

# Economy of Pakistan

By

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Reference Book: Issues in Pakistan's Economy: A Political Economy  
Perspective by S. Akbar Zaidi

# Part 2: Industry and Trade

## Ch06 to Ch09

Issues in Pakistan Economy: A Political Economy Perspective

By S Akbar Zaidi

## Part 2 Industry and Trade

- There is a general belief amongst economists, policymakers, and the general public that industrialization implies economic growth and development.
- The structural adjustment programme sponsored by the IMF and the World Bank determined much of what happened regarding industrial policy in Pakistan.

# Chapter 6: The Process of Industrialisation-I (1947-77)

- For a region that was considered to be the Indian subcontinent's economic backwater at the time of partition, Pakistan's industrial and economic growth performance at least up to the late 1960's was phenomenal.
- **6.1 1947-58 : Exchange Rates, Trade Policies, and Import Substituting Industrialization**
- After independence Pakistan government realized identified the areas and strategies which needs urgent consideration.
- It was analysed that there is a vast contrast between natural resources and industrial backwardness.
- A country producing 75% of world's jute does not have single jute mill.
- Between 1949 and 1958 the growth rate of industry in Pakistan was amongst the most rapid for any country in the world.
- This is the period when agriculture suffered negative growth.

# Chapter 6: The Process of Industrialisation-I (1947-77)

## • 6.1.1 The Impact of the Exchange Rate

- Before partition the area that became Pakistan were net importers of industrial goods from India and produced agricultural commodities such as cotton, wheat, and jute.
- The Pakistani government imposed some controls on imports and exports in order to manage trade with countries that had devalued, as their imports are now cheaper.
- Pakistan was monopoly exporter of jute, mainly to India.
- In 1948/9, India imported 55.8% of Pakistan's exports but all such exports were suspended in September 1949.
- The Korean war broke out in June 1950, Jute and Cotton were both in heavy demand.
- The decision not to devalue may, with hindsight have been the critical decision that started Pakistan on the road to industrial and economic development.

# Chapter 6: The Process of Industrialisation-I (1947-77)

## • **6.1.2 The Trade Policy Regime**

- In 1953-64 the trade policy adopted by Pakistan had 3 major aspects:
- 1. Overvaluation of the rupee relative to other countries.
- 2. use of quantitative controls on imports to regulate the level and composition of imported goods.
- 3. Differentiated structure of tariffs on imports and export taxes on 2 main exports: cotton and jute.
- Government promote tariff protection to promote industrialization.

# Chapter 6: The Process of Industrialisation-I (1947-77)

- **6.1.3 The Consequences of Exchange Rate and Trade Policy for Industrialization**
  - The type of protective policy pursued in Pakistan
  - 1. Produce anything that can be reasonably produced domestically.
  - 2. Once production has started domestically, ban imports of competing goods to save foreign exchange.
- **6.1.4 The End Result.**
  - The nature and structure of industry through licensing system and tariff structure.
  - The significant increase in exports was from the newly established manufacturing industries, mainly jute and cotton textiles.
  - Till 1950s Pakistan was in position to produce export surplus.

# Chapter 6: The Process of Industrialisation-I (1947-77)

- **1947 to 58:**
- Exchange rates, trade policies, and import substitution industrialisation
- **Overvalued exchange rate:** Industry started (import cheaper but restriction in consumer goods) so tilt to industry, High export due to Korean war
- Korean War (June 1950 and ended in July 1953) North vs South Korea first battle of cold war
- **Trade policy:** Tariffs to protect local industry
- Overvalued ER, Issue with India on no-devaluation of currency. As India imported agriculture goods, which become expensive for them.
- Impact: industries developed, concentration of wealth, govt gave finances to industry, Pakistan industrial credit and investment corporation (PICIC) Pakistan industrial finance corporation (PIFCO) Pakistan industrial development corporation (PIDC)



**Table 6.1**  
**Annual Growth Rate 1950–58 at 1959/60 Factor Cost (% per annum)**

Yeara	Agriculture	Manufacturing		Wholesale and retail trade	Banking and insurance	Public administration and defence	Services	GDP
		Large scale	Small scale					
1950/1	2.6	23.5	2.3	6.1	9.1	2.5	4	3.9
1951/2	–9.1	18.7	2.4	0.5	10.0	4.0	4	–1.8
1952/3	0.2	23.6	2.2	0.6	7.6	–4.4	4	1.7
1953/4	13.6	28.7	2.3	6.3	8.5	–2.4	4	9.4
1954/5	–0.8	24.1	2.3	5.5	2.6	4.6	4	2.7
1955/6	2.1	17.5	2.3	2.3	21.5	1.6	4	3.4
1956/7	2.3	8.1	2.3	3.2	22.9	–2.6	4	3.0
1957/8	1.9	4.9	2.2	3.4	–1.7	–2.2	4	2.6
1950–1954 (ave.)	1.8	23.6	2.3	3.4	8.8	–0.1	4	3.3
1954–1958 (ave.)	1.4	13.6	2.3	3.6	11.3	0.4	4	2.9

**Table 6.3**  
**Average Rate of Duty on Imported Goods by Types of Commodity: 1955-64**

Description	1955/6	1956/7	1957/8	1958/9	1959/60	1960/1	1961/2	1962/3	1963/4
Consumption goods									
Essentials	35	35	35	35	35	55	55	55	56
Semi-luxuries	54	99	99	99	99	111	111	111	116
Luxuries	99	99	99	99	99	140	140	140	142
Raw material for consumption goods									
Unprocessed	26	26	26	26	26	27	27	27	30
Processed	43	43	43	43	43	50	50	48	51
Raw material for capital goods									
Unprocessed	23	23	23	23	23	28	28	28	31
Processed	38	38	38	38	38	40	40	39	42
Capital goods									
Consumer durables	71	71	71	71	81	85	85	85	89
Machinery and equipment	14	14	14	14	14	17	17	17	17

## 6.2 1958-68 The era of development

- **1958-68 The era of development:**
- The growth rate of agriculture, large scale manufacturing and GDP showed amazing trend over 10 years 1958-68.
- Due to successful economic policies, this decade is called as the decade of development.
- Agriculture presents great improvement in 1960s as compared to the situation in 1950s.
- **6.2.1 Trade Policy Directing Industrialization**
- The main emphasis of the new trade policy in 1959 shifted away from direct controls and towards indirect controls on imports, and on domestic prices of other goods.
- The main reason why the government could be so generous in its import policy in the first half of the 1960s was critically linked to the availability of foreign aid.
- The government's import licensing scheme was supposed to encourage the private sector to invest.

