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COMMITTEE III - EXPANSION OF TRADE

Report of the Examination of the Second Five-Year Plan of Pakistan

Terms of reference

1. The Committee met from 6-13 November 1962 to examine the trade and payments aspects of the Second Five-Year Plan of Pakistan, as had been decided by the Committee when it met in February 1962 to arrange its work programme (L/1732).
2. The Committee had before it a paper prepared by the secretariat in consultation with the Pakistan authorities on the trade and payments aspects of the Plan (COM.III/94). Copies of the text of the Plan and of the revised estimates for the Plan had also been supplied to contracting parties by the Government of Pakistan. The Committee first examined the strategy of the Plan (COM.III/94, paragraphs 7-23) before turning to its commercial policy aspects (paragraphs 24-51).

Opening statement by the representative of Pakistan

3. The representative of Pakistan said that the last fifteen years of Pakistan's economic history was a chronicle of a poor country's persistent efforts to shed off its seemingly endemic economic stagnation. At the time of independence (August 1947), Pakistan had inherited only the areas producing primary commodities and raw materials. The industrially developed areas of the Indo-Pakistan sub-continent went to India. Moreover, basic facilities, such as power, communications and transport, educational institutions and other training facilities, were woefully deficient. The mass migration following independence further accentuated the economic difficulties of the country and imposed a severe strain on its young and inexperienced Administration. In almost every sector of the economy Pakistan had to begin from scratch.
4. Pakistan unfortunately happened to be one of the poorest countries in the world. The national income per head was equivalent to US\$70, one fifteenth of the United Kingdom's and one fortieth of that of the United States. At the present time the total population was about 94 million, and appeared to be growing at the rate of about 2.3 per cent per annum. Agriculture employed 75 per cent of the labour force and provided 56 per cent of the national income; it was mainly subsistence farming - rice in East Pakistan and wheat in West Pakistan - but it was also the main source of Pakistan's exports - cotton, jute, wool, hides and skins, and tea.
5. The process of economic development in Pakistan commenced simultaneously with independence. The initial efforts at economic planning, however, were rather stopgap measures. Early in 1948 a Development Board was established

by the Central Government "to co-ordinate nation-building schemes and determine their priorities". In practice, the Board could not take any comprehensive view of problems and possibilities because so few data were available to them, and they had no effective control over sanctions or implementations.

6. In 1950, a step forward was taken. The Colombo Plan for the Economic Development of South and South-east Asia emerged from a meeting of Commonwealth Finance Ministers and called for a national economic plan for Pakistan, along with plans for India, Malaya, Singapore, North Borneo and Sarawak, each to cover the six years beginning from mid-1951. For this, the Government of Pakistan created new machinery: a Planning Commission, consisting of the permanent heads of Central Government Ministries and the senior officers of the Provincial Government concerned with development, with the Minister of Economic Affairs as Chairman.

7. Pakistan's Six-Year Plan had proposed a total development expenditure of 2,600 million rupees. The development programme of this Plan was primarily designed to build up the infrastructure of the economy.

8. The Six-Year Plan, although a brilliant piece of hastily improvised programming, had been far from being a comprehensive and integrated blueprint of social and economic development. It had many gaps and was soon superseded by a two-year priority plan (1951-1953) which was estimated to cost 500 million rupees, and which concentrated on certain of the projects of the Six-Year Plan, mainly ports, ships, thermal power stations, cement factories and textile mills.

9. But even the Two-Year Priority Plan could not be implemented as a whole. The end of the Korean war brought a sharp fall in Pakistan's export earnings and necessitated a drastic cut in imports; at the same time, there was a serious harvest failure in West Pakistan. So once more economic planning had to be put on a "first-aid" basis.

10. In August 1952, the Government appointed an Economic Appraisal Committee to review the progress of development. The Committee in their report pleaded for "more orderly and integrated planning".

11. Responding to the proposals of the Economic Appraisal Committee, the Government of Pakistan established the Pakistan Planning Board in July 1953 with the following terms of reference: to review the development that has taken place since independence; to assess the resources - material and human - which can be made available for development during the next five years beginning from April 1954 (later deferred to 1955); to prepare a national plan of development based on the fullest possible utilization of these resources for implementation in a period of five years as a step towards the attainment of the economic and social objectives of the Government's policy;

to make proposals regarding the administrative machinery best calculated to assure the successful implementation of the Plan; and to make any other recommendations which, in the opinion of the Board, will contribute towards the success of the Plan. The First Plan was published in a draft version in May 1956. A revised version was published in December 1957.

12. The First Five-Year Plan (1955/56 - 1959/60) was the first comprehensive and integrated blueprint of the country's social and economic development. It set out a strategy of development designed to raise to the maximum extent possible the level of living of the people while at the same time building up the potential for future growth. It aimed at increasing national income by 15 per cent which, in view of the then anticipated increase in population, would have resulted in a 7 per cent increase in per capita income. Its other objectives were to strengthen the balance of payments, increase job opportunities, to take care of additions to the labour force in the Plan period, extend social services like housing, health and education, and step up the rate of growth in the economically retarded areas of the country. The dimensions of the Plan were modest: Rupees 7,500 million in the public sector and Rupees 3,500 million in the private sector.

