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ESSAYS ON THE ECONOMY OF PAKISTAN

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PRELUDE

There has been quite a vacuum in the availability of compact economic literature on New Pakistan. The official documents are informative, but somewhat stereotyped. A number of economists have written on the performance profile of the economy for the press, but a concerted effort to put the literature together has been missing.

This compilation of economic essays is, therefore, an attempt, and I believe the first one, to present an organized reading to the students of Pakistan Economics on the development activity since 1971. These are only five essays, though there should have been many more. But these are few of the most important themes which I thought should be handled first. However, I do hope that I can prepare another anthology which would cover the remaining aspects of the economy—agriculture, manufacturing, resource generation, BIM group of industries and social development programmes, etc.

A set of statistical tables has been added so as to quantify the economic activity and appreciate the course of development being persued by the PPP Government during these few years.

B. H.

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I
NEW DIMENSIONS OF ECONOMIC POLICY

Pakistan spreads over 0.8 million square km of South Asia, containing some 73 million people growing by 3 percent every year. A little over one quarter of the total population is urban. Agriculture is the main economic activity which accounts for 36 percent of the national output, and absorbs 56 percent of the entire labour force. It also constitutes about 60 percent of the merchandise exports. Manufacturing sector has, however, grown rapidly. It accounts for over 20 percent of the national output, and employs 18 percent of the labour force.

Development of the economy has been channelled through various five-year plans beginning from FY 1955. Over this period the country's GNP increased by 125 percent in real terms. In relation to the 4.1 percent average growth rate in GNP, value added in agriculture grew at 2.6 percent, in manufacturing at 7.9 percent, in construction at 13 percent and in 'other' sectors at 4.7 percent. The per capital income (at current factor cost) grew from Rs. 355 in FY 1960 to Rs. 774 in FY 1972.

However, 'growth' meant very little 'social justice'. A 125 percent growth in the national output had been accompanied by rising unemployment, worsening social services, and increasing poverty-in the craving for more growth, social parameters became mere residuals. In fact, almost two decades of planning in Pakistan has left behind a whole trail of undone goals, objectives and targets :

(1) Real wages declined by about one-third during FY 1960-1970.

(2) Rate of population growth stepped up far above historical rates and much of the gain in output did not lead to improvement in the standards of living.

(3) Concentration of wealth and income increased-45 percent of the national income was owned by the 'highest quintile', against 8 percent by the 'lowest quintile'.

(4) The large expansion in the provision of social services proved insufficient to satisfy the needs and aspirations of the people.

(5) There was a growing disenchantment with the inequitable nature of growth pattern—the symbole of luxury consumption highlighted the gulf between the object poverty of the 'lower quintile', and the ostantatious living of the 'upper quintile'.

The socio-economic system, which had been in vogue for almost quarter of a century, therefore, started becoming irrelevant to the people's felt needs and aspirations. And by 1970, the entire structure was in shambles. There was social discontentment, political unrest, and psychological restlessness throughout the country. The nation was confronted with an economic crisis of massive proportions which was reflected in the sluggish growth of national product, stagnation in industrial and agricultural output, low levels of savings and investments, and an acute disequilibrium in the balance of payments.

On this tense and chaotic economic scene were superimposed problems resulting from the de-linking of East Pakistan (now Bangladesh). In economic terms, the break-up of a customs union has highly deleterious effects. In case of Pakistan, this common market had been developed over a quarter century of integration policies. The problem for West Pakistan in December 1971 was therefore more worrying than in the case of an ordinary break-down of common market relationship. The problem of diversion of inter-regional trade to international markets and difficulties in making adjustment to the broken common market were enhanced by the fact that Islamabad had to continue assuming obligations for the entire country while having resources only from West Pakistan. No reduction in defence expenditure was possible, nor could the expenditure on development administration be cut in proportion to the reduced resources.

Faced with this grim economic situation, the Government forthwith devised a strategy designed simultaneously to revive economic activity as well as bring about a wide-ranging reorganization of the socio-economic structure, with a view to making it more equitable and more people-oriented.

It was clear to the PPP Government that revival of the economy and its orderly growth was not possible without creating people's faith in the equity of the socio-economic system. Accordingly, the Government introduced far-reaching social and economic reforms which were aimed at removing mass discontent and providing a just framework for sound welfare-oriented economic growth in the country. It was also intended to give a fair deal to the consumers, workers, and share-holders, maximize production, and manage the industrial enterprises efficiently in the greater national interest.

A beginning was made with the Economic Reforms Order of January 1, 1972, which entitled the Government to take over the management and control of 32 industrial units in 10 categories of basic industries. For a certain period, the Government managed these industries under special powers without acquiring ownership. During 1972 and 1973, the Government organized its administrative set-up for the efficient management of the taken-over industries. A Board of Industrial Management was set up with the association of experienced professional executives. By a subsequent legislation in 1973, the Government has empowered to purchase the proprietory interest in companies whose management was taken over earlier.

For the enterprises which remained in the private sector, the Companies Order, 1972, specified a framework which would avoid domination of units by narrowly-based personal and family-group interests. The antiquated Managing Agency system which had served as a key element in bringing about concentration of ownership in manufacturing industry, was abolished. Under this system, managing agents acquired control over the affairs of several companies at a time without adequate accountability to the shareholders. At the same time, proportional representation on the board of management was introduced to allow minority shareholders a share in the overall management and control of the industrial units.

Next came the labour reforms of February, 1973. These provided for speedy and just settlement of labour disputes, fair share in profits to labour, increased participation in the management of industry, compulsory payment of bonuses, better housing and educational facilities and expanded social security provisions. Increased security and incentives were guaranteed to the working class through these reforms.

The most significant of the new reforms were those relating to land, announced on March 1, 1972 and were aimed at initiating long delayed change in agrarian relationship. The ceiling for industrial land-holdings were set at 150 acres for irrigated and 300 acres for un-irrigated land as against 500 acres and 1,000 acres prescribed under the Land Reforms of 1959. Land above this ceiling was acquired without compensation and was distributed free of charge to peasants and landless labourers. In addition, land previously retained as '*shikargahs*' (hunting grounds) and stud farms was also resumed. Holdings acquired by civil servants in excess of 100 acres or by influential people in Baluchistan or taken in exchange for allotment in the border areas were also resumed by the Peoples' Government and distributed among the peasants. Security of tenure was provided by prohibiting arbitrary ejection of tenants from land. It was further ordered that the burden of land service as well as the cost of seed and irrigation (water) charges would be borne by the landlord. Levy of cess and service without remuneration demanded by landlords from the tenants was declared unlawful throughout the Country.

The industrial and land reforms were of fundamental significance as they changed the parameters of the economy regarding the ownership of the means of production. Public sector acquired a permanent stake in the manufacturing sector and the principle of public management and ownership of industries was accepted.

