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# PROBLEMS OF INDUSTRIALIZATION

## IN UNDER-DEVELOPED COUNTRIES

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**S. M. Akhtar**

Industrialization is a process of transformation of a predominantly non-industrial community into a predominantly industrial community. Among the chief characteristics of a typically non-industrial economy the following are note worthy. Predominance of agriculture as a way of living, using techniques of a simple and primitive kind, high pressure on the soil resulting in small farming units, even where ownerships are in the hands of large landlords. Where the small peasants own the land, the unit of farming may be still smaller and is normally fragmented. Agricultural methods and implements are determined by tradition rather than scientific experiment. Agricultural productivity, both per worker and per acre, is low, hence farming is for subsistence rather than for the market. Markets are either very few or they are of local character and usually ill-organized. Means of communication and transport are inadequate and inefficient. Credit and banking facilities are meagre. The community, as a whole, produces little beyond mere subsistence and has very little of amenities usually associated with civilized existence. Food is meager and crude and clothing hardly enough to meet the minimum needs. Houses lack comforts and hygienic requirements. There are few schools and fewer hospitals, hardly any facilities for recreation. Poverty and the accompanying under-nourishment and unhygienic ways of living lead to high incidence of disease and mortality, particularly infant mortality. In spite of high birth rates, the rate of population growth is quite moderate due to high death rates involving, in addition to human suffering, enormous wastage of material resources. The average span of life is short. Thus, in a community of the above type, the general level of living, material, intellectual and even spiritual for the mass of the people, is very low.

Along with this mass poverty, however, there may exist prosperity and plenty for a microscopic minority — the so-called privileged classes — mainly owners of land or mines or other natural resources. If the transition towards the industrial and commercial development has started there may be a small middle class consisting of traders, businessmen, lawyers and member of a few other newly emerging professions.

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The most depressing fact about a community, like the one described above, is that its backwardness is self-perpetuating. Production is hardly enough to maintain life at the level of the basic essentials. There is little surplus which could be used for the accumulation of capital stock in the form of railways, roads, factories, machines, banks, schools and hospitals. In the economic jargon we say that available and potential savings are not enough to result in adequate capital formation. Thus poverty itself becomes a cause of poverty and the vicious circle continues generation after generation unless some new development from within or assistance from without intervenes to break it by giving the economy an initial upward push. Once the process of development forges ahead it tends to have accumulative effect, larger incomes being followed by larger investment and still larger incomes and so on. Thus the vicious circle may be replaced under favourable conditions by an upwards benign spiral of increasing productivity and rising living-standards. But how far this higher productivity through the use of better technology will lead to increasing living standards for the people, will depend, among other things, upon the race between the population growth and industrial growth. The danger is that as living conditions improve death rate may fall due to disease control and if birth rate remains unaltered, the increase in numbers may counter-balance the increase in production, resulting in economic stagnation again. This would mean that all that economic development has done is to increase the number of those who share poverty and misery. This aspect of the matter, therefore, should not be lost sight of if industrialization has to have any significant and permanent results.

Industrialization aims at changing the community of a type described above into one in which, thanks to the application of modern techniques ushered in by the industrial revolution, conditions are quite the reverse. In an industrial community only a small proportion of the population is engaged in supplying the basic essentials of life thus releasing the bulk of the population and other corresponding resources for producing goods and services which make life more comfortable, more pleasant and fuller in every other way. Such a community enjoys adequate food of good quality and variety, plentiful clothing of all sorts, live in more comfortable and healthful houses, have universal facilities for education, health, training, amusement and recreation. The birth rate is usually low but since the death rate is very much lower, population growth is quite substantial unless limitation of resources warrant population control.

