It should, however, be mentioned that in applying this condition the normal difficulties which an industry may experience in its infancy have to be taken into consideration."
- "5. the industry should be able to stand on its own legs after the protection period is over..;"
- "6. the industry should be protected against foreign dumping."

These criteria are somewhat overlapping. However, if an industry fulfils them satisfactorily, there will be no need to protect it from foreign competition. It seems that the Commission has been interpreting these criteria in a broad manner; otherwise, most of the industries which received protection would have failed to win favors with it. The period since 1950, in which the Commission has been working, is too short to allow detailed comments on its achievements or shortcomings, but it is interesting

to note the type of industries which have received  
protection (or similar assistance) since 1950:<sup>30</sup>

A. Industries granted protection during 1955-56:

1. Incandescent electric lamps;
2. Gripe cure mixture;
3. Pulleys;
4. Fire bricks;
5. Ivory products;
6. Berets;
7. Beer;

B. Industries granted protection during 1950-55:

1. Grinding wheel;
2. Lathes;
3. Paints, Color and Varnish;
4. Bidi;
5. Industrial type of power board;
6. Electric fans;
7. Hurricane lanterns;
8. Motor car and cycle pumps;
9. Leather footwear;
10. Steel rerolling;
11. Umbrellahs;
12. Macaroni, Spaghetti, and Vermicelli;
13. Fruit preserving;
14. Sodium sillicate;
15. Locks;
16. Steel casting.
17. Matches;
18. Wire netting.
19. Washing soap;
20. Toilet Soap;
21. Canvas footwear;
22. Cycle tyres and tubes.
23. Diesel oil engines;
24. Battery parts and battery plates;
25. Iron safes and almirahs;
26. Plastics and fountain pens;
27. Brushes;
28. Woolen textile and carpets;
29. Cotton textile;
30. Cutlery;

---

30. The list has been prepared from Pakistan 1955-1956, op. cit.,  
and Karachi Commerce (Karachi), op. cit.

- 31. Sewing machines;
- 32. Pharmaceuticals.

The above list contains a great mixture of industries; some are small scale and cottage industries, others are established on factory basis. It is very difficult to examine the work of the Commission with reference to these industries, as detailed information on the Commission's analysis and conclusions regarding each industry is not available. The reports of the public enquires, however, held by the Commission from time to time, bring out<sup>31</sup> the following facts:

1. In most cases the methods of production used by the industries seeking protection were seriously out of date and outmoded;
2. The quality of goods produced at home was very low, in most cases, according to the importers, as compared to the imported goods of the same kind. Only some manufacturers admitted that the quality of the good produced by them was low, but they said that this was due to causes beyond their control;
3. Most industries seeking protection used

---

31. See Appendix E for some relevant extracts from public enquires of the Commission as reported in Pakistan Trade from time to time.

imported raw materials, and their representatives complained of higher prices of these raw materials which, according to them, resulted in higher prices for their products;

4. In some cases, it was said that the cost of production was high because the market was small for the good, and was being held by the imported goods, and that if this market could be protected the cost of production of the domestic good would fall;
5. Many manufacturers complained that they could not compete successfully with the imported goods because they did not enjoy all the facilities that they expected in their business, e.g., financial assistance, banking, technical know-how, etc.

If a domestic good cannot compete with an imported good due to the difference in quality, it is obvious that it is not protection but business organization and research which will remove the defect. The solution does not lie with the Tariff Board, it lies with the development of the modern business administration in the country. Similarly, the methods of production cannot be improved through

protection; they can be improved through competition.

The question of establishing industries on the basis of the imported raw materials is a tricky one. The success of such a policy will depend on the extent to which the country possesses, or can develop, other advantages to compensate for the disadvantages of having to import the raw materials required for the production of a good. For example, the high cost of the imported raw material may be counterbalanced by cheap and productive labor. From the complaints of the manufacturers, it appears that the imported raw materials become expensive, in terms of the local currency, because of the import controls and customs duties. Obviously, the customs tariffs and procedures of the country are in need of simplification and revision from the point of view of her industrial requirements.

The fourth case seems to belong to the protection proper. A tariff imposed on an imported product may give a chance to the domestic industry to expand its production and establish itself on a competitive level before the expiry of protection. But the fifth case has no direct relation with the policy of protection. There is one aspect of the problem, however, which may have

direct bearing on it. The complaints in the fifth category in fact refer to the difficulties experienced by various industries due to the lack of external economies in the country. From this point of view, protection may be granted to such industries during the transitional period, in which the external economies may be developing, but may not yet be in a position to play their part effectively.

The Tariff Commission's recommendations consist of ad valorem duties in general, but the rate of duty suggested by them in most cases is higher than 45 per cent, and in some cases as high as 100 per cent. Such high rates of duty are liable to provide crutches even to the permanently infirm industries. As Pakistan exchange and trade control system already provides considerable incidental protection to the domestic industries, it seems economically unnecessary to impose high protective duties on top of that system. Moreover, the constitution of the Tariff Commission is defective in the sense that its role is merely advisory, and it has no permanent organizational functions of carrying on research in its field by keeping in touch with the trends of industrial development, national and international. The Commission should be part of the development authority, and it should as such work in coordination with the requirements of economic development as envisaged by that authority.

So far, we have only dealt with the protective duties. We may now offer a few comments on the other form of protection, i.e., subsidies. Technically speaking, the effects of a tariff or a subsidy may be the same for a domestic industry, as far as foreign competition is concerned. However, there are important differences. In the first place, the impact of a tariff is more general than that of a subsidy, unless the good on which the tariff duty is imposed is highly specialised.

With regard to tariff, the distribution of the final burden of duty between the domestic consumer and the foreign producer will depend on the supply and demand situation. Unless the foreign producer is faced with the inelastic supply at home and a highly elastic demand in the protected market, and unless the protected market is an important market for him, he is unlikely to share much of the burden of duty imposed on the protected good. In such a case, the main burden of the duty will fall on the consumers.

The subsidy, being more specific than tariff, may be given out of surplus funds available to the government. In that case there will be no burden of tax on the people. If, on the other hand, the amount for

the subsidy is raised through taxes, the immediate loss or gain will be determined by the effects of the new tax on the economy. If the burden of the tax is equal to the amount of subsidy, the effect of the tax may be neutralized. However, if the gain that accrues to the people from buying the subsidized product is higher (or lower) than the loss incurred by them as a result of the higher taxes, then the final outcome may be a gain (or a loss) to them. In subsidy, therefore, there is no problem of scarcity value that exists in the case of tariff, but there is the problem of the direct burden of taxes. This leads us to the second difference between tariffs and subsidies.

Subsidy is a direct aid to industry; it is usually more visible than tariff. Subsidy, therefore is unlikely to be continued indefinitely.<sup>32</sup> And the main difficulty with tariffs is that they tend to linger, and do not disappear so easily once they become part of a country's trade policy.

In many respects, therefore, subsidies are preferable to protective duties. However, there are serious limitations on their use in a developing economy. The

---

32. D.B. Marsh, op.cit. p.351.



main limitation is financial; the existing financial resources may be insufficient even to cope with the direct expenditure of a development plan; there is hardly any scope to include extra expenditure of subsidies in them.

If the matter of choice between subsidies and tariffs is confined only to a few industries, the subsidies then may not involve very heavy expenditures. But, in the case of a developing economy, there is need for government action in almost all sectors of industrial activity and it may not be possible to depend on subsidies alone for the industrialization of the country.

We noticed in the previous section of this chapter that most industries receiving protection in Pakistan are small scale and cottage industries. The amount of subsidy involved in helping these industries cannot be too great, and it may be possible for the government to adopt a policy of subsidization of small scale industries. The policy can be planned in such a way that only pioneering firms receive government aid. With regard to heavy industries, or large-sized enterprises, a combined policy of tariff-subsidy can be instituted. In all cases, subsidies can be administered by the Industrial Development

Corporation or Cottage Industries Corporation.

If a country adopts the policy of protection in order to develop her economic resources, her departure from the free trade position may not be interpreted to mean a conflict with the international economic order. It is sometimes argued that protection is undesirable because it has a tendency to arouse retaliation from other countries. Now the other countries should differentiate between protection for economic development and protection of vested interests. If protection is used to raise the standard of living of the people, then it should benefit not only the protecting country, but other countries as well.

## VII.

We have almost reached the end of our story. However, before closing this chapter, we propose to make a few comments on the investment criteria for economic development and their relationship with commercial policy. It is a problem which belongs to economic planning proper; also it has a direct bearing on foreign borrowings and the repayment of foreign loans. We have abstracted from these issues throughout our present study. Therefore, we shall

discuss the problem only within the scope of our analysis. Perhaps we can best explain the importance of the investment criteria by tracing the argument as it has developed during the recent years.

We may begin with J.J. Polak. His "Balance of Payments Problems of Countries Reconstructing with the Help of Foreign Loans" is an attempt towards creating a 'better understanding of the interrelations between capital imports, domestic expansion, and commodity imports than that which was commonly shown by the statesmen and the financial experts of the twenties.'<sup>33,34</sup> He says that 'the crucial problem attending foreign lending is the solvency of the debtor country on international account.'<sup>34</sup> When the foreign capital is invested in the economy it affects the country's trade position with other countries, including the lending countries. The investment may take place in industries which, as they grow, may further increase the demand for foreign capital. Or, it may take place in industries producing import-substitutes. The execution of investment, therefore, will affect the country's foreign exchange position. In order to consider this problem, Polak divides the industrial activity in

---

33. Quarterly Journal of Economics, Vol. LVII, February 1943; reprinted in Readings in the Theory of International Trade, American Economic Association, op. cit.

34. Ibid. p. 459. (The page numbers are from Readings).

the borrowing country into three sectors producing the  
following three types of goods:<sup>35</sup>

1. 'Goods additionally sold for export or sold on the domestic market in place of goods previously imported.'
2. 'Goods sold on the home market replacing similar goods previously sold on the home market, and goods sold abroad replacing similar goods previously sold abroad.'
3. 'Goods sold on the market in addition to those previously sold, and in excess of the increase in demand owing to the rise of income.'

If the type I goods are produced, they will have favorable effects on the balance of trade; type II will be neutral and type III will create deficit in the balance of trade. The net result of investment through foreign borrowing will depend 'on the relative proportions in which operation is divided between groups (1) and (3) whether it will result in a net export surplus or a net import surplus.'<sup>36</sup>

The type III goods are defined by Polak as 'durable consumer goods which are sold by an extension of consumer instalment credit', public utilities, and slum clearing projects. ( ...or a municipality may invest money in public utilities or slum clearance projects, which

---

35. op. cit., p. 468-469.

36. Ibid. p. 470.

it operates at a loss without covering this loss by taxation.'). The argument may seem to discourage the investment in transportation and public utilities in countries in need of reconstruction in these sectors. The author dispels this impression: 'In such a case, though the railroad which makes transport possible may charge only a moderate rate and thus show a low rate of turn-over, the rise in the value of the crop should, in fact, be calculated in its economic yield.'<sup>37</sup>

Polak concludes that, "given the magnitude of the capital investment.....it is desirable, from the point of view of foreign exchange, to maximize output and thus the rate of turnover; and also, given the possible output of a certain good.....it is desirable to minimize the investment required in order to keep the cost of the service of the debt down."<sup>38</sup>

Polak's argument was carried forward by Professor Buchanan.<sup>39</sup> He describes the three types of investments as follows:

(1) Type I investments call into existence

---

37. op.cit. p.471.