In the financial field also a series of reforms were introduced. To correct the unrealistic external value of the Pakistani currency, Rupees was devalued in May, 1972. This devaluation was aimed at the abolition of the multiple-exchange system which came into existence in 1959 with the introduction of the Export Bonus Scheme and at relieving the pressure on balance of payments by stimulating exports. Insurance Companies were nationalised on March 19, 1972. In May, 1972, banking reforms were introduced which resulted in greater government control of commercial banks and other financial institutions. Later in January, 1974, commercial banks were fully nationalised, which ensured that the available savings in the economy would not be misdirected towards strengthening the hands of a few in the economy. These would be used for augmenting the resources of small entrepreneurs, petty businessmen, and poor farmers so that a much wider class of progressive participants in the economic activity could emerge.

Regional planning has emerged as one of the major concerns of the overall development strategy. The four provinces of the Panjab, Sind, N.W.F.P. and Baluchistan have been given complete autonomy with regard to the management of their economic affairs. Formulation of development programmes and decisions on locational aspects of manufacturing schemes are entirely their responsibility. They have also been given the authority to levy and collect taxes as well as subsidize the mass production of essential items of consumption with a view to protect the cost of living of the people.

In pursuance of the constitutional basis of the allocation of resources, the present administration has distributed federal resources amongst the provinces in such a manner so as to ensure a regionally balanced development in the Country. The allocations under the federal and the provincial annual development programmes bear ample testimony to this fact. Size of the Annual Development Programmes of N.W.F.P. and Baluchistan has trippled, while that of Sind and the Panjab has increased by 130 percent since 1972. In addition, the Federal Government has also been financing to balance the deficits on the non-development budgets of the Provinces.

All these reforms, together with those in administration, education and health, have created a more congenial milieu for welfare-oriented economic development. In addition, a number of ancillary steps have been taken as part of the social programme. These include : Consumption Plan, Nutrition Plan, and three internally consistent action programmes for the rural uplift, *viz.*, Peoples' Works Programme, Integrated Rural Development Programme, and Agrovills. The Consumption Plan manifests the desire to maintain a reasonable standard of living for the common-men by endeavouring to ensure the availability of essential items of mass consumption at reasonable prices. To achieve this end the Government has constituted separate boards for better performance of their key consumer industries—cotton textiles, sugar, and vegetable ghee. The Nutrition Plan, initiated in FY 1974, supplements the

Consumption Plan for estimating and providing a minimum standard ofnutrition and check mal-nutrition. The programme in operation envisages augmenting vitamins deficiencies and of iodine properties—but it is still a modest beginning to a most challenging and nerve breaking job. These programmes are expected to change the fact of poverty, backwardness and under nutritionof the teeming millions.

The economy of Pakistan has made rapid recovery since 1972. Substantial progress has been made in both increasing production and improving distribution. Agricultural progress has been of crucial significant. The basic improvement in this sector, however, is not fully visible, because of the severe impact of drought conditions in FY 1974-75 figures of performance. Industrial output has also registered a growth of around 20 percent, mainly on account of better utilization of the installed capacity. There is substantial improvement in employment situation since the chaotic days of 1971.

Unfortunately. the developments on the international economic scene in the recent past have subjected the economy to severe stresses and strains. The energy crisis, food scarcity, and "stagflation', have posed serious problems for the Government. Since 1971, the country's terms of trade have worsened to the tune of 25 percent which has meant an annual loss of $ 900 million to the economy. This sharp deterioration in the terms of trade has also adversely affected the budgetary and resource position as well as the price situation in the Country. Almost 75 percent of the commodity foreign exchange earnings are spent on financing the essential imports of wheat, fertilizers, edible oil and petroleum.

Notwithstanding these difficulties, primarily stemming from events beyond control, the Government is determined to quicken the momentum of socio-economic development. It is equally keen to ensure that the pattern of investment results in equitable high growth and visible improvements in living standards of the population in all regions of the Country.

II

FOREIGN ECONOMIC RELATIONS

Economic cooperation is a two-way phenomenon. While sharing our experience with a large number of countries, we have also shared the gains of industrial development and technological advancement of the countries of Western Europe and North America. As such, Pakistan's economic cooperation with all regions of the World has improved significantly through expanded commercial relations, progressive mutual inter-dependence, and increased exchange of expertise and skills. But the brightest spot in the whole picture has been the opening of a new chapter of economic alliance with the Muslim countries—containing 15 percent of the World population, and occupying a quarter of the entire Globe. Pakistan's commercial relations with the Middle East have increased substantially over the past few years. Between 1972 and 1975 the quantum of trade increased, in must instances, by over one hundred per cent.

One of the most effective instruments of increasing cooperation amongst various countries is the commercial exchange of commodities and interchange of expertise. Pakistan's trade with its partners has substantially increased-imports have gone up three-fold, while exports by two-and-a-half times between 1972 and 1975. An increased number of trade delegations has further expanded the scope of trade and cooperation in fields of economic activity with various countries. As a result of Pakistan's sending some two dozens of trade delegations, and receiving another three dozens of them, the Government has signed about thirty trade agreements over the past three years. Not only that, but Pakistan has also participated in sixty five international trade fairs and exhibitions in Western and Eastern Europe, Middle East, and various parts of Asia. The PIA also played its role by increasing the passenger kilometers and the cargo ton-kilomiters on its international routes by 100 per cent; *i.e.*, from 528 MPK to 1091 MPK, and from 32 MTK to 68 MTK.

Direction of Trade
(Percent of total)

	Imports				Exports			
	1972	1973	1974	1975	1972	1973	1974	1975
North America	22.1	26.0	29.2	18.5	6.2	5.0	6.7	6.5
South America	—	0.4	0.6	0.4	0.1	0.1	0.3	0.09
Western Europe	34.1	28.2	28.8	25.5	21.9	24.9	27.5	25.9
Eastern Europe	10.3	7.1	5.8	6.11	11.7	7.5	6.2	5.5
Middle East	8.1	10.7	12.7	17.6	13.4	9.2	18.7	24.9
Africa	1.2	2.0	0.8	0.94	1.4	4.7	5.2	3.8
Asia	24.1	23.5	21.4	29.4	44.1	47.6	34.3	31.9
Others	0.1	2.1	0.7	1.54	1.2	1.0	1.1	1.05

Our trade relations with the Muslim countries in the Middle East have increased at a rate between 30 percent to 100 percent; though our major trading partners have remained in Asia, particularly Japan and Hong Kong. The Joint Economic Commissions, which have been set up with various Muslim Countries would facilitate, among other things, an increase in the quantum of trade and mutual inter-dependence.

Under the ciborium of international cooperation, Aid-to-Pakistan Consortium and the World Bank Group helped the Country in overcoming its short-term capital requirements, adding to capital formation, and increasing investment levels. Between FY 1971/72 and FY 1975/76, the size of fresh commitments of loans and credits increased by over 14 times—from $ 66 million to $ 950 million. The bulk of loans carry favourable terms by way of convenient amortization periods and moderate interest rates. Over 85 per cent of the country's loans from foreign governments and the International Agencies carry an average interest rate of 3.55 per cent, with an average amortization period of 32 years. Comparing it with the countries which have been the recipients of foreign loans during the first half of this decade, it appears that the terms negotiated by Pakistan are the result of a successful diplomacy and prosperous economic outlook.