13. The story of the implementation of the First Five-Year Plan is one where sunshine and shadows were strangely mixed. While financially the Plan was fulfilled to the extent of about 90 per cent, its expectations with respect to an increase in national income were not realized. Against the Plan target of 15 per cent, the actual achievement was of the order of 11 per cent. Because the population increased by about 10 per cent during the Plan period, the increase in per capita income was negligible.

14. The first Plan, however, did succeed in laying the social and economic overhauls for future growth of the economy. The transportation system and port facilities were renovated and improved; generation of power was expanded; work on several multipurpose projects progressed a good deal; and significant strides were made in the field of industrialization.

15. In general terms, the conclusion to be drawn from the experience of the first Plan was that, while progress was a good deal less than was hoped, there did take place significant improvement in the climate for economic growth.

16. The Second Five-Year Plan, covering the period 1960/61-1964/65 was designed to carry forward at accelerated pace the process of economic growth set in motion by the first Plan. The fundamental problem for the second Plan, as for the earlier efforts, was, in its own words, "how, under severely limiting conditions, to find some way towards the liberation of the people from the crushing burden of poverty... the compelling consideration is that the economy must grow at a rate which must be faster than the increase in population".

17. The principal targets of the Plan were:

- (i) 24 per cent increase in the national income and 12 per cent in its share per head of the population;
- (ii) 21 per cent growth in food production for moving towards self-sufficiency;
- (iii) 60 per cent increase in the output of large-scale industry;
- (iv) 3 million more employment opportunities;
- (v) a rise in the average rate of domestic savings of 10 per cent and in the marginal rate to 25 per cent;
- (vi) acceleration in the economic growth of relatively less-developed areas in the country; and
- (vii) an increase of 15 per cent in total foreign exchange earnings.

18. The Plan, announced in June 1960, anticipated an aggregate development expenditure of Rs.19 billion. It was revised, in November 1961, because of: price increases since its original formulation in 1959; under-estimation of the costs of several projects as proved by subsequent engineering reports; higher than expected rate of population growth, revealed by the 1961 census; and some expansion in the physical dimensions of the Plan. Consequently, the total development outlay was raised to Rs.23 billion... The revised estimates have been endorsed by the World Bank and the consortium of powers interested in development assistance to Pakistan.

19. The revised Plan envisaged a development outlay of Rs.14,620 million in the Government-financed sector and Rs.8,380 million in the privately-financed sector. It was anticipated that domestic savings will finance 52 per cent (Rs.12,050 million) of the Plan and external aid and private foreign investments will provide the remaining 48 per cent (Rs.10,950 million).

20. The second Plan's strategy could be summarized as follows: first priority was given to schemes which were already in an advanced stage of preparation or which had already been the subject of foreign aid or loans. Second, there was emphasis on schemes which were designed to give quick returns by the better use of existing resources. Third, the Plan sought to make maximum use of the market mechanism, and to employ fiscal and monetary measures, rather than direct controls, as possible. Fourth, it adopted a pragmatic approach as between the rôles of the

public and private sectors, with no industries barred from private investment (indigenous or foreign), and public investment supplementing rather than displacing private enterprise. Fifth, the Plan aimed to develop labour-intensive rather than capital-intensive methods where the choice was feasible, corresponding to the relative scarcities of the factors of production. Sixth, an attempt was made to capture a part of the extra wealth of the community as the economy progresses, for still further investment (one quarter of the estimated increase in national income). Seventh, the instrument of annual development programme would be used to bring about orderly adjustments in the Plan to meet the changing circumstances. The Plan had built-in flexibility in it.

21. The progress of the Plan to date had been satisfactory. About 31 per cent of the aggregate Plan expenditure of Rs.23 million had been spent in the first two years (1960-61 and 1961-62). The pace of implementation was somewhat faster in the privately-financed sector (34 per cent) than in the Government-financed sector (30 per cent). On present indications, it should be possible to finance further development programme (Rs. 4,960 million) during the third year (1962-63), thus bringing the rate of implementation up to 53 per cent for the first three years of the Plan. This would be in accord with normal phasing of Plan expenditure - rising year-by-year until the peak is reached in the latter half.

22. Foreign exchange earnings in the first three years of the Plan were also likely to be Rs.560 million larger than originally projected for this period. While exports of raw cotton and cotton manufactures were below the Plan expectations, earnings from jute manufactures, rice and invisibles exceeded the Plan targets.

23. In overall terms in the first two years of the Plan the economy had grown by about 11.4 per cent. If the population growth was 2.2 per cent a year, then the national income per caput in this period increased by about 7 per cent and amounted to approximately Rs.340 at current prices, equivalent to about US\$73. This showed that at the present time the population was still very poor and that a substantial amount of external assistance would be needed for many years to come. There were good prospects for achieving the Plan targets of 24 per cent increase in national income and 12 per cent in its share per head of the population.