We have painted above two extreme pictures, one of a fully industrialized community and other of a community in which industrialization has hardly made a start. Most of the communities of the world lie in between these two extremes. The United States is regarded as the richest nation of today, if not of all times. In that country, it is estimated that only 20% of the labour force is

enough to ensure a minimum of subsistence to the entire population.<sup>1</sup> The remaining 80% are producing things of comfort and luxury that enable the people of the country to live a fuller and richer life. Even then, there are areas in the country which are subject to poverty almost of the level as found in the so-called under-developed regions of the world. On the other hand, we have the countries of South and South East Asia and Middle East where poverty is chronic. Pakistan stands among this group with a per capita income of about 1/30<sup>th</sup> of the United States and among the lowest in the world. But even in Pakistan, we have sectors and sections of the population who enjoy many of the amenities associated with civilized existence. We have railways and roads, telegraph and postal services, which are fairly efficient. We have banks, schools and hospitals, in growing numbers. Factories are springing up under our new development plans. But even then, 75% of our working population is engaged in producing the very basic essentials of life, mainly food.<sup>2</sup> And even in food we cannot boast of unqualified self-sufficiency. This measures the degree of our under-development. For the United States plenty is the rule while poverty is an exception, for us poverty is the rule while plenty is an exception. Countries of Western Europe and Latin America fall between these extremes. European countries lean more towards U.S.A. and those of Latin America more towards us. There are some areas in Asia and Africa which are even at a lower level of development than attained by Pakistan. Taking the world as a whole non-industrialized countries predominate. Our planet is, therefore, on the whole, an under-developed planet. According to a rough estimate 2/3rds of the world's people live below the margin of minimum healthful subsistence. The problem is not merely of industrialization: it is a problem of general development of the resources of the world. But industrialization is a major means to this end.

#### AGRICULTURE *VERSUS* INDUSTRY

Now the question is: If a community is under-developed both, agriculturally and industrially, which is normally the case of under-developed countries, which sector should be given priority? This is our *first* problem. Of course, in a general way, both lines of development will proceed simultaneously acting and reacting on each other. It is quite true, however, that in a sense, development in the one may be a pre-condition for the development in the other. For instance, where the entire working force of a community is fully engaged in the production of primary goods in the agricultural sector, so that any transfer of workers from this to the industrial sector will seriously diminish production, productive efficiency in the former must be increased before labour power will be set free for the latter. Such is the case of 'under-populated' countries of Latin America and some other parts of

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1. Boulding in 'Goals of Economic Life' Ed. A. D. Ward (Harper & Brothers) 1953, p. 59.

2. Census of Pakistan (1951), Bulletin No. 4.

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the world. Here, agricultural development through reorganization and application of improved techniques will have to precede any large scale development in the industrial sector. On the other hand is the case of the over-populated regions, for instance, those of South and South East Asia. Here, population pressure on the soil is so great that even if 20 to 30% of the present workers are removed from land no decrease in production is likely to occur. In such regions industrial development is not only desirable in itself for various reasons but is a pre-condition for any significant improvement in agricultural productivity. Priority, therefore, is in favour of industrialization.

### CONSUMER GOODS *VERSUS* CAPITAL GOODS

The second problem concerns priorities in the industrial sector itself. This is a choice between allocation of resources for the production of consumer goods as against capital goods. The one will give higher living standards to the people in the immediate future but at the cost of a lower rate of development. The latter will involve higher sacrifices in the present in the interest of higher rate of development and considerably higher living standards in the future. This decision will depend upon various factors influencing the decision-makers, like the pressure of public opinion, ability and willingness of the people to bear sacrifices, urgency of the rate of development in view of political or military considerations, possibilities of external aids, etc. A compromise will have to be made between opposing pulls in the particular context. A dictatorial Government will be able to enforce higher sacrifices than a democratic Government. Generally, we may say that it is better to go comparatively slow instead of imposing too painful a sacrifice on the current generation. After all each generation has to live only one life and satisfactions of the future cannot be transferred to the present. Within reason, however, it is the duty of the present generation to lay the foundation for the prosperity of the future generation and the strength and solidarity of the community as a collective entity.