But the loans that were contracted before December, 1971, assumed such a magnitude that it became difficult for the country to foot the service payments without seriously jeopardizing the basic fabric of the economy. With the understanding of the international agencies and the cooperation of the friendly countries, it became possible to reschedule debt service payments in such a manner that in in FYs 1973/76, the country paid $ 500 million less than she would have paid otherwise. Not only that, but the friendly countries also cleared off the debts that were incurred for the direct benefit of the former East Pakistan. This gain in the area of international economic relations is an impressive one.

Pakistan's relations with various World forums, like Economic and Social Council of the United Nations ; Economic and Social Commission for Asia and the Pacific ; United Nations Conference on Trade and Development : United Nations Industrial Development Organization ; United Nations Development Programme ; and, various multilateral treaties, *viz.*, CENTO, RCD, IPECC and Colombo Plan, have offered us better opportunities to play our part in increasing cooperation among the members of the World community, especially among the Third World countries. Pakistan's deep involvement in the policy affairs of these World forums, and its explicit solidarity with the interests of the Third World, has brought the country appreciation from all over.

Pakistan has consistently supported a cooperative approach to the issues related to the reordering of international economic relations. Witnin the framework of such an approach, Pakistan advanced schemes and proposals aimed not only at protecting our own interests but also at strengthening the position of the developing countries as a whole in the world economic system. To this end, we have actively promoted the idea of a unified strategy within the developing countries and progress through dialogue with the developed nations. And it is on account of this untiring work for the betterment of less-fortunate countries, that Pakistan was elected Vice President of the Economic and Social Council of the United Nations in 1972 and has been elected to its Presidentship in 1975. Similarly, by having been selected as the spokesman of the "Group of 77" for all the formal meetings and the informal contact groups of the UN, the country has won laurels in the field of economic diplomacy. It is in view of this image of championship of the underdogs, that we were for the first time, invited to the Conference of the Non-aligned Countries of Raw Materials.

Our first and foremost objective, however, has been to promote international action in favour of the countries most severely affected by the energy inspired economic and financial crises. With this end in view, we have in all the World forums emphasized the need to recognize the principle of 'interdependence'—which implies mutuality of interests. And therefore, any international action to alleviate the present pathetic state of affairs in the countries of the Third World should be backed by a consistent and integrated set of measures which are demonstrably commensurate with the magnitude of the needs and problems besetting these countries.

The international constraints on the development of such countries are mainly financial, commercial and technological. The financial constraint results in lack of capital for investment; technological limitations hamper increases in production and improvements in productivity; and, the commercial constraint does not allow adequate outlets for export products of the developing countries in the markets of developed countries. It is also evident that chronic deficits in the balance of payments of the developing countries caused by structural imbalances reflect a secular trend as distinct from short-term fluctuations in export earnings. Stabilization of export earnings may remove some uncertainties but it cannot hope to eliminate the fundamental deficits in the balance of payments of the developing countries. It is, therefore, important to determine the extent of fundamental disequilibrium in the balance of payments of the developing countries and then devise ways and means of correcting this critical situation. While short term stabilization of export earnings through such measures as the Development Security Facility (proposed by the U.S.) can take care of a part of this deficit, the fundamental secular trend can only be corrected through interrelated long-term measures in the fields of trade, finance and technology.

At the regional level, Pakistan has been playing an active role for bringing closer the countries of Asia and the Pacific. Establishment of the Asian Clearing Union and setting up of the Asian Centre for Development Administration are the two examples where Pakistan did strong and effective lobbying to help organize the commercial relations of the Continent and develop institutions to groom development administrators.

Pakistan has worked for greater unity and economic alliance amongst the Muslims by playing dynamic role for establishment of the Islamic Development Bank and bringing together the heads of 39 countries by hosting the Islamic Summit in 1974. The ties of brotherhood existing between the people of Iran, Turkey and Pakistan which were formalized in 1964 under the treaty of RCD, promised a further increasing of cooperation and inter-dependence in areas of inter-regional trade, industrial joint ventures, communication links and technical skills and expertise available in one country by the other. Within the broad framework of complementarities, the following projects have been completed which **reflect** a landmark of regional alliance and cooperation :—

Projects located in Pakistan	**Projects located in Iran**	**Projects located in Turkey**
1. Bank Note paper	1. Aluminium	1. Tungsten Carbide Borax & Boric Acid.
2. Ball Bearings		2. H. T. Insulators.
3. Ultramarine Blue		3. Tetracycline
4. Shock Absorbers		4. Centrifugal and Special Filters for Chemical Industry.

In addition, some three dozens projects are at a feasibility stage to be taken at a joint-level.

The total turnover of Pakistan's trade with the RCD partners during past ten years stands at $ 360 million. Various steps taken to improve the relations within the three partners include opening of trade offices and regular holding of trade fairs, transit trade agreements, exchange of trade delegations, development of road and railway communications and establishment of RCD Chambers of Commerce and Industry. In fact, construction and improvement of over three thousand miles of the RCD Highway, between Karachi, Tehran and Ankara, is in progress which would be completed by the next year. Similarly, Pakistan and Iran are being linked by rail in a few years' time.

Nonetheless, it has been felt that the RCD has not turned out to be the success that had been anticipated at the time of its establishment. Trade (both in term of value and volume), cooperation in fields of industry, communications and services, have made no substantial headway.

However there are signs of change. There has been awareness of the deficiencies in the working of the organization and to realize its full potential. This is because of the consciousness of new opportunities and resources that are now available to them.

Early in December last year the RCD Chamber of Commerce, at a two day meeting in Teheran, firmed up proposals for a joint bank, a trading company and a transport corporation. In the last week of December the Commerce Secretaries of the three countries met and gave final shape to the scheme for preferential trade arrangements in the RCD area. The RCD Ministerial Council which met in Lahore in January formulated concrete proposals including measures for trade liberalisation, greater utilization of RCD Maritime services as a step towards a joint shipping company and formation of an RCD Reinsurance Company.

Under the programmes of technical assistance and sharing experience in advance and vocational education, Pakistan has provided one hundred and sixty training placements, about a dozen of experts, and some one hundred and twenty six scholarships to Iran and Turkey between 1972 and 1975.

