
PAKISTAN — AN UNSTABLE ECONOMY

ITS PROBLEMS AND PROSPECTS

S. M. AKHTAR

Predominance of Agriculture

The two chief characteristics of Pakistan economy are (a) the low level of its operation and (b) its instability. The low level of its operation is indicated by the low per capita income of the people which is less than Rs. 250 per head per annum, or about 50 dollars as against Japan's 250 dollars and U.S.A.'s about 2,000 dollars. The instability of the economy is indicated by the fluctuations in our national income and our foreign assets, as experienced in recent years. These two characteristics are, to a large degree, inter-dependent and are basically due to the agricultural character of the economy, an agriculture carried on under conditions of primitive and unprogressive techniques and organization.

Recently, the Government of Pakistan, Ministry of Economic Affairs, have issued national income statistics relating to the five years ending 1953-54. Since these figures express incomes in terms of current prices of each year they are not comparable without necessary adjustments as between the year, but they do give a broad picture of the relative importance of the various sectors of our economy during each year. According to these figures, agriculture contributes by far the largest share to the national income, *i.e.* from 60 to 61 per cent and industry, including cottage industry, only about 6%; trade is responsible for less than 10%. The rest of the income is derived from the Government sector from about 5 to 6%, utility services about 3%, other services about 15%. Mining, banking and insurance contribute less than 1% each. Further, if we compare the relative position of the various sectors of the economy during the period of five years to which these statistics relate there appears to be no significant change in the predominance of agriculture and the relative unimportance of industry and trade, banking and insurance.

As already noted above, agriculture contributes over 60% to our national income. Other facts also indicate the importance of this sector to our economy. According to the census of 1961, of the total population of Pakistan which was about 76 million, 90 per cent lived in rural areas. For East Bengal this percentage was as high as 96%. Again, according to the same census, out of the total working force of 22.7 million, 17.2 million or 75 per cent was engaged in agricultural

PAKISTAN — AN UNSTABLE ECONOMY

operations. Our foreign trade tells the same story. Over 80 per cent of the value of our exports is contributed by the two agricultural products, — raw cotton and raw jute. In fact, almost the whole of our foreign exchange is earned through the export of agricultural raw materials. This over-dependence on agriculture has many implications, not only for the present standards of living of the mass of our people but also for the future prospects of increasing these standards through the development of the agricultural and non-agricultural sectors. This predominance of agriculture is also responsible for the unstable character of our economy as we shall see.

No picture of our present economic position can, therefore, be regarded as realistic unless it takes adequate note of the present character of our agricultural organization and agricultural techniques. We may say categorically at the very start that our agricultural sector is both inefficient and unprogressive.

By inefficiency in this context we mean that the available resources of land, capital and labour are not being fully utilized for reasons to which we shall presently refer. By unprogressiveness we mean that neither within the agricultural sector nor outside it, are yet forces strong enough to effectively change the present state of affairs. Inefficiency and unprogressiveness may exist side by side and may be casually related, either of them giving rise to the other. But the two are distinct concepts, because one relates to a point, of time and is a static concept while the other is a dynamic aspect and refers to attitudes and forces conducive to change.

Both the inefficiency and unprogressiveness of our agricultural system are reflected in as well as are explained by its major characteristics. These characteristics are well known and, therefore, need only to be mentioned in this context. The most noteworthy of them are (a) concentration of land ownership in the hands of absentee landlords (b) small and uneconomic unit of cultivation and its fragmentation whether the unit is cultivated by small owners or tenant-farmers of larger owners, (c) primitive techniques of agricultural operations. The underlying factors, apart from the persistence of large ownerships, have been the high pressure of population on land resulting in uneconomic units of farming on which advanced techniques cannot be properly used. The result is low yield per acre and low income per worker.

