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STRATEGY FOR ECONOMIC DEVELOPMENT
PAKISTAN'S EXPERIENCE - AN ASSESSMENT

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I. INTRODUCTION

Under-developed countries are pursuing varied types of growth programmes which are tempered with price stability and some semblance of social justice. Pakistan has a record of two decades of planned development. Looking at the results retrospectively, one can point out certain areas of positive achievements, however in their wake quite a number of serious issues have emerged which deserve immediate attention. Planners elsewhere can draw clues from this experience.

In this paper, firstly, the overall growth strategy for the economy will be examined which will show that though certain achievements have been made but at some cost. Later sections will assess the performance in the manufacturing and agricultural sectors. Output in both of them rose commendably, but the composition of output was not in the desired direction. The present rate of output has been achieved through a certain set of policies, which will have to be radically altered if the compositional changes (in output) are to be introduced. This means that the strategy of industrial and agricultural development will have to undergo substantial changes.

II. OVERALL GROWTH STRATEGY

The overall growth strategy primarily focussed attention towards accelerated growth in domestic output. It was regarded essential for two reasons; firstly increased output was presumed to assist in rapid expansion in capital formation and secondly some portion of the enhanced output could be exported abroad to augment foreign exchange resources. In this way sizable levels of import substitution and export expansion could be achieved. This was believed to

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provide not only increased level of foreign exchange for current requirements, but was regarded essential for a steady progress towards the ultimate objective of self-reliance. These objectives were followed throughout the last two decades and looking retrospectively it seems substantial progress has been made in these respects. Table I gives a summary of this progress. From 1949-50 to 1969-70 GNP (at 1959-60 factor cost) rose from Rs. 24 billion to Rs. 54 billion and per capita income (at 1959-60 prices) rose from Rs. 311 to Rs. 410 during the same period. The compound growth rate over the twenty year period was around 4 per cent annually. This seems quite a commendable performance. Looking towards the major sectors of production the gains have been equally high. In agriculture the indices show that the output in cash crops had nearly doubled over the two decades, whereas in food items as well the rise was quite substantial. Growth of output in large-scale manufactures also took a rapid stride as in 1959-60 the index of production being at 100 rose to 304 in 1969-70. Similarly in merchandise trade the Quantum index shows that exports more than doubled during the last fifteen years.

Policy instruments and institutional framework

Manufactures:

These results were achieved mainly through a set of policies evolved by the Government and an institutional framework developed for their implementation. The first to be referred is protection to domestic industries. Heavy duties were imposed on imports (especially consumer goods) and quantities restrictions placed to encourage the growth of output in the industrial sector. Domestic producers were allowed to raise prices substantially for their products (namely consumer goods) and thus they appropriated high margins of profit. Secondly specialized credit institutions were established like PICIC (Pakistan Industrial Credit and Investment Corporation), IDBP (Industrial Development Bank of Pakistan and ICP (Investment Corporation of Pakistan), to provide industrial credit (including foreign exchange) in substantial size and on easy terms. Besides, tax concessions were granted to producers in different forms. Tax-holidays, rebate on duty imposed on imported raw-materials and concession in income tax on industrial incomes are a few examples. Over and above this government established industrial estates, arranged the availability of technical know-how from abroad and successfully tried to raise the number of training Centres for middle level technicians.

Under these arrangements the private sector showed considerable buoyancy and raised the output quite fast. That helped in raising their profits which were ploughed back in expectation of further gains. In this way a set of policies were evolved and institutions developed which resulted in rapid growth of output in the industrial sector. Through this not only higher growth rate was achieved, but the level of capital formation and foreign exchange earnings were also enhanced substantially.

Agriculture

In the agricultural sector the supply of essential imports (e.g., chemical fertilizers, better seeds and pesticides) was raised and some form was given to distribution machinery to improve their availability. Their use was made on an extensive scale, which resulted in raising the output of cash crops substantially and helped the country reaching a level of near self-sufficiency in food.