### SMALL *VERSUS* LARGE PRODUCTION UNITS

Closely connected with the rate of capital formation, in fact conditioned by it, is a choice between the establishment of large scale factory industries as against small scale, mainly cottage type of production units. This particular choice among other things has to be guided by two considerations: (1) the relative scarcity of capital equipment as against labour power and (2) the desirability of avoiding the creation of too large a proletariat which was one of the great disadvantages of the Industrial Revolution to Great Britain and elsewhere. In an under-developed country like Pakistan capital equipment is scarce due to low saving margins and other institutional factors. On the other hand, there is considerable surplus labour power available in the form of disguised unemployment in the agricultural sector.

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Even market forces, if allowed to operate freely, should result in the emergence of organizations which would use a greater proportion of the plentiful factor, *i.e.*, labour as against the scarce factor, *i.e.*, capital. State policy should encourage such a tendency by facilitating the supply of more efficient technique suited for small scale operations, preferably of a family or a cottage type. To the extent that such units could be established, it would also act as a factor against the emergence of the industrial proletariat in the sense of working masses divorced from the ownership of means of production and solely depending upon their labour power.

It is not, however, suggested that large scale enterprises are to be eschewed altogether. It is only proposed that every effort is to be made to widen the sector of small scale industrial operation and to confine large units only to those enterprises which would lead to gross wastage of national resources, if run on a small scale. Experience of Japan and Switzerland has shown that a high degree of industrialization can be achieved even through the operation of small units of production provided they are thoroughly rationalized.

### PUBLIC VERSUS PRIVATE SECTOR

The next decision to be made is regarding the role of the state in the process of industrialization. This may be decided on the basis of an ideology or on the basis of practical convenience or necessity in a given situation. Assuming that the state is a democratic state and regards itself the servant, rather than the master, of the people, the leading considerations will be of necessity and convenience. Certain enterprises may be operated by the state either because they are essential but not immediately profitable in the business sense, like hydro-electric projects, or because they ought to be state monopolies in the interest of security (*e.g.* defence industries) or because they ought to be state monopolies in the interest of consumers or of optimum use of national resources (*e.g.* public utilities). Certain other enterprises may be operated by the state because private enterprise is shy of taking risk even though in the long run they will prove attractive for such enterprise. The state may initiate such industries preferably in collaboration with private parties but may later pass them on to private enterprise. Such a policy was followed by Japan on a large scale. The rest of the sector may be left for the private enterprise, of course, with necessary regulations in the interest of wage earners, consumers or conservation of scarce national resources.

### ROLE OF THE STATE

In the private sector, however, the state may promote and encourage private enterprise by various methods; *e.g.*, it may arrange for imported essential raw materials and equipment; it may make available land, power, communications, etc., in particular places, it may give essential information regarding sources of materials and markets, it may give tariff protection, subsidies, tax concessions

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to particular industries and may directly or indirectly provide financial facilities. All these methods are used in Pakistan.<sup>1</sup>

In modern times planning has been widely accepted as a technique of promoting industrial and general economic development. Leaving aside the over-all centralized planning of the communist type, even democratic countries can promote industrialization through the planning technique. The various alternative choices considered above arise as matters of collective policy only when some sort of central plan is envisaged. As a pre-condition of fruitful planning, however, the state will have to undertake certain other tasks which must also be mentioned here. These include carrying out of surveys of various kinds like the geological survey to find out the mineral wealth of the country, the man power survey to find out the numbers and categories of various types of workers available, the production survey to have an idea of the current level of production and types of productive activity, the survey of financial, educational and health promoting institutions and market surveys indicating the character and magnitude of marketing facilities for various kinds of goods. These surveys will lead to the discovery of the magnitude of problems related to raw materials, power resources, labour force particularly technical and managerial personnel, capital resources both real and financial and the magnitude of the market. Resources and facilities thus available and the possibilities of improving and supplementing them from foreign sources will determine the optimum rate of economic development of the community concerned. A few words about some of these limiting factors and the problems connected with them will be in order at this point.