Triangular Technical Assistance under RCD

	1972	1973	1974	1975
For Pakistan in Turkey				
Training facilities	2	1	13	15
University scholarships	12	12	12	12
Experts	1	2	5	4
For Pakistan in Iran				
Training facilities	5	10	15	15
University scholarships	6	10	11	18
Experts	3	—	3	4

For Turkey in Pakistan				
Training facilities	8	2	19	15
University scholarships	8	12	30	12
Experts	—	3	4	4
For Iran in Pakistan				
Training facilities	20	19	57	15
University scholarships	10	12	37	15
Experts	—	1	4	4

Cooperation among Pakistan, Iran and Turkey has also been initiated in the fields of public administration, health, family planning, agriculture, water resources, scientific research, labour education and rural development.

The new forces that were generated by the People's Government for amplifying our economic solidarity with the Muslim countries have progressed at a rapid pace. In 1973 alone, Pakistan's financing for the education expenditure of students in Pakistan, training facilities and supply of experts to various countries in the Middle East, amounted to over one million rupees; which reflected about a 30 per cent increase of expenditure over 1972, and almost 100 percent over 1971. With a view to articulate expansion of our relations with these countries, the Joint Ministerial Commissions have been set up with Iran, Libya, Saudia, and the United Arab Emirates. The protocols signed for establishment of these Commissions envisage promotion of economic cooperation with these countries in areas of industrial investment, communications scientific research and technical skills, etc.

Since early 1974, faced by the impact of worldwide inflation, steep rise in oil prices, and the consequent sharp adverse movement in our terms of trade, Pakistan has been seeking quick disbursing balance of payments support for its hard-pressed economy. Some of the Middle Eastern countries responded favourably and we have been able to get $ 770 million from Iran, Libya, Abu Dhabi and Qatar for easing the severe strains. In addition about $ 44 million of grants were received for relief work in the earthquake affected areas from Saudia, Turkey, UAE, Iran, Indonesia, Kuwait, Lebanon, Malayasia, Mauritius, Nigeria, Qatar, Syria and Libya.

Simultaneously, efforts were initiated to secure equity participation and loans for financing important high priority projects. So far, over $ 390 million have been pledged for projects by Abu Dhabi, Iran, Libya and Saudia. A number of additional projects are being considered under similar arrangements by UAE, Libya, Iran, Kuwait, Qatar and Saudia.

Portfolio of Projects financed by the Muslim Countries

1.	**Saudia :**	(*i*)	Fertilizer Plant for $ 50 million.
		(*ii*)	Extension of Cement Plant at Hazara and Karachi costing $ 33 million.
		(*iii*)	Polyester Plant with a total cost of $ 17 million.
2	**Abu Dhabi :**	(*i*)	Pak-Arab Refinery on equity basis.
		(*ii*)	Financing Fertilizer Project at Multan to the extent of $ 11·20 million.
		(*iii*)	Women's Hospital at Larkana.
3.	**Kuwait :**	(*i*)	500 KV Transmission line from Tarbela to Karachi.
4.	**Iran :**	(*i*)	Engineering and Medical Colleges in Baluchistan.
		(*ii*)	Cement Factory at Spintangi with 3 lac tons capacity.
		(*iii*)	Synthetic Fibre and Cotton Textile Plants with 100,000 spindles.
		(*iv*)	Fertilizer Plant with annual capacity of 516,000 tons.

5. **Libya :**

(i) Islamic Centre.
(ii) Joint Holding Company.
(iii) Joint Publishing House.
(iv) Joint Shipping Company with share capital of $ 20 million.
(v) Fertilizer Factory on equity basis
(vi) Sugar Factory with equity

The economies of the OPEC Muslim countries are based primarily on oil. With the five-fold increase in the price of oil and rising incomes, the economies of these countries are booming. Their markets are likely to continue expanding, and Pakistan by virtue of its location has great opportunities to expand its exports in the Region. Pakistan's share in the total imports of these countries in 1973-74 was less than 1 percent (inclusive of Iran). Although we have an insignificant share in their imports, yet our exports to these countries have increased sharply during the last couple of years. Export earnings which amounted to $ 191 million in 1973-74 rose to $ 303 million in 1974/75—the percentage share of total exports increasing from 18·7 per cent to over 29 per cent.

Our exports to the Middle Eastern Countries consists mainly of rice and cement. In most of these countries, these two items alone account for about two thirds of our exports. However, textiles, hosiery goods, and other consumer items are also likely to become important items of trade, and we can expect rising export receipts from these countries during the next few years. But probably we would have to concentrate more on these markets, particularly Iran. We have not been able to sell rice to Iran for the last couple of years, although Iran is a very large buyer of rice and could easily take one hundred thousand tons of our Basmati.

In the long run, I strongly feel that we should have a strategy for consistantly increasing trade to this region. It would be a necessary prerequisite for success of such a policy that the quality of our export goods is regulated and that strict observance of export contracts with these countries is ensured. At the same time, market surveys need to be conducted by marketing experts and Export Centres be developed within the Country so as to specialise in the bulk production of specific export commdities-say, Sialkot could be developed into such a zone for sports goods, surgical instruments, and cutlery.

Geographical proximity and hence the shorter delivery time places Pakistan in an advantageous position as compared to other competeting countries, particularly India. It is therefore necessary that we benefit from the economies of freight and develop over-land trade routes right upto Saudia. This would be the quickest way to cater to these newly emerging markets with minimum costs. It would also facilitate opening up of warehouses in the centres of business wherefrom regular lines of supply could be developed to the consuming areas.

III

BORROWINGS FROM ABROAD

Historically, Pakistan has been fortunate in its ability to secure foreign assistance to finance its development needs and economic growth. Since the inception of our aid relationship with the donors in the early fifties to the emergence of New Pakistan in December 1971, the country had contracted $ 7760 million of external economic assistance. Of this, loans repayable in foreign exchange constituted 67 percent; while, the loans repayable in non-convertible rupees were a little over 9 percent. The rest of 24 percent were grants. But the net availability of foreign resources to the economy has been less than indicated by the 10—figure amount of external borrowings.

The average annual level of commitments of external assistance nearly quadrupled between the fifties and the sixties, from about $ 150 million to almost $ 600 million. At the same time as this massive increase took place, the share of grant assistance in total commitments dropped sharply from 64 percent in the fifties to 26 percent in the sixties, and to only 5 percent by 1975.

The effect of the declining share of 'grant' assistance on the country's external debt position was aggravated considerably by the concurrent hardening of terms. As a consequence, the growth of net transfers failed to keep pace with the expansion of either national income or fixed investment. In relation to GNP it declined from 5 percent in the Second Plan period to 3·6 percent in the Third; and, in relation to fixed investment from 33·5 percent to 27·4 percent. Moreover, this basic tendency, inherent in the changing pattern of external assistance to Pakistan, was strongly reinforced by the effect of expiring grace-periods on debts contracted around the turn of the decade which in itself led to a steep rise in debt service payments from the early sixties onward. Thus, on the whole, a steep decline occurred in the effective contribution of external borrowings to the country's pool of financial resources.