38. Ibid. p.470.

39. N.S. Buchanan, International Investment and Domestic Welfare, New York, 1945. See Chapter 6, pp.95-108.

industries which either take the place of goods previously imported from abroad .....or make goods for export in excess of what was previously sold abroad."

(2) Type II investments are mainly those made in response to technical improvements in production methods or because already installed capital equipment is worn out. ....It seems best to assure that such investments are neutral in terms of their effect upon the foreign balance."

(3) Type III investments are those which add nothing to the foreign balance; at least they add nothing directly.....While Type III production investments may add nothing directly to the available foreign balance, their indirect contribution may be substantial."

While broadly following Polak's three-fold classification of productive activities, Buchanan has rephrased each type of investment in his own words. Type I and Type II remain similar to those of Polak, but the Type III investments in Buchanan's scheme remain only apparently similar to that of Polak; in reality they are different, as such investments do not result in the production of exportable goods and when completed they produce income and partially result in increased demand for foreign goods. This leads us to the second stage of the argument about investment criteria.

The Polak-Buchanan criteria of investment were

criticized by Alfred E. Kahn in his "Investment Criteria in Development Programs,"<sup>40</sup> According to him, "The correct criterion for obtaining the maximum return from limited resources is marginal productivity - or, from the point of view of society as a whole, social marginal productivity (S.M.P.)....."<sup>41</sup> The social marginal productivity is determined by the relative abundance of factors of production; in other words, 'China will and should in general specialize in industries and use techniques requiring a lower capital:labor ratio than the United States.' This does not mean however that the capital:labor ratio as such should become a criterion; the S.M.P. viewpoint prevails, and 'the S.M.P. of capital is not correlated with the rate of turnover.' In some cases, 'substitution of capital for labor becomes possible and desirable.'<sup>42</sup>

Kahn contends that the Type III investment (as defined by Buchanan) does not involve any indirect threat to the balance of payments. His position may be summarized, in his own words, in the following propositions:<sup>43</sup>

"(1) It is possible for investments to yield additional products for domestic consum-

---

40. Quarterly Journal of Economics, Vol. 65, 1951, p. 38-61.

41. Ibid. p. 39.

42. Ibid. p. 41.

43. Ibid. p. 43.

ption, and to increase real national income, without increasing money income available for expenditure on (additional) imports;

- "(2) It is possible for such investments to yield additional money as well as real income without increasing imports;
- "(3) If it is assumed that the conditions necessary for the outcome above are absent, or that only those investments are included in the dangerous type III which do, ex port, increase national money income freely disposable for the purchase of (additional) imports, the thesis is tautological: the definition of type III necessarily implies a threat to the balance of payments, but provides no assistance in ascertaining, ex ante, whether any given investment which is intended to increase and which does indeed increase, the supply of products for the home market will turn out, ex port, to have fallen into this category. Yet Professor Buchanan implies very clearly, and erroneously, that all investments with this intention and consequences are almost certain to result in a weaker balance of trade.

In short, Professor Buchanan makes the apparently reasonable assumption of a marginal propensity to import greater than zero. Our argument reduces to the apparently surprising contention that his assumption is not reasonable."

The basic difference between Polak's definition of type III investments and Buchanan's type III investments is Polak's proviso with respect to the inflationary financing of the type III, which apparently escaped Buchanan's attention. If such investments are financed



through inflation, their pressure on the balance of payments will be similar to those anticipated by Polak. According to Professor Kahn, this is the only aspect of type III investments which will be dangerous from the point of view of balance of payments.

If the type III investments are financed in a non-inflationary manner, then according to Kahn, an increase in money incomes as a result of these investments will be matched by the relative increase in output. In other words, the increase in money income of the factor of production - F - will be equal to 'the absorption of purchasing power from G - G being the government providing for the investment, by reducing their expenditure on other goods equivalently.'<sup>44</sup> In such a situation, the net effect<sup>45</sup> on imports will be indeterminate, according to Kahn.

So far the analysis of the investment criteria was purely theoretical. H.B. Chenery made an attempt in his "The Application of Investment Criteria" to bridge<sup>46</sup> the gap between theory and practice. The countries on which his analysis is based are Greece, Turkey, Portugal

---

44. Kahn, op. cit., p. 44.

45. Ibid.

46. Quarterly Journal of Economics, Vol. 67, 1953, pp. 76-96.

and Southern Italy. The basic tool used by him is an approximation to the social marginal productivity. Three effects of investment projects have been taken into account: effects on national income, ~~an~~ the distribution of national income, and on balance of payments. He uses the formula:

$$S.M.P. = \left( \frac{V}{K} \right) \left( \frac{V + C}{V} \right) + \frac{Br}{K}$$

In the formula V is social value added domestically, K is increment to capital, C is total cost of domestic factors, B is total balance of payments effect, r is the marginal rate of substitution between Y (national income effect) and B, and measures the average over-valuation of the national currency at existing rates of exchange.<sup>47</sup>

Chenery takes his position nearer to Kahn than Polak and Buchanan in emphasising the desirability of adopting investment projects with low capital turn-over ratio. However, he modifies his formula with regard to the balance of payments criterion, and agrees with Polak and Buchanan, 'because there are relatively few investments which increase production for domestic use without at the same time increasing the requirements for producer imports.'<sup>48</sup>

---

47. Chenery, *op. cit.* p. 83.

48. *Ibid.* p. 93. Chenery believes, however, that the balance of payments effect is of limited value as a ceteris paribus test.

The conclusions reached by Kahn and Chenery ~~were~~ examined by W. Galenson and H. Leibenstein in their paper "Investment Criteria, Productivity, and Economic Development."<sup>49</sup> They are of the opinion that per capita output must be considered as an appropriate index of economic development as there are serious difficulties in adopting the maximization of per capita income or per capita level of consumption as indices for this purpose. They take into consideration the corollaries which may be deduced from the social marginal productivity rule: (1) to maximize the current output/investment ratio; (2) to maximize the labor/investment ratio; (3) to maximize the export goods/investment ratio. They confine themselves to the first two corollaries only.

With regard to output/investment ratio, Galenson and Leibenstein consider that capital turn-over corollary is an inappropriate criterion of investment: "... the capital-turnover corollary would appear to favor..... short-lived over long-lived capital. But if national capital is to be maintained, and the total effect on income stream is to be considered, then the length of life of any individual capital good is an irrelevant consideration."<sup>50</sup>

---

49. Quarterly Journal of Economics, Vol. 69, 1955, pp.343-370.

50. Ibid. pp. 346-347.

And again, "Where industries of increasing return with respect to scale are among the possible alternatives, it is likely that the capital-turnover criterion will result in the wrong choice. A constant or decreasing returns industry may have a higher capital-turnover ratio than an alternative increasing returns industry, but the increasing returns industry may in the long run make a greater contribution to national product."<sup>51</sup>

The second corollary of labor/investment ratio is also unacceptable to Galenson and Leibenstein. They consider that if an investment alternative absorbs less labor but adds more to total output, then that alternative is more consistent with S.M.P. than an investment which absorbs more labor and adds less output.

The writers claim that a likely consequence of the above two corollaries will be that the low labor productivity will be perpetuated. The solution, according to them, lies in increasing the capital/labor ratio which will determine output per capita. They take into consideration the problem of population growth in underdeveloped economies: 'the urban, industrially and commercially developing sectors, rather than rural agricultural areas

---

51. Galenson and Leibenstein, op. cit. p. 347.

provide the environment conducive to falling birth rate."<sup>52</sup>  
This leads them to conclude that the initial effort towards increasing capital must reach a critical minimum, 'so that it is not possible for population increases to reduce the average amount of capital per worker.'<sup>53</sup>

We may now summarize the main points of the argument:

1. Polak and Buchanan offer two criteria of investment: (1) capital turnover criterion; (2) balance of payments criterion.
2. Kahn says that Social Marginal Productivity as determined by the availability of the factors of production is the best criterion. In other words, if an economy possesses more labor and less capital, the investments of that economy should be labor intensive.
3. Chenery accepts Kahn's criterion that high capital turnover ratio is not consistent with the social marginal productivity. But he comes to the conclusion that the balance of payments considerations are very important for judging alternative investments.
4. According to Glansson and Leibenstein, the

---

52. op. cit., p. 363.

53. Ibid. p. 366.

best criterion of investment is capital intensity. They regard per capita increase in output as the basic goal of economic development, and for this purpose, they recommend extensive use of modern machinery in underdeveloped countries.

The above discussion indicates two distinct trends of thought: the balance of payments criterion of investment, and the S.M.P. criterion of investment. Within the scope of the S.M.P. there are differences as to the best combination of various factors of production, i.e., capital and labor. The main question is not which of the two criteria are more appropriate for underdeveloped countries; it is rather, are the two criteria incompatible? It seems impossible that either of them should independently be able to solve the problems of investment in underdeveloped countries. The S.M.P. principle, on its own, might lead to a blind alley. The balance of payments criterion might involve sacrifice of industries which may not directly expand the export sector, but at the same time such industries may be essential for the economy as a whole.

The social marginal productivity criterion requires that development should take place in such a

manner as to increase the external economies in the country, as well as encourage other factors of economic progress. The balance of payments criterion favors the establishment of industries producing export goods. The growth of such industries, however, will depend on the general economic environment of the country, i.e., the S.M.P. criterion, the external economies and all that. Now if a country devotes all its energies to the fulfilment of the S.M.P. principle, then until the time when the economy is capable of producing export goods there will be balance of payments difficulties; these difficulties might hinder the implementation of the S.M.P. principle itself. Therefore, it may become necessary for the country to encourage export industries side by side the development of other sectors in the economy. The higher the import-content ratio of capital goods required by the country, the greater will be the need to expand export industries; otherwise, the balance of payments deficits will not only create problems of their own, they will also affect the country's capacity to import capital goods. The social marginal product principle and the balance of payments principle are interdependent. The simultaneous consideration of both criteria seems to be an essential condition of economic development.

From the point of view of commercial policy, it

is necessary for a developing economy to increase not only the output or income per capita, but also to maximize the export/investment ratio. This conclusion conforms with our observations about Pakistan economy that we have made throughout this study.

We may now conclude this chapter with a summary of its main arguments:

1. It is necessary for the over-populated and backward agricultural countries to diversify their economies and to find solution to their problem of under-employment.
2. The diversification of the economy will create favorable circumstances for a developing country to enjoy the fruits of freer trade, and at a higher standard of living.
3. Commercial policy can provide strong indirect stimulus to industrialization with the help of techniques such as tariff-subsidy program, but the main stimulus must come from within the economy.
4. The commercial policy measures can be most useful when they are coordinated with the domestic measures.



5. With regard to the investment criteria, both external economies and export industries should be given equal importance.

