

# NON-DEVALUATION AND TO-DAY

BY

**KH. HABIB ULLAH**

**T**HE non-devaluation decision taken by the Govt. of Pakistan in Sept. '49, has been amply justified by subsequent events. It was widely acclaimed as a bold step in the right direction. But the reasons which were responsible for its success need no comment here as they rightly belong to the past in view of the totally changed circumstances.

Today in the year 1953 economic forces have changed their direction. A reassessment of the whole situation has become imperative.

Following the decision of non-devaluation the world-wide stock-piling caused the prices of our raw materials namely cotton and jute to sky rocket in spite of the uncooperative attitude of India. Today the stock piling programme has begun to wane and the demand for our raw materials has fallen off. This in its turn has had an adverse influence on our balance of payments position. This is substantiated by the figures released by the Govt. of Pakistan. They show a deficit of about 35 crores in the first nine months of the financial year 1951-52 as against the net surplus of 60 crores during 1950-

51. The recent cancellation of the O. G. L. further confirms this, and goes to prove that the position of our rupee is not as strong as it was when the non-devaluation decision was taken.

In view of the apparently definite turn in the world trade circles caused by the recession in Korea and the easing of international political tension,, it seems that the danger of a major clash of the world powers has been averted for a considerable period, thus it is safe for us to conclude that the present trade conditions will continue. So in view of the absence of good prospects for our export trade, we should turn to find a solution for the present suffocating position, for which we should examine in detail the position of different export items and see that if something can be done by reconsidering the value of our rupee.

Let us first take jute, the reduction of whose acreage by 30 per cent is one of the main steps announced by the Government so far. We seriously doubt that it will work out as desired for it is not scien-

tifically and otherwise possible to switch the jute growing fields over to rice growing in a short period. In addition to this our proverbially narrow-minded cultivator is most difficult to be persuaded to grow rice instead. Once before also reduction in the jute acreage was announced and the desired percentage of reduction was never achieved. There is a danger inherent in the reduction of jute acreage as a measure to stabilize the jute prices and that is the emergence of other substitutes which may cause a considerable reduction in its sale in the world market in the future. Our internal jute consumption is not sufficient and will take at least 7 to 10 years to have sufficient machinery to consume a sizeable portion of our raw jute. Due to the low prices the jute growers of East Bengal have suffered a lot because it is their mainstay. So in view of the slackened demand, previous years' carry over, difficulties in change over, lack of internal demand for our golden fibre and on the top of all this absolutely no possibility of reduction in cost to enable the jute to sell cheaper to attract foreign buyers, we should cautiously reconsider the question of rupee ratio.

The next important item on the export list is cotton which is also not in a very happy position. Since non-devaluation except for a short

period in 1949, Pakistan had been making huge profits due to the keen external demand but now for the causes discussed above the demand is not as keen as that and the foreigners find it more profitable to buy in the countries where due to devalued currency, they find the imports cheaper. And our internal demand being insufficient, we must resort to methods which will make our prices attractive in order to dispose of our cotton. Government of Pakistan has announced many measures to increase the competitive strength of cotton. Firstly the Government announced its scheme of subsidization through the Cotton Trading Board but this measure was perhaps too weak to improve the position. Then came the belated announcement abolishing 100 per cent duty on Desi cotton and 50 per cent on other varieties, this measure was expected to improve the position considerably but to our dismay the expectations have not fully been realized and the causes for its failure seems to be the delay in the said announcement.

The cotton market is not at all steady and gives every reason for worry, therefore we should further think about a way out.

In the case of jute, we enjoy the advantages of monopoly although even they have been reduced con-

siderably due to the emergence of substitutes but in the case of cotton, we find ever so many competitors ready to under-sell our cotton because they enjoy the advantages conferred on them by the devaluation and comparatively less cost of production — accruing from better methods of cultivation which, we unfortunately cannot employ. There is no likelihood in the near future for any considerable reduction in the cost and if it is tried, the plight of our wage earners and others will be aggravated which is highly undesirable in the context of the present situation in Asia where the horizon is changing its colour to red.

Besides these two items of export, wool has never been a good seller. Pakistan Government has from time to time been taking measures such as reduction in export duty, giving concession in transport charges, priority into transport etc. to enable wool to sell at competitive prices in the world-market. But no one had minded the losses suffered by wool because enormous profits were being made by jute and cotton to compensate for the loss both to the Government and the country. Now in the absence of those profits wool-traders can also demand from the Government the proper solution for the stabilization of our wool's position in the world market at the competitive prices.

While summing up the position of our export trade, we may add that the factors causing the slump in the trade seem more or less persistent for a considerable period. The factors being the India's decision to meet most of its jute requirements by growing jute inside the country, the absence of industries in our country which would have otherwise consumed our raw materials and in addition to all these, our inability to reduce production cost in order to undersell the other countries, particularly in case of cotton, have created a situation wherein a remedy of rather enduring nature will be advisable such as reconsideration of value of rupee ratio.

Having dealt with our export side of trade, we should now switch on to import side. One of the chief advantages claimed for the decision of non-devaluation, was the expectation of cheap import goods. True, for some time the prices went down to the advantage of a man in the street and particularly the advantage was gained in the western wing and that too in the luxury goods such as cars, cosmetic etc. which are consumed by a very small percentage of the country's population. This decision stopped the further rise in the prices in East Bengal. But soon this advantage was lost due to the increase in prices of consumers' goods caused by their

producers in order to rid Pakistan of advantage conferred on her by not devaluing her currency. Another reason for increase in prices of consumers goods was the great rush for stock-pilings resulting in the tight supply position. This can be verified by the comparative study of prices in Pakistan.

Pakistan being an unindustrialized country the expected advantage was that Pakistan would be able to import capital goods at cheaper rates from the sterling area countries and at the same prices from dollar countries. But this hope too was soon falsified due to the tight supply position and dishonestly discriminatory prices which foreign producers most unjustly fixed for Pakistan and thus they through a heinous conspiracy deprived Pakistan of this real advantage. Therefore, we find that if Pakistan has not lost anything but it has not also gained much on this account.

Roughly about 60 per cent of our revenue is being spent on the country's armed forces. It is certain that a sizeable portion of this amount is spent on the import of army equipment, for which we more or less completely depend on foreign countries.

Therefore it is argued that in the event of devaluation, greater amount would have to be spent on the purchase of army equipment. True it is but the same ques-

tion arises again that have not the foreign countries raised the prices to neutralize the advantage which in the absence of discriminatory prices we would have gained. And if they have raised the prices as it seems then in the case of devaluation there is every possibility that we will be treated on par with other countries of the world in the matter of prices and thus we will not suffer much. We will lose in our purchases from dollar area but the loss on this account will most likely be counter-balanced by gain on other accounts, namely the accelerated export of our raw materials.

So we see that the jute growers have not fully gained by this decision due to the hostile decision of the Bharat Government in the beginning which they later modified and for over a year the jute growers earned well. As for the cotton grower he earned a lot from the beginning but now he does not stand in a good position as discussed above.

Poor trading in our staple commodities have resulted in reduced revenues to the Government, and this will have adverse effect on our development schemes which cannot be postponed and should be put through at the quickest possible pace. So in view of the above discussion the Government ought to view the whole situation in its proper prospective and the far reaching implications which any decision of the Govt. might have.