24. Economic planning in Pakistan was implicitly based on a long-term model, which found a mention, although only a passing one, in the second Five-Year Plan (page 4, paragraph 14). The long-term objective was stated to be "to double the existing level of national income in the fourth Plan period and to quadruple it in the sixth Plan period". In view of a faster than anticipated rise in population, the rate of growth projected in this long-term model required acceleration. In the perspective Plan of Pakistan, which was currently being prepared, the planners were working out a model which aimed at increasing national income by 30 per cent in the third and subsequent Plans. The foreign exchange implications of this long-term perspective Plan clearly brought out the paramount need of

stepping up Pakistan's foreign exchange earnings. Exports must be increased sharply to enable the country to maintain the momentum of its "socially necessary rate of growth." This underlined the fact that it was important that the developed countries should follow enlightened, expansionary and outward-looking trade policies. The prospects for increases in foreign exchange earnings from raw materials were not very bright. The manufactured goods had of necessity to grow in importance in the export trade of the country. Pakistan had every hope that it would have available to it expanding markets of the developed countries for its raw materials, as well as for its manufactured products.

Strategy of the Plan - basic objectives and methods

25. The representative of Pakistan said that of the objectives of the Plan outlined in his opening statement overriding importance was attached to securing an increase of 24 per cent in national income during the Plan period. It was emphasized that this increase was an extremely modest one as national income per capita in the basic year was estimated at about \$70. In reply to a question about the implications of population growth for the country's development effort, the representative of Pakistan said that the Second Plan had enunciated a population policy which, aside from measures designed to reduce birth rates by encouraging family planning, took into account the qualitative aspects of the problem. Account had been taken of the impact of population growth on social change, labour force utilization, health and human welfare. He, however, maintained that widespread family planning would come only when the population realized that rising standards of living were possible for them and their children.

26. In answer to a question it was stated that in drawing up the Plan, the Pakistan authorities had also taken into account differences in regional development. Regional problems existed in most countries, even those which were economically highly integrated, but in Pakistan these were complicated by the separation of the two wings of the country by over a thousand miles of foreign territory. This geographic separation greatly hindered the inter-wing mobility of the factors of production and restricted severely the spread effects of the growth impulse. The Government was committed under the Constitution to equalize the level of per capita income of the two wings of the country and it was expected that this would be accomplished in the not too distant future.

27. The fact that the Plan had more than one objective made it particularly difficult to use econometric methods in its construction. These methods were of doubtful usefulness in Pakistan where a firm statistical base was not yet fully established. The drawing up of an input-output table was however being considered for the Pakistan economy. In the formulation of the Plan an attempt had been made to match 'key' inputs like foreign exchange, transport capacity, steel, cement and technical manpower with the anticipated demand for these. The progress of the Plan to date had revealed that these forecasts were correctly based.

28. The decision on the size of the Plan had been influenced by many considerations: the rate of growth achieved by the economy in the recent past, the rate of population growth, the people's expectations about improvements in the level of living, the rate of growth attained by countries in similar situations, the domestic savings of the economy and anticipations about the availability of foreign aid and loans. It was again stressed that the Plan was not an immutable blueprint. It was a flexible design of economic programming. The principal instrument for making orderly changes in the Plan to bring it in line with changing circumstances was the Annual Development Programme which was to be prepared each year after a realistic appraisal of the performance of the economy and the resources that were in sight. In an economy like that of Pakistan, where exogenous factors are so important, it is vital to preserve flexibility in the Plan.

Balance between the public and private sectors

29. In answer to a question, the representative of Pakistan said that the Pakistani Plan was very liberal in its approach. No doctrinaire assumptions underlay it. The distribution of investment allocations between the public and private sectors was determined pragmatically. The private sector had been left free to do all those jobs for which it was competent. The rôle of the public sector was supplemental. It had also been the policy of the Pakistan Government to hand over to private enterprise industrial projects after their economic feasibility had been demonstrated.

30. The representative of Pakistan explained that a new classification, designated the semi-public sector, had been introduced for the first time in the Second Plan. It comprised corporations financed by Government loans and grants and also by private contributions and their own resources. In certain cases these corporations also received private foreign investment. They differed from public sector agencies in that they enjoyed a much greater degree of administrative autonomy. Examples of such organizations were: Industrial Development Corporations in East and West Pakistan, Pakistan International Airlines, Karachi Port Trust, the Inland Water Transport Authority in East Pakistan, the Karachi Electric Supply Corporation, the Karachi Development Authority and improvement trusts in important towns in East and West Pakistan.

31. The private sector of the Plan was not subject to the same detailed degree of planning as the public sector. It was proposed to keep the private sector in line with the objectives and targets of the Plan by appropriate monetary, fiscal and trade policies and through the allocation of loans in conformity with the targets of the Plan. The Plan **did not intend** to trammel private initiative by prescribing a rigid framework for it. Nevertheless, it did attempt to establish the appropriate fields for its development and indicated where the national interest lay.