## CHAPTER IX

### CONCLUSION

#### I.

International policies are largely determined by the nations which have power and independence. Power is determined by complex factors such as the economic circumstances, the geography, the political institutions, the business organization, the social traditions, and last but not least, the quality of leaders and the capacity of a nation to produce good leaders. Similarly, independence means not merely independence from foreign rule or domination; it is much more than that. Are power and independence inter-related? How do they interact on each other? The answers to these questions are difficult; they belong to the field of sociology, history, politics, and anthropology.

The role of a backward or a developing country in what is called The International Economics is, at best, vague; perhaps even passive, and sometimes defensive. Only one thing is clear: the backward countries do not set the tone of international policies. In view of this fact should we, then, under the title of "Commercial Policy and Economic Development", rather study how the 'big' nations formulate the international economic policies, ~~and~~ how do these policies affect the economies of underdeveloped countries?

That will not be the proper approach. It is true that the scope of world trade depends on how the important trading nations influence the international regulation of trade, the establishment of an international currency system, the future of the sterling and the U.S. dollar, and many such other matters. But it is perhaps because of this state of affairs that it is necessary to determine the scope of commercial policy of a small nation; to study how she can safeguard her interests in a world of free competition of 'national' interests. The fulfilment of the ideals of world trade depends on those who have the capacity to do so, in terms of power and independence. However, a small nation, within the limitations of practicability, can derive many benefits from a policy of 'freer trade', irrespective of whether the other nations practice free trade or protectionism. This has been our approach throughout this study. Therefore, we have avoided the direct discussion of international circumstances, and international institutions, as they affect a developing nation. We have emphasised only how the methods of trade control should be adjusted, from the point of view of the national and international welfare, to suit the requirements of an underdeveloped country.

## II.

Pakistan is economically backward; her perccapita income is below U.S.\$100.00. Her foreign trade is unimportant from the point of view of her national income, but as a means of procuring essential goods from abroad for her economic development, it is extremely important. A notable characteristic of her trade is the sudden and wide fluctuations in it. But if this were the only problem, it could be said in consolation that, in the long run, the country does not lose very much; the losses of downward fluctuations are compensated by the gains from a boom, even though the gain, as we mentioned in Chapter VI, is smaller than the loss from the cyclical fluctuations; in most cases, the commodities which are subject to a sudden fall in price are also subject to a sudden rise in price. A great deal has been written, particularly in the United Nations publications, on how the primary producing countries suffer from trade fluctuations because their capacity to accumulate foreign exchange reserves is less as compared to the changes in the value of their exports. This may be true, but the solution of trade fluctuations seems to lie not merely in increasing the size of the reserves but in diversifying the exports. The analysis of Pakistan's foreign trade problems supports this point of view.

The industrialization of a developing economy poses two important problems: the processing of an exportable raw material may or may not improve the country's capacity to export; it will depend mainly on the quality of the goods produced by the country and the prospects of international demand. This leads us to the second problem. The country may experience a breakdown in the existing direction of her foreign trade, if she starts processing the exportable raw materials at home; in other words, the countries which import raw materials from Pakistan may not necessarily be inclined to import manufactured goods from her, made from the same raw materials.

This is equally true of a different situation: Pakistan's raw cotton has been subject to a decline in the world demand since the end of the Korean boom. The establishment of cotton textile has in no manner improved her export prospects. The Jute, of course, is a special case. This does not lead us to the conclusion that a backward country should discourage the manufacturing activities. The basic need is to develop the export industries which should produce goods that the country can sell in the world markets. In this sense, the criteria of economic development may require a little adjustment in favor of what is called the balance of payments point of view.

In the world of expanding national incomes, a country specializing mainly in the agricultural commodities may not be able to derive full benefits from world trade. The low income-elasticities of demand for her commodities may tend to limit her capacity to expand her exports. A foreign trade model consisting of two countries, with one specializing in the agricultural products and the other in the industrial products, may not indicate, in reality, a situation of stable foreign trade equilibrium, particularly for the agricultural country. Even by the simple logic the prospects of trade equilibrium will be better for two countries with mixed economies. The facts of world trade tell us that the foreign trade between two industrial countries is greater in value and volume, than between an industrial country and an agricultural country.

Commercial policy plays an important part in regulating the imports of a developing country. The exports depend mainly on the factors which cannot be changed basically through trade regulation. The import policy for economic development may be devised in such a manner as to encourage the essential imports as against the non-essential imports. Now, the total volume of the essential imports required by the country will depend on her absorption capacity, her marginal propensity to import, the tempo and the rate of

economic development, the targets of economic planning, and the export capacity including the rate of foreign exchange earnings. All these elements will determine each other's scope, and their combined effects will indicate broadly whether the rate of economic development of the country, from the point of view of foreign trade, is fast, normal, or slow.

The above import policy for economic development will be flexible, according to our assumption; the distinction between essential and non-essential imports will be gradually removed, as the country becomes more developed. The present system of allocation of foreign exchange to various imports is defective and undesirable. We have suggested the auctioning of import licenses, to replace the present rigid and arbitrary restrictions. As far as the administrative efficiency is concerned, there may be scope for corruption in auctioning as well, similar to the corruption generally associated with import restrictions. But it is very difficult to find a system which is perfect and ideal. It is clear that auctioning will introduce the element of price mechanism in the allocation of foreign exchange to various imports. On the whole, auctioning will be more flexible than the

existing system of import controls.

The role of protective tariffs, subsidies and trade agreements in economic development is of a limited nature. Usually it is the strong political forces that shape them as well as sustain them. In the case of Pakistan the industrial vested interests are not yet strong enough to exert their full influence, but the economic benefits derived from tariffs, subsidies or trade agreements have been either nil or insignificant. It is not the intention here to deny the effectiveness of these weapons: particularly, tariffs can play a part in creating and expanding the benefits of external economies in the country, but they will have to be used as an integral part of the development plan, and only as a temporary measure.

Commercial policy can play no significant role in improving the terms of trade, if they are deteriorating. The solution lies, again, with the domestic economic policy. And in order to improve the domestic economic situation, it is the import capacity and not the terms of trade which seem to be important; in other words, the country must sell more even on disadvantageous terms, and thus earn more foreign exchange, than wait for the prices to become favorable.



### III.

The foreign trade of a developing economy such as Pakistan presents two transitional problems: first, the search for export markets for domestic goods, second, the search for a solution for the balance of payments difficulties. As we noticed during the course of our study, it is easier to find export markets for new products in the multilateral system of trade than in the bilateral system. Like free trade however, complete multilateralism is difficult to adopt for a country such as Pakistan unless her economy is in a position to dispense with trade restrictions, and to bear the shocks of external forces. Practicability, again, points out a compromise solution. Such a solution is nowadays referred to as the economics of regional cooperation.

There are various forms of regional cooperation: customs union, economic union, payments union, common market, and free trade area. Under the present circumstances, none of these forms of economic cooperation seem to have much scope for Pakistan. There is a great national enthusiasm abroad, in the countries of South and South-East Asia including Pakistan. Also these countries are developing almost identical industrial activities, and

are not in a mood to care for the supposed or apparent benefits of a regional union.

The other alternative is the payments agreements. Pakistan, as a member of the sterling area, enjoys a wider trade contact with the world than she would otherwise. Usually she has a deficit in her balance of trade both with the sterling and the dollar area. This deficit is normally compensated by her favorable balance of trade with 'other countries' including Japan. It seems that the deficit with the dollar and the sterling area is mainly the result of Pakistan's desire to import large volumes of essential goods ( including the capital goods) from these regions. The dollar deficit is more complex, as it can be settled only in dollars, unless there is a free convertibility of sterling into dollars, or there are special arrangements for clearing such deficits through commodity trade or aid. The non-dollar deficits, however, may be settled through multilateral payments and credit arrangements, within the scope of the sterling area system. This may be done in the following manner:

1. As far as possible, to carry the annual trade deficits to the years following, until they are cleared through mutual trade.
2. To extend credit to each other so as to

import goods from each other on deferred payment basis.

3. As far as possible, to settle deficits by arranging for greater imports to the surplus country from the deficit country, or by partly reducing imports to the deficit country and partly increasing imports to the surplus country.
4. To try to settle deficits with the surplus country through settlement of trade balance with a third country, when the third country happens to possess independent trade relations with both the countries concerned.

The above system of payments settlements could also be extended to the dollar area, with some adjustments. Apart from the international obligations that Pakistan has to fulfil as a member of the G.A.T.T. and the I.M.F., the above approach may become the basis of her commercial policy, and the aims of expanding her foreign trade by removing payments difficulties may be largely solved.

## APPENDIX A

1. Pakistan's rate of exchange.                      Rs. 4.76190 = US\$1.
2. Area of Pakistan:                                      365,907 Sq. miles.  
    East Pakistan.                                        54,501 Sq. miles.  
    West Pakistan.                                        311,406 Sq. miles.
3. East and West Pakistan are about 1,000 miles apart;  
    East Pakistan being on the south-east of India, and  
    West Pakistan on the north-west of India.
4. 1 lakh (or lac)    =    100,000.  
    1 crore                =    10,000,000.

## APPENDIX B

### SIX YEAR DEVELOPMENT PLAN

The Plan was prepared in the middle of 1950 and became part of the Colombo Plan for Cooperative Economic Development of South and South-East Asia. The original targets of the Plan were as follows:

		Rs. Million	Per cent.
Agriculture.		820	32
Transport & Communications:			
Railways.	200 0		
Roads.	100 0		
Ports.	140 0	530	20
Telecommuni- cation.	90 0		
Fuel & Power.		470	18
Industry & Mining.		490	19
Social Capital:			
Housing.	40 0		
Health & Medical.	40 0		
Education.	100 0	290	11
Technical training and polytechniq- ues.	90 0		
Water supply.	20 0		
		2,600	100

The largest contribution of the Plan was made to the agricultural sector. The aim was to develop and improve, in order of precedence, irrigation, land settlement, anti-waterlogging measures, varieties of seeds, fertilizers, mechanization, animal husbandry, fisheries, and other miscellaneous schemes.

In Transportation and Communications section, the Plan provided for repair and replacement of railways, building of roads, and the development of Chittagong port.

In Industry & Mining, the Plan contemplated the establishment of six jute mills with a capacity to produce 130,000 tons of jute goods a year. The other major industries were cotton and paper.

The greater part of the total expenditure in the Plan was to be incurred by the central government owing to the nature of the schemes to be financed, i.e., electric power, transport, ports and irrigation. In the industrial sector, the Plan envisaged independent investment and participation with government financed projects from private individuals. The following is the summary of the sources of finance for the Plan:

Internal and External Finance for Investment.  
1951-57.

	Rs.(Million)
Development program	2,600
of which -	
Public Investment.	2,200
Private Investment.	400
Private investment outside the program and resettlement expenditure.	450
Total investment.	3,050
Internal Financial Resources	1,700
of which -	
Private savings.	1,200
Public funds.	500
	Cont.....

Balance of Payments deficits.	1,350
Financed by sterling balances.	150
Other external finance required.	1,200

Some of the targets of the Plan were later revised, particularly in 1952. They are mentioned in their revised form in Chapter VIII.