Present difficulties

The policies and the institutional framework as described above assisted in achieving the desired objectives substantially, but at present it seems that quite a number of problems have been created which are giving rise to conflicts between different social segments and retarding further growth of the economy.

Industry

In the manufacturing sector a monopolist class has emerged which want to invest in such industries where high demand exists, and remain completely oblivious of its impact on the society in general. Further, investments are made with a view to earn more foreign exchange without looking into account their employment effect. Moreover due to a near perpetuation of protecting the industrial production is being maintained on a highly inefficient level. Besides, the credit is mostly made available to a certain section of producers, who do not allow a more equitable distribution of these facilities. On the top of it wages have been frozen on an almost subsistence level and inspite of labour's clamour and government assertion for revision of wage levels, nothing substantial has come out as yet.

Agriculture

In the agricultural sector as well although output has been raised in staple products which has helped in achieving near self-sufficiency in food and sufficient volume of cash crops are raised to earn foreign exchange, yet the situation in other respects is not the least satisfactory. The output has been raised mostly on farms owned by middle-class farmers, who can cut the government red-tape, bribe the petty officials and obtain credits, chemical fertilizers and pesticides to any extent required.

It is due to the resourcefulness of these middle class farmers that output on their farms has increased and most of the profit earned in the agricultural sector is concentrating in their hands. However, modern agricultural inputs are almost inaccessible for the ordinary peasants and as such they are unable to share in the prosperity of the agricultural sector. Secondly the productivity on average farms is still low and agricultural extension services have not yet been put to any effective use. Besides this the production and marketing systems in the agricultural sector are still in a highly disorganized state. Land has not yet been properly redistributed in terms of economic unit and the vast land-less labour lives as a drone on the agricultural sector. Recently some land reforms have been introduced, but this has nothing to do with the past performance.

New policy framework required

All this shows that the set of policies and institutional framework evolved during the last two decades succeeded in achieving the objectives of raising domestic output and savings and augmenting the foreign exchange earning capacity of the country; however, they seem collapsing before the new set of objectives of increased employment, better distributive justice, broad basing of ownership in the production system and creating technical mindedness in the labour force.

This requires radical changes in policies and the evolution of a new institutional framework for the growth process. Only in this way further growth can be achieved which may as well be commensurate with stability and some semblance of social justice.

III. COMPOSITION OF OUTPUT IN THE MANUFACTURING SECTOR

Here it is proposed to examine the impact of some of the governmental measures on the volume and composition of output in the manufacturing sector. Three policies will be considered in this connexion; namely (a) industrial and commercial licensing, (b) export-bonus scheme, and (c) protective duties on imported manufactures.

(a) Commercial and industrial licensing policy*

Commercial and industrial licensing policy exerted considerable influence in determining the allocative bias in the manufacturing system. It has been estimated that in sixties for an average size of investment in an industrial undertaking the foreign exchange component comprised nearly forty per cent of the total capital required. This shows the significance of foreign exchange in the investment programme. As the profits in industry grew, greater portion of domestic savings were attracted, but the main constraint in rapid growth of industrial capacity was the scarcity of foreign exchange. The commercial and industrial licensing system was instituted to distribute the scarce foreign exchange in a judicious manner. In this way this licensing system became a device in directing investments towards desired channels.

The dearth of foreign exchange resulted in the emergence of a black market where the required foreign currencies were quoted at at least double the rate fixed officially by the government. This made acquisition of foreign exchange quite difficult and as such the government licences issued at the official exchange rate for the import of machinery, necessary raw-materials and spare parts became a boon for the aspiring industrialists.