# 1958-68 The era of development

- **1958-68 The era of development:**
- **6.2.2 Foreign Aid, the Private Sector, and Inequalities:**
- Foreign aid contributed significantly to Pakistan's growth, from the late 1950s, without it, the rapid increase in development in the 1960s could not have been possible.
- Foreign Aid Development Regime, once the aid stopped, so did growth in the economy.
- There were 44 monopoly houses which controlled about 77% of gross fixed asset of all manufacturing companies listed in Karachi stock exchange.
- Dr Mahbul ul Haq claimed that famous 22 families control 66% of industrial assets, 70% of insurance and 80% of total banking assets.
- Income inequalities increased in 1960 and there was no substantial increase in real wages.
- Interregional disparity between the west and east Pakistan did worsen.

# 1958-68 The era of development

- **1958-68 The era of development:**

- Trade policy (indirect control on imports)
- Export bonus schemes or Bonus voucher schemes (The exporter of a "bonus commodity" surrenders his foreign exchange earnings to the State Bank of Pakistan and receives, in addition to the rupee equivalent, a voucher that entitles its owner to purchase foreign exchange equal in value to 20 or 30 percent (depending on the commodity exported) of the amount earned)
- Open general licences, free list
- Import liberalisation and then restriction
- Foreign aid
- Concentration of wealth: 44 monopoly houses controlling 77 % fixed assets in manufacturing industries
- Inequality: inter regional

**Table 6.6**  
**Annual Growth Rate 1958–70 at 1959/60 Factor Cost (% per annum)**

Year <sup>a</sup>	Agriculture	Manufacturing		Wholesale and insurance	Banking and insurance	Public administration and defence	Services	GDP
		Large scale	Small scale					
1958/9	4.0	5.6	2.3	2.5	12.9	9.8	4.0	5.5
1959/60	0.3	2.7	2.3	5.9	22.1	-2.7	3.8	0.9
1960/1	-0.2	20.3	2.9	6.9	10.0	1.3	4.7	4.9
1961/2	6.2	19.9	2.9	7.8	8.5	3.9	4.0	6.0
1962/3	5.2	15.7	2.9	9.8	11.5	2.8	4.2	7.2
1963/4	2.5	15.5	2.9	10.1	8.9	9.7	4.0	6.5
1964/5	5.2	13.0	2.9	7.9	37.9	17.8	7.0	9.4
1965/6	0.5	10.8	2.9	8.7	10.9	56.5	1.1	7.6
1966/7	5.5	6.7	2.9	5.3	12.7	-14.4	4.3	3.1
1967/8	11.7	7.6	2.9	3.7	11.8	-2.5	4.0	6.8
1968/9	4.5	10.6	2.9	7.1	8.5	5.0	3.9	6.5
1969/70	9.5	13.9	3.0	10.9	19.4	3.6	6.8	9.8
1958–1964 (ave.)	3.0	13.3	2.7	7.2	12.3	4.1	4.1	5.2
1965–1970 (ave.)	6.2	10.4	2.9	7.2	16.9	11.0	4.5	7.2

**Table 6.10**  
**Income Distribution in Pakistan: 1963/4 and 1969/70**

% of households	% of income	
	1963/4	1969/70
0-10	2.3	3.2
10-20	4.1	4.8
20-30	5.0	5.6
30-40	6.1	6.6
Lowest 40%	17.5	20.2
40-50	7.1	7.4
50-60	8.4	8.6
60-70	9.8	10.0
70-80	11.9	11.8
Middle 40%	37.2	38.0
80-90	15.1	14.7
90-100	30.2	27.1
Highest 20%	45.3	41.8
Gini coefficient		
National	0.386	0.336
Rural	0.362	0.304
Urban	0.433	0.367

**Table 6.11**  
**Per Capita GDP in East and West Pakistan at 1959/60**  
**Constant Prices**

Year	Per capita GDP East	Per capita GDP West	West-East disparity ratio	Index of disparity
1959/60	269	355	1.32	100
1964/5	293	426	1.45	141
1969/70	314	504	1.61	191

Source: Ahmed, Viqar and Rashid Amjad, *The Management of Pakistan's Economy, 1947-82*, Oxford University Press, Karachi, 1984, 89.

**Table 6.12**  
**Index of Disparity in Per Capita Income (West Minus**  
**East; Divided by West)**

Year	Index of disparity
1949/50	17.9
1954/5	19.5
1959/60	24.5
1964/5	31.1
1969/70	37.9

Source: Ahmed, Viqar and Rashid Amjad, *The Management of Pakistan's Economy, 1947-82* (Karachi: Oxford University Press, 1984), 89.

Relative to east ,  
 people in west has  
 higher income



## 6.3: 1972-77 (The Bhutto years)

- **1972-77 (The Bhutto years) Bad Luck or Bad management (Biases of S. Akbar Zaidi)**
- In many ways there was a clear break from the past, as more than half of what was Pakistan from 1947 to 1971, had seceded to become an independent country, Bangladesh.
- Numerous Bad Luck factors played a critical role in causing the economy to grow at below trend rates.
- Critics argue that his strange concept of socialism was responsible for the dismal growth rates and for the highest rate of inflation in Pakistan.
- It was poor policies and bad economics which caused the disturbance.
- By comparing the growth rates of the 1950's and 1970 it is observed that the growth in the 70s is better than in the 1950s.

# 1972-77 (The Bhutto years)

- **1972-77 (The Bhutto years) Bad Luck or Bad management (Biases of S. Akbar Zaidi)**
  - Nationalisation
  - Devaluation (131 %)
  - Bad luck: Import prices increased due to oil price shocks (October 6 to 27:1973 Arab Israel War)
  - Flood and pest attacks

## 6.3: 1972-77 (The Bhutto years)

- **6.3.1 Economic Policies and Performance:**

- Promised the nationalization of all basic industries and financial institutions.
- Manifesto was, those means of production that are the generators of industry must not be vested in private hands.
- Infrastructure of the national economy must be in public ownership.
- The first phase of nationalization took place in the large scale manufacturing sector, essentially in the capital and intermediate goods industry.
- Complete reversal of public and private investment.
- The loss of East Pakistan was important because 50% of agricultural share come from there and the loss of such a large market was of major concern.

## 6.3: 1972-77 (The Bhutto years)

- **6.3.2 The Bad Luck Factor:**

- Number of events took place outside the control of the government were largely responsible for the poor performance of economy after 1947.
- Very large increase in the prices of imports following the oil price rise in 1973 which result in inflation close to 30%.
- Effect on exports and wiped out positive balance of trade from 1972/3.
- Flood and pest attack damage the crops, putting pressure on prices and affecting industrial production.
- Extreme adverse weathers and international recession.
- More bad luck than bad management which resulted in poor economic growth rates.