The preponderantly agricultural character of our economy and its consequences on the character of our foreign trade and domestic incomes has made our entire economic life unstable. As a matter of fact, all unplanned economies tend to be unstable as is indicated by the recurrent cycles of booms and depressions with which we are so familiar. But even in these cycles experience has shown that

agricultural sectors in the same country and agricultural countries, taking the world as a whole, exhibit much greater elements of instability. The reasons are well known and we need not enter into them here. Further, as the great Depression of the Thirties illustrated, backward agricultural economies like India and Pakistan, suffer much more because of the great rigidity of their costs structures in the face of rapidly falling agricultural prices. The economy of Pakistan, however, has a further peculiarity of depending, in many ways, on the export of the two major agricultural products — raw cotton and raw jute. Any expansion or contraction of demand for them in the international market has far reaching repercussions on domestic incomes, state finances, foreign exchange resources and capacity for carrying on development activities. How all these magnitudes depend upon the fortunes of these two raw materials is indicated by developments during the last four or five years.

Post Partition Adjustments

At this point a brief historical review of developments in our economy will not be out of place. This will bring into *bold relief* the basic factors controlling the progress of our economy, particularly the elements imparting it an unstable character. It will also serve as a perspective for planning solutions of its problems and forecasting future trends.

When Pakistan emerged as an independent state in the middle of August, 1947, the country found herself faced with many difficult problems. Among these were the influx of over 70 lakh refugees involving problems of their rehabilitation; and the gaps in administration, trade, industry and finance on account of the outward movement of the Hindus. Banking institutions already inadequate in that areas had almost disappeared or got paralyzed. Added to these were the inflationary conditions originally inherited from the war period, but now accentuated on account of the favourable balance of payments situation, which had arisen mainly because of the difficulties of importing consumer goods while exports maintained themselves. Inflation was partly neutralized by balanced budget, strict control over public expenditure and liberal import policy at a time when the world supply situation was favourable. Export trade, on the other hand, was helped by the European and Indian demand for our jute and cotton. Gradually the economy was stabilized, administrative, economic and financial gaps were filled up to a large extent, and the completion of refugee rehabilitation appeared in sight. The budgets of the Central and Provincial Governments showed progressive increases in revenue and in welfare expenditures. The degree of confidence in the soundness and stability of the economy was such that when in September, 1949 the Pound Sterling was devalued and a large number of countries, including India, adjusted

PAKISTAN — AN UNSTABLE ECONOMY

their exchange parities in the same direction, Pakistan preferred to maintain the existing par value of its currency unit. Pakistan's economy, however, suffered a considerable strain on account of this decision. Our trade with India, the largest purchaser of our jute, practically came to a standstill. Other foreign buyers of our jute and cotton also held back in the hope that Pakistan would be compelled to devalue her rupee under the new stresses. But the Government steadfastly stuck to its original decision. The period of strain was tided over with the help of foreign exchange reserves, accumulated in the past. In the meantime the Government adopted a policy of diversification of trade in order to reduce excessive dependence, on India, a heritage of days when the two countries were one. Bilateral agreements were entered into with a large number of countries, and gradually the demand for our products — cotton and jute — revived. India did not recognize the implication of our currency decision until February, 1951, when we entered into a trade agreement with that country also.

The Korean Boom

In the meantime, however, an important event had occurred, namely, the outbreak of hostilities in Korea in June, 1950. By that time, as a result of bilateral trade agreements, Pakistan's export trade had fairly recovered. The Korean War and the consequent stock, piling craze created an unprecedented boom in Pakistan's commodity markets. Prices shot up and we sold larger quantities of our exports at higher and higher prices. The index number of wholesale prices of jute (1948-49 = 100) rose from 68.8 for the year 1950 to 116.6 for 1951 and of raw cotton from 89.8 to 128.1 during the same period. The total value of our exports (on private account) increased from Rs. 88 crores in 1949-50 to Rs. 205 crores (by 134%) in 1950-51. The balance of trade on private account, which was negative to the extent of Rs. 11.2 crores in 1949-50 improved to a positive figure of Rs. 75.3 crores in 1950-51. The balance of payments on current account improved from minus Rs. 45 crores in 1949-50 to plus Rs. 75 crores, in 1951-52. Correspondingly, our gold and dollar reserves increased from the average of Rs. 94 crores in 1950-51 to Rs. 148 crores in 1951-52. The terms of trade steadily moved in our favour. With base 1948-49 = 100 the index of terms of trade which stood at 95.5 for July-September, 1949 reached its peak in 1951. For the quarter Jan-March it was 130.1, for April-June 141.4 and for July-September 136.8. Thus, in terms of our exports we were able to command considerably more imports than before. The export boom also affected favourably the revenues of the Government. The revenue receipts of the Government of Pakistan improved from Rs. 88.5 crores in 1949-50 to Rs. 127 crores in 1950-51 and Rs. 145 crores in 1951-52. This enabled the Government to increase the expenditure on development and social uplift directly or through grants to the provinces. Social uplift and develop-