### RAW MATERIALS

Raw materials may be derived from mines like metal ores, agriculture like foodgrains and fibres, animals like skins and bones, or forests like wood, resins etc. Their importance for industrialization is obvious because industrial activity is mainly concerned with the transformation of raw materials into finished goods either for direct consumption or as aids for further production. The industrial potentialities of a country, therefore, to a large extent are conditioned by the availability of raw materials within its borders or from other easily accessible sources. But for her coal and iron mines, it is doubtful whether England would have been the contributor of the industrial revolution to the world. Raw materials not only decide the magnitude but also the variety pattern of an Industrial economy. This, however, is not an absolute principle. Countries have become leaders in the industrial fields and in particular industries without having been gifted by nature in the matter of the essential raw materials, *e.g.* Britain's and

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1. For details see S. M. Akhtar, *Economics of Pakistan*, Vol. II, 1955 (Publishers United, Lahore), pp. 540-552.

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Japan's cotton textile industry, America's rubber industry, most of the industries of Holland, etc. Other countries have been richly supplied with raw materials but have made little mark in industrial development, *e.g.*, most of the world before industrial revolution and Asiatic countries, and the continent of Africa and Latin America even today. Countries which lack essential raw materials may get them through foreign trade. But it is quite true that lack of raw materials is a big handicap and especially for heavy engineering industries the prospects of development are meagre unless iron ore and coking coal are available in adequate quantities within a country or more or less across the border in a friendly neighbour state. There are very few countries of the world, however, who cannot boast of some or the other raw material on which they can raise a respectable industrial structure. If nothing else, agricultural raw materials are quite widely spread.

Pakistan has a variety of agricultural raw materials in the form of foodgrains, fibres, oil seeds, hides and skins and forest products, on which a large number of industries can be based. Her weakness in this respect lies mainly in the availability of mineral deposits especially metals like iron, lead, copper, zinc, manganese, etc. We have, therefore, to depend on imports both for ferrous and non-ferrous metals, which not only strains our foreign exchange resources but also adds to the cost of industrial production. Lack of iron ore and coking coal is one of our greatest handicaps in establishing a good iron and steel industry. The deficiency of coal as a source of heat, however, has been considerably made up recently by the discovery of a vast field of natural gas at Sui in Baluchistan. Existing reserves are considered equivalent to an annual import for a period of sixty years of 1.6 million tons of good coal. The Government of Pakistan has taken active steps to investigate into further possibilities of discovering minerals in the country. The Six Year Development Plan provided for an expenditure of Rs. 10 million for a geological survey. A number of foreign geologists have visited the country and given their reports.

### POWER

In earlier stages of economic development power comes from animal or human muscle, wind and water. Steam power was discovered in the 18<sup>th</sup> century in England; gas, and electricity in the 19<sup>th</sup> century. The 20<sup>th</sup> century has contributed atomic power, which may change the entire balance of power of the world in the near future. In modern industry the most important source of power still remain to be steam, gas and electricity. Steam requires a source of heat while electricity may be produced by heat or by water power. Gas can generate power through its combustion. The main sources of heat are coal, oil and natural gas. The last one, as already mentioned, has been discovered in Pakistan and has to a considerable extent made up for the deficiency of good coking coal. Oil production is being increased. Electric power is being developed as quickly as possible. In 1950 the

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consumption of electric power per capita in Pakistan was only 2 K.W.H. as against 1776 K.W.H. in U.S.A. (1947), 810 in U.K. (1946), 411 K.W.H. in Japan (1947), 14 K.W.H. in India, etc. Hydel power is more important from the point of view of Pakistan.<sup>1</sup> It can be produced cheaply and in large quantities. Hydel projects are usually multipurpose and help in irrigation, flood control and navigation. Our hydroelectric potential has been estimated at 80 million K.W.H. Hence the high priority given to the production of hydel power in Pakistan. By 1957-8 it is estimated the total hydro-electric capacity will increase by about 500,000 K.W. It is thus expected that the power problem will be solved within a reasonable period of time.