32. Foreign loans and investments would be forthcoming for industry, fuel and minerals in the private sector. The foreign exchange component of the private and semi-public sectors was estimated at Rs.3,920 million. It was expected that this amount would be forthcoming in the following manner: Rs.600 million in the form of private foreign investment, mainly in oil and gas explorations; Rs.750 million through the Pakistan Industrial Credit and Investment Corporation; Rs.600 million through Pakistan Industrial Development Bank; Rs.250 million in direct loans to the public corporations by foreign aid-giving agencies; and Rs.170 million by the transfer of foreign exchange from the Government to these two sectors.

33. Private foreign investment was very welcome in Pakistan. It had been afforded every facility and security and Pakistan had entered into investment agreements with a number of countries.

Agriculture

34. In the drawing up of the Second Plan the paramount importance of agriculture was clearly recognized. As was noted in the secretariat background document, a very high priority had been attached to increasing agricultural production. The representative of Pakistan pointed out that 56 per cent of the gross national product was derived from agriculture and three quarters of the labour force found its employment in this sector. To an overwhelming extent the exports of the country were also dependent, directly or indirectly, on its agricultural production. The Plan had predicted a 14 per cent increase in agricultural production and a 21 per cent rise in foodgrain production. The foodgrain target had almost been reached in the first three years of the Plan. One had, however, to be very wary before drawing any optimistic conclusions from this performance. Good weather had played an important rôle in brightening the agricultural picture in the first two years of the Plan.

35. The representative of Pakistan agreed with members of the Committee that disguised unemployment was one of the most important problems to be faced in a predominantly rural economy like that of Pakistan. In this connexion he under-scored the importance of the Works Programme, for which an allocation of Rs.1,600 million had been made for the Plan period. The Works Programme had been designed to utilize excess rural manpower on nation-building projects by the liberal provision of basic wage goods. Schemes, such as the creation of coastal embankments, low lift pump and small irrigation projects, low-cost housing, feeder roads, school construction, water supply and drainage and reclamation would be undertaken. It was hoped that this Works Programme would succeed in leavening the stagnant mass of rural society and would create in it an enthusiasm for development and self-help.

36. Another way of decreasing the amount of disguised unemployment was to make agriculture itself labour intensive by the provision of such inputs as water, fertilizers and pesticides.

37. In reply to another question, the Pakistan delegate pointed out that the self-sufficiency in foodgrains contemplated in the Second Plan was at the level of existing calory intake, which was below accepted nutritional standards. With the growth of incomes the per capita demand for foodgrains was expected to increase over the existing subnormal level and for some time therefore even after the Second Five-Year Plan, imports of P.L.480 commodities would be necessary.

38. In reply to a question raised about the rôle of co-operative movement in Pakistan, the representative of Pakistan pointed out that, although the co-operative movement had been in existence since 1904, it had not succeeded in making a very significant impact on the agricultural credit situation in the country. In the Second Plan the main effort would be concentrated on the organization of primary societies. It was proposed that at least 500 new large co-operative societies would be established during the Plan period, in West Pakistan; in addition to the establishment of new societies, it is hoped to re-organize at least fifty existing small co-operative societies in this province. In East Pakistan 500 of the existing 3,500 union multi-purpose societies will be re-organized. One of the main reasons for the slow performance of the co-operative movement had been a lack of marketing facilities provided and the Plan therefore proposed the establishment of new marketing societies.

Industry

39. The representative of Pakistan pointed out that Pakistan, despite the rapid strides being registered in the field of industrialization, would still be a predominantly agricultural country at the end of the Second Five-year Plan. The share of industry in the gross national product was expected to go up from 14 per cent to 17 per cent. Asked about the criteria for industrial development in Pakistan, the representative of Pakistan said that industries had been favoured which were expected to make the largest net contribution to national income per unit of investment, and that industries had been preferred which resulted in net increases of foreign exchange earnings per unit of investment. Preference had also been given to industries which used indigenous raw materials and provision had been made for industries which were expected to become important to the economy in the future, even though their immediate contribution to income and employment per unit of investment might not be large, as for example, industries which produced certain types of producer goods. Finally consumer goods industries which produced necessities had been preferred to those which produced non-essential and luxury items. The representative of Pakistan pointed out that the complexity of the problem of industrial development did not permit the application of any simple criteria, such as the preference of heavy goods industries over light goods industries. It was necessary however that, in view of the long-term requirements and the desirability of reducing the foreign exchange component of the development programme, increasing importance should be attached to producer goods industries.

40. In reply to further questions, the representative of Pakistan further elaborated that if nothing was done about replacing some of the capital goods imports through domestic production, the foreign exchange problem would become practically impossible for Pakistan in the near future. He said at any given point of time the development of capital goods industry might appear to be an inefficient alternative to the development of light consumer goods industry but such a static comparison missed the requirements of the long-term growth of the economy.