An authentic inquiry into the operations of this licensing system^{*} revealed that during mid-fifties nearly 32 per cent of the total commercial licenses were issued for the import of plants etc., for consumer goods industries and only 14.3 per cent for those required for capital goods industries. (See table 2). This helped in the growth of consumer goods industries in the first decade of development (i.e. fifties). However, this trend was completely reversed during the sixties as shown in the same table. This indicates that after a substantial expansion of the consumption industries, government emphasized the growth of capital goods industries during the sixties. The distribution of licences under

* Licences are issued on a functional basis and not on the basis of categories of goods e.g. consumer goods, intermediate goods and investment goods. The commercial importers (i.e. businessmen) and industrialists are the two recognized categories of importers, who can import all the three types of goods if licences are issued to them.

* The allocative biases of Pakistan's Commercial Policy - Dr. S.N.H. Naqvi, Pakistan Development Review, Karachi; Winter 1966.

the industrial licensing system also reveals similar trends in this period (see Table 3). Under this system textile industries received the highest level of licences during mid-fifties and electrical equipment and basic metal industries the least. However, this trend markedly changed during the sixties.

(b) Allocative bias of export-bonus scheme

Under the Export-Bonus Scheme, industrial exporters were allowed to retain part of their foreign exchange earnings, which they could utilize either for their own requirements of imports of intermediate goods and spares or could sell the foreign exchange in the open market, where they could earn a fat premium. Although the premium margins fluctuated but broadly it can be said that on foreign exchange worth Rs. 100/- (Rs. one hundred only) on the official exchange rate basis, a further bonus-cum-premium of Rs. 150/- (Rs. one hundred and fifty only) could be earned. Thus foreign exchange worth Rs. 100/- officially was available in the free market at Rs. 250/-. This source of foreign exchange became very popular with the industrialists and they tried to expand the output and export of those items on which this Bonus was allowed by the government. By sixties it became so significant that nearly half of the export earnings were made under this scheme.

The distribution of licenses under this scheme also reveals the same trends as described under commercial licensing system. In fifties the imports of plants etc. for consumer goods industries comprised 24.3 per cent of the total licences, whereas fixed capital items for investment goods industries were imported to the extent of 39.8 per cent. In sixties the proportion of imports for consumer goods industries fell to 14.1 per cent, whereas for capital goods industries increase up to 45.8 per cent (see Table 4).

All this shows that the government had adopted a sensible policy of emphasizing consumer goods industries growth during the first decade of development and then steadily revised this emphasis during the sixties. The operation of the import-licensing system and the export-bonus scheme shows that quite an effective institutional framework was established to implement these policies.

(c) Protection and investment efficiency

The role of protection in raising the volume of output in manufactures and determining its compositional character, has been somewhat controversial. A study on tariff protection and investment efficiency gives somewhat adverse results. It shows that for most of the consumer goods industries the ratio of net subsidy from tariffs to value added was greater than unity. In other words, the net subsidy received through protection exceeded the total value added. As shown in table 5 consumer goods industries producing edible oils and fats, beverages, wearing apparel and leather goods received far higher subsidy through protection than what they were proportionately contributing in terms of value added. As against that most of the intermediate and investment goods industries

* Tariff protection, import substitution and investment efficiency. -
R. Soligo and J.J. Stern, Pakistan Development Review, Karachi; Summer 1965.

contributed relatively more in terms of value added and received less through subsidies. In the latter category the industries included were chemical fertilizers, paints and varnishes, paper products, cement, electrical machinery and metal products.

It shows that most of the consumer goods industries have been over expanded under the cover of protection. Real income could be raised by shifting resources at the margin out of these industries towards other channels.

Moreover, too rapid expansion of consumer goods industries led towards 'consumption liberalization,' which in turn reduced savings and growth in real income. Moreover, in these industries, the marginal productivity of domestic capital and labour was lower than their opportunity cost and as such they further reduced the growth in real income.

The same table indicates that the resources of labour and capital could be put to more productive use if expansion was encouraged in investment and related goods industries. All this shows that protection has been granted to consumer goods industries as well as to others, but the former have availed of and exploited this cover to a larger extent. Thereby, the consumption industries have been over-extended and investors have not ventured much in the direction of investment and related industries, where capital requirements are usually heavy and profits uncertain and mostly delayed. As such the existing system of protection has outlived its purpose and unless some drastic changes are not introduced, manufactured goods production will proceed in a socially unprofitable direction. This has been overdue for the last seven years (since the beginning of the Third Plan) and cannot be postponed any further.