### FINANCE

Finance is a method of mobilizing real resources by giving command over them from those who possess them to those who are in a position to put them to productive use. Talking in terms of real resources, finance represents that part of the production flow of an economy which is used not for deriving direct satisfactions by the consumers but for strengthening the productive base of the economy. In monetary terms, it represents the money incomes spent on the purchase of producer goods against that spent on consumer goods during the relevant period.

To avoid confusion we shall talk in monetary terms alone. The excess of production over consumption is saving and, therefore, the main source of finance is saving of the people of a country. This may, however, be supplemented by foreign loans or grants or direct investment by foreigners. Of course foreign loans with interest have to be paid back ultimately by future savings of the people of the country concerned.

### DOMESTIC FINANCE

Analyzing domestic sources of finance further we find that funds may come from:

- (a) Voluntary savings of the people done for various motives like insurance against future needs, desire for accumulation etc.
- (b) Compulsory savings induced through taxation on the part of the state or through 'created money'.

The investment of the savings, thus achieved, may take place either through private enterprise or through public agencies. It should be noted that voluntary saving is not necessarily invested through the private entrepreneurs. Saved money may be loaned by the people to the Government or to the private agencies direct

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1. Report Economic Appraisal Committee Govt. of Pakistan (1953), p. 88.

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or through the appropriate financial channels. Similarly, money raised by the Government through taxes or loans from the public or banking system (inflation) may be put at the disposal of private enterprise through appropriate financial institutions.

It is the consensus of opinion among most economists, however, that finance through inflation is a very dangerous method particularly in under-developed countries and should be applied on a very limited scale and with due precautions and only as the last resort. The case for deficit financing, as this method is commonly called, is strongest in those sectors of the economy in which the time gap between the making of investment and production of consumer goods is shortest so that additionally created purchasing power is quickly matched by additionally produced goods.

The safest method of promoting domestic finance is by the encouragement of voluntary savings through the establishment of a wide net work of saving banks facilities and by offering attractive returns for loans to Government, particularly through the institution of small saving schemes. This should be supplemented by a properly designed system of progressive taxation. Inflationary, finance hits the small man the hardest and creates other tensions and instabilities in the economy and hence should be avoided as far as possible.

### EXTERNAL FINANCE

The margin between production and consumption being very small in under-developed countries their saving capacity in any case is extremely limited. Under these conditions initial stimulus to industrial development can be given through financial assistance on the part of the more advanced countries of the world. This assistance may take the form of direct participation in industrial development by foreign firms, by foreign loans either on private basis or government to government basis or through some international institution like the World Bank. To some extent help may be available in the form of grants and gifts.

The most effective method is direct investment because along with capital it brings enterprise, technical skill, marketing connections, etc., into the country which may import experience and stimulation beyond the actual enterprise started by the foreigners. Such enterprises, however, are rarely established for industrial purposes unless the rewards are inordinately high and safeguards are given by the government of the host country against nationalization, expropriation and for repatriation, of profits and capital, if necessary. The host country, on the other hand, has to be careful that the foreign investment does not lead to interference in its political sovereignty and that the foreign enterprise does not exploit unduly the irreplaceable material resources and human labour. If adequate guarantees are accepted by both sides this form of foreign help can be very fruitful.

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As regards loans, private loans are seldom available due to lack of supervision and risks involved for the investor. Government to government loans are more practicable and have been given in recent years particularly by the U.S.A. Government to a number of countries through the U.S.A. Import-Export Bank. The World Bank's resources are meagre and conditions of lending hard. Still substantial aids have been received from this source though mainly by European and South American countries.

It appears the Bank is diverting more of her funds now to the countries of Asia. In many cases, however, finance has not been the main bottleneck. The Bank could not fruitfully finance some countries because they were not ready for various reasons to make use of the fund available.