## APPENDIX C

### BROAD OUTLINES OF THE FIRST FIVE YEAR PLAN

The Plan is designed to achieve the following objectives:

- "1. To raise the national income and the standard of living of the people;
2. To improve the balance of payments of the country by increasing exports and by production of substitutes for imports;
3. To increase the opportunities for useful employment in the country;
4. To make steady progress in providing social services: housing, education, health and social welfare; and,
5. To increase rapidly the rate of development, especially in East Pakistan and other relatively less developed areas."

The Plan is divided between the private sector and the public sector. The estimated costs of the schemes in the public sector are as follows:

	Rs.(Million)
Village AID and rural development outside village AID area.	243
Agriculture (Including colonization, animal husbandry, forestry, and fishing.	886
Water and power development.	2,601
Industry(including fuels & minerals	1,076
Transport & Communications.	1,642
Housing & settlement	771
Education & training.	581
Health.	287
Social welfare.	33
Labor and employment, and Miscell.	16
Reserves.	1,100
	<hr/>
	9,236
less likely shortfall	1,236
Estimated net expenditure.	8,000



As against the estimated net public expenditure of Rs. 8000 million, the private investment was estimated at Rs. 3,600 million during the plan period. The total amount of Rs. 11,600 million was to be financed as follows:

	Rs.(million)
Public savings.	1,500
Private savings.	5,900
Total savings.	7,400
External finance.	4,200
Total sources.	11,600

The village AID (Agricultural and Industrial Development) is aimed at providing the rural areas with increased production in agriculture and village industries, and thereby to increase the income of the rural people. With regard to agriculture, the Plan envisaged increased production of food and cash crops of the country, development of fisheries, animal husbandry, soil conservation, extension of rural credit, research in agricultural problems, development of water and water-power, and reforms in the tenancy system.

Industrial development, under the Plan, is expected to consolidate the progress already made, and further expand the country's capacity, leading to an estimated 70 per cent increase in production. In making various schemes for industrial development the Plan gave particular

consideration to foreign exchange problems and development of industries which would support those now in existence.

The plan envisaged reconditioning and improvement of railways. In regard to roads, the expenditure was almost equally divided between new construction and improvements of the existing mileage of roads. Also, the development of inland water transport, port facilities, air transport facilities, and improvements of postal services were given due consideration.

In housing and settlement the Plan emphasises survey, planning, designs, research and education. Improvements in urban facilities and of rural towns are also provided for in the Plan. In education and training, the emphasis has been laid on technical education, scientific research and teacher training. With regard to health, social welfare and labor the plan envisaged necessary improvements during the plan period.

---

Table			
Agricultural Output Targets 1955-60			
Food grains:		Miscellaneous:	
Rice.	11 %	Fruit & Vegetables.	17 %
Wheat.	17 %	Sugar cane	38 %
Maize.	25 %	Tea.	1.3 %
Others.	13 %	Tobacco.	1.6 %
Fibre crops:		Fish.	30 %
Jute.	15 %	Forest products:	
Cotton.	38 %	Timber(sawn & Square)	750 %

---

Projected Large Scale Industrial Development 1955-60

Table.

Industry.	Installed capacity, April, '55.	Installed capacity, April, '60	Investment required for increased capacity. (crores rupees.)
Agricultural processing:			
Cotton ginning (lakh bales)	20	22.5	1.62
Tea manufacturing (crores pounds)	5.5	6.0	0.6
Food products:			
Sugar (tons)	115,000	235,000	22.59
Cigarettes (crores)	450.0	750.0	3.10
Textiles:			
Cotton Textile:			
Lakh spindles.	16.8	20.5	21.26
Looms.	20,000	33,000	
Jute manufacture			
Looms.	3,300	12,000	17.30
Paper:			
Newsprint.(tons)	nil	23,000	10.74
Card/straw board (tons.)	nil	35,000	4.98
Hard-board (tons).	nil	12,000	1.92
Chemicals:			
Sulphuric acid (tons).	12,330	18,330	0.25
Caustic soda(")	6,000	26,000	4.09
Rayon & Cellephane (tons).	nil	5,400	7.02
Penicillin(lakh mega-units).	nil	80	0.91
Fertilizers. (tons.)	nil	162,000	7.72
Cement & Glass:			
Cement.(tons)	670,000	1,280,000	7.94
Glass(hollow-ware and sheet). (tons).	20,000	44,800	1.50
Iron & Steel:			
Steel re-rolling: (tons).	125,000	155,500	1.35.

# APPENDIX D

## PAKISTAN'S BALANCE OF PAYMENTS million Rs.

	1948	1949	1950	1951	1952	1953	1954	1955
All Countries								
Receipts.	766.8	1,051.2	1,363.0	2,878.5	1,916.0	1,554.9	1,274.6	1,767.7
Jute export.	210.8	375.7	521.2	1,226.1	729.5	579.1	555.6	774.3
Cotton export.	345.2	282.6	549.3	1,092.5	807.1	638.0	369.8	431.4
Other export.	148.8	182.0	178.6	377.8	165.7	186.6	223.7	366.4
Other receipts.	62.0	210.9	113.9	182.2	213.6	151.2	125.4	195.6
Payments.	796.9	1,500.5	1,511.4	2,361.2	2,766.6	1,432.5	1,436.7	1,482.0
Imports on private account.	365.5	849.7	975.8	1,521.1	1,859.9	823.5	806.8	716.4
Imports on other payments and government account.	352.0	473.1	333.4	563.2	591.9	382.9	418.6	498.2
Other payments.	79.4	177.7	202.4	276.9	314.9	226.1	211.3	267.4
Balance.	-30.1	-449.3	-148.4	517.2	-850.6	122.4	-162.1	285.7
Dollar Area								
Receipts.	111.0	113.6	137.8	139.1	101.3	130.5	113.1	213.4
Payments.	142.0	267.1	183.7	383.7	236.0	200.4	127.9	184.4
Balance.	-31.0	-153.5	-45.9	-244.6	-134.7	-69.9	-14.8	29.0

Cont....

	Sterling Area							
Receipts.	220.8	497.2	491.6	1,208.3	659.2	575.2	546.2	735.5
Payments.	525.8	835.7	848.5	1,172.3	1,565.9	872.6	869.6	905.6
Balance.	-305.0	-338.5	-356.9	36.0	-906.7	-297.4	-323.4	-170.1
	Other Countries.							
Receipts.	435.0	440.4	733.6	1,531.1	1,155.3	849.3	615.2	818.3
Payments.	129.1	397.7	479.2	805.3	964.7	359.6	439.0	390.4
Balance.	305.9	42.7	254.4	725.8	190.6	489.7	176.2	427.9

---

Source: Central Statistical Office.

## APPENDIX E

### SOME DETAILS OF PROTECTION TO INDUSTRIES IN PAKISTAN

<u>Name of Industry.</u>	<u>Measures of Protection/Assistance.</u>
1. Grinding Wheels	<p>(a) Protective duty of 80 % ad valorem imposed on grinding wheels of sizes up to and including 14" diameter with immediate effect.</p> <p>(b) Synthetic abrasive grains and bonding material known as 'bond' both used in the manufacture of grinding wheels exempted from customs duty leviable thereon.</p> <p>(c) Bed of the river Chenab to be surveyed to find out whether carborandum of good quality used for manufacturing grinding wheels is available in adequate quantities.</p> <p>(d) Electrical power and technical advice and assistance to be provided to grinding wheels manufacturers to enable them to work all their machines to capacity.</p>
2. Lathes.	<p>(a) A survey to be made of the different types and sizes of lathes at present installed in the factories and workshops in Pakistan and of the future annual requirements of the different types and sizes of lathes.</p> <p>(b) Every lathe manufactured, whether it is against government order or for the civilian consumption to be inspected at government cost.</p> <p>(c) An account of the imports of lathes to be kept separately by customs authorities.</p> <p>(d) A rebate of duty paid in excess of 5 % ad valorem to be allowed on raw materials used by the industry.</p>

3. Paints, Colour & Varnish. A rebate of duty paid by the manufacturers of the paints, colour and varnishes in excess of 15 % to be granted on raw materials imported for the industry. The period of protection has now been extended to March 31, 1956.
4. Bidi.
- (a) Protective duty of 50 % ad valorem imposed on all types of imported bidis.
- (b) The excise duty on locally produced unmanufactured tobacco intended for use in bidis reduced from 12 annas to 6 annas per lb.
- (c) Special attention to be paid to the development of types of tobacco available for bidi industry and to provide facilities for the flue curing of tobacco in East Pakistan.
- (d) Experiments to be made to find out if Tandu plant or any other plant whose leaves are suitable for bidi making can be grown successfully and economically in any part of Pakistan.
5. Industrial type Power Switch boards. A rebate of duty paid by manufacturers of industrial type power switchboards in Pakistan granted on raw materials actually consumed by the industry. Protection period extended upto December 1955.
6. Electric Fans. The duty of 45 % ad valorem on electric fans converted into a protective duty.
7. Hurricane Lanterns.
- (a) A protective duty of 40 % ad valorem imposed on the imported Hurricane lanterns.
- (b) Full rebate of duty to be allowed on raw materials consumed in the manufacture of Hurricane lanterns.
- (c) Special consideration to be given to the licensing to raw materials used by the industry.
- (d) Special shipping facilities to be

- granted for the transport of Hurricane lanterns in East Pakistan.
8. Motor car and Cycle pumps. A protective duty of 100 % ad valorem imposed on (i) foot pumps and hand pumps for motor car and (ii) cycle pumps made of metal or plastic materials.
9. Leather footwear. (a) The revenue duty of 40 % ad valorem converted into protective duty.
- (b) A pilot plant to be set up within the Central Technical Institute at which facilities for imparting training in modern methods of shoe manufacture.
10. Steel re-rolling (a) Protection to be granted to the industry if at any time it finds itself faced with serious competition from imported goods of the type and class which it is able to manufacture.
- (b) The services of an expert on steel re-rolling industry to be obtained for the work of revamping and modernization of steel re-rolling mills in Pakistan.
11. Umbrellas. The customs duty on umbrella cloth of the description given reduced to 25 % ad valorem if imported from U.K. and to 30 % ad valorem if imported from other sources.
- Description: cotton umbrella cloth, dyed fast black not more than 22" in width with edge borders not less than 1/4" in breadth beginning at a distance of 1" or more from the edge borders and covering in all a breadth of not less than 1-1/4".
12. Macaroni, Spaghetti, and Vermicelli. The revenue duty of 45 % ad valorem converted into a protective duty.
13. Fruit Preserving (a) A rebate of duty at the rate of Rs. 7 per cwt. to be allowed on sugar consumed in the manufacture of fruit preserves exported out of Pakistan.
- (b) Provision to be made of adequate number of refrigerator vans on the



Railways for transportation of fresh fruits and vegetables and measures to be adopted by the Railway administration to stop pilfrage of fresh fruits etc., in transit.

(c) Arrangements to be made with shipping companies for the provision of cold storage facilities in ships plying between East and West Pakistan.

(d) Facilities to be provided to the industry for import of labels.