**Table 6.13**  
**Annual Growth Rate 1971–77 at 1959/60 Factor Cost (% per annum)**

Year <sup>a</sup>	Agriculture	Manufacturing		Wholesale and retail trade	Banking and insurance	Public administration and defence	Services	GDP
		Large scale	Small scale					
1971/2	3.5	-6.8	7.2	-0.5	0.8	6.8	5.1	1.2
1972/3	1.7	11.9	7.3	6.7	29.1	14.1	5.2	7.2
1973/4	4.2	7.5	7.3	14.9	6.4	14.8	5.4	7.7
1974/5	-2.1	-1.7	7.3	3.2	14.4	33.2	5.7	3.9
1975/6	4.5	-0.5	7.3	1.8	3.3	-3.0	5.7	3.3
1976/7	2.5	-0.2	7.3	-0.3	8.2	7.3	3.2	2.9
1971–1977 (ave.)	2.4	1.7	7.3	4.3	10.4	12.2	5.1	4.4

<sup>a</sup>The annual growth rate for 1971/2 means the rate for the period 1970/1 to 1971/2.

Source: Government of Pakistan, *Pakistan Economic Survey 1984–85* (Islamabad, 1985).

**Table 6.14**  
**Inflation Rates in Pakistan: 1970–80 (% per annum)**

Year	Annual rates of change in the general price level
1970/1	5.71
1971/2	4.69
1972/3	9.7
1973/4	29.98
1974/5	26.73
1975/6	11.66
1976/7	9.24
1977/8	6.89
1978/9	8.33
1979/80	10.44
<b>Growth rates for selected periods<sup>a</sup> (% per annum)</b>	
1969/70 to 1976/7	13.96
1976/7 to 1979/80	8.55
1969/70 to 1979/80	12.34

<sup>a</sup>Growth rates are trend values significant at the 95 per cent confidence level.

Source: Naqvi, S. N. H. and Khwaja Sarmad, *Pakistan in the Seventies* (Islamabad: PIDE, 1993).

**Figure 6.1**  
**Bhutto's Nationalization Programme: 1972–77**

20 December 1971	Zulfikar Ali Bhutto takes over as President of Pakistan.
January 1972	Public takeover of 31 large firms in 10 basic industries: iron and steel, basic metals, heavy engineering, motor-vehicle assembly and manufacture, tractor assembly and manufacture, heavy and basic chemicals, petrochemicals, cement and public utilities
March 1972	Land reforms
March 1972	Management and control of 32 life insurance companies
May 1972	Banking reforms; State Bank of Pakistan extends controls over scheduled banks, reorientating credit policy towards small farmers and small industrial entrepreneurs
May 1972	Devaluation of the rupee by 131 per cent
June 1972	Comprehensive labour reforms
August 1972	Comprehensive public health programme
September 1972– September 1974	Nationalization of educational institutions
June 1973	Trade in cotton and rice nationalized
September 1973	Vegetable oil, petroleum marketing, and shipping nationalized
January 1974	Nationalization of all private and domestically owned banks
August 1976	Cotton ginning, rice husking, and flour milling nationalized

**Table 6.15**  
**Trade Pattern: 1970–77**

Year	Exports	Imports	Balance	Exports	Imports	Balance
	(Rs. m)			(\$ m)		
1970/1	1,998	3,602	–1,604	420	757	–337
1971/2	3,371	3,495	–124	591	638	–47
1972/3	8,551	8,398	153	817	797	20
1973/4	10,161	13,479	–3,318	10,626	1,362	–336
1974/5	10,286	20,952	–10,666	1,039	2,114	–1,075
1975/6	11,253	20,465	–9,212	1,137	2,067	–930
1976/7	11,294	23,012	–11,718	1,141	2,325	–1,184

Source: Government of Pakistan, *Pakistan Economic Survey 1995–96* (Islamabad, 1996).



**Figure 6.2**  
**Bhutto: The Bad Luck Factor?**

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20 December 1971	Zulfikar Ali Bhutto takes over as President of Pakistan.
May 1972	Devaluation of the Pakistani rupee; initial outcome highly positive with exports growing by more than 100 per cent
August 1973	Massive floods hit Pakistan; import of food grain.
October 1973	Four-fold increase in international petroleum prices; imports cost much more; prices of fertilizers, essential inputs and oil jump; excessive inflation domestically
1974–77	World recession follows OPEC price rise; demand for Pakistani exports remains severely depressed and affects industrial output.
1974–75	Huge failure of cotton crop by as much as 25 per cent at a time when international cotton prices had risen; affected industrial output
1976–77	Worst floods in Pakistan's history; agricultural crops destroyed; further import of food crops; excessive expenditure on public good measures, all affecting industrial output

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# Summary Ch06

- Import substitution policy and overvalued ER and High Tariff
- Pro private industrialization policy till 70s
- The policy of Nationalization during Bhutto era which is anti private industrialization policy

# **Chapter 7: The Process of Industrialisation-II 1977-2013**

# Ch7: The Process of Industrialization in Pakistan II: 1977-2013

- From 1977 to August 1988 General Zia ul Haq ruled Pakistan, the longest rule ever by a single individual in Pakistan.
- During Zia era, Pakistan witnessed the return of high growth rates and an increased role for private sector.
- Just as much as the 1977-88 period is distinct in its form and manner, the post-Zia period opens up a very different age in Pakistan's history both politically and economically.
- International monetary fund IMF and the World Bank role.
- There are two broad sections to this chapter: we examine first the process of industrialization in the Zia period, and second, the post-1988 era of structural adjustment.

## 7.1 The Zia Years: 1977-88

### • **7.1.1 The Nature and Extent of Growth**

- During 1980-88 Pakistan GDP growth rate was 6.5% and all others growth figures are very impressive.
- But much less rosy, picture emerges with productivity growth figures.
- Little growth in employment in all industrial sectors and growth of labor productivity was also fallen.
- Manufacturing's sector became more capital intensive between 1975-1986.
- Share of wages and salaries fell from 26.9% to 20.3%.

## 7.1 The Zia Years: 1977-88

### • **7.1.2 Industrial Policy**

- The important concern of Zia regime in mid 1977 was the need to restore business confidence (private sector) and motivation in order to revive investment in industry and agriculture to perform better than Bhutto's regime.
- Zia made the decision that the private sector was to play the leading role in the industrial sector.
- Denationalized agro based industries, rice, flour milling and cotton ginning which were run inefficiently.
- A number of basic and heavy chemical and cement industries were opened upto the private sector and giving further incentive of tax relaxation aim to encourage industrial activity in less developed regions of the country.
- The policy measures that distinguishes the Zia regime was Islamization.

## 7.1 The Zia Years: 1977-88

- **7.1.3 The Public/Private Sector Divide**
- With the Zia government's penchant for the private sector the first step would have been large scale denationalization and the return of assets seized and nationalized under the Bhutto regime.
- Public sector's share in total industrial investment fell down as much.
- While the Zia government was very favourably inclined towards the private sector and blamed much of ills of the economy on Bhutto's economic policies, including nationalization, the Zia regime took a far more pragmatic and politically clever line by not denationalizing in haste.

## 7.1 The Zia Years: 1977-88

- **7.1.4 Deregulation and Liberalization**
- The 6<sup>th</sup> year plan 1983-88 was the beginning of the process of deregulation and liberalization.
- After that Pakistan's economy was completely subservient to IMF and WB directives.
- Important steps were taken to liberalize and encourage foreign trade.
- Exports led industrialization was mentioned for the first time as a policy goal.
- To remove the fixed peg of the rupee to dollar by introducing a managed float of the currency in 1982.