### PAKISTAN'S FINANCIAL REQUIREMENTS

At this stage it would be instructive to make a rough estimate of the financial resources required by Pakistan to achieve a reasonable balance between her industrial and non-industrial sectors, and to absorb its growing population into new avenues of employment. The population of Pakistan is increasing by about 900,000 a year.<sup>1</sup> Since the working population is about one-third of the total population we may assume an annual increase of 300,000 workers needing employment. The total number of workers engaged in agriculture was estimated at 17 million in 1951, say 18 million in 1955. If we assume that between 25 to 30% of this are surplus on land, (quite a conservative estimate) we have to shift about 5 million persons from the agricultural to the non-agricultural sectors. If we plan this for a period of 10 years, this will mean providing non-agricultural employment to 500,000 workers a year out of the existing agricultural labour force. If the entire natural increase in the labour force is also to be absorbed in non-agricultural pursuits, the total number of workers to be provided with non-agricultural gainful employment would be 800,000 a year. According to Colin Clark, additional capital of Rs. 3,000 is required to place one additional person in industrial employment under conditions obtaining in Pakistan. Taking into account indirect and incidental employment let us assume that Rs. 2,000 would be enough for giving employment to, one additional worker. The capital needs per annum on these assumptions would come to Rs. 800,000  $\times$  2,000 or Rs. 1,600 million a year. Even this enormous investment which is almost 10 per cent, of our national income, will not appreciably raise standards.

### AVAILABLE FINANCIAL RESOURCES

Now let us try to estimate the financial resources currently available to the country on the basis of the rate of investment that has been taking place in the

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1. At the rate of 1.6% per annum as assumed on the basis of past trends.

immediate past. We have no annual estimates of the investments in industry in Pakistan. The last three years' average of the development expenditure in the public sector comes to about Rs. 700 million per annum.<sup>1</sup> The total subscribed capital of joint stock companies<sup>2</sup> in Pakistan increased from 338.50 million rupees in October 1952 to Rs. 533.09 million rupees in September 1954, a total increase of about 145 million rupees or an average rate of Rs. 72 million a year. If we take only the companies which were engaged wholly or partially in industrial pursuits, their subscribed capital increased from Rs. 266.30 million to Rs. 429.88 million during the same period of two years or at the rate of Rs. 82 million a year. We may, therefore, safely assume that investment in industry on the part of private corporations cannot be expected to increase by, say, more than about 100 million a year. In the industrial sector commanded by individual enterprise the magnitude of investment is not likely to be large. If we put that at the same figure of Rs. 100 million a year total private investment may be assumed to be about 200 million rupees a year. Even if the entire development expenditure in the public sector is taken to be in the interest of industrial development, which actually is not the case, we come to the conclusion the Pakistan is spending at the moment for industrial development, directly or indirectly, a sum roughly equal to about 900 million a year.

In the development expenditure of the Government is also included expenditure financed by foreign aid. This aid is in the way of grants and loans by foreign governments to the Government of Pakistan. Aid has been mainly received from Commonwealth countries, like Canada, Australia and New Zealand under the Colombo Plan and from the United States under the Mutual Security Programme. The Ford Foundation has given aid for expenditure on the Village Aid Programmes of the Government of Pakistan. Even if we regard all this aid as for promoting industrial development when averaged over the last three years it does not exceed 100 million a year.<sup>3</sup>

In addition to these sums flowing on government to government basis we have to take into account foreign capital invested in Pakistan on private account. This sum is not very large in spite of the liberal terms offered by the Government of Pakistan. During the five years ending 21<sup>st</sup> August 1952, 105 foreign companies were granted permission to issue capital in Pakistan. The total capital issued by them came to Rs. 215 million or about Rs. 40 million a year.<sup>4</sup> This is not the case with Pakistan only; the same lack of eagerness is shown by foreign capital for all