14. Sodium Silicate. A protective duty of 60 % ad valorem imposed on the import of sodium silicate from abroad.

15. Locks. The 40 % ad valorem duty raised to 80 % ad valorem duty.

16. Steel Castings. (a) Price control on steel scraps to be reimposed if necessary and the price of melting scraps of different categories to be fixed to the industry at reasonable price.  
(b) The question of the grant of a subsidy to the industry to be investigated by the Ministry of Industries in consultation with the Tariff Commission.

17. Matches. The present system of excise duties and import duties on different types of matches to be simplified as soon as possible.

18. Wire Netting. The revenue duty of 30 % ad valorem changed into a protective duty.

19. Washing Soap. (a) Private individuals to install a tallow rendering plant.

(b) The scheme of the Government of East Bengal for the establishment of the Copra crushing industry to be speeded up in order to free the soap industry from the necessity of importing coconut oil from abroad.

(c)

(c) The import of soap stone, which is

used as an adulterant in the soap industry to be discouraged.

20. Toilet Soap.

(a) The toilet soap manufacturers to be afforded facilities to enable them to get their labels printed in foreign countries until such time as adequate facilities for quality printing become available in Pakistan.

(b) A qualified soap technologist to be appointed whose services shall be freely available to the toilet soap industry.

(c) The local manufacturers to be persuaded and encouraged to install Glycerine recovery plant in their factories and if for this purpose technical or financial assistance is required from the Government, this is to be provided as far as possible.

21. Canvas Footwear.

(a) The present protective duty of 40 % ad valorem on boot and shoes to continue upto March 31, 1956.

(b) Facilities to be provided for the regular supply of raw materials to the industry as far as possible by issuing licenses for the purpose. The local industry to be persuaded to use as much of the local raw material and semi-finished products as possible.

22. Cycle tyres and tubes.

(a) Standard specification for the indigenous cycle tyres and tubes to be set out by the Government.

(b) Facilities to be provided in the Government Laboratories for carrying out all kinds of tests on indigenous cycle tyres and tubes and on the raw materials used in their manufacture.

(c) The test laboratories to be empowered to issue certificates of quality in terms of standard specifications, if required by the consumers.

23. Diesel Oil Engines
- (a) The existing rate of revenue duty of 5 % ad valorem enhanced to and converted into a protective duty of 35 % ad valorem on imported diesel oil engines upto 50 H.P. both horizontal and vertical and their spare parts. This, however, does not apply to marine engines and diesel engines coupled with electric generators.
  - (b) Satisfactory arrangements to be made for importing blooms. The concessions already given in respect of railways freight on pig iron, cast iron, scrap and billets to be extended to blooms.
  - (c) A representative of the Department of Supply and Development to be associated with the authorities responsible for giving electric connections and fixing quota of electric supplies to the industry.
  - (d) A testing laboratory to be set up and testing facilities to be made available to the industry free of charge. Government to appoint also an expert to give technical advice to the industry.
  - (e) Suitable arrangements to be made for grading the diesel oil engines manufactured in the country for making the graded engines.
  - (f) Government arrange to give guidance to the diesel oil engines manufacturers for maintaining accounts in the proper manner.
  - (g) Government to purchase their requirements locally, as far as possible.
24. Battery and Battery Plates.
- (a) Government to provide technical assistance to the industry by obtaining technical experts under the Technical Assistance Programme.
  - (b) Facilities to be given to the industry for the import of raw materials viz., lead oxides, containers and separators.
  - (c) If lead is purchased locally,

manufacturers to be allowed to move lead from their buying centres to their factories consistent with the regulations in force and having regard to their previous production.

25. Iron safe and  
Almirahs.

(a) The present revenue duty of 30 % ad valorem on iron safe, steel almirahs, filing cabinets, cupboards and wardrobes converted into protective duty.

(b) To establish a branch laboratory at Gujranwala or a section in any laboratory in Lahore to enable the manufacturers to determine the quality and the strength of their raw materials and finished products.

(c) To appoint a Technical Expert for helping manufacturers in acquiring knowledge of the latest developments in this field and making his services freely available to the home manufacturers.

(d) To send promising Pakistanis engaged in the industry to visit manufacturing centres of this industry in the United Kingdom and other places.

(e) The principal raw materials required by the industry to be made available to it in adequate quantities and at reasonable prices.

(f) Government Departments to patronize local products provided they come up to the prescribed specifications.

(g) Recommendations regarding industries presale and post-sale service also accepted.

26. Incandescent  
Electric Lamps.

(a) The existing revenue duty of 60 % ad valorem converted into a protective duty.

(b) Licenses for importing raw materials to be granted liberally.

(c) Facilities to be provided by Government for conducting research into the quality of raw materials, either in Government sponsored institutions or in collaboration with local industries. These facilities to be made available to all the manufacturers of incandescent electric lamps.

27. Plastic and  
Fountain Pens.

(a) A protective duty of 60% ad valorem on switches and 50% ad valorem on plugs and cut-outs, ceiling roses and pendent holders' imposed.

(b) The revenue import duties on the under-mentioned plastic goods:-

- (i) Combs, Hair slides and grips;
- (ii) Bangles;
- (iii) Tooth-brushes and
- (iv) Soap boxes, buttons and conical tubes, converted into protective one. The import duties on fountain pens and ball-point pens will also be changed into protective duties.

(c) Import duty of 37½% ad valorem on moulding powers abolished.

(d) Full rebate of duty paid by the manufacturers of fountain pens and ball-point pens on imports of fountain pen nibs, gold plated nibs and re-fills consumed in the industry granted.

(e) The Department of Supply and Development to provide technical assistance and advice to the factories manufacturing electrical accessories and fountain pens and ball-point pens.

(f) Government Departments and canteens to purchase locally produced products.

28. Brushes.

(a) The present practice of exempting all sorts of bristles (including Mexican fibre) imported for the manufacture of brushes from abroad, from customs duty to continue.

(b) The existing revenue duty of 30% ad valorem on brushes converted into a protective duty.

(c) Import licences for hog bristles and other raw materials to continue to be granted liberally to brush manufacturers as well as to the local importers of the bristles (who supply cottage scale workers with these materials).

29. Gripe Cure  
Mixture.

(a) The Provincial Governments concerned to be required to provide adequate staff for the enforcement of Drugs Control Act and its rules to ensure the quality of the products.

(b) Facilities to be provided for the import of such essential equipment as cannot be manufactured in the country and for the import of raw and packing materials required by the industry, subject to the availability of foreign exchange and competing demands from other industries.

30. Pulleys.

Protection granted to the indigenous industry manufacturing pulleys for a period of three years ending August 31, 1958. The Government have also imposed with immediate effect a protective duty of 30% ad valorem on all sizes of American type and wrought iron pulleys imported as such.

The Government have also accepted as a measure of assistance to provide facilities at Karachi, Lahore and Dacca for testing the "trueness" of the pulleys products by local manufacturers; and also to provide adequate supplies of raw materials, steam coal and hard coke to the industry for manufacturing pulleys.

31. Fire Bricks  
Industry.

The Government of Pakistan have on the recommendation of the Tariff Commission, decided to grant protection to the fire bricks industry for a period of three years ending September 11, 1958. They have imposed a protective import duty of 30% ad valorem on Fire Bricks having alumina content upto 50 per cent.

The fire bricks having alumina content exceeding 50 per cent will be allowed to be imported duty-free as usual.

The following are some of the other recommendations of the Tariff Commission for the protection to the industry that have been accepted by Government.

(a) The Department of Supply and Development should advise the industry regarding the additional equipment and testing apparatus required to be installed. Facilities should also be provided in the existing laboratories for carrying out more elaborate tests on fire-clay and finished products.

(b) The Department of Geological Survey should carry out complete tests on Bauxite available in Azad Kashmir.

## APPENDIX F

### EXCERPTS FROM PUBLIC ENQUARIES HELD BY THE PAKISTAN TARIFF COMMISSION

#### 1. Lathe Industry.

- a. 'Mr. Latif of the Batala Engineering Company said that his firm could manufacture up to 25 lathes per month, but that in spite of his best efforts he was unsuccessful in selling any lathe in Pakistan to private industry, though the quality and performance of his machines were equal to any imported similar lathes....'
- b. 'The representatives of the Sind Industrial Corporation said that his firm was using Pakistani machines and were "quite satisfied" with their performance, though they were not fit for precision work.'

Pakistan Trade, Vol. 1, No. 4, Sept:1950.

#### 2. Hurricane Lantern Industry.

- a. 'He (representative of manufacturers) appealed for the complete ban on imports of hurricane lanterns. If that were not possible, he suggested that the following measures to assist the industry to stand against the imported article:-
  1. Minimum possible ceiling for imports of lanterns.
  2. Protective duty to be charged on imported articles.
  3. Reduction in customs duty on raw materials imported from abroad which go into production of hurricane lanterns.'

Pakistan Trade, Vol. 1, No. 4.

#### 3. Electric Fan Industry.

- a. 'The representatives of the importers stated that although the price of some of the imported fans was higher, there was a large unsatisfied public demand for electric fans, so much so that orders had to be refused. They further stated that the quality of the imported fans was superior and that was the main reason why the buyers preferred foreign fans even at higher prices.'

Pakistan Trade, Ibid.



#### 4. Glassware Industry.

- a. '..... The Commission (Tariff Commission) found that the glassware industry in Pakistan had not adopted modern methods of production, and that the greater portion of their products are produced by mouth blowing, which does not give the same uniformity in size, shape and weight as automatic or even semi-automatic methods.'
- b. 'The Manufacturers' representatives stated that the main reasons for their inability to compete with the foreign glassware were scarcity and high prices of raw materials and fuels.....'

Pakistan Trade, Vol. II, No. 7, July 1951.

#### 5. Fruit Preserving Industry.

- a. Pleading their case the Manufacturers represented that whereas the c.i.f. prices of sugar was Rs. 17 per maund, the import duty was Rs. 14-11-3 per maund, i.e., 87.2 % ..... The Commission was informed that in Australia, for example, where industry was helped by the Australian Government, sugar was supplied to it at the lowest world rate with the help of a subsidy from Government, if necessary.'

Pakistan Trade, Vol. II, No. 8, August,  
1951.

#### 6. Plastic Industry.

- a. 'Price Issues: As for electrical accessories, it was found that apart from G.E.C. products, the accessories imported from Japan, West Germany and the U.K. were cheaper in prices than the local products. The reason given for this by the manufacturers was that they incurred overhead charges on account of smaller production, and had to pay import duty, in some cases, sales taxes on raw materials.'

Pakistan Trade, Vol. II, No. 8.

#### 7. Rayon Industry.

- a. 'Enumerating the difficulties experienced by them in running the power looms, the manufacturers said that they had to pay higher wages per unit of production as compared to wages in other countries, for example, in

Japan, where the labour efficiency was very high..... Secondly, rayon yarn for home consumption in foreign countries was available at lower prices as compared to the prices they had to pay which included packing and freight charges and customs duty at 35 %. Thirdly, the industry in Japan was organized into various branches industries such as winding, warping, bleaching, dyeing, finishing industries which they said proved more efficient and more economical. Fourthly, the capital outlay in Pakistan was much higher owing to the currently high prices of machinery.....the running costs were also high owing to higher electric rates, higher prices of mill stores etc.....'