41. If capital goods industry was not developed in earlier plan periods, some of the investment in later plan periods would be frustrated for lack of foreign exchange. To a static comparison of the costs and benefits of various consumer goods and capital goods industries must also be added the future loss of investment if capital goods industry was not developed. It was possible to argue that it might be more efficient to build up consumer goods industries, to export their products at whatever they would fetch in the international market, and to finance development imports from the consequent increase in foreign exchange earnings. However, such an argument assumed a difference in the efficiency of consumer goods and capital goods industries and an infinitely elastic international demand for consumer goods, which were rather questionable assumptions. Furthermore, it was politically easier to protect an expanding capital goods sector from consumption pressures at home than it would be to protect an expanding consumer goods sector. In fact, the former makes the attainment of a high marginal rate of saving far more practicable.

42. In reply to a question about the relative rôle of large and small-scale industries, the representative of Pakistan pointed out that careful consideration had been given in the Plan to the ratio between large, medium-sized and small units. The Plan visualized a balanced industrial structure. It gave encouragement to new small and medium-sized industries. It fostered sub-contracting, which implied that some large-scale industries would buy systematically from smaller units. However, he pointed out that it was not the aim of the Plan to perpetuate an uneconomic complex of small industries. The need for the economic utilization of scarce development resources was so paramount that waste in the form of all-out promotion of an industrial pattern dominated by small enterprises could not be contemplated. It was further pointed out that limitations imposed on the rapid expansion of small and medium-sized industries were market considerations, and the shortage of technical and managerial skills. There was no doubt that in a country like Pakistan, with its vast pool of disguised unemployed labour, there were countervailing social advantages in spreading industrialization through small units. The Plan, therefore, introduced a series of positive actions which should facilitate the growth of efficient small and medium-sized industrial units. The representative of Pakistan, however, expressed his personal opinion that the solution of the unemployment and under-employment problems of the country could not be found in the development of small industries alone. A massive rural Works Programme, on which a beginning was being made in the Second Plan offered the most promising hope of solving the problem of excess rural labour.

Foreign aid

43. It was pointed out that at the present stage of development, Pakistan along with most developing countries, was faced with a stubborn balance-of-payments problem. The country's exchange earnings were not even sufficient to meet its maintenance requirements. The entire foreign exchange component of the development programme had to be met from foreign aid, foreign loans and private foreign investment.

44. In reply to a question, the representative of Pakistan pointed out that the terms on which foreign aid was available to his country varied in "hardness". Some loans, for example like those from AID of the United States and International Development Authority were on "soft" terms, while others like those of the World Bank and the export credit given by certain countries were quite "hard" and imposed a difficult burden on the future balance-of-payments position of the country. He pointed out that it was imperative that the external aid to Pakistan should be on very "soft" terms and should also be for very long periods. The example set in this behalf by AID of the United States and IDA should be followed by others. Pakistan was not able any longer to contract foreign loans of less than fifteen years maturity.

45. In reply to further questions, the representative of Pakistan stated that, not only should the aid be available on longer and softer terms, but its character also required to be changed. At the present time, most of the aid which was available to Pakistan was tied to purchases from the aid-giving country. This considerably whittled down the real content of aid and also posed serious programming problems. Again a very large part of aid was available on a "project" basis. The aid-giving countries preferred to have well-defined projects with a large foreign exchange component which could be utilized for purchases in their country. The consequence of following this "project" approach was that a considerable part of the development plan, which consisted of small diffused or undramatic schemes, could not be financed. This resulted in the distortion of the priorities of the Plan. These small or undramatic schemes normally pertained to sectors like education, agriculture, health, social welfare and manpower development, the vital importance of which was now generally recognized. This neglect of human capital, because of a fondness for the "project" approach, could have adverse consequences on the balanced implementation of the development Plan. The representative of Pakistan underlined the importance of making a large part of the aid available as general balance-of-payments support untied to specific projects. The representative of Pakistan also drew attention to the commendable practice of IDA of financing a part of the local cost of a project by the purchase of local currency from the Central Bank of the country. This practice, of course, was applicable in the case of those projects where the foreign exchange component was less than 50 per cent. The free exchange thus made available afforded much needed flexibility in development planning. In reply to another question, the representative

of Pakistan pointed out that in the first three years of the Plan, the economy had been relatively starved of maintenance imports. While the Plan originally projected a maintenance support requirement of Rs.1,480 million for this period, the actual receipts were likely to be only Rs.300 million. To a large extent, the impact of this lower availability was softened by higher foreign exchange earnings, a lower burden of debt repayment and a drawing down of foreign exchange reserves. In fact, as much as Rs.850 million out of a total shortfall of Rs.1,180 million in maintenance support during these years was made up through these sources. This implied a squeeze on domestic consumption since the development programme was protected against a shortfall through the diversion of commodity aid to development uses.

46. In reply to a further question, the representative of Pakistan pointed out that from a long-term point of view, it was vital that Pakistan's export capability be increased sharply. Pakistan wanted gradually to limit its dependence on aid and to increase its trade. This desirable objective, however, could only be obtained if the policies of the developed countries were enlightened, outward-looking and expansive. There appeared to be some ambivalence in the approach of developed countries to the developing countries. While the need for aid was being appreciated and it was being quite generously extended, the other need to develop these countries' exports was not being fully appreciated. The lack of adequate appreciation of the developing countries' need for ever-expanding trading outlets implied that the developed countries were following a policy whereby they would continue to underwrite the development effort of the emerging countries by the granting of aid of various forms and furthermore, in most cases to re-finance previous loans.