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1. Budget Speech of Pak Finance Minister, 1954-55, p. 37.
  2. Source: Central Statistical Office, Govt. of Pakistan (Bulletin).
  3. For details of calculation see Economics of Pakistan, *op cit.*, pp. 532-33.
  4. Report Economic Appraisal Committee, *op cit.*

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under-developed countries. The reasons are not difficult to understand. Apart from the risks, real or imaginary, involved in foreign investment for the investors, the rate of returns in the prospective investor countries are high enough to keep capital at home. We are, therefore, inclined to agree with the authors of a recent P.E.P. broadsheet that "In the immediate future, while re-armament continues and there is a high level of returns on investments in the advanced countries, it cannot be expected that a greatly increased flow of capital to the under-developed countries will appear."<sup>1</sup>

The third source of foreign capital is through International agencies, the specialized agency of the United Nations, the World Bank being the most prominent in this respect. The World Bank granted a loan of 27 million to Pakistan for Railway rehabilitation, 3.2 million for the Punjab Agricultural Machinery Project and 14 million for the Sui Gas Project. Thus the total of loans received from this institution so far has amounted to \$ 45 million or say Rs. 150 million. Assuming that so much help will be available every three years, we get an annual rate of Rs. 50 million from this source. We are not in a position to summarize our needs and the resources available.

Our capital needs per year	...		Rs. 1,600 million	
Present sources —				
Domestic savings	...		Rs. 800 million	
Foreign aid and loans:				
Government to government	...	"	100 "	
Private foreign investments	...	"	40 "	
From the World Bank	...	"	<u>50</u> "	
Total available	...	"	<u>990</u> "	say 1,000 million

It would appear, therefore, that —

- (a) assuming that our population will continue to increase at the rate of 1.5 per cent per annum.
- (b) the present rate of domestic savings will be maintained.
- (c) the various foreign sources will keep on supplying us funds at the average rate of the last three years, we cannot maintain even our low standards of living for long unless some international agency is able to supply us finance to the tune of at least from Rs. 500 to Rs. 600 million a year. It is not likely that the World Bank will be able to meet this need in view of its limited resources, very rigid methods

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1. P.E.P. Private Capital for Under Developed Areas, Broadcast dated 17<sup>th</sup> May 1954, page 87.

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and conditions of financing and the great claims on its funds from all sides. There is thus a strong case for a new international organization which should pool all the investable funds available from the advanced countries and channel them to the under-developed countries in accordance with the pressure of their needs. This will be a better arrangement than private investments flowing directly or on government to government basis which latter are likely to create fears and suspicions at the political level.

### THE PROBLEM OF FOREIGN EXCHANGE

It should be noted that the problem of acquiring foreign exchange is a distinct problem from that of external finance. External loans may not necessarily be given in terms of foreign currency. On the other hand, foreign exchange need not be created only through foreign loans.

A country may have foreign loans in the form of her own currency through the creditor country creating a balance in her own favour in the debtor country by sending more goods and services than receiving back and then lending this surplus to the country in question. Thus domestic expenditure may be financed through foreign savings; conversely, foreign expenditure may be, and is usually, met from domestic savings. This is done by creating an export-surplus and the foreign exchange thus made available is used for the purchase of foreign goods for purposes of industrial development.

One of the greatest problems of under-developed countries is to have a constant flow of foreign goods and services to implement their development programmes. For this, corresponding amounts of foreign exchange resources are necessary. Foreign exchange resources of most underdeveloped countries are subject to wide fluctuations, due to their being exporters of a few raw staples, like raw cotton and raw jute of Pakistan, which are subject to wide changes on the side of demand as against inelastic conditions of supply. For instance, Pakistan's gold and foreign exchange reserves rose from Rs. 941 million to Rs. 1,482 million between 31<sup>st</sup> December 1950 and December 31, 1951, due to the Korean boom and fell to Rs. 606 million by December 31, 1952, on account of recession in the demand for her exports.<sup>1</sup> On such matters international cooperation is required with a view to stabilizing the demand for and prices of the staple exports of under-developed countries. This may be supplemented by compensatory loans or grants by advanced countries to even out the fluctuations in the available foreign exchange resources of the under-developed countries.