## 7.1 The Zia Years: 1977-88

- **7.1.5 Causes of High Growth and the Success of the Zia Regime**
- Ruled for more than 11 years surprised almost all the observers.
- The impressive growth was a result of two important phenomenon,
- Diversity in the manufacturing sector.
- The revival of confidence in private sector to invest in industry again.
- High growth rate in GDP was due to a strong expansion in manufacturing led by a booming domestic market (due to remittances and the income led by a booming domestic trade, which increased significantly following the Afghan crisis.
- Foreign resource inflows assistant was an important source of growth.
- So when foreign inflows ceased, so would economic development.

# Ch7: 1977-88 (The Zia years)

- **1977-88 (The Zia years)**

- Growth data
- Denationalisation
- 5<sup>th</sup> -----5 year plan (1978-83) [ first, 55-60, 2<sup>nd</sup> 60-65. 3<sup>rd</sup> 65-70,, 4<sup>th</sup>: 70-75; -- 6<sup>th</sup>; 83-88; 7<sup>th</sup> ; 88-93, 8<sup>th</sup>; 93-98]
- Public/private sector divide (Gradual transformation towards private sector)
- Export rebate, import facilities to exporters, income tax concessions, finance at concession rates.
- Floating exchange rate (annual 7% devaluation)
- 6<sup>th</sup> -----5-Years Plan (1984-88) De-regulations and Liberalization: export led industrialisation, tied, free vs ban list, non tariff to tariff barriers

**Table 7.4**  
**Growth and Structure of Manufacturing Employment: 1975–86**

Industry sector	Growth of employment in manufacturing	Structure of manufacturing employment		Labour growth of Value-added per employee (% at 1980 prices)
	1975–86	1975	1986	1975–86
Food products	3.58	9.9	12.9	3.53
Beverages	5.07	0.7	1.0	11.32*
Tobacco	2.82	1.7	2.1	1.11
Textiles	-1.64	50.6	41.1	-4.31
Wearing apparel, except footwear	14.75	0.2	0.9	-18.63**
Leather products	2.81	0.8	0.9	-1.88**
Footwear, except rubber or plastic	-2.03	0.3	0.3	-3.55**
Wood products, except furniture	7.46	0.3	0.5	-4.11
Furniture, except metal	3.75	0.2	0.3	2.24**
Paper and paper products	0.03	1.9	1.6	12.28
Printing and publishing	4.52	1.4	2.1	5.79**
Industrial chemicals	3.33	2.5	3.1	6.91
Other chemicals	3.88	3.1	4.2	5.42
Petroleum refineries	1.63	0.5	0.6	1.41
Misc. petroleum and coal products	6.79	0.1	0.1	3.97**
Rubber products	0.11	2.2	2.0	1.75
Plastic products	11.26	0.3	0.6	-
Pottery, china, and earthenware	5.77	0.3	0.5	-6.39**
Glass products	3.37	0.5	0.8	-4.71**
Other non-metallic mineral products	1.90	2.6	2.9	3.25
Iron and steel	9.64	4.1	7.5	1.16**
Non-ferrous metals	-5.51	0.1	0.1	-5.19**
Fabricated metal products	-3.17	2.7	1.9	3.12**
Machinery, except electrical	1.41	3.3	3.3	0.17
Machinery, electric	0.60	3.5	3.6	8.34
Transport equipment	-1.04	4.7	3.9	6.3
Professional and scientific equipment	-3.55	0.8	0.5	14.22
Other manufactured products	-1.01	0.7	0.6	7.96**

# Ch7: 7.2 1988 onwards: The age of structural adjustment

## • **7.2.1 The Principles of the Programme**

- 7<sup>th</sup> five year plan 1988-93 was made to order at the time when IMF and WB induced conditionality was accepted by Pakistan as Structural Adjustment Program.
- The plan had set ambitious targets for reforms in industrial sector and included deregulation, privatization, tariff reforms and regulation for foreign investment.
- The world Bank in its review of the programme 1988-91 felt that the economy responded well to these policy reforms.
- Large scale manufacturing sector managed as impressive growth.
- A major emphasis of the structural adjustment programme was on the enhancement of growth by encouraging the private sector which was supposed to take a lead role.

# Ch7: 1988 onwards: The age of structural adjustment

## • **7.2.2 Assessing the impact on the Industrial sector**

- Private investment did not increase per expectation while public investment dropped (The reason discussed by Dr Pervaiz Tahir. There is a co-relation of both and crowding out concept is weak in the case of Pakistan)
- Manufacturing sector and industrial sector growth decline in the 1990s.
- Cost of borrowing increased
- Utility bills increased
- Tough competition and increase in the cost of production.
- Manufacturing sector and the economy grew in the decade of the 2000s after the dismal performance of the 1990s were as a consequence of the windfall gains on the account of 9/11 and especially, the rescheduling of Pakistan's debt following 9/11.
- War and terror consequences.
- Global recession in 2008 and phenomenal rise in world oil and food prices.

# Ch7: 1988 onwards: The age of structural adjustment

- **1988 onwards: The age of structural adjustment**
  - 7<sup>th</sup> ---5-years plan (1988-93)
  - IMF three year agreement (1988-91)
  - Increasing private share in the public industry
  - Market based policies. Decreasing protection given to industries
  - Decreasing list of restricted import items and other restrictions
  - Phasing out all tariff exemption
  - Withdrawal of subsidies
  - Reduction in Public sector development program (PSDP)
  - Restriction on government borrowing

# **Ch8: Key issues in industry in Pakistan**

# Ch8: Key issues in industry in Pakistan

- **Numbers and trends in industry (Measured via census of manufacturing industries CMI)**
  - 20% (50-55)
  - GFCF (value of capital stock): Private, public, government
- **The small scale manufacturing sector**
  - Informal sector, high employment, green revolution as impetus, to escape privatisation, strict labour laws, remittances in 80
- **Issues affecting small scale sector:**
  - access to credit, biases towards large scale in financing



# Ch8: Key issues in industry in Pakistan

## • **8.1 Numbers and Trends In Industry**

- There was a phenomenal growth rate in early 50's where growth rate was double every few years and extra ordinary growth of 20% between 1950-55 in large scale manufacturing industry.
- Because very little to start with and hence any investment and production, no matter how little, would register impressive gains.
- All the trends and growths are presented by different tables given in the chapters to be read thoroughly.