47. Asked about the way in which United States Public Law 480 aid was being utilized, the Pakistan representative said that care had been taken to ensure that the availability of this aid would not exercise a deleterious effect on farm production. Farmers' incentives for higher production had been protected through the guarantee of floor prices for wheat. It was further stated that the Public Law 480 programme provided an excellent source of non-inflationary internal financing. By keeping the prices of basic wages at a reasonable level, it would protect the economy from inflationary pressures which were somewhat inherent in a period of rapid growth. According to an agreement reached with the United States, 11 per cent of the counterpart funds generated by the sale of Public Law 480 commodities would be earmarked for United States uses. Another 19 per cent of the counterpart funds would be used for the Indus Basin Fund. The balance would be available for meeting the requirements of the Plan and the Works Programme.

Commercial policy aspects - exports

48. Pakistan had traditionally relied on the export of a narrow range of basic commodities for which demand was relatively inelastic, whose prices fluctuate unpredictably and some of which were subject to unfavourable long-term trends. Methods to stabilize the conditions under which these were marketed and to diversify the export structure had therefore been under close consideration. These are discussed in some detail in paragraphs 40-41 and 66-68.

Commodity stabilization

49. Members of the Committee referred to the statement in the background documentation that one of the main preoccupations of Pakistan's commercial policy was the need for some international means of promoting the stabilization of the prices of internationally traded primary commodities, as well as manufactured goods required for development purposes. The representative of Pakistan said that this problem was one of the most difficult facing world trade today. Attempts had been made to stabilize the price of commodities through buffer stocks and international commodity agreements but these had run into well known difficulties. In addition to general measures, such as compensatory financing and maintenance of effective demand at a high level in the industrialized countries, specific solutions for each commodity would have to be worked out. The representative of Pakistan said that his country was particularly interested in seeing action taken on jute, raw cotton, wool and tea. The existence of surpluses of raw cotton in the United States created special circumstances in this case. In the case of jute only two countries were principal producers but steps taken by these two countries alone would be inadequate as action would be necessary not only on jute, but also on its substitutes. Referring to manufactured goods he said that cartellization in the industrialized countries should not result in an artificial rise in prices.

The Export Bonus Scheme

50. Replying to questions on the Export Bonus Scheme, details of which were set out in the secretariat background paper (COM.III/94, paragraph 32), which had been introduced to give assistance to selected items to enable these to break into the export market, the representative of Pakistan agreed that this type of scheme, together with other aids to exporters which were granted by many countries, had the same impact as limited devaluation. It might be argued that Pakistan could have adopted the orthodox solution of devaluation, but this would necessarily apply across the board, would tend to fan inflationary pressures and push up the price of equipment urgently needed for development purposes. Devaluation, because of the inelasticity of supply in the short run and the pressing claims of domestic absorption, might not stimulate exports significantly. The scheme was being used in a selective way and as a temporary expedient. Evidence seemed to indicate that with such measures the main impact was felt in the period just after their introduction.

Direction of exports

51. Members of the Committee also enquired as to the destination of Pakistan's exports and trends in this respect. The representative of Pakistan referred to the traditional complementarity between the industrialized and the developing countries. Most of Pakistan's trade was carried out with the industrialized countries. Among these countries the United States was becoming increasingly important as a trading partner, partly as a result of the granting of tied loans and commodity aid. While the share of the United Kingdom in Pakistan's foreign trade had remained relatively stable, that of other countries had characteristically shown some fluctuations. The negotiation of several bilateral trade agreements also influenced trading patterns. A sharp decline in exports of raw cotton had also had its effect, reducing the relative importance of the Japanese and French markets for exports from Pakistan.

52. Intensive studies had been undertaken in the past two year on new markets, particularly those in Africa, but because these countries had established trading patterns, and in most cases had special links with other countries, an effort to expand trade in this direction could show results only after some time. The operation was at the moment in an exploratory stage and trade offices were being opened. The representative of Pakistan agreed that if all the less-developed countries planned their future growth in isolation, there was a danger of wasteful duplication. Some sort of co-ordination would be desirable, but political and economic obstacles made it difficult at the present time. The economic benefits of regional co-operation for most less-developed countries would be much more limited in scope than is the case for the members of the European Economic Community. Most of the less-developed countries at the present time had to depend on the industrialized countries for a major share of their foreign trade. He therefore expressed the hope that the industrialized countries would follow more liberal and outward looking trade policies, especially in regard to the products of less-developed countries.

Projected foreign exchange earnings

53. The variation in the level of Pakistan's total exports was partially explicable in terms of prices, particularly those for jute, although increased domestic demand for such products as cotton goods and tea had had some effect.