Pakistan Trade Vol. III, No. 6, June 1952.

8. Toilet Soap.

- a. 'The manufacturers did not agree with the Departmental (Department of Supply and Development, Government of Pakistan) estimate regarding capacity but they admitted that the actual production had been low. They, however, contended that this was because of difficulties in the procurement of raw materials and the high duty imposed thereon, as also because of the low duty on the imported toilet soaps.'

Pakistan Trade Vol. III, No. 8, August 1952

9. The Lock Industry.

- a. 'Discussing the difficulties and demands put forward by manufacturers of locks, the chairman of the Tariff Commission, Dr. Nazir Ahmad, explained to the representatives of the industry about the availability of loans from Industrial Finance Corporation, the incidence of sales tax on an annual turn over exceeding Rs. 36,000 and the technical assistance being made available to industrialists by Development Wing of the Central Ministry of Industries. Other aspects of the industry such as co-ordination of manufacturing and marketing, abolition of import duties on raw materials, welfare arrangements and amenities for workers, difficulty of bank advances against finished products, inadequacy and irregularity in supply of water, electric power and technical advice, grant of facilities for licensing the import of raw materials and relaxation of bank deposits for bona fides manufacturers were set out in a memorandum which the Commission examined in detail.'

Pakistan Trade Vol. III, No. 12, Dec., 1952.

10. Brush Industry.

- a. 'Representatives of the manufacturers very strongly pressed that although they had enough capacity to meet all the requirements of the country in toilet brushes, household brushes and even in paint brushes, it was mainly because of the non-receipt of import licenses for the required quantities.....of nylon and bristles that they were unable to produce up to even half of their production capacity.....'

Pakistan Trade Vol. V, No. 1, Jan. 1954.

11. Drugs and Pharmaceutical Industry.

- a. 'The manufacturers brought to the Commission's notice the following main difficulties faced by the industry and asked for their removal:
  - a. high rate of duty on raw materials, containers and packing materials,
  - b. short supply of raw materials and delay in the issue of import licenses,
  - c. high price for sugar for use in syrups,
  - d. imposition of sales tax on almost all the raw materials and the accessories as against exemption from sales tax of imported finished drugs and pharmaceuticals.
  - e. high excise duty on rectified spirit and variation in excise duties in the different provinces,
  - f. non-issue of import license for further development of the industry,
  - g. keen competition from some countries enjoying a preferential rate of duty.'

Pakistan Trade, Vol. VI, No. 1, Jan. 1955.

# APPENDIX G

## NET IMPORT OF RAW MATERIALS IN WESTERN EUROPE AND NORTH AMERICA

1953-55 and 1973-75

000 million dollars, f.o.b.  
at 1953-55 prices.

Commodity groups.	Western Europe		North America		Total	
	1953-55	1973-75	1953-55	1973-75	1953-55	1973-75
Fuels.	1.5	4.3	0.4	0.5	1.9	4.8
Ores & Metals.	1.0	2.2	0.65	0.8	1.65	3.0
Textile Fibres.	2.1	1.7	-0.15	<del>/-0.5 - -0.95/</del>	1.95	<del>/1.55-0.75/</del>
Rubber.	0.35	..	0.35	..	0.7	0.75
Sum of Materials listed.	4.95	(8.7)	1.25	<del>/1.40- 0.60/</del>	6.20	<del>/10.1-9.3/</del>
Other Materials.	1.25	(1.9)	-0.1	0	1.15	1.9
Total Raw Materials and Fuels.	6.20	<del>(10.6)</del>	1.15	<del>/1.40-(0.60)/</del>	7.35	<del>/12.0-11.2/</del>

Copied from International Trade 1956, G.A.T.T., Geneva, June 1957. p. 21

## BIBLIOGRAPHY

1. Abramovitz, M. Economics of Growth, in A Survey of Contemporary Economics, Vol. II, American Economic Association. Homewood, Ill. 1952.
2. Adler, J.H. The Undeveloped Areas: Their Industrialization. New Haven, 1949.
3. Agrawal, A.N. (ed.). Industrial Problems of India, Delhi, 1952.
4. Ahmad, Nazir. Protection for Pakistan Industries, Karachi Commerce (Karachi), May 24 and 31, 1952.
5. Alexander, S.S. Devaluation Vs Import Restrictions as an Instrument for Improving Foreign Trade Balance, in International Monetary Fund Staff Papers, Vol. 1, 1950-51.
6. \_\_\_\_\_ Effects of Devaluation on a Trade Balance, International Monetary Fund Staff Papers, Vol. 2, 1951-52.
7. Allen, G.C. A Short Economic History of Modern Japan, London, 1946.
8. American Economic Association. A Survey of Contemporary Economics, Vols. I & II, Philadelphia and Homewood, Ill., resp., 1949 and 1952.
9. \_\_\_\_\_ Readings in the Theory of International Trade, London, 1950.
10. \_\_\_\_\_ Readings in Price Theory, London, 1953.
11. Anderson, K.L. Tariff Protection and Increasing Returns, in Explorations in Economics, New York, 1936.
12. Andersen, P.N. Bilateral Exchange Clearing Policy, London, 1946.
13. Angell, J.W. The Theory of International Prices, Cambridge, Mass., 1926.
14. Anstey, Vera. The Economic Development of India, 4th Ed., New York, 1952.

15. Aubrey, H.G. Deliberate Industrialization, Social Research, 1949.
16. \_\_\_\_\_ The Long-term Future of United States Imports and its Implications for Primary Producing Countries, American Economic Review, Papers and Proceedings, Vol. 1955.
17. \_\_\_\_\_ Small Industries in Economic Development, Social Research, Vol 18, 1951.
1. Baran, Paul A. National Economic Planning, in A Survey of Contemporary Economics, Vol.II. See American Economic Association.
2. Bauer, P.T. and Yamey, B.S. Economic Progress and Occupational Distribution, Economic Journal, 1951.
3. Bauer, P.T. West Africa Trade, Cambridge, 1954.
4. Bauer, P.T. and Paish, F.W. Reduction of Fluctuations in Incomes of Primary Producing, Economic Journal, Vol. 62, 1952.
5. Baloch, Ashiq Hussain. Sialkot's Surgical Goods Industry, The Pakistan Times, Lahore, November 25, 1957.
6. Balogh, T. Foreign Exchange and Export Policy, Economic Journal, 1940.
7. \_\_\_\_\_ A New View of the Economics of International Readjustment, in Review of Economic Studies, Vol. 14, 1946-47.
8. \_\_\_\_\_ Note on the Deliberate Industrialization for Higher Incomes, Economic Journal, 1947.
9. Beach, W.E. Some Aspects of International Trade under Monopolistic Competition, in Explorations in Economics, Notes and Essays contributed in Honor of F.W. Taussig, New York, 1936.
10. Becker, G.S. A Note on Multi-Country Trade, American Economic Review, Vol. 42, 1952.
11. Benham, F. The Colombo Plan and Other Essays, London, 1956.

12. \_\_\_\_\_ The Terms of Trade, *Economica*, November 1940.
13. Bernstein, E.M. Some Economic Aspects of Multiple Exchange Rates, *International Monetary Fund Staff Papers*, Vol. 1, 1950-51.
14. Beverage, W.H. and Others. Tariffs: The Case Examined, London, 1931.
15. Bidwell, P.W. The Invisible Tariff, New York, 1939.
16. Boeke, J.H. Economics and Economic Policy of Dual Societies, New York, 1946.
17. \_\_\_\_\_ The Evolution of the Netherland Indies Economy, New York, 1946.
18. Boulding, K.E. Economic Analysis and Agricultural Policy, in *Canadian Journal of Economics and Political Science*, August 1947.
19. \_\_\_\_\_ Religious Foundations of Economic Progress, *Harvard Business Review*, May 1952.
20. Brown, A.J. Industrialization and Trade, London, 1943.
21. Brown, W.A. The United States and the Restoration of World Trade, Washington D.C., 1950.
22. Brown, W.G. General Agreements on Tariffs and Trade, in *Foreign Economic Policy for the United States*, S.E. Harris, Ed., Cambridge, Mass., 1948.
23. Brozen, Y. Invention, Innovation and Imitation, *American Economic Review*, Papers and Proceedings, May, 1951.
24. Buchanan, N.S. Deliberate Industrialization for Higher Incomes, *Economic Journal*, 1946.
25. \_\_\_\_\_ International Finance, in *A Survey of Contemporary Economics*, Vol. II. American Economic Association, op. cit.
26. \_\_\_\_\_ International Investment and Domestic Welfare, New York, 1945.
27. \_\_\_\_\_ and Ellis, H.S. Approaches to Economic Development, New York, 1955.

1. Carr, R.M. Note on the Role of Price in the International Trade Mechanism, Quarterly Journal of Economics, 1931.
2. Chang, Pei-King. Agriculture and Industrialization, Cambridge, Mass, 1949.
3. Chenery, H.B. The Application of Investment Criteria, Quarterly Journal of Economics, Vol. 67, 1953.
4. Clark, Colin. The Conditions of Economic Progress, 3rd Ed., London, 1958.
5. \_\_\_\_\_ Report to the Government of Pakistan, Pakistan Economist (Karachi), December 10, 1952 and January 10, 1953.
6. Clemence, Richard V. and Doody, F.S. The Schumpeterian System, Cambridge, Mass. 1950.
7. Conan, A.R. The Sterling Area, New York, 1952.
8. Condliffe, J.B. Technological Progress and Economic Development, Delhi, 1951.
9. da Costa, E.P.W. and Rangachari, K. The Economic Development of South-East Asia, Eastern Economist Pamphlet, New Delhi, 1955.
1. Datta, B. The Economics of Industrialization, Calcutta, 1952.
2. Davis, K. The Population of India and Pakistan. Princeton, 1951.
3. de Vries, B.A. Immediate Effects of Devaluation on Prices of Raw Materials, in International Monetary Fund Staff Papers, Vol. 1, 1950-51.
4. Dobb, Maurice. On Economic Theory and Socialism, London, 1955.
5. \_\_\_\_\_ Some Aspects of Economic Development, Delhi, 1951.
6. Domar, E.D. Expansion and Employment, American Economic Review, 1947.
7. \_\_\_\_\_ The Problem of Capital Accumulation, American Economic Review, 1948.