Summing up it can be said that over the decades the government developed an institutional framework of incentives in the form of commercial and industrial licensing and protective tariff system etc., which proved effective in giving fillip to private investment in manufactures and the rapid expansion of consumer goods industries. However, they seem ineffective to encourage growth of other type of industries substantially. Perhaps there are major bottlenecks arising in the way, for which a new incentive mechanism will have to be devised. It seems the economy has entered a different stage of growth for which the whole orbit of incentives and guiding policies have to be revised.

IV. AGRICULTURAL GROWTH PATTERN AND ITS MECHANICS

Agricultural output maintained a feverish growth in the first decade of development, but in the sixties, it picked up pace. This rise has been in the staple food items especially wheat and rice - and in staple cash crops i.e. cotton and sugar-cane. (see Table I) At present, the position is that in terms of staple food products, the country has reached a stage of near self-sufficiency and in cash crops, the output has almost doubled during the sixties. This has substantially improved the foreign exchange earning position of the country.

These results have been achieved due to the extensive use of biological-cum-chemical innovations. Better varieties of seeds were introduced and chemical fertilizers and pesticides were made available in larger quantities. Besides this, the government had put into operation a price incentive policy which proved quite effective. It had two facets. Prices of imports were reduced through subsidies provided to fertilizers and pesticides and reduction granted in water rates. On the other hand, the prices of output were allowed to be raised through price-support schemes for wheat, rice, maize and groundnuts and through floor-price guarantees by government purchases in regular commercial markets.

New issues in agriculture

However, for the last few years, the agricultural sector has been facing new issues viz. (a) raising of yield per acre and (b) diversification of agricultural production. The former is necessary because the country wants to embark on a new era of large-scale export of food products and enhance the sales of cash crops substantially. The latter is being emphasized due to the fact that on the basis of a minimal standard of nutrition provided by cereals, the food self-sufficiency has already been achieved. As such, further efforts are being made to diversify the average diet of the people by adding more proteins through the increased provision of meat, dairy products, fruits, fish and vegetables.

Maximum use of biological-cum-chemical innovations

Until now, the yield per acre has been raised through the provision of biological-cum-chemical innovations. However, it seems that their effective use has already been pushed to the maximum extent and for any further tangible rise in growth of land - productivity, mechanical-cum-engineering innovations will have to be put into use. Their introduction in the form of mechanized farming methods have already yielded good results in the United States and even in Japan.

Similarly, in the diversification programme as well, mechanization can possibly yield somewhat better results. Let us examine what possibilities exist for a successful introduction of mechanized farming in Pakistan. On its outcome will depend the future of enhanced agricultural exports and diversification programme in food.

Possibilities of mechanized farming in Pakistan

On a limited scale mechanized farming has been introduced in Pakistan, which has raised the yield per acre. However, this has been achieved due to artificially raising the domestic prices of food-grains and providing subsidies on the import of tractors and other farm machinery. For example, the price of Pakistan's wheat is higher than the world import prices as in 1968 the latter was at the level of Rs.11/- per maund and Pakistan's wheat export price f.o.b. Karachi was Rs.11/- per maund. Given the official exchange rate (before the recent devaluation), the domestic price of wheat was substantially higher than world prices. It shows that compared to foreign producers, Pakistan's farmers got higher returns from wheat production.

On the other hand, farmers doing mechanized farming in Pakistan have been getting tractors etc. with considerable tax-exemptions and thus, they have been paying nearly one-half the amount of wheat which the world farmers pay.

Thus mechanized agriculture proved profitable and more productive on the basis of these two variants and if they changed, the profitability of mechanization will be jeopardized. This makes the future of mechanization rather vulnerable in Pakistan.