# Ch8: Key issues in industry in Pakistan

- **8.2 The Small-Scale Manufacturing Sector**

- The small scale or informal sector dominates our lives, more dynamic, exhibiting impressive growth rates in employment, output, and contribution to value-added.
- **8.2.1 Numbers and Characteristics**
  - While there was little change over the fifteen years as a whole, and the share of informal sector increased only slightly from 69.1 to 72.7 percent, the actual numbers of these employed have increased by more than 72 percent, from 2.8 million in 1972 to 4.9 million in 1985.
  - Informal or small scale sector has dominated employment in the construction, wholesale and retail trading, hotels, transport, communications and storage industries in Pakistan table 8.8.
  - In urban manufacturing sector, which mainly concerns us here, as many as 98 percent of manufacturing units were small scale unregistered firms.

# Ch8: Key issues in industry in Pakistan

- In the formal manufacturing sector in urban areas, the largest number of employed workers are in textiles, as they are in small-scale and household sector.
- **8.2.2 Emergence and Growth**
- Sudden emergence of the small scale sector 'as if out no where' in the early 1960s.
- Clearly the green revolution and agriculture growth played major role.
- The import liberalization is identified as a positive development for small scale industrial sector.
- Data is scarce for small scale sector, however there is every indication that its growth rate is far higher than reported.
- **8.2.3 Issues Affecting the Small-Scale Sector**
- Large productivity differences exist between the two sectors table 8.17.
- The state or the government treated the sector usually with indifference, but often with contempt.

# Ch8: Key issues in industry in Pakistan

- Small scale sector is neglected always.
- Small sector has very close link with large scale sector in the economy, fortunes of small are intimately linked with those of the large.
- Single most important constraint faced by small scale sector has been the availability of credit.
- There is no denying the fact that the small scale sector plays, and is going to play, an increasingly important role in Pakistan's economy.

**Table 8.1****Growth Rates in Manufacturing: 1950–2012 (% Increase at Constant Factor Cost)**

Sector	1950–1959	1960–1969	1970–1979	1980–1989	1990–1999	2000–2009	2010–2012 <sup>P</sup>
Industrial Sector	8.9	9.7	6.6	8.2	4.7	5.3	–0.6
Mining & Quarrying	10.5	8.4	4.8	9.9	3.3	17.8	1.0
Manufacturing	8.3	9.0	5.6	8.7	4.3	7.0	3.9
Large-Scale	17.2	12.3	5.1	8.8	4.0	7.3	2.4
Small-Scale	2.3	2.8	7.1	8.4	5.2	7.5	7.5
Slaughtering	–	–	–	–	–	4.3	4.4
Construction	11.4	12.2	6.6	5.5	2.4	3.7	4.9
Electricity and Gas Distribution	10.8	14.6	23.7	9.9	9.4	0.1	–2.8

<sup>P</sup> = Provisional

Source: State Bank of Pakistan, *Hand Book on Pakistan's Economy 2010*.

Government of Pakistan, *Pakistan Economic Survey* (Islamabad: various years).

# Ch8: Key issues in industry in Pakistan

- **The textile industry and its crisis**

- Low share in world export over time (11% between 62 to 72, now 2 %)
- Concentrated among few, diversification , value addition, unable to meet quotas, quality consciousness, old technology, energy crisis, tough competition in global market

# Ch8: Key issues in industry in Pakistan

- **8.3 The textile industry and its crisis**

- Most of the time, in Pakistan by manufacturing sector we mean Textile industry.
- Important position in Pakistan's economy in terms of employment and value-added, but specially in the contribution the industry makes to exports.
- Pakistan's textile industry has lost its relatively more prominent position of the 1960s and 1970s and today holds less than 2 percent of the world market.
- Due to poor picking, ginning and elimination of contamination it lose its advantage.
- The Cottage Industries Act created a bias against large scale production and against textiles.
- Pakistan failed to diversify into other products.
- Inefficiencies in the textile sector inspite of relatively high productivity growth in the sector.
- Textile processing is a technology oriented business but in Pakistan no much capital is available and are old.

See latest

**Table 8.18**  
**Cotton Textile Statistics: 1955–2012**

Years	Number of mills	Spindles (000)			Looms (000)		
		Installed	Working	% working	Installed	Working	% working
1955–1959	n.a.	1,537	1,434.2	93.3	25.1	22.2	88.4
1959–1964	74	1,674	1,629.6	97.3	28.2	26.4	93.6
1964–1969	92	2,058	1,923.4	93.5	30.4	27.6	90.8
1969–1974	131	2,877	2,711.8	94.3	29.8	26.6	89.3
1974–1979	139	3,536	2,700.8	76.4	28.0	19.2	68.6
1979–1984	156	4,077	3,008.6	73.8	24.8	13.6	54.8
1984–1989	184	4,446	3,467.0	78.0	18.4	9.2	50.0
1989–1994	271	6,356	5,150.0	81.0	14.8	7.2	48.6
1994–2000	349	8,315	6,452.0	77.6	11.1	5.0	45.0
2000–2002	353	8,707	7,284.0	83.6	10.0	4.5	45.0
1994–1999	348	8,302	6,392.4	77.0	11.4	4.8	42.8
1999–2004	356	8,932	7,298.0	81.7	10.0	4.4	44.0
2004–2009	429	11,298	9,748.2	86.3	8.4	4.2	50.0
2009–2012 <sup>P</sup>	436	11,402	10,783.3	94.6	7.0	4.7	66.7



**Table 8.20**  
**Overview of the Cotton Textile Industry: 1988**

	Number of units	Equipment	Direct employment (estimates)
<b>Large-scale mill sector</b>			
1 Spinning	186	4.72 million spindles including rotors	150,000
2 Composite mills	44	16,000 looms	..
3 Finishing	10	..	1,000
4 Garments	50	3,000 sewing machines	5,000
Total			156,000
<b>Small-scale cottage sector</b>			
1 Power looms	15–20,000	100,000 looms	150,000
2 Finishing	150	..	6,000
3 Towels	160	2,500 looms	4,000
4 Garments	2,500	80,000 sewing machines	150,000
5 Hosiery	550	10,000 knitting machines	20,000
Total			330,000

Source: UNIDO, *Pakistan: Towards Industrialization and Revitalization* (Oxford: Blackwell, 1990), 54.

# Ch8: Key issues in industry in Pakistan

- **Has public sector industry been a failure**
  - No, world bank role, good and bad are in both sectors
- **The privatisation process**
  - 1990, energy, communication, and 4 banks, corruption in privatisation
- **The debate over efficiency in the industrial structure**
- Protection and efficiency
- **The energy crisis**
  - Oil (38%), hydel and gas (30-30 %)
  - 50% HH, 27% Industry, 13% agriculture
  - Circular debt (facing problems in its cash inflows holds back payments to its suppliers and creditors. Thus, problems in the cash inflow of one entity cascade down to other segments of the payment chain. In Pakistan, the energy sector has faced this issue for several years)
  - Alternative energy board, solar, wind, Hydel

# Ch8: Key issues in industry in Pakistan

- **8.4 Has Public Sector Industry Been A Failure?**

- Wave of Denationalization and Privatization.
- Public sector enterprises are inefficient, costly to run, poor performers and a major drain on the exchequer.
- Public sector enterprises have not merely to respond to pure market criteria, but also have social and political responsibilities and motives.
- Public sector did fairly well in many of the governments.
- A more careful analysis of the public sector is required to provide a more balance view and not to be caught up in the fashion of times such as privatization.