8. Dorrance G.S. The Income Terms of Trade, Review of Economic Studies, Vol. 16, 1948-49.
9. Duesenburry, J.S. Income, Saving, and the Theory of Consumer Behavior, Cambridge, Mass. 1949.
10. \_\_\_\_\_ Some Aspects of the Theory of Economic Development, in Explorations in Entrepreneurial History, Vol. III, No. 2.
1. Economic Commission for Asia and the Far East, United Nations. Economic Bulletin for Asia and the Far East, Vol. 1 - Vol. VIII.
2. \_\_\_\_\_ Economic Survey of Asia and the Far East, from 1948. Annual.
3. \_\_\_\_\_ Gains from Trade in ECAFE Countries, July 1950 to June 1953, in Economic Bulletin for Asia and the Far East, Vol. V, No. 1.
4. \_\_\_\_\_ Scope for Multilateral Compensation Payments of ECAFE Countries, Economic Bulletin for Asia and the Far East, Vol. V, No. 1.
5. \_\_\_\_\_ Trade Policy as a Means of Implementing or Promoting Economic Development, with Special Reference to ECAFE Countries, in Economic Bulletin for Asia and the Far East, Vol. VIII, No. 1.
6. Economist (London), The Sterling System, December 14 & 21, 1957.
7. Elliot, G.A. Theory of International Values, Journal of Political Economy, Vol. 58, 1950.
8. Ellis, H.S. Exchange Control in Central Europe, Cambridge, Mass., 1941.
9. \_\_\_\_\_ Exchange Control and Discrimination, American Economic Review, Vol. 37, 1947.
10. Ellsworth, P.T. Chile: An Economy in Transition, New York, 1945.
11. \_\_\_\_\_ The International Economy, Its Structure and Operation, New York, 1950.

12. \_\_\_\_\_ International Economics, New York, 1938.
  13. Enke, S. Speculation on Population Growth and Economic Development, Quarterly Journal of Economics, February 1957.
  14. \_\_\_\_\_ and Salera, V. International Economics, New York, 3rd. ed. 1954.
- 
1. Faruque G. Pakistan Industrial Progress and PIDC, in Karachi Commerce, Industrial Number, January 1951.
  2. Federal Reserve System, U.S.A., Board of Governors, International Monetary Policies, Postwar Economic Studies No. 7. Washington D.C.
  3. Fleming, M. On Making the Best of Balance of Payments Restrictions on Imports, Economic Journal, March 1951.
  4. \_\_\_\_\_ External Economies and the Doctrine of Balanced Growth, Economic Journal, 1955.
  5. Frankel, H. Capital Investment in Africa: Its Course and Effects, London, 1938.
  6. Frisch, Ragnar, The Problem of Multicompensatory Trade, Review of Economics and Statistics, Vol. 30, 1948.
  7. \_\_\_\_\_ On Need for Forecasting a Multilateral Balance of Payments, Amercian Economic Review, Vol. 37, 1947.
- 
1. Gadgill, D.R. Economic Policy and Development, Gokhale Institute of Politics and Economics, Publication No. 30, Poona, 1955.
  2. Galbraith, J.K. Conditions for Economic Change in Under-Developed Countries, Journal of Farm Economics, November 1951.
  3. Ganguli, B.N. Principles of Protection in the Context of Under-developed Countries, Indian Economic Review, 1952.

4. \_\_\_\_\_ India's Economic Relations with the Far Eastern and the Pacific Countries in the Present Century, Bombay, 1956.
5. General Agreements on Tariffs and Trade, International Trade - 1956, Geneva, 1957.
6. Gordon, Margaret S. Barriers to World Trade, New York, 1941.
7. Graham, F.D. Theory of International Values, Princeton, 1948.
8. Gulhati, R.I. Criteria for Allocating Investment in Under-developed Economies, Indian Economic Review, Vol. III, No. 3, 1957.
9. Gutt, Camille. Exchange Rates and the International Monetary Fund, Foreign Economic Policy for the United States, edited by S.E. Harris, op. cit.
1. Haavelmo, F. A Study in the Theory of Economic Evolution, Amsterdam, 1954.
2. Haberler, G. Theory of International Trade, London, 1936.
3. \_\_\_\_\_ A Survey of International Trade Theory, Princeton, 1955.
4. \_\_\_\_\_ Comments on 'National Banking and the International Economy,' in International Monetary Policies, Federal Reserve System, op. cit.
5. Halm, G.N. International Measures for Full Employment, in Review of Economics and Statistics, Vol. 32, 1950.
6. Harris, S.E. Exchange Depreciation, Cambridge, Mass., 1936.
7. \_\_\_\_\_ Ed., Foreign Economic Policy for the United States, Cambridge, Mass., 1948.
8. \_\_\_\_\_ Post-war Economic Problems, Ed., New York, 1943.
9. Harrod, R.F. International Economics, London, 1947.
10. Heuser, H. Control of International Trade, London, 1939.
11. Hicks, J.R. An Inaugural Lecture, Oxford Economic Papers, N.S., vol. 5, 1953.

12. Higgin, Benjamin. Development Planning and the Economic Calculus, Social Research, Vol. 23.
  13. \_\_\_\_\_ Economic Development of Underdeveloped Areas: Past and Present, Land Economics, Vol. 31, 1955.
  14. Hinshaw, R. Professor Frisch on Discrimination and Multilateral Trade, Review of Economics and Statistics, Vol. 30, 1948.
  15. Hirschman, A.O. The Commodity Structure of World Trade, in Quarterly Journal of Economics, 1942-43.
  16. Hunter, J.M. Long-term Foreign Investment and Underdeveloped Countries, Journal of Political Economy, 1953.
- 
1. "Ibn-i-Khaldun". Jute in Crisis, Economic Observer (Karachi), Annual Number, 1952.
  2. International Bank for Reconstruction and Development. Economic Development of Ceylon, Baltimore, 1953.
  3. \_\_\_\_\_ Report on Cuba, Washington, D.C. 1951.
  4. International Monetary Fund. Annual Reports.
  5. \_\_\_\_\_ Annual Report on Exchange Restrictions.
  6. \_\_\_\_\_ Economic Development with Stability, by IMF Mission to India, Staff Papers, Vol. III.
  7. \_\_\_\_\_ Summary Proceedings Annual Meeting.
- 
1. Jha, L.K. India's Foreign Trade, Part I & II, Eastern Economist Pamphlet, New Delhi, 1950.
- 
1. Kafk, Alexander. Brazillian Exchange Auction System, Review of Economics and Statistics, 1956.
  2. Kahn, A.E. Investment Criteria in Development Programs, Quarterly Journal of Economics, 1951.

3. Kahn, R.F. The Dollar Shortage and Devaluation, in *Economia Internazionale*, Vol. 3, 1950.
4. \_\_\_\_\_ Tariffs and the Terms of Trade, *Review of Economic Studies*, Vol. 16, 1947-48.
5. Kaldor, Nicholas. A Note on Tariffs and the Terms of Trade, *Economica*, 1940.
6. Karachi Commerce. Development of Jute Industry in Pakistan, in its *Industrial Number*, 1955.
7. \_\_\_\_\_ Pakistan and the Sterling Area, in its *Annual Number*, 1950.
8. Kierstead, B.S. *Theory of Economic Change*, Toronto, 1948.
9. Kindleberger, C.P. Group Behavior and International Trade, *Journal of Political Economy*, 1951.
10. \_\_\_\_\_ *International Economics*, Homewood, Ill., 1953.
11. \_\_\_\_\_ *The Terms of Trade: A European Study*, New York, 1956.
12. Kuznets, Simon. Ed., *Economic Growth: Brazil, India, and Japan*, Princeton, 1955.
1. Lakdawala, D.T. *International Aspects of Indian Economic Development*, Bombay, 1951.
2. League of Nations. *Commercial Policy in the Inter-war Period*. Geneva, 1942.
3. \_\_\_\_\_ *Commercial Policy in the Post-war World*. Geneva, 1945.
4. \_\_\_\_\_ *Industrialization and Foreign Trade*, Geneva, 1945.
5. \_\_\_\_\_ *Quantitative Trade Controls: Their Causes and Nature*. Geneva, 1943.
6. Lerner, Abba P. *Economics of Control*, New York, 1944.
7. Lewis, W.A. *Economic Development with Unlimited Supplies of Labour*, *The Manchester School*, Vol. 22, May, 1954.

8. \_\_\_\_\_ Theory of Economic Growth, London, 1955.
  9. List, Fredrich. The National System of Political Economy, London, 1909.
  10. Lloyd, L.E. The Case for Protection, New York, 1955.
  11. Lockwood, W.W. The Economic Development of Japan, Princeton, 1954.
  12. Lowe, Adolph. The Classical Theory of Economic Growth, Social Research, Summer 1954.
- 
1. MacDougall, D. The World Dollar Problem, London, 1957.
  2. Machlup, F. Elasticity Pessimism in International Trade, *Economia Internazionale*, Vol. 3, 1950.
  3. Madan, B.K. Ed., Economic Problems of Under-Developed Countries in Asia, New Delhi, 1953.
  4. Majid, C.A. Development of New Trends in Indo-Pakistan Trade, *Economist* (Karachi), Vol. III, No. 1, June 1951.
  5. Malenbaum, W. Discussion on Economic Doctrines Implied in the United Nations Reports, *American Economic Review*, Papers and Proceedings, May 1954.
  6. Mandelbaum, K. The Industrialization of Backward Areas, Oxford, 1945.
  7. Manne, Alan J. Multicompensatory Trade: An Alternative Approach, *Review of Economics and Statistics*, Vol. 32, 1950.
  8. Marsh, D.B. World Trade and Investment, New York, 1951.
  9. Meade, J.E. Theory of International Economic Policy, Vol. 1, Balance of Payments, London, 1951.
  10. \_\_\_\_\_ Theory of International Economic Policy, Vol. II, Trade and Welfare, London, 1955.
  11. Meier, G.M. and Baldwin, R.E. Economic Development: Theory, History, Policy, New York, 1957.

12. Metzler, L.A. Flexible Exchange Rates and the Theory of Employment, Review of Economics and Statistics, Vol 32, 1950.
  13. Mikesell, R.F. Discrimination and International Trade Policy, Review of Economics and Statistics, Vol. 32, 1950.
  14. \_\_\_\_\_ Economic Doctrine Reflected in the U.N. Reports, American Economic Review, Papers and Proceedings, May 1954.
  15. \_\_\_\_\_ Foreign Exchange in the Post-war World, New York, 1954.
  16. \_\_\_\_\_ Quantitative And Exchange Restrictions under the I.T.O. Charter, American Economic Review, Vol. 37, 1947.
  17. Moulton, H.G. Controlling Factors in Economic Development, Washington D.C. 1949.
  18. Marshall, Alfred. Money, Credit and Commerce, New York, 1924.
  19. Myrdall, G. An International Economy, New York, 1956.
- 
1. Neisser, H.P. The United States Demand for Imports, American Economic Review, Papers and Proceedings, Vol. 65, May 1953.
  2. Nurkse, R. Reflections on India's Development Plan, Quarterly Journal of Economics, May 1957.
  3. \_\_\_\_\_ Problems of Capital Formation in Underdeveloped Countries, Oxford, 1953.
- 
1. Orcutt, G.H. Measurement of Price Elasticities in International Trade, Review of Economics and Statistics, Vol. 32, 1950.
- 
1. Paish, F.W. Banking Policy and the Balance of International Payments, Economica, November 1936; reprinted in the Theory of International Trade, op. cit.
  2. Pakistan Business News and Views(Dacca). Pakistan's Two-Crop Economy Through Booms and Slumps, Special Annual Number 1953.