The total outstanding debt at the time when the P P P Government assumed office amounted to $ 3·6 billion, of which West Pakistan's share was $ 2·3 billion, while $ 1·3 billion were owed by East Pakistan. But the problem had acquired a new character in 1971. The important donors had stopped giving us assistance in view of the country's steeply declining economic and financial reputation. In 1971, commitments of fresh aid were negligible. To this weak situation was added the tragedy of the loss of East Pakistan. With no earnings and revenues from that part of the country, it became practically impossible from the revenues collected in West Pakistan to service the total debt, a part of which was utilized for the benefit of the people of East Pakistan. Further, it also seemed impossible to justify any expenditure from the taxes collected in West Pakistan on servicing the debt of an area which had been recognized by the creditors as a separate political entity, had been accepted as a member of the international financial institutions and subsequently had started receiving 'independently' fresh loans and grants from the same creditors.

In the area of aid-relationship, therefore, the Government had two difficult but fundamental issues to handle. One pertained to the liability in respect of East Pakistan debt; while, the other related to heavy burden of the remaining debt, which was beyond the servicing capacity of New Pakistan, particularly in view of its severe balance-of-payments problems.

Payment of the Bengladesh debt could not be our legal or moral liability. The creditors differed on the legal aspects of the cases, but there was no doubt that, in equity and fairness, Pakistan should not be burdened with liabilities that were incurred for the benefit of the territory which did not remain a part of the country. Persistent efforts were made on a bilateral basis and in the multilateral forums to absolve Pakistan of the Bangla Desh debt liability. As a result of the Government's successful lobbying for a just cause, the Consortium members have agreed to acquit us of the outstanding debts incurred for the projects visibly located in Bengladesh.

At the time of the PPP Government's taking over the administration, the value of the outstanding debt incurred for projects visibly located in Bengladesh amounted to $ 660 million. Of this almost 90 per cent of the liability has been cleared off in principle.

The liability of non-project debt amounting to about $ 660 million utilized in Bangladesh would continue to be serviced by Pakistan against which compensatory debt relief has been provided by the Consortium club. Nevertheless, an 'understanding' has been reached with the Consortium that such an arrangement will not limit Pakistan in entering into discussions with Bengladesh concerning transfer to Bengladesh of any debt liability which the Government of Pakistan considers was incurred for the benefit of that area, and from claiming compensation from them for payments already made or to be made in servicing such debts.

The other major problem which the Government faced in the management of external borrowings/financing was two-fold. One was to arrange some sort of 'relief' on the oustanding debt of West Pakistan ; and, the other being to create necessary 'climate of confidence' in the political and economic situation of the country that gave faith to the creditors in the economic potentials of New Pakistan, so that a new development partnership could be evolved with them.

With intensive efforts of almost two complete years, debt relief agreements for the outstanding debt which the Government had inherited in December, 1971, have been signed with Belgium, Canada, Germany, Japan, Sweden and Italy. Negotiations with the Netherlands, the United States, Britain and France have also been finalized. As a result, the net availability of monetary resources from abroad has increased by almost 150 percent.

Trend in Debt Relief and Net Inflow of External Capital

($ Million)

	1972-73	1973-74	1974-75	1975-76
Fresh Commitments.	429	1170	1056	950
Gross disbursements.	355	498	980	1100
Debt Relief.	72	107	160	182
Debt Services.	193	197	264	435
Net Inflow.	162	301	716	665
Closing Pipelines.	1000	1752	1969	1741

Estimates

The overall performance profile of the economy; a good discipline in the management of fiscal and monetary affairs; and, the resilience of the economy to have withstood the shocks of all sorts of odd developments throughout the World, have helped to correct the psychological inhibitions of the creditors about the economic viability of New Pakistan. It is essentially due to this exposition of the country's inherent strength (and the absorptive capacity) that the aid climate has improved in our favour. The restrictions which were imposed by the creditors after the unilateral application of Moratorium in May 1971 have been relaxed. Aid in the pipeline, which had been partially frozen before the Peoples' Government took over the administration, became fully operative. The credit worthiness of the Country has thus been re-established. As a result, annual aid commitments which averaged around $ 400 million between

1950 and 1970, increased to an annual average of $ 1,000 million during 1973 and 1975.

During 1975-76 fresh commitments by our important creditors, are expected to be around $ 950 million. Out of this, 11 Consortium members have committed $ 480 million, the International financial institutions account for $ 326 million, share of the non-Consortium countries amounts to a little over $ 30 million and the Muslim countries' contribution is $ 114 million. About 70 percent of the fresh commitments are in the form of commitments for projects which will be disbursed slowly over future years. In addition, some half a dozen of grant assistance agreements have been signed (upto March 1976) with Canada, Germany, Netherlands, Norway, Sweden, and FAC for a total amount of $ 42·5 million. The proportion of total commitments represented by project aid this year is higher than that of the last year's, when the oil-producing Muslim countries committed large amounts of non-project aid. The ratio of project to non-project commitment has thus risen from 63·5 : 36·5 in 1974-75 to 76·5 23·5 by end of June this year.

The opening pipeline on 1st July 1975 was $ 2034 million, against $ 1866 million on July 1, 1974. This included $ 1526 million of project loans and $ 508 million of non-project credits. In fact, it is mainly from the pool of the 'pipeline' that the disbursements are made during a year and the fresh commitments only add to the level/size of the pipeline.

The present indications show that $ 1·1 billion had been disbursed during 1975-76, which include $ 0·13 million of grants from Canada, Germany, Netherlands, Norway, Sweden, Australia, Peoples' Republic of China, New Zealand, Iran, UK, USA, Food Aid Convention and the United Nations. The project to non-project ratio of disbursements was more favourable than the fresh commitments. The project disbursements amounted to $ 400 million; while the non-project disbursements are likely to be $ 700 million. It includes more than $ 350 million as the balance of payments support, about $ 200 million for food imports and $ 150 million for non-food imports.

One of the positive achievements during FY 1975-76 is the successfully continuing dialogue with the creditors on the settlement of the portions of debt that were utilized for the benefit of former East Pakistan. In 1975-76, agreements with USA and France have been signed, while negotiations with Italy, Netherlands, and UK are at the concluding stage. At the same time, Asian Development Bank and International Devolopment Association have absolved Pakistan of a debt liability of $ 50 million. Also, as a result of direct negotiations between World Bank and Dacca, Pakistan has been further relieved from the liability of outstanding IDA credites of $ 37·5 million and IBRD loans of some $ 55 million. A similar favourable attitude has also been taken by the non-Consortium countries.

With a progressing trend of fresh commitments during the recent years, and an accumulated backlog of the late sixties, Pakistan's external debt is assuming a serious magnitude. By end of June, 1976, the foreign outstanding debt is likely to be more than $ 6·0 billion, or some 50 percent of the country's aggregate income. However, the loans which lie behind it have been secured until the recent past on favourable terms so that servicing has been manageable. The average terms of outstanding debt have not changed greatly from June 1972 through June 1974, but the incremental borrowings in the past couple of years has been on rather harder terms. However, the ratio of debt servicing to total foreign exchange earnings (merchandize exports + non-factor services + home remittanes) was a little over 15 percent during FY 1975-76. Without debt relief of some $ 182 million, the ratio would have been more than 26 percent.