**Figure 8.1 A Chronology of Key Developments in the Public Enterprise Sector**

<b>Event</b>	<b>Date</b>
Establishment of the Karachi Port Trust as the first public enterprise in what is now Pakistan	1886
Establishment of the Karachi Electric Supply Corporation (it became a public enterprise in 1952)	1913
Establishment of the Pakistan Refugees Rehabilitation Finance Corporation as one of the first public enterprises in independent Pakistan	1948
Establishment of the National Bank of Pakistan as the first public enterprise in the finance sector	1949
Establishment of Pakistan International Airline Corporation as a public enterprise and government monopoly in the air transport sector	1955
Establishment of the Pakistan Industrial Credit and Investment Corporation as the first development finance institution	1957
Establishment of the Water and Power Development Authority as a public enterprise and the major electrical power producer, transmitter, and distributor	1958
Establishment of four development finance institutions to assist in the economic development of the country:	
Industrial Development Bank of Pakistan	1961
Agricultural Development Bank of Pakistan	1961
National Investment (Unit) Trust	1962
Investment Corporation of Pakistan	1966
Establishment of the Oil and Gas Development Corporation as a public enterprise in the fossil fuels energy sector	1961
Establishment of the National Shipping Corporation as a public enterprise in the sea transport sector	1963
Establishment of the Pakistan Steel Mills Corporation as a public enterprise in the heavy industries sector	1968
Nationalization of 31 large firms in 10 'basic' industries. The private firms became public enterprises.	1972
Nationalization of the vegetable oil industry. The private firms became public enterprises.	1973
Nationalization of private, domestically-owned banks and insurance companies. The private firms became public enterprises.	1974
Nationalization of 2,000 rice, flour, and cotton ginning mills. The private firms became public enterprises.	1974
Denationalization of 2,000 rice, flour, and cotton ginning mills	1977
Efforts initiated in the Ministry of Production through its Experts Advisory Cell to improve the performance of 56 of its public enterprises	1981
Establishment of the National Disinvestment Authority	1985
Junejo government agrees to permit the private sector to establish banks.	1986
Junejo government permits private sector firms to bid on construction contract for electrical power station.	1986
Benazir Bhutto pledges no more nationalization of industry in the election campaign of 1988.	1988

Source: Ahmad, M. B. and R. Laporte, *Public Enterprise in Pakistan: The Hidden Crisis in Economic Development* (Boulder, Colorado: Westview Press, 1989), 173–5.

**Table 8.24**  
**Privatization of State-Owned Enterprises**

	Number of units				Value of units sold (Rs. m)	
	Total	of which:			Total	Received
		For sale	Sold	Management transferred		
<b>Commercial banks</b>	5	4	2	2	5,122	2,135
<b>Industrial units</b>	124	105	67	47	8,219	3,896
Automobiles	15	10	8	5	1,043	583
Cement	15	15	11	8	4,658	2,253
Chemicals and ceramics	14	12	5	5	1,030	431
Engineering	12	9	4	4	141	58
Fertilizer	7	5	2	1	457	183
Ghee and vegetable oil	23	23	15	9	626	250
Roti plants	17	17	13	11	99	60
Rice mills	8	8	7	4	165	78
Miscellaneous	13	6	2	0	0	0
<b>Total</b>	129	109	69	49	13,341	6,031

Source: World Bank, *Pakistan: Country Economic Memorandum FY93: Progress Under the Adjustment Programme*, Report No. 11590-Pak (Washington DC: World Bank, 1993), 51.

# Ch8: Key issues in industry in Pakistan

- **8.5 The Privatization Process**

- The most controversial aspect of SAP since 1988 was privatization program.
- Both Nawaz Sharif and Benazir Bhutto lift up the privatization sector.
- The DDC Identified 109 industrial sector that should be privatized at earliest and four of the five nationalized commercial banks which had 88% of total deposits with them.
- Privatization has been the need to raise revenue.
- The three most coveted sectors to be privatized were energy sector, telecommunications and the four commercial banks.
- Process of privatization came in for a great deal of criticism in earlier years and some authors suggests that it has some serious negative consequences.
- But privatization got a lot of steam in the Mushharaf government despite of a lot of criticisms.

# Ch8: Key issues in industry in Pakistan

- **8.6 The Debate Over Efficiency in The Industrial Structure**

- High growth had been achieved at very considerable costs, and that the entire industrial sector was severely inefficient.
- Import substitution and industrialization process.
- Analysis from work on protection, distortion and inefficiency in industrial sector
- The neglect of agriculture at the cost of industry, excessive emphasis on the manufacturing sector, resulting in poor export performance, and many others.
- Underutilization of capacity and resources wastage.
- Industrial concentration which was excessive.
- Policy was protectionist and distortionary.

# Ch8: Key issues in industry in Pakistan

- **8.7 The Energy Crisis**

- One single factor which had impact on the industrial sector in particular, as well as the economy overall, from 2008 onwards was the energy crisis in Pakistan.
- 2-3% lost of GDP each year on account of power shortage.
- Absence of energy was the main constraint for economic growth.
- Supply has outstripped demand and new developments and planning have not been able to bridge the gap.
- The core power crisis lie in 3 facts
  - 1. 82% of electricity production is oil based as oil prices rising.
  - 2. Billions of rupees of unpaid electricity bills provincial and federal level.
  - Loss of 30% of total electricity generated due to industrial weakness.
- Dealing with the immediate problem.
- Longer term issues.



# Ch8: Key issues in industry in Pakistan

- **Summary:**

- Small scale play a major role in manufacturing
- Public sector play a role and the claim about inefficiency was overstated
- Textile industry suffered due to various reasons
- Energy crisis is a permanent issue and need alternatives

## **Ch9: Balance of Payment and Trade regimes**

# Chapter 09: Balance of Payments and Trade Regimes

- The previous three chapters on the industrialization process in Pakistan and on the issues which have subsequently emerged as a consequences.
- This chapter examines how trade policy and the changing trade regimes over the years have influenced the course of development, particularly industrialization in Pakistan.

# Ch9: Balance of Payment and Trade regimes

- **Current A/C**

- Trade balance+ services (tourism, banking, insurance, transport+ net private transfers (remittances)+net factor services (wages)

- **Capital A/C**

- Private capital (FDI + other long term and Short term Investment)
  - Public Capital
  - foreign investment + aids and loans
  - Simply any movement of foreign exchange is recorded somewhere in BOP
- This shows the status of our international transaction in goods, services, unidirectional movement (net wages), in shares, businesses, loans, aides, etc.