Use-cost of mechanization

Japan

In Japan the use-cost of a 35 Horse-power tractor is higher than that of a 15 Horse-power tractor. It only equalizes when the farm size is raised to 75 acres and unless the farm size exceeds 125 acres. The use-cost of a 35 H.P. tractor does not come down to the use-cost level of small machinery and customary animals.

Pakistan

In Pakistan only 8 per cent of farms exceed 25 acres. Total cultivated area is 37.2 million acres and on this basis the average farm size comes to 7.6 acres. Adding cultivable waste in this, the acreage farm size will rise to 12.7 acres. This shows that on the basis of conclusions drawn above, the use-cost of large tractors will be prohibitive. Moreover, in Japan, the ratio between the market prices of labour and capital is higher compared to Pakistan. Hence, labour will be comparatively cheaper and capital dearer in Pakistan. This will make mechanization still more costly.

These observations show that large mechanized farms will try to mechanize other processes of farming as well to maintain their higher profits. They will cut their short-term prices and try to make up the loss on a long-term sale basis. However, this will ruin the small farmers, who will find prices extremely low and unprofitable. This will give rise to other types of difficulties

* See "Farm size in Pakistan," Agricultural Census Report, Pakistan 1960.

by creating polarization in agriculture through allowing the rich to get richer and the poor becoming still poorer. This brings out that mechanization can possibly be used on a selective basis (e.g.: small Japanese tillers, dusters and sprayers can be used) but full mechanization and on an extensive scale seems still prohibitive for Pakistan.

Diversification of agricultural output

The other important issue in agriculture is diversification of output in this sector. The production of fruits, vegetables, fish and meat and dairy products has to be raised extensively, so that adequate supplies of these products could be provided to the average consumer on reasonable prices. For this, it is essential that a new system of incentives should be evolved. In the case of wheat and rice, incentives were provided by raising the prices of these products and providing modern agricultural inputs liberally on a subsidized basis.

Likewise a new set of relative prices among agricultural products will have to be evolved to encourage production in the desired direction. Moreover, a thorough probe is required in the least cost method of the new products and at the same time a new system of subsidies should be put into effect to popularize their use.

In this regard, we can refer to the establishment of Nucleus Plantation farms. Under this scheme, a large farm (of about 150 acres) is developed on which selected varieties of fruits and vegetables are grown. Better seeds, fertilizers and pesticides are used. This farm functions as a model around which small farmers are allowed to raise some varieties of vegetables, etc., grown on the central farm. The government can provide essential inputs to the small farmers on a subsidized basis through the central farm and in this way this nucleus plantation is developed.

Its major benefit is that productivity per acre can be raised by encouraging the use of more articulate production methods among the ignorant peasants.

Apart from all this, with diversification in agricultural production, a highly developed marketing system will have to be evolved which can meet the requirements of food storage, processing and swift distribution among consumers. For this, altogether new institutions will have to be developed.

All this shows that as the composition and volume of agricultural output has been changing, the old pattern of price incentives is becoming redundant and has to be replaced by a new system of incentives. Besides, the organization of production will have also to undergo structural changes.

Conclusion

This assessment brings out that during the last two decades of development in Pakistan, output has expanded appreciably both in the manufacturing and agricultural sectors. However, for some time, it has been felt that the composition of output has become rigid in both the sectors, which if not directed towards the desired channels, will eventually retard the expansion of these major sectors.

Moreover, a set of policies and institutional framework was evolved over the years to ensure the rapid growth of output. This system worked well to expand production in a particular direction, but seems ineffective to ensure the compositional change as required. It shows that for the necessary changes in output, a new set of policies and institutions will have to be evolved.

Perhaps all this is due to the fact that the economy has entered a new stage of development. It can be a pointer to other planners that for planned development, objectives should be kept flexible and necessary adjustments in policies and institutions should be made as the need arises. Development is a continuing process which can be improved through experience.