During the next year, our dependence on foreign capital is likely to increase further and so would be the vulnerability of the economy to external pressures and strains. Fresh commitments are not likely to be more than what we have been receiving during the last 2 to 3 years. In fact, I expect the commitment—level to be quite lower next year. The disbursements may however increase due to a well-built pipeline. On the whole, our development activity would be increasingly financed from overseas borrowings.

So far we have been getting funds from abroad on somewhat indiscriminatory basis—without a well considered policy approach. I think it is high time that we evolve a national strategy on Foreign Aid.

By June 1976, Pakistan is expected to have had an outstanding external debt of more than $ 6·0 billion. On the assumption that Pakistan would need gross inflow of $ 1·2—1·4 billion per annum during the next five years, and applying the average terms of loans and credits contracted during 1972-75, the debt servicing of such loans would get doubled in five years to $ 900 million in FY 1980/81.

In our aid relationship with the donor countries/agencies, therefore, there are two main issues involved :—

(*i*) Need for evolving a regular dialogue with the OPEC Muslim countries.

(*ii*) Arrangements for a long-term settlement of the outstanding debt with the Consortium countries and important lenders.

In order to ensure flow of concessionary aid of greater magnitude from the non-traditional sources, as well as to diversify our sources of borrowings, it is absolutely necessary that we start a regular dialogue with the oil-rich Muslim countries. There could be three alternate ways of going about it:—

(*i*) Requesting Saudi Arabia, Kuwait, Abu Dhabi, Libya and Iran to form a Consortium for Pakistan. This could be on the pattern of the Aid to Pakistan Consortium under the IBRD.

(*ii*) Persuading these five Muslim countries to join the existing Consortium. This would increase the number of our "friends" on the Group.

(*iii*) To have a bilateral dialogue on annual basis with each one of these countries, and ensure continuing annual commitment of aid outside the formal institutional arrangements.

The acute problem of debt servicing has been solved to some extent for the time being. But is likely to assume a significant magnitude over the next few years. In FY 1980/81 the country would be paying $ 900 million on account of repayment of principal and interest thereon. It is therefore necessary that we make a case of rescheduling of debts with the non-Consortium major donors, and for annual debt relief of $ 150 million from the Consortium countries from 1977-78 onwards so that the debt servicing ratio to export earnings does not exceed 20 percent per annum.

I also feel that we should have a policy decision as to whether the country should seek so many of the Supplier's Credits and rely so much on hard term borrowings. Last year, we borrowed $ 220 million of such credits with maturity of 1-5 years, carrying annual interest rates of 8 to 10 percent. There appear to be several other proposals of similar nature to have the suppliers' credits for certain projects which will add to the debt burden. Such credits add to the debt burden and create problem of debt servicing vis-a-vis debt relief. The tendency of obtaining suppliers' credits on hard terms should be discouraged. In fact, contracting of such loans should be stopped altogether. The availability of untied assistance on concessional terms may be made use of in place of the suppliers' credits for projects of absolute necessity. A country like Turkey completely banned having Suppliers' Credits as far back as 1962. It is the time for Pakistan as well to critically examine the necessity of having fresh Suppliers' Credits with a view to averting avoidable borrowings on hard terms.

We should make renewed efforts to muster greater balance of payments support from various agencies. We shall have to build up a convincing case before the donor countries/agencies and also prepare strong portfolio of aid-worthy projects. There is also a great need to concentrate on completing the on-going projects particularly those in advanced stages of completion instead of committing available resources on new projects.

We should ensure the timely completion of steel mills, fertilizer, cement and power and other production projects which would reduce our dependence on imports as well as build up additional export potential. Needless to emphasise that we should devise and implement an effective strategy for substantially increasing our export earnings, as well as generating non-inflationary domestic rupee resources.

IV

ASPECTS OF ENERGY CRISIS

One of the determining factors of the present energy situation is the changing position of oil which accounts for about 45 percent of Pakistan's requirements. Gas contributes 33 percent, coal 7 percent, hydro-electric power 15 percent, and nuclear power 0·5 percent of the requirements. The annual increase in commercial energy consumption has been 6·6 percent between 1965 and 1970 and 5 percent during 1970-73. Agriculture accounts for 11 percent of the energy consumption; transport for 24 percent; industry for 52 percent; and, domestic and commercial sectors for 13 percent. The transport sector is wholly dependent on oil and products. The dependence of industry on oil is 10 percent; the balance being provided by electricity and gas, and a small amount of coal. Roughly 50 percent of the domestic and commercial requirements are met from kerosene.

Pakistan is so far highly dependent upon imported crude oil. Annual imports amount to over 3 million tons of crude, while domestic production accounts for only half a million ton per annum. However, we are using considerable quantities of natural gas both as source of energy as well as raw material for fertilizer production. Other sources of energy are hydro-electric power and coal. Nuclear energy has made only a modest beginning.

Pattern of Energy Consumption in Pakistan

Source	*1972 Consumption*	*Converted to uniform scale (MM BTU)*	*Percentage share*
(*a*) Coal	1·3 million tons.	24·75	7·0
(*b*) Oil	3·19 ,,	157·1	44·5
(*c*) Natural Gas	120 billion Cft.	117·0	33·2
(*d*) Hydro-electric	4354 million KWTs	52·3	14·8
(*e*) Nuclear		1·87	0·5
		353·02	100·0

Meeting the supply-requirements-gap of oil-component of energy alone would mean an additional foreign exchange expenditure of $ 385 million in 1974-75, against $ 220 million in 1973-74 and $ 60 million in 1972-73. This will severely affect the balance-of-payments position which would mean a net additional cost of some $ 510 million on account of higher oil price. This means that the cost of energy imports as a proportion of export earnings would go up from 7·7 percent, and would account for 17 percent of the total import bill against 7·5 percent. This extra expenditure would mean a considerable strain on the economy, which may jeopardize the short-term as well as the long-term prospects of growth and development.

The consequences the energy crisis will have for our economy can be divided into the short run effects, probably lasting as long as the oil-squeeze, and the long run effects that depend on changes that seem will be somewhat permanent.

I Short run Consequences :

(*a*) Markets in the industrial economies are likely to be affected. If their oil supplies continue to shrink industrial production must fall. The Governments of nearly all these countries had already started trying to restrain their rates of growth of demand before the war started and the oil-squeeze is expected by many to lead to a recession, particularly in the U. S. However, due to the peculiar circumstances, it is likely that demand will not fall off as quickly as production. European countries will go to great lengths to keep workers on the payrolls of firms, even when oil shortages prevent them from working. In the U. S. the Unions will try to do the same. In Japan the firms are also under obligation to keep their workers under such circumstances. Hence demand will continue to be higher than justified by production and rationing will become the only means of escaping severe inflation. In such a state of affairs, it can be expected that the exports of goods from industrial countries will be restricted most and that we must expect late and irregular deliveries and higher prices for them. The extent to which this will happen depends on the length and severity of the oil squeeze.