PAKISTAN — AN UNSTABLE ECONOMY

ment funds amounting to Rs. 51 crores were established from the budgetary surplus arising out of the conditions of economic prosperity. The provinces also gained from revenue receipts. Apart from larger realizations through their own taxes their share in Centrally collected revenues (some of which are divisible between the Centre and the Units) improved. Further, they received more generous loans, grants and aids.

Thus the wave of prosperity originating mainly from two agricultural exports of Pakistan spread over the entire economy stimulating constructive activities in all its sectors.

These conditions of boom, however, were not an unmixed blessing. In spite of the fact that the Government considerably raised export duties and “funded” the increased surpluses, extra purchasing power was injected into the economy and created inflationary pressure. To relieve this situation, the Government further liberalized their import policy, putting over 80% of the total imports in terms of value, under the Open General Licence. This increased the imports considerably. Thus imports on private account increased from Rs. 115 crores in 1940-50 to Rs. 144 crores in 1950-51 and to Rs. 196 crores in 1951-52. Moreover, due to the unavailability of capital goods, since the major producers, were pre-occupied with production of war equipment, the country was unable to import such goods in spite of having more resources to pay for them. This slowed down the implementation of the programmes of development.

The Recession

Towards the end of 1951, however, the tide turned in the opposite, direction. Due to first slowing down and then stoppage of stockpiling there occurred a serious contraction of demand for our raw cotton and raw jute. Their prices consequently exhibited a precipitous fall. By the end of 1952, the price of raw cotton fell from the peak level of Rs. 1,150 per bale to Rs. 503 per bale and that of raw jute from Rs. 210 per bale to Rs. 110 per bale showing a fall of the order of about 50% in both cases. Total foreign exchange earnings declined from Rs. 288 crores in 1951 to Rs. 192 crores in 1952. Payments, however, due to the continued liberal import policy of the Government, instead of declining, increased during this period from Rs. 236 crores to Rs. 277 crores. Hence the balance of payments from +Rs. 52 crores for 1951 became — Rs. 85 crores for 1952. This resulted in a sharp decrease in our foreign exchange reserves which declined from the peak of Rs. 151.3 crores in the middle of 1951 to Rs. 60.0 crores by the end of 1952. The decline in exports adversely affected the receipts from Customs and some other sources and thus the revenue receipts of the Central Government fell from Rs. 145 crores in 1951-52 to Rs. 128 crores in 1952-53 and Rs. 112 crores in

1953-54. Further complication was created by the fall in the production of foodgrains especially wheat in West Pakistan which led to a serious food shortage. The output of 1951 *khariif* crop decreased by 2.5 lakh tons and of wheat crop of 1952 by almost 10 lakh tons. Over 8 lakh tons of wheat had to be imported in 1952-53; mainly it was a gift from the U.S.A. and Canada. The O.G.L. was first curtailed in August 1952 and then suspended in November. In order to restrict imports credit facilities for imports were curtailed and the import duty on cotton cloth was enhanced. By the beginning of 1953 the position had assumed menacing proportions. There was a decline in real incomes with the contraction of exports and deterioration in the terms of trade. On the other hand, domestic prices of food and of essential consumer goods rose. Rise in food prices had resulted from failure of the monsoons and inadequate canal-water due to Indian action. Consumer goods prices rose due to import restrictions. Thus far reaching adjustments were needed both in the private and the public sectors.