Table I: Indicators of Pakistan's economic development

(A) G N P and Per Capita Income

Period	GNP 1959-60 factor cost (Rs. million)	Population (million)	GNP Per capita (1959-60 prices)	(RS)
1949-50	24,466	79	311	
1959-60	31,439	99	318	
1969-70	54,280	132	410	
<u>Compound growth rates</u>				
1949-50 to 1959-60	2.5	2.3	0.2	
1959-60 to 1969-70	5.6	3.0	2.6	

(B) Output of Principal Crops

Period	Rice	Wheat (Million tons)	Sugar-Cane	Cotton (Million bales)
1949-50	8.2	3.9	10.0	1.3
1959-60	9.5	3.9	15.0	1.7
1969-70	13.8	7.1	29.9	3.0
1949-50 to 1959-60 (indices)	116	100	150	130
1959-60 to 1969-70 (indices)	145	182	199	176

(C) Large Scale Manufacturing

Period	Valued added (1959-60 fac- tor cost) Rs.Mil.	Share of GNP %	Index of produc- tion
1949-50	346	1.4	23
1959-60	1,565	5.0	100
1969-70	4,760	8.8	304

(D) Merchandise Imports and Exports

Value in Current Prices (Rs. million)	1954-55	1959-60	1964-65	1969-70
Exports	1,223	1,843	2,408	3,250
Imports	1,103	2,461	5,374	5,310

Quantum Index

Exports	100	143	189	243
Imports	100	153	427	247

Source: The Fourth Five Year Plan, Planning Commission, Government of Pakistan, July 1970.

Table II - Percentage changes in composition of Import Licences issued Under Commercial Licensing

Import category	Mid-fifties as per cent of total commercial licensing	Mid-sixties as per cent of total commercial licensing	Net change
Consumer goods	31.9	15.5	- 16.4
Raw material for consumer goods	18.6	10.1	- 8.5
Raw material for capital goods	35.2	40.3	- 5.1
Capital goods	14.3	34.1	19.8

Source: Allocative Biases of Pakistan's Commercial Policy - Naqvi

Table III - The overall ranking of industries by their relative shares in total Industrial Licensing

Industry	Mid-fifties	Mid-sixties
Textile industry	1	Low
Weaving and spinning	2	Low
Tobacco manufacturing	3	Low
Chemicals and pharmaceuticals	4	2
Soap, perfumes and other toilet requirements	5	4
Electric equipment	Low	3
Transport equipment	Low	5
Basic metals	Low	1

Source: Allocative Biases of Pakistan's Commercial Policy - Naqvi.

Table IV - Changes in the Composition of Licences issued under Export-Bonus Scheme

Import Category	Fifties (as % of total licensing under EBS)	Sixties (as % of total licensing under EBS)	Net Changes
Consumer goods	24.3	14.1	- 10.2
Raw material for consumer goods	27.8	31.0	+ 3.2
Raw material for capital goods	8.1	9.1	+ 1.0
Capital goods	39.8	45.8	+ 6.0

Source: Allocative Biases of Pakistan's Commercial Policy - Naqvi.

Table V - Implicit rate of Protection of value added

<u>Consumer Goods</u>	Ui
Bakery products	1.21
Edible oils and fats	2.02
Beverages (non-alcoholic)	1.08
Cigarettes	1.30
Cotton textile	1.52
Foot-wear	1.04
Wearing apparel	2.17
Wood products (furniture)	1.84
Leather goods	1.12
<u>Intermediate Goods</u>	
Rubber products	0.81
Fertilizers	0.18
Paints and varnishes	0.46
Pharmaceuticals and chemicals	0.33
<u>Investment and related goods</u>	
Cement	0.58
Basic metals	0.58
Sewing machinery	0.78
Electrical appliances	0.67
Electrical machinery	0.25
Other transport	0.33

Source: Tariff, Imports and Investment Efficiency - Soligo and Stern

Note: "Ui" denotes the ratio of net subsidy from tariffs to value added.