54. The representative of Pakistan agreed that the construction of estimates of export earnings for a five-year period was an extremely difficult operation. Yet in the First Five-Year Plan estimates were distorted only by changes in the terms of trade. During the first three years of the Second Plan the projections had proved to be on the low side for the same reason as well as because receipts from invisibles had increased. These projections were based on the assumption that world market conditions would not be subject to violent fluctuations, that the production targets of the Plan would be achieved, that the world economy would continue the growth trend of the fifties and that a gradual reduction of barriers to the export trade of the less-developed countries would continue. A member of the Committee presented a projection of import opportunities in his country at the end of the Second Plan period for some major products of interest to Pakistan. The Committee felt that indications of this kind, for all their natural limitations, could be of assistance to less-developed countries in the planning of their development and export trade and invited other contracting parties to submit, as far as possible, similar indications at future meetings of the Committee.

55. The Committee went on to examine market conditions and projected foreign exchange earnings for individual commodity groups.

Cotton and cotton manufactures

56. The representative of Pakistan said that, as at the time of independence very limited cotton manufacturing capacity existed in the country, the bulk of the country's raw cotton had had to be exported. Starting from only 177,000 spindles and 4,800 looms in 1947, the country was expected to have 3 million spindles and about 45,000 looms by the end of the Second Five-Year Plan.

57. It is, however, expected that raw cotton production during the Second Plan period would increase by 30 per cent and that this would maintain intact the present export capacity for raw cotton, despite the increase in spindlage. During the past decade, the export of raw cotton had declined because of the rapid increase in cotton manufacturing capacity. Unfortunately the decline in foreign exchange receipts, because of lower exports of raw cotton, could not be offset by corresponding increases in receipts from cotton manufactures. This was due to increased domestic absorption of cotton cloth. In the First Plan period (1955-1960), it had been estimated that the consumption of indigenous cloth was 12 yards per head per year. During the Second Plan period, this consumption was expected to rise to 14.5 yards. If the country succeeded in meeting its cotton production target, it should then be possible to register an increase from the combined exports of raw cotton and cotton manufactures. Raw cotton production during the last decade had unfortunately remained stagnant, but recently it had shown a welcome uptrend. If this were maintained, there was a good chance of the Plan target being fulfilled.

58. In reply to a question about the uses of Comilla cotton, the export of which was being developed, it was stated that its main use was for purposes of upholstery.

59. An export duty on raw cotton, combined with an export bonus stimulus for cotton yarn had, in the past, favoured the export of cotton in a processed rather than in a raw form. The increase in domestic demand at attractive home prices, especially after the removal of price controls, had left little incentive to export. Compulsory export quotas had been introduced to meet this situation, but these had weakened the bargaining position of exporters in an already highly competitive world market where exports were restricted by barriers to trade erected by the industrialized countries. The case for a reduction of the export duty on raw cotton, in order to give more incentive to farmers to produce this commodity, was being actively considered. It was hoped that exports of cotton manufactures would be increased and that a solution could be found by reliance on market mechanism alone. In this respect it was very necessary for the

developed countries to pursue policies which would enable this item to find an easy outlet. He stated that, as a general rule, the production of simple manufactures should be left to the developing countries and outlets for these assured. The developed countries should concentrate on more sophisticated types of industrial protection.

60. A member of the Committee asked whether, taking into account the prospects of the world market for cotton manufactures, it would not be advisable to concentrate on the export of raw cotton. The representative of Pakistan pointed out that the prospects in the world markets for raw cotton were as uncertain as for cotton manufactures. Moreover, in the case of Pakistan, very strong economic justification existed for the development of the cotton manufacturing industry. The value added by the conversion of raw cotton into the manufactured state was very considerable. The cotton textile industry was the premier manufacturing industry of the country, and provided more than one third of all employment in large-scale industries. Cloth had to be produced for the growing home market. It was only logical that, given the comparative advantage that Pakistan had in this field, it should try to expand its exports. He pointed out that even a substantial increase in the present level of Pakistan's exports would only be a small fraction of the current consumption of developed countries like the United Kingdom or the members of the European Economic Community.

Jute and jute manufactures

61. Replying to a question the representative of Pakistan said, that as the world's largest producer of raw jute, Pakistan was interested in maintaining its traditional markets for raw jute. At the same time, with a growing and efficient jute processing industry, it hoped to secure a reasonable share of the world's market for jute manufactures. If European importing countries found it impossible to eliminate their restrictions on imports of these items at the present time, they should consider an arrangement ensuring that jute manufacturing capacity in these countries should not be increased and that the European industries should concentrate on the manufacture of specialities. This would make it possible for Pakistan to concentrate on the production of sacking and hessians, and to obtain a larger share in the expanding markets for jute goods in Europe.

62. A member of the Committee pointed out that export earnings from jute and jute manufactures taken together were greater in 1960/61 than had been projected for 1964/65. The representative of Pakistan explained that the forecast of jute exports assumed that prices would not deviate greatly from the levels of mid-1959, which were low enough for jute to compete effectively with substitutes. The year 1960/61 had been exceptional in that prices had risen fairly considerably. In the current year prices had again fallen. A reduction in the export duty on raw jute had been considered in order to stimulate exports but the results of such action, given the market situation, would be a reduction in the price of raw jute to manufacturers abroad and thus an increase in their competitiveness to the detriment of Pakistan's export earnings. Exports of raw jute were expected to fall during the Second Plan period as manufacturing capacity increased. A target had been set for an additional 4,000 looms, but this figure had later been increased to 6,000.