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1. Source: Budget Memorandum, Government of Pakistan (1954-55).

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### FOREIGN EQUIPMENT

Mere availability of foreign exchange, however, is not enough. It is necessary that stocks of capital in the form of machinery, machine tools and other industrial essentials are available in adequate quantities and at reasonable prices. In the initial stages such equipment cannot be produced at home and certain kinds may always have to be imported. After the outbreak of the Korean War in June 1950, the under-developed countries, including Pakistan, were finding it difficult to get adequate supplies of machinery and other equipment for the implementation of their development programmes. The reason was that industrially advanced countries like U.S.A., Great Britain and France were using their industrial power for the production of war goods in fear of the Korean War developing into a World War. On the other hand, this was the very time when the under-developed countries had large accumulated foreign exchange balances due to the boom in their exports and hence were in a position easily to pay for their needed capital goods. The supply position has improved more recently but the foreign exchange resources of the developing countries have deteriorated in the meantime due to a contraction of demand for their staple exports. It is necessary that the advanced countries follow a deliberate policy of arranging for the production of capital goods needed by the under-developed countries so that the implementation of the latter's programmes are not delayed on this account.

### TECHNICAL PERSONNEL

While most of the industrially under-developed countries possess large labour power due to high population pressure, persons of the requisite education, training and experience are not available in adequate numbers. Technical manpower required for industrialization may be grouped into the following categories:

- (a) Well trained planners and administrators who can devise, initiate and supervise development plans. This is a state liability.
- (b) An adequate number of entrepreneurs with sufficient experience and capacity for taking risks involved in the initiation of development projects in the private sector of economy.
- (c) Managers of sufficient calibre to be able to perform the various managerial functions whether employed by government or by private promoters of industry. In some cases (b) and (c) would be combined in the same person.
- (d) Technicians of various grades from the foreman downwards possessing skills in the handling of advanced tools in the actual processes of production in factories, etc.

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This problem can be met in various ways. Firstly, foreign experts especially at the top level may be imported either on individual contract basis, or through Government agency or through International Organizations. Secondly, people may be sent abroad through state scholarships or under foreign technical assistance programmes to get the requisite education, training and experience. Thirdly, training institutions may be established within the country domestically or through foreign help. All these methods are being used in varying degrees in this as well as in some other under-developed countries. To get the best advantages, however, it is necessary that persons for foreign training should be selected strictly on merit and should be sent for training according to a well coordinated plan so that their services may be utilized to the best advantage. Similarly, foreign experts should be called for definite projects in which they could contribute something significant to the programmes of development. Such considerations have not always been kept in view in this country.

### CONCLUSION

In conclusion, it may be added that the problems of industrialization of industrially backward communities is of very great magnitude and complexity. Many social, political, economic and psychological resistances have to be overcome. The problem is extremely urgent in the context of world peace, and also on humanitarian considerations. It is heartening to note that the importance of the issues involved is being realized not only in the under-developed countries themselves but also in the industrially advanced countries and by the United Nations Organizations. There is a consciousness of a common purpose and common interest in a large portion in the world. Assistance at the international level is being made available to those who need it and is producing fruitful results. The task, however, is so colossal that a much greater concerted effort is needed to lift the major portion of mankind from the depths of poverty and misery which has achieved more or less a chronic character. Time has come when the people of the world should approach economic problems on an all-world basis because poverty in one part of the world can threaten the prosperity of others. The new cooperative trends in the economic field, particularly since the end of the 2<sup>nd</sup> World War, are an encouraging sign and would promise a brighter future for humanity only if the political tangles could be harmoniously solved. But that is a big "IF" indeed.

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