Recent Adjustments

This adjustment has been taking place during the last three years. The food situation was improved due to better harvests and the American wheat gift in 1953. Due to import restrictions imports on private account were reduced from the peak of Rs. 196 crores in 1951-52 to Rs. 94 crores in 1952-53 and to Rs. 73 crores in 1953-54. This led to an improvement in the over-all balance of trade from Rs. 130 crores in 1951-52 to plus Rs. 15.8 crores in 1952-53 and plus Rs. 17.3 crores in 1953-54. This was in spite of a continuous decline in exports which fell from Rs. 201 crores in 1951-52 to Rs. 151 crores in 1952-53 and Rs. 129 crores in 1953-54. The figure for the first half of 1954-55 was only Rs. 54 crores. The balance of payments, however, improved not so much due to greater earnings but reduced payments. Thus, between 1952 and 1953 receipts decreased from Rs. 192 crores to Rs. 127 crores or by Rs. 65 crores while payments decreased from Rs. 277 crores to Rs. 144 crores or by Rs. 133 crores. The balance of payments improved from minus Rs. 85 crores in 1952 to plus Rs. 12.3 crores in 1953. It was again negative for 1954, *i.e.* minus Rs. 16.2 crores. More recent figures again show a positive balance. But the over-all impression is of a stagnant economy in spite of the recent achievements made in the field of industrial development mainly through the initiative of Industrial Development Corporation as we shall see. One step taken on 30th July 1955 by the Government partly to get out of this stagnation was to revise its exchange policy and to bring the Pakistan rupee back to its old value in terms of the Pound Sterling as it was before the devaluation of September, 1949. Whatever the official explanation the fact is that since the bursting of the post-Korean Boom the Pakistan rupee had been under a great pressure as witnessed by its value in the

PAKISTAN — AN UNSTABLE ECONOMY

free market. On the whole the step has been a wise recognition of the actualities of the situation and should make adjustments in the economy easier.

So far the present position and how it has arisen. This brief survey indicates the following major problems which need solution:

- (a) Making our agricultural sector more progressive and more efficient to achieve security in the matter of food as well as essential raw materials and particularly to raise per capita incomes of those engaged in agricultural operations, and
- (b) To impart a greater diversity of our economy and also to our export trade in the interest of stability of the economy and economic security for the people. This calls for an increase in the pace of economic development — particularly industrial development.

It should be noted that industrial development will also contribute to improvements in the agricultural sector. In fact it is a condition precedent for it since it is only through industrialization that pressure of population on land can be relieved and the size of the unit of cultivation increased in order that better agricultural techniques become feasible.

Developments in Agriculture

As regards our agriculture, so far steps have been taken on the following lines with varying degrees of success:

Improved seed has been introduced in the case of various crops. This is perhaps the only line in which significant results have been obtained due to efforts of the Agricultural Departments of the Government. In the Punjab areas since 1950, 90 per cent of the cotton seed of pure variety has been supplied by the Agricultural Department, 40% of rice crops and from 87 to 100 per cent of cane, cotton and wheat is now grown from varieties evolved improved and introduced by the Department during the last fifty years or so. Less spectacular results have been achieved in other parts of West Pakistan.

The use of ammonium sulphate has been encouraged in recent years particularly in the Panjab and E. Bengal. But still most of the area of the country is not properly manured.

The recent Grow More Food Campaign in West Pakistan has encouraged intensive farming through the use of better seed and scientific manure.

Very little has been achieved by way of improved implements since mechanization is neither possible nor desirable on any large scale under present conditions.

Attempts were made before Partition to improve the rural debt position and credit facilities and to encourage organized and regulated markets. The co-operative principle has been tried in various fields to improve rural conditions with, on the whole, disappointing results. In certain areas, particularly in the old Punjab, consolidation of holdings has been encouraged though only a small portion of the total fragmented area has been consolidated so far. Through extension of irrigational facilities crops have been made secure in vast areas in West Pakistan particularly in the Punjab and Sind provinces and new land has been brought under the plough. But since population has been increasing at a fairly high rate cultivated area per head has remained more or less static. As regards land tenure in East Pakistan the State Acquisition and Tenancy Act of 1951 is being implemented which aims at the purchase, on the part of the State, of all intermediary interests between itself and the cultivator. In West Pakistan Tenancy Acts were passed in 1950 and 1952 in Sind, the Punjab and the N.-W.F.P. with the object of giving security of tenure to tenants-at-will, limitation of rents and abolition of illegal exaction. Occupancy tenants have been made owners of part or whole of their tenancies. The results, however, have not been encouraging. Either the tenant has failed to take advantage of these measures as in Sind or tensions have been created between the landlord and the tenant. More radical measures are indicated but there is little hope of their being taken in the near future.