The exact course which any development will take will depend on the manner in which the authorities of the exporting countries allocate oil. It will vary from country to country. However, it is fairly safe to assume that consumer needs and the desire to avoid unemployment as much as possible will dominate allocation policies. Then, broadly speaking, investment industries will suffer more than consumer industries and exports will be out to provide for domestic demand. This means there is a great danger that Pakistan may soon be unable to import certain products. The most prominent are some synthetic dyes and nitrogenous fertilizers ; so steps should immediately be taken for conserving their supplies and adding to stocks. Deliveries of other industrial inputs and machinery, are also likely to suffer, because, although the demand for intermediate and capital goods will fall in the industrial economies, probably this fall in demand will not be as great as the actual fall caused by oil scarcities. In all this due allowance must be made for lags caused by the time taken to ship goods normally.

(*b*) The rapid rise of commodity prices over the last year or two is likely to be reversed. Of the special circumstances contributing to it, the booming demand simultaneously in all the industrial countries is the one most certain to change immediately. Its effects on our exports may be mitigated by speculations, which would particularly favour raw cotton, but the likelihood is small in the short run for the reason that speculation and stock-piling have already been important causes in raising prices upto now and cannot be expected to do still more.

The resemblance to the Korean Boom is quite close, but unless the conflicts are suddenly resolved, we can expect that stocks of commodities, particularly cotton and cotton goods, will not be unloaded on to the markets as they were in 1951/52 and that prices will not fall so violently.

(*c*) There is a danger of some balance of payments difficulties in Europe and Japan, especially for the UK, if the shortage of oil prevents industries from producing goods for exports. It might in some cases become a pretext for invoking the escape clauses of the GATT that permit restrictions on imports. We will then be among the first to suffer.

II. Long run Consequences :

(*a*) Immediately affecting us is the effect on the demand for cotton textiles all over the World. Even if oil becomes freely available again, its price will be much higher than up to now and the prices of synthetic fibres competing with cotton and wool must also rise. It can, therefore, be expected that demand for cotton fibres will increase; although the question as to how far cotton may actually start displacing synthetic fibres can only be answered by detailed studies by specialists on these markets and even then will depend on the caprices of consumers. But the outlook is moderately promising.

Nevertheless the, possibility of Pakistan's actually receiving any of the benefits is remote. It is a maxim in international trade that the dependence of underdeveloped countries on developed countries makes it possible for the latter to pass their difficulties on to the former. Firstly, there are in existence already a set of agreements restricting exports of cotton textiles by quotas and it is unlikely, though worth trying, that we can persuade the industrial countries to increase them. Secondly, the synthetic fibre industries, which are controlled by some of the most powerful concerns in the World, including oil companies, will demand protection in various ways if their products begin to loose ground to cotton. The most probable ways are listed here.

(*i*) **An import duty on raw cotton by the OECD block.** This could do much to restore the competitiveness of synthetic fibres in their markets because it raises the user's price of the basic raw material in the same way, though it would lower it for us. However, it would reduce the degree of protection enjoyed by the domestic cotton textile producers in competing against our exports and is bound to lead to protests from them. But they have come to be regarded with some resentment by many economists in the West as the spoilt children of industry, always wanting more protection, and it is probable that their pleas will not be heard. They are already well served by the quota system.

(*ii*) **Increased duties on yarn.** This would help the synthetic fibres industry at the expense of the domestic cotton textile industry. That it is a possibility due to the large amounts of yarn that are actually imported by some of the industrial countries. However, it is a most unlikely measure to be taken except in Japan.

(*iii*) **Higher Import duties on cotton cloth imports.** This would protect the domestic cotton and synthetic textile industries. It could happen if the authorities felt that the growth of cotton textiles at the expense of synthetics should not be discouraged provided the benefits accrued to the domestic industries.

The existing cotton textiles arrangements make it possible for the industrial countries to avoid having to take such measures, but if the synthetic fibres industry does run into trouble some steps will be taken, even if against the GATT. However, it should be noted that the arrangments were explicitly designed to protect from market disruption the cotton textile industries of the importing countries and may not be permitted to be used in order to bolster any other, particularly, synthetic fibres. If the market for cotton textiles does improve at the expense of synthetic fibres, the exporting countries should jointly insist on corresponding increases of their basic quotas.

There is a good chance that exports of raw cotton and cotton goods will improve in other countries because they will be competing against synthetics which are mainly made from petrochemicals. This might even start straight away because of the oil-shortage. It may help the price of raw cotton. However, it is very unlikely that cotton, because it is a case of one raw material, ubstituting against another, (oil). The protectionist measures of the industrial countries have always kept the prices of our textiles low relative to the price of cotton and, once the general level of commodity prices reverts to its usual low level, cotton manufacture will again be as unrewarding as it always has been for the economy.

Good technicians, scientists and even skilled workman have always tended to emigrate from Pakistan in pursuit of higher salaries. This threatens now to assume far greater proportions than before, since the Middle East is not only going to continue to offer very high salaries, but will also require many more such people for its own industrial and social development programmes. There are three ways of facing this situation. One is to impose strict control on the movement of skilled and educated people, which is what is done in the Socialist countries and is responsible for the success of the East German economy after the construction of the Berlin Wall, but would complicate our relations with some neighbours. Another is to raise salaries high enough to discourage such migration. This would be possible economically, but would have to be accompanied by greater freedom to import consumer goods for the classes that would benefit and might slow down growth.

The third possibility is to accept the situation and to endeavour to profit from it. So far the only gain that the economy has made has been the remittances from Pakistanis abroad, which is probably a very poor return considering the cost of training borne by Pakistan. It should be possible to devise a programme that allows Pakistani labour to work abroad on contract or for the Pakistani firms to set up contracting services. Firms could, for a fee, include training progrommes along with normal production to produce the manpower for such a service exporting skills. This is a booming market that will not last many years, for the Arabs will naturally attempt to improve their educational and training facilities and replace Pakistanis. At some date in the future there will also be a problem of repatriating Pakistanis displaced from the Middle East like this and such a service would help greatly in alleviating it by finding new opportunities in the same area and planning for their security.

Although it is now urgent, Pakistan has been needing to develop an integrated Fuel Policy for some time. The known natural gas reserves cannot last much beyond the year 2 000 with present policies, but the effects of impending shortages may be felt in the next fifteen years. Coal reserves contain altogether 10 percent more energy than known gas reserves, but offer many problems including being highly combustible and an excessive sulphur content. Power could probably be generated economically near mines. Moreover, schemes for coal gas, coking, desulphurisation etc. are necessary if coal is to be properly used and must be developed in a comprehensive programme. Sooner or later much of the industry may have to obtain its power directly or indirectly from coal.