Hides and skins

63. Hides and skins were mostly exported in the raw state at present, but the development of an export trade in finished leather and of leather goods seemed a logical development. Pakistan's hides and skins were of a fairly high quality and suitable for purposes of chrome and vegetable tanning and production of kips.

Tea

64. In the case of tea an optimistic target of receipts of Rs.49 million per annum from exports had been in the original text of the Plan. In Pakistan there was a high income elasticity for tea, which had become a conventional necessity for the urban population. Domestic consumption had risen and it had been found difficult to have a significant export surplus. It was not now expected that exports of tea would make much of a contribution to foreign exchange earnings during the Second Plan period. Steps were being taken to increase production but results would probably not be seen until the Third Plan period as the gestation period of tea production was long.

Tobacco

65. A member of the Committee noted that it was estimated that tobacco output would rise by 14 per cent during the Second Plan period. The representative of Pakistan confirmed that this increase would be used for internal consumption and not for export. Public Law 480 deals would not interfere with normal commercial transactions.

Miscellaneous exports

66. It was noted that export earnings in this sector were expected to show a larger increase than in any other during the five years of the Plan. It was expected that a large part of this increase would be derived from increased sales of fish, particularly of prawns, shrimps and other crustacea. The Plan documented in detail the efforts being made to increase catches of fish, which were expected to grow by 24 per cent during the Plan period. The objective was also to modernize about 30 per cent of the present fishing gear by 1965 and help was being received in this from Japan. Exports of fish were being stimulated by the Export Bonus Scheme. Market research for this item was being undertaken. It was hoped that exports of fish would earn at least Rs.50 million per annum during the Plan period.

67. Members of the Committee noted that, in addition to aiming at self-sufficiency in foodgrains, mention was made in the Plan of the development of food crops for export. The representative of Pakistan explained that this was primarily a reference to the export of superior quality rice, which had been successful on the export market during the past two years. Exports had been valued at Rs.90 million in 1961 and were expected to reach Rs.150 million in 1962.

68. Members of the Committee noted that certain manufactured items not previously traded in significant amounts were being exported and enquired whether these items had been consciously developed as export goods. The representative of Pakistan pointed out that in the past his country had possessed an extremely narrow range of exportable commodities. A major effort was now being made to

increase exports of various manufactured goods and to increase the export-mindedness of manufacturers. The sensitivity of the world market for cotton textiles was realized and attention was being given to the export of such items as carpets and rugs, musical instruments, surgical instruments, cutlery and hardware, newsprint, hardboard and mechanical paper. The recent fall in exports of sports goods, the production of which gives employment to thousands of workers in West Pakistan, has been the result of keen competition. The organization of this industry also needed improvement. This was being looked into by the Government. During the present Plan period it was expected that increases in cement manufacturing capacity would lead to the creation of an exportable surplus and, looking further ahead, it was hoped that petro-chemicals based on the large resources of natural gas which had been discovered in West Pakistan could be developed for export. The manufacture of acetate was also being developed.

Invisibles

69. It had been estimated that invisible receipts would remain constant during the Second Plan period at an annual rate of Rs.280 million. A considerable component was remittances from abroad although receipts for shipping, banking and insurance services were also included. In this instance the projection was on the low side, as receipts during the first year of the Plan had been Rs.342 million, and in 1961/62 these had reached Rs.420 million. During 1962/63 they were expected to be around Rs.400 million.

Conclusions

70. The Committee felt that the information and clarifications given by the representative of Pakistan during the consultation had provided a valuable insight into the task confronting the Government of Pakistan. It appeared that the targets which had been set in the Second Five-Year Plan were modest in relation to the magnitude of this task and realistic in relation to the resources available to the country. The Committee was also aware that one of the main problems that the Pakistan Government faced in its efforts to achieve the targets of the Second Plan was the present rate of growth of the population. While concentrating its attention on the commercial policy aspects of the Plan and especially on the steps taken to increase the export potential of the country, the Committee expressed the opinion that the rationale and flexibility of the Plan would create a climate favourable to the development of trading relations with Pakistan. The Committee noted that in order that the targets of the Second Plan were to be reached, a large amount of foreign assistance for both development and maintenance purposes, would be necessary. It was felt that the discussion had indicated, not only the present vital need for foreign assistance but also the importance of the form in which it was made available, and that this discussion would be of considerable interest to aid-giving countries and lending agencies. The Committee stressed the importance of reducing Pakistan's dependence on such aid by providing expanding outlets for its exports. The Committee noted with satisfaction that action was being taken by the Government of Pakistan to develop new export products and new markets for their exports. In this connexion the reduction of barriers to semi-processed and processed derivatives of its main export products was of crucial importance. It was recognized that Pakistan would be forced to rely on policies of high-cost import substitution if these barriers were maintained.