The Non-Agricultural Sector

So far as the non-agricultural sector is concerned fairly good progress has been made in regulation of banking practices and extension of banking and credit facilities, 'Improvement of railways and extension of roads, increase of the volume of foreign trade and its diversification as regards the destinations of our goods and sources of our imports. Adjustments have been made in the exchange rate though we are not yet out of the woods regarding the balance of payments situation. Foreign aid and past accumulated balances, however, have helped us to avoid or, at any rate, postpone a critical situation. In the meantime the tempo of industrialization has increased particularly during the last three or four years.

It may be recalled that out of the total of 887 factories in the seven large industries of pre-Partition India (viz., cotton, jute, sugar, iron and steel, cement, paper and glass) only 34 or 3.6 per cent were located in Pakistan areas. The share of Pakistan in the total labour force engaged in these industries was only 2.6%. Taking all the industrial establishments together Pakistan's share of industrial employment was a little higher, *i.e.*, 6.5% of the total as against India's 93.5% while 20% of the population of the sub-continent lived in Pakistan areas. Even the industries that fell to the share of Pakistan were of a simple kind like gins and

presses and small repairing shops and a few cotton textile factories. The situation has improved considerably since then. Thanks to our Six Year Development Programme and the initiative of the Pakistan Industrial Development Corporation.

During the last five years the total development expenditure in the public sector alone has been Rs. 369 crores of which 22% or Rs. 82 crores has been foreign aid. Another Rs. 200 crores have been invested in the private sector. Development expenditure has been increasing progressively. For instance, in the public sector it increased from Rs. 41 crores in 1951-52 to Rs. 75 crores in 1952-53 to Rs. 81 crores in 1954-55 and Rs. 111 crores in 1955-56. As a result apart from the basic development such as the modernization of railways, extension of port facilities, road building, irrigation and power generation, several consumer goods industries have been established. The Government found it necessary to undertake development of certain large scale industries of national importance in which private enterprise was not forthcoming in adequate measures in the initial stages. Among these industries are jute textile, paper, fertilizers, sugar and chemicals. It is the policy of the Government to establish these industries and then to transfer them to private hands. In addition to Government investment considerable private investment has taken place which is mainly directed to textiles — cotton, woollen, art silk and jute — some for processing industries and for the production of a variety of other consumer goods such as tobacco, edible oils, biscuits, soap, plastic articles and pharmaceuticals.

Towards a Better Balance

As a result of these developments the structure of the economy has started changing in the right direction. With increasing internal productive capacity and the use of raw materials the excessive dependence on foreign market, both for imports and exports, has been reduced though not yet very significantly. In the field of public finance the industrial development has resulted in a decline in the importance of receipts from Customs duties in favour of such internal revenue resources as Income and Corporation Taxes and Excise and Sales Taxes levied on domestic products.

Industrial development on these lines has led to a considerable increase in industrial employment compared with the position at the Partition though it is doubtful whether the absorption of labour force into industry has been commensurate with the growth of labour force due to increase in population. The increase in industrial production, however, has started having its effect on prices of ordinary consumer goods and as a result of this development Pakistan is fast approaching a state of self-sufficiency in the matter of many consumer goods. In some we have already become self-sufficient. An outstanding example is the case of cotton cloth