**Table 8.6: Summary Balance of Payments**

Items	July-June	
	2019-20	2020-21
Current Account Balance	-4449	-2820
Trade Balance	-21109	-28634
Exports of Goods FOB	22536	25639
Imports of Goods FOB	43645	54273
Service Balance	-3316	-2516
Exports of Services	5437	5945
Imports of Services	8753	8461
Income Account Balance	-5459	-4400
Income: Credit	479	508
Income: Debit	5938	4908
Balance on Secondary Income	25435	32730
Of which:		
Workers' Remittances	23131	29450
Source: State Bank of Pakistan		
P: Provisional		

Total trade and service deficit is around 30 billion which is covered by remittances so net drop to 2.8 billion

# Ch9: Balance of Payment and Trade regimes

- **Main Export:**
- Food groups, Textile Group, Petroleum Group, Other Manufactures[Cotton 58% Leather 4%, Rice 8%= 70%]
- **Main Import:**
- Food 10%, Machinery 16.5%, Petroleum 19%, Consumer durables 8%, Raw materials 15%, Transport 5%, telecom 2.5% (all other: 21%)
- **Main Trading Partners:**
- Export: USA 17%, China 8%, Afghanistan 7% UK 6% Germany 6% UAE 3%, Bangladesh 3%, Italy 3%, Spain, 4%, France 2% (Total 60% the rest all 40%)
- Import: China 24%, UAE 14%, KSA 5%, Kuwait 2%, Indonesia 5%, India 3%, USA 5%, Japan, 4%, Germany 2% Malaysia 2% (All other 35%)

# Ch9: Balance of Payment and Trade regimes

- Positive Trade Balance:
- 1951/52-----Korean War
- 1972/73----- large devaluation
- Check for below too but seem doubtful

- 1980/81
- 1981/82
- 1984/85

?

Do  
analyse

- Remittances: KSA, UAE, US, UK, ----double sword of brain drain---

# Ch9: Balance of Payment and Trade regimes

- **Pakistan Foreign trade Basic facts:**

- Main export in 1948/49 (99% agri based)----By 1958/59: Fall to 75%
- Raw jute, raw cotton, raw wool, hides, tea ---India share 56% fall to 4.1 in 10 years,
- Trading partners; US, UK, Belgium, Italy, Japan

- In Ayub: Diversification both in terms of exports and imports and in terms of countries



# Ch9: Balance of Payment and Trade regimes

- **Pakistan Foreign trade Basic facts:**

- The pattern of foreign trade gives fair picture of economic trade relationship.
- Those countries with comparative advantage in certain products are likely to produce and export those commodities.
- In 1948/9, 99 percent of Pakistan's export earnings were made up of just five primary commodities, raw jute, raw cotton, raw wool, hides and tea.
- Change occurs when economic policies shifted towards industrialization.
- In Ayyub's era nature of production changed. In the first decade most of the trade was with developed, industrialized countries as they produce commodities that Pakistan needed that time.
- Pattern of trade changed after 1971 when Bangladesh was created.
- Trade balance goes to negative as imports are greater than exports.
- All the growth, data and components are in tables in the chapter see that

# Ch9: Balance of Payment and Trade regimes

- **Pakistan Foreign trade Basic facts:**
- Contribution made by remittances.
- Pakistan's nature of trade has changed considerably in 6 decades from producing and exporting primary products to exporting manufactured products agricultural products, particularly cotton.
- For many years Pakistan's exports are not tangible but services provided by workers in Middle East made a big difference.

# Ch9: Balance of Payment and Trade regimes

- **9.2 Trade Policy and Trade Regimes**

- **9.2.1 The Early Years: 1947-58**

- Pakistan major trading partners were India and UK, which together accounted for 67% of Pakistan's trade.
- In 1949, the pound sterling was devalued by 31 percent.
- Pakistan decided to maintain its old exchange rate and did not devalue, making India and UK imports cheaper and exports to them expensive.
- Trade regime was again liberalized after Korean war.
- After 1952 the salient features of trade policy adopted by Pakistan
  - 1. overvaluation of rupee
  - 2. use of quantitative controls on imports
  - 3. a highly differentiated structure of tariffs on imports and exports

# Ch9: Trade Policy and trade regimes

- **1947 to 58:**
  - Restricted trade policy:
  - ER: Overvalued---Import: Quantitative controls, Open general Licence schemes (OGL)----Export: licences to exporters, ban on consumer goods, capital goods were tariff free
- **1958 to 1969:** Trade policy and the decade of development
  - Export: Export bonus or Bonus voucher Scheme, compensated overvalued ER---misuse of EBS---
  - IMPORT: General licence scheme, expansion of list from 11 to 51. expansion when foreign exchange was more and restricted when foreign exchange dropped.

# Ch9: Balance of Payment and Trade regimes

- **9.2.2 Trade policy and the Decade of Development**

- High growth rate in 1960s in trade regime adopted by the military government of Ayub Khan.
- Most important component was Export Bonus or Bonus vouchers Scheme.
- A shift from direct to indirect controls on imports, import licensing etc.
- In addition the Open General Licensing system was expanded.
- Export Bonus Scheme had a positive effect on exports in early 1960s but have negative consequences as well for giving wrong signals and causing distortions.
- Large amount of foreign aid was the reason why the government was able to be so generous in its import policy.

# Ch9: Trade Policy and trade regimes

- **1972-1977**

- East Pakistan export more than import
- West Pakistan export less than import: so East Pakistan was financing our import
- After 1971, we stuck
- Abolishing all policies of Ayub—cancellation of licences scheme, multiple ER, EBS, banning luxuries, devaluation of ER by 131%
- NO export policy----oil price shock, world recessions, floods and pest attacks disturbing cotton. Middle east service importers---remittances--some compensation of the export of East Pakistan.

# Ch9: Balance of Payment and Trade regimes

## • **9.2.3 A New Country: 1972-77**

- East wing had become independent, half of country was not part of the Pakistan and almost half of the west Pakistan's exports went to East Pakistan in 1969/70, while 18% of the western regions imports came from the east.
- Government took steps to abolish the import licensing system, as well as multiple exchange rate systems and the export bonus scheme and import of all luxury items was banned.
- Most crucial measure was the devaluation of the rupee, means of encouraging exports and exports indeed grow.
- Bhutto era was the absence of an explicit export policy. And Consequences of the oil prices and boom in the middle east.
- Bad crops due to floods and pests and other natural factors affected cotton and ice which were major exports of the country.