3. \_\_\_\_\_ Pakistan's Cotton Textile Industry, Special Annual Number 1953.
4. Pakistan Economic Association. Economics of Pakistan Jute, Lahore, 1951.
5. Pakistan, Government of. Five Year Plan, Vol. I & II, 1955.
6. \_\_\_\_\_ Foreign Trade of Pakistan, Karachi, 1949.
7. \_\_\_\_\_ Industry in Pakistan, Karachi, 1951.
8. \_\_\_\_\_ Investment Opportunities in Pakistan, Karachi, 1950.
9. \_\_\_\_\_ Pakistan Development Schemes, Karachi, 1950.
10. \_\_\_\_\_ Report of the Economic Appraisal Committee, Vol. I & II, Karachi, 1953.
11. \_\_\_\_\_ Pakistan Balance of Payments, January 1948- June 1950, Karachi, 1951.
12. \_\_\_\_\_ Pakistan Balance of Payments, July 1950-June 1951, Karachi, 1952.
13. \_\_\_\_\_ Pakistan: 1953-54, Karachi, 1954.
14. \_\_\_\_\_ Pakistan: 1955-56, Karachi, 1956.
15. \_\_\_\_\_ Proceedings of the Council of Industries, Karachi, 1952.
16. \_\_\_\_\_ Proceedings of the All-Pakistan Cottage and Small-Scale Industries Conference, Karachi, 1952.
17. \_\_\_\_\_ Public Investment Inquiry Report, Karachi, 1951.
18. Pakistan Institute of International Affairs. Living Standards in Pakistan, Karachi, 1954.
19. Pakistan, State Bank of. National Bank of Pakistan, Bulletin, June 1953.
20. \_\_\_\_\_ Marketing and Financing of Cotton in Pakistan, Department of Research, Karachi, 1954.
21. \_\_\_\_\_ Development of Cotton Textile Industry in Pakistan, Bulletin, April 1955.



22. Patel, S.J. Agricultural Labourers in Modern India and Pakistan, Delhi, 1952.
  23. Pazos, F. Inflation and Exchange Stability in Latin America, American Economic Review, Vol. 39, 1949.
  24. P.E.P. Report on International Trade, London, 1937.
  25. Pigou, A.C. A Study in Public Finance, London, 1947
  26. Polak, J.J. Balance of Payments Problems of Countries Reconstructing with the Help of Foreign Loans, Quarterly Journal of Economics, Vol. LVII, 1943; reprinted in the Readings in the Theory of International Trade, op. cit.
  27. \_\_\_\_\_ Contribution of the September 1949 Devaluation to the Solution of Europe's Dollar Problem, International Monetary Fund Staff Papers, Vol. 2, 1951-52.
  28. \_\_\_\_\_ and Chang, T.C. Effects of Exchange Depreciation on a Country's Export Price Level, International Monetary Fund Staff Papers, Vol. 1, 1950-51.
  29. Polk, J. Sterling: Its Meaning in World Finance, New York, 1956.
  30. Prebisch, R. The Economic Development of Latin America and its Principle Problems, United Nations, New York, 1949.
- 
1. Rahman, B.A. Note on 'The Industrialization of Backward Areas, Economic Journal, Vol. 56, 1946.
  2. Raj, K.N. Employment Aspects of Planning in Under-Developed Economies, Cairo, 1957.
  3. Ramaswami, V.K. Trade Imbalance, Gains from Trade and National Income Change, Economic Journal, 1955.
  4. Rao, V.K.R.V. Investment, Income, and the Multiplier in an Under-Developed Economy, Indian Economic Review, 1952.
  5. Rehman, Fazlur. Currents and Cross-Currents in Pakistan's Foreign Trade, Pakistan Economist (Karachi), Vol. III, June 1951.

6. Robbins. L. The Economist in the Twentieth Century and Other Lectures in Political Economy, London, 1954.
7. Robertson, D.H. Britain in the World Economy, London, 1954.
8. \_\_\_\_\_ Utility and All That, London, 1952.
9. Robinson, Mrs. Joan. The Pure Theory of International Trade, Review of Economic Studies, 1946-47.
10. \_\_\_\_\_ The Rate of Interest and Other Essays, London, 1951.
11. Rosentein-Rodan, P.N. International Development of Economically Backward Areas, International Affairs, April, 1944.
12. \_\_\_\_\_ Problems of Industrialization of Eastern and South-Eastern Europe, Economic Journal, Vol. 1943.
13. Rostow, W.W. The Process of Economic Growth, Oxford, 1953.
  
1. Saigol, Saeed. Presidential Address, All-Pakistan Textile Conference. The Pakistan Times, Lahore, March 13, 1954.
2. Samuelson, P.A. Disparity in Post-war Exchange Rates, in Foreign Economic Policy for the United States, edited by S.E. Harris, op. cit.
3. Sayers, R.S. Ed. Banking in the British Commonwealth, London, 1952.
4. Schultz, T.W. Agriculture in a an Unstable Economy, New York, 1951.
5. Schlesinger, E.R. Multiple Exchange Rates and Economic Development, Princeton, 1952.
6. Scitowsky, T. Two Concepts of External Economies, Journal of Political Economy, Vol. 62, 1954.
7. Sen, S.N. Central Banking in Underdeveloped Money Markets, Calcutta, 1952.
8. Sheikh, Naseer A. Future of Cotton Textile Industry in Pakistan, Pakistan Economist (Karachi), Annual Number 1953-54.

9. Simkin, G.C.F. The Instability of a Dependent Economy, London, 1951.
10. Singer, H.W. Economic Progress in Underdeveloped Countries, Social Research, 1949.
11. \_\_\_\_\_ The Distribution of Gains Between Investing and Borrowing Countries, American Economic Review, Papers and Proceedings, May, 1950.
12. \_\_\_\_\_ The Mechanics of Economic Development, Indian Economic Review, Vol. 1, 1952-53.
13. Amithies, Arthur. Devaluation with Imperfect Markets and Economic Controls, Review of Economics and Statistics, Vol. 32, 1950.
14. Spengler, J.J. Demographic Patterns, in Economic Development by Williamson and Buttrick, op. cit.
15. \_\_\_\_\_ I.B.R.D. Missions and Economic Growth Theory, American Economic Review, Papers and Proceedings, May 1954.
16. Staley, Eugene, The Future of Under-Developed Countries, New York, 1954.
17. \_\_\_\_\_ World Economic Development, Montreal, 1944.
18. Stockfish, J.A. External Economies, Investment and Foresight, Journal of Political Economy, Vol. 63, 1955.
1. Triffin, Robert. Exchange Control and Equilibrium, in Foreign Economic Policy for the United States, S.E. Harris, op. cit.
2. \_\_\_\_\_ National Central Banking and International Economy, in International Monetary Policies, Federal Reserve System, op. cit.
1. United Kingdom, Board of Trade Journal. Export of Cotton Textile to Pakistan, 14th July, 1956.
2. United Kingdom, Board of Trade Journal. Sterling Area Trade Summary, 5 May, 1956.

3. \_\_\_\_\_ Sterling Area Trade Summary, 3 May, 1957.
4. \_\_\_\_\_ United Kingdom's Export Prospects to Pakistan,  
18th July 1953.
5. \_\_\_\_\_ United Kingdom's Loan to Pakistan, August 1, 1951.
6. United Kingdom, Her Majesty's Stationary Office, The  
Colombo Plan for Co-operative Economic Development  
in South and South-East Asia, London, 1950.
7. \_\_\_\_\_ Report of the United Kingdom Industrial Mission  
to Pakistan, 1950. London, 1950.
8. United Nations. A Study of Trade Between Asia and Europe,  
Geneva, 1953.
9. \_\_\_\_\_ Commodity Trade and Economic Development, New  
York, 1954.
10. \_\_\_\_\_ Deographic Year Book, New York, 1955.
11. \_\_\_\_\_ Domestic Financing of Economic Development, New  
York, 1950.
12. \_\_\_\_\_ Economic Survey of Latin America, New York, 1949.
13. \_\_\_\_\_ Enlargement of the Exchange Economy in Tropical  
Africa. New York, 1954.
14. \_\_\_\_\_ Formation and Economic Appraisal of Development  
Projects, Vol. I & II, Lahore, Pakistan, 1950.
15. \_\_\_\_\_ Instability of Export Markets of Under-Developed  
Countries, New York, 1952.
16. \_\_\_\_\_ International Flow of Private Capital 1946-52,  
New York, 1954.
17. \_\_\_\_\_ Land Reform, New York, 1951.
18. \_\_\_\_\_ Measures for the Economic Development of Under-  
Developed Countries. New York, 1951.
19. \_\_\_\_\_ Measures for International Economic Stability,  
New York, 1951.
20. \_\_\_\_\_ National International Measures for Full Employ-  
ment. New York. 1949.

21. \_\_\_\_\_ New Sources of Energy and Economic Development, New York, 1957.
  22. \_\_\_\_\_ Processes and Problems of Industrialization in Under-Developed Countries. New York, 1955.
  23. \_\_\_\_\_ Progress in Land Reform. New York. 1954.
  24. \_\_\_\_\_ Relative Prices of Exports and Imports of Under-Developed Countries. New York. 1949.
  25. \_\_\_\_\_ Review of International Commodity Problems. Annual.
  26. \_\_\_\_\_ Statistical Year Book. New York. 1955.
  27. \_\_\_\_\_ World Economic Report. Annual.
  28. \_\_\_\_\_ Year Book of International Trade Statistics, Annual.
  29. United States, Government of. President's Materials Policy Commission. Resources for Freedom, Washington, D.C. 1952.
  30. United States, Tariff Commission. Foreign Trade and Exchange Control in Germany. Report No. 150, Washington, D.C. 1942;
- 
1. Vakil, C.N. and Brahmanand, P.R. Planning for an Expanding Economy, Bombay, 1956.
  2. Vakil, C.N. The Economic Consequences of Divided India, Bombay, 1950.
  3. Venkataraman. India's External Trade: Some Problems, Indian Economic Review, Vol. III.
  4. Villard, O.G. Free Trade - Free World, New York. 1947.
  5. Viner, Jacob. International Trade and Economic Development, London, 1953.
- 
1. Wallich, H.C. Under-Developed Countries and International Monetary Mechanism, in Money, Trade and Economic Growth, see J.H. Williams below.

2. \_\_\_\_\_ Monetary Problems of an Export Economy - The Cuban Experience, 1914-1947. Cambridge, Mass., 1950.
  3. Whale, Barret. International Trade. London. 1932.
  4. Williams, J.H. Essays in Honor of. Money, Trade and Economic Growth, New York, 1951.
  5. Williamson, H.F. and Buttrick, J.A. Economic Development, New York, 1956.
  6. Winslow, E.M. Administrative Protectionism, in Explorations in Economics, Essays in Honor of F.W. Taussig. Cambridge, Mass., 1936.
- 78
1. Young, Allyn. Increasing Returns and Economic Progress, Economic Journal, December, 1928.

---

Pakistan Trade (monthly), Government of Pakistan, Karachi.  
Quarterly Bulletin of Statistics, Central Statistical Office, Karachi.  
State Bank of Pakistan Bulletin (monthly), State Bank of Pakistan, Karachi.

The Dawn, (daily), Karachi.  
The Pakistan Times (daily), Lahore.