PAKISTAN — AN UNSTABLE ECONOMY

of common varieties. Our production per head at the time of Partition was about 1½ yards year, now it is over 14 yards a year. The target of jute manufactures fixed in the Six Year Plan was realized 2½ years before time and we have started exporting jute goods instead of importing them. The Karnafuli Paper Mill has made Pakistan self-sufficient in most grades of paper used in the country. We shall be self-sufficient in cement in the near future. The 50,000 ton per annum ammonium sulphate factory at Daud Khel will solve our problem regarding artificial manure. Our sugar production has increased 2½ times since Partition, though we still import 2/3 of our consumption needs. Our tanning and leather industry has made remarkable progress making us self-sufficient for our needs of mass consumption. The rubber industry has made substantial progress through the production of cycle tyres and tubes, solid tonga tyres and a variety of rubber goods. Private enterprise is taking special interest in the manufacture of machine tools like general-purpose lathes. Their quality compares favourably with the best anywhere. A huge variety of plastic items are being produced leaving an export surplus after meeting domestic requirements. An automobile industry is coming into being. Additional capacity in paints and varnishes is under construction. Considerable progress has been made in the production of matches and cigarettes. A hundred factories are producing edible oils. In addition there is a large number of small and medium sized factories at various stages of development which though individually are not very important but taken together have considerable influence on the economy of Pakistan.

Prospects

So far the present position. What about the future? There is no doubt that our sub-humanly low standard of living need to be raised and under pressure of external influences on the developing consciousness of the people they need to be raised quickly. Ultimately analyzed it is race a between the multiplication of numbers and increase in the real total income of the people. It is well known that our population has already passed the optimum point so far as the present techniques of production are concerned. Every additional increase in population, therefore will depress living standards unless it is counterbalanced by a corresponding increase in net production. During the decade 1941-51 the population of Pakistan increased at an annual rate of 1%. In view of improvements in medical and health facilities this rate is likely to increase for subsequent decades. This conclusion is supported by a considerable increase in the 'natural rate of population growth in a large number of countries of the world particularly the countries of the South-East Asian region. These rates have varied between 1.5% to 3%.

Projections made regarding the future growth of population in India also indicate a progressive increase in the rate of her population every succeeding future decade. It would not be unreasonable therefore to assume that for the next fifteen or twenty years the population of Pakistan will increase roughly at an annual rate of about 1.5 per cent. Our national income therefore must increase at least in the same proportion in order to maintain the existing living standards. It has been estimated by competent authorities that under conditions prevailing in Pakistan in order to increase income by one rupee an investment of at least four rupees is necessary. This means 25 per cent productivity of capital. Taking this ratio a one and a half per cent increase in income per year would require 6% of our national income to be invested annually. At the present time it was revealed by a recent speech by the Prime Minister that Pakistan has been making investments at the rate of 6% of our national income. This means that the present rate of our development is hardly enough to keep our existing living standards intact. If we wish to increase our living standards at a rate, of say, at 2% per annum, we shall have to make investment equal to 14% ($3\frac{1}{2} \times 4$) a year. A two per cent increase in living standards per year would, it will be noted, take 35 years to double our present per capita income, which will then be only about 40% of the present per capita income of Japan. This is not a very high ambition. But even then 14% of their national income is a very high rate of capital formation not easy to achieve, when we remember that progressive countries like Great Britain and U.S.A. could only divert 10% of their national income to investment over a period of time. Some of the gap may be filled through foreign loans but most of the burden of the development fall have to be borne by the present generation of Pakistanis themselves.

It should be noted, however, that the earlier years of a developing economy are the most difficult ones. When the investment has passed a certain critical point, its effects become highly cumulative. Larger investments create larger incomes and expand the country's capacity for investment in more than proportion to the increase in income. During earlier years however a community must make enormous sacrifices in order to lay the foundations of its economy. Standards of living must be cut to the very bones, of course the burdens must be distributed according, to capacity to bear it. This implies encouragement of voluntary savings and where necessary forced savings through fiscal measures, giving inducement to private investment by creating favourable conditions for investment, by encouraging investments on the part of the State in the fields in which private enterprise does not seem to be anxious to enter. Apart from this, far-reaching changes may be required in the current system of land tenure and agricultural organization in general in order that the available resources in land and man-power

PAKISTAN — AN UNSTABLE ECONOMY

may be used to the best advantage. It would appear, therefore, that careful planning and heavy sacrifices would be needed before we can ensure a bright future for our economy.

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