# Ch9: Trade Policy and trade regimes

- **1977 to 1988: Liberal trade regimes**

- Import: Liberalised, reducing no of banned goods lifting restriction---non tariff barriers removed---free list increased---procedure streamlines---No of import goods subject to value ceiling were reduced-----non-specified items were free to import----
- Export: Export rebate, concessionary credit, income tax and import facilities for exporters
- ER: Flexible ER---delinking of Rupee from Dollar---decrease in tariff rates---still tariff were 75% (high tariffs per world bank)



# Ch9: Balance of Payment and Trade regimes

- **9.2.4 The Beginning of a Liberal Trade Regime: 1977-88**
- Series of steps to liberalize the trade regime, particularly imports, by reducing the number of banned goods and lifting restrictions by Zia government.
- Non tariff barriers imposed after oil shock were also removed between 1977-8
- The number of items on the free list was increased.
- Some measures were also taken to boost exports, including export rebates, concessionary credit for exports, income tax and import facilities for exporter.
- Took steps of removing import quota.
- Earlier rupee/dollar was fixed and resultantly dollar appreciated and reducing competitiveness of Pakistan's exports on world market.

# Ch9: Trade Policy and trade regimes

- **1988 onward: Trade liberalisation under structural adjustment**
  - Tariffs: Decreased over time---Non tariff barriers removed
  - Imports: banned list squeezed (80 from 400) (religious, security, reciprocity, Int. agreement)
  - Permission of Foreign Currency account----dependency---in 1998 shock freeze
  - Export: Income tax and rebate generalised

# Ch9: Balance of Payment and Trade regimes

- **From 1973 to 1993:**
- Pakistan export increased 9 time,
- Malaysia 12 times,
- South Korea 28 times,
- Singapore 1.8 to 151 in 2004 and 350 Billion in 2010

# Ch9: Balance of Payment and Trade regimes

- **9.2.5 Trade Liberalization Under Structural Adjustment: 1988 Onwards**
- By 1988 due to the SAP the government of Pakistan was committed to making extensive changes in its trade regime.
- By 1993 a number of important steps based on the structural adjustment programme had been taken.
- Open foreign currency deposit (FCD) accounts, positively allowed only to foreigners and non resident Pakistanis.
- Trade taxation regime after 1988 SAP.
- Since 1988 as per the agreement with the IMF and the World Bank under the SAP, a 'liberal' import policy has been pursued, with lower tariff rates and fewer tariff slabs, along with a persistent 'readjustment' of the Pakistani rupee.

# Ch9: Debates

- **The debate over efficiency and the trade regimes:**
  - It distorts growth and production
  - Allocation is inefficient, creation of monopolies
  - Anti export bias---effective ER was biased for export that is low exchange per dollar.
- **ER and trade regimes: Discussion**
  - No devaluation at start (while there happened 37% devaluation)
  - Next 35 years till 1982 Fixed ER---first pound sterling then US dollar.
  - 1955: 30% devaluation ( $1\$=4.76$ )---Multiple ER (for voucher owner 8Rs/\$ and for non voucher it is low) 1971:  $1\$=11$  RS then to 9.95)
  - 1982: Basket of currencies

## 9.3 The Debate Over Efficiency and The Trade Regime

- Protection through tariff, and exchange rate distort efficiency and reduce growth and productivity of economy over time.
- Pakistan followed a highly protective industrial policy to encourage import substitution.
- Incentives provided by the tariff structure have been the central bone of contention in discussion about efficiency of the industrial sector in 1960s.
- In recent years, the World Bank and the IMF have become the greatest champions of free trade in Pakistan and all over the globe. For maintaining tariffs, restrictions, and non tariff barriers and in general, an import substituting regime. Import substituting policies have an anti export bias they argued.
- Aid trade efficiency.
- Countries with low tariff rates do not necessarily have high growth and vice versa.
- In 1980s protection through tariffs, quotas, or exchange rate distortions affects allocative efficiency negatively and consequently reduces growth over time.

## 9.4 The Exchange Rate

- The exchange rate has played a critical role in the trade regime and the process of industrialization in Pakistan.
- In 1949 decision of not revising exchange rate downward with devaluation of pound sterling 37%. The decision was so important and become non-devaluation decision.
- For nearly 35 years Pakistan maintained a fixed peg regime for its exchange rate.
- Nor it devalued in 1952, following the Korean war Boom.
- Pakistan pursued import control so that import could be regulated and the foreign exchange crisis managed. Ayyub era was criticized for maintaining multiple exchange rate and an overvalued rupee.
- Government as criticising on both counts: In 1972 the government criticised for devaluation and for the extent of devaluation.
- On the recommendations of IMF the old system of pegging the rupee was replaced by a flexible exchange rate mechanism.

# Ch9: Debates

- 2000 to 2008: (60.09 to 61.7)----- then 98.15
- What is optimal rate? Debate----per my view-----Some ban on imports where reserves can be saved and pressure is released.
- **Dealing with globalisation and WTO**
  - Some political economy issue
    - Agenda of expanding capitalism by opening borders for trade and capital
    - Issue of sovereignty
    - Unfair system in unequal world
    - Subsidy in advanced countries exceed total income of sub-sahran Africa



# 9.5 Dealing with Globalization and WTO

- **9.5.1 Some Political Economy Issues**

- One of the remarkable feature of nature of world, its politics and economics is globalization. We cannot neglect its importance.
- Globalization refers to deepening and widening of international flows of trade, capital technology and information within a single global market.
- In order to advance globalization multinational cooperation's have taken the lead with multilateral organizations like IMF, world bank, WTO and UN supporting agenda.
- Globalization does have a great numbers of benefits example of China and India.
- One of the criticism is that it is an unfair system in an unequal world.
- There is no way one can escape globalization and perhaps there is no need either.

## 9.5 Dealing with Globalization and WTO

- **9.5.1 Some Political Economy Issues**
- The impact of globalization on Pakistan economy was both positive and negative.
- Pakistan like all other countries of the world has implemented the provisions of the World Trade Organization guidelines and agreements.

# Ch9: Debates

- Globalisation and WTO impact on Pakistan
  - WTO: 1995 agreement 2005
  - 1974: Multi fibre agreement (MFA) regulating textile trade
  - Quota regime over by 1 Jan 2005 agreement on textile and clothing (ATC)
  - Openness of market
  - Political consequences,
  - New form of restrictions such as environmental, Sanitary, social etc.

# Ch9: Debates

- Summary:
  - Export mostly cotton based (65%)
  - Import mainly Oil based (20%)
  - Trade deficit is major problem of Pakistan
  - Restriction over time decreased and more liberal trade policies
- Overall summary:
  - Trade journey from restriction towards liberalisation
  - From close economy to open economy

اللَّهُمَّ إِنِّي أَسْأَلُكَ عِلْمًا نَافِعًا،  
وَرِزْقًا طَيِّبًا، وَعَمَلًا مُتَقَبَّلًا،

(O Allah, I ask You for beneficial knowledge,  
goodly provision and acceptable deeds)

(Sunan Ibn Majah: 925)

اللَّهُمَّ إِنِّي أَعُوذُ بِكَ مِنْ عِلْمٍ لَا يَنْفَعُ وَمِنْ قَلْبٍ لَا يَخْشَعُ وَمِنْ نَفْسٍ لَا تَشْبَعُ وَمِنْ دَعْوَةٍ لَا  
يَسْتَجَابُ لَهَا

Thanks &  
Allah Hafiz