Hydro electricity offers great scope for expansion. With the Tarbela Dam only a third of the country's potential hydroelectric power will be exploited. However, hydroelectricity, being seasonal, must be supplemented by thermal or nuclear power. Moreover, the capital costs of hydroelectric generators will rise along with other machinary costs in the near future. Nuclear power will almost certainly become the main source of energy in the long run, but the problem is how much it should be developed in the next ten years. Stations of less than 500 MW can be rejected ; probably 750 MW would be a better minimum size. The capital costs are high but the running costs very low.

Pakistan's fuel deposits are not well enough known ; even the coal reserves are inadequately surveyed. There is a reasonable chance that substantial oil and gas deposits may yet be found and exploration should be conducted with much greater intensity than hitherto and not only in Baluchistan.

Equally we may be endowed with Uranium and Therium. A problem that will beset us over the next few years is that exploration equipment will be in great demand the world over and we will be hard pressed to induce companies to use it here. In fact, the problem has already started to manifest itself.

An integrated Fuel Policy must take two big unknowns into account. One is the possible deposits of gas and oil already mentioned, and the other is the possibility of a safe and economic fast breader reactor, which would eliminate the world's power problems for centuries. One can either gamble on an optimistic view and use the known gas deposits freely at low prices. or one can be cautious and conserve them and attempt to develop nuclear and hydroelectric power immediately.

One fundamental question which Pakistan has to face relates to the pricing of domestic sources of energy versus the imported materials for generation of power and energy. According to the present administrative tariff structure of various fuels natural gas is the cheapest fuel available with average selling price of Rs. 2.58 per million B.T.U. as against Rs. 11.65 per million B.T.U. for furance oil. For coal, although the average ex-mine price is between Rs. 7-8 per million B.T.U., it is sold in the open market at Rs. 15-16 per million B.T.U. on account of transportation costs.

In the long run, therefore, the pricing policy for fuels would have to be rationalized. Gas prices would have to be raised. Price of crude oil, derived from domestic sources which is at present lower than the international prices would also have to be raised. This would be necessary to encourage both a more intensive search for domestic sources of energy and to make it possible for proven reserves to be considered economically feasible. Similarly, certain gas deposits have so far been considered uneconomical. It may be worth examining at what price such reserves could be economically utilized. Such examination could be made at the price of marginal oil imports.

Nonetheless, a sharp increase in gas prices (which is the major issue) would have far-reaching consequences and would in all probability require a sizeable upward revision in the entire price structure. The country has been burdened with a large bill on account of higher prices of P.O.L. imports. This could not possibly be absorbed by the Government alone, and its impact would thus have to be passed on to the consumers. The consumers in certain cases are intermediaries such as the transport system and producers of electric power. The system has not so far adjusted all the way to the new structure of oil prices. Further addition to these prices by a corresponding increase in gas prices would add to these pressures. There may, therefore, be merit in smoothing out the adjustment in gas prices. The case for gas price increase does not arise from same immediate compulsions which have dictated the rise in oil prices. The oil price is being paid to the foreigners and has to be paid immediately by the economy. The gas price is an internal question. By keeping it low, we are in fact borrowing from the future. We are consuming today at a low cost what would have to be substituted at a high price tomorrow. This can help in postponing decisions for some time. However, it would be wrong to assume away the problem, because the pressures are not urgent. This only provides us scope to make orderly and gradual adjustment.

V

IMPORTED INFLATION AND A PRICE POLICY

Pakistan is one of the many countries of the Third World which have been directly hit by the international economic events. The polarization effect was largely flashed through international trade and was entrenched into the national production and cost structure. Fiscal Year 1972/73 was the lucky period when the country benefitted from the international commodity scarcity and high demand aspects of world inflation. At that time Pakistan was searching for outlets for cotton products and rice previously exported to East Pakistan. Fortunately, not only were some new markets presented to us, but the prices were also exceedingly favourable.

The export boom continued into 1973/74 but only on account of better prices for rice and, for a part of the year, for cotton textiles. Towards the end of 1973, the recession in the developed market economies resulted in a sudden and strong reduction in demand for cotton textiles but the contracts already made were at fairly high prices and enabled continued increase in Pakistan's export earnings. The crash of the commodity boom had its adverse impact in 1974/75, which continued into the early part of 1975/76. There was a sharp decline both in the volume and prices of the major export items which accounted for 70 percent of the country's foreign exchange earnings.

International prices of cotton, after having increased by 100 percent in 1973/74, declined by 26 percent in 1974/75. Similarly, prices of yarn and cloth after having been doubled, fell by 50 percent and 20 percent respectively. Later, during the first half of 1975/76, price of basmati rice also crashed to $ 500 per ton from its peak of $ 772 per ton in 1974/75. Other export varieties of rice also declined from a peak of $ 322 per ton to $ 150 per ton during the same period.

Unit Prices of Major Exports

(in U.S. dollors)

	1972/73	1973/74	1974/75	1975/76
1. **Cotton**				
(*i*) Raw (lbs)	.23	.46	.36	.42
(*ii*) Yarn (lbs)	.46	.86	.46	.55
(*iii*) Cloth (yds)	.19	.34	.28	.24
2. **Rice** (tons)				
(*i*) Basmati	238	475	722	500
(*ii*) Coarse	130	286	322	150

These wild international price fluctuations have adversely affected the domestic production of cotton, and cotton-based products, as well as rice. The efforts of becoming an exporter of manufactures—notably textiles, sports good, carpets and minor but rapidly growing items like surgical instruments, have been frustrated by the recessionary trends in the developed market economies. The recession has also affected exports of wool, leather, fish and some other items of export.

The impact of world recession on Pakistan's major exports is compounded by the effect of international inflation on import costs. During 1972-75, international prices of wheat, fertilizers, edible oils, and POL appreciated considerably. In some cases while the volume of imports declined, the value increased due to a proportionately larger increase in prices. This is particularly true in case of petroleum during 1973-74—the cost of petroleum imports rose by some 250 percent, while there was an actual decline in the volume by 7 percent. Wheat represents a similar case ; although the volume has been declining consistently since 1972-73, its import cost has risen from $ 59 per ton to $ 185 per ton.

Large quantities of imports of edible oils, tea and fertilizer coupled with the increased prices of these commodities added substantial burden to the payments. It is evident that although import volumes increased, the main reason for the much higher payments for such imports was the increase in international prices.

Unit Prices of Major Imports
(U S. $ per ton)

		1972-73	1973-74	1974-75	1975-76
1.	POL				
	(*i*) Crude	18	51	79	90
	(*ii*) Products	29	92	106	115
2.	Wheat	79	132	185	150
3.	Fertilizer	105	143	285	195
4.	Edible oils	287	498	728	380

It is estimated that the payments at average prices of 1970-71, would have been only $ 825 million for 1974-75 basket of imports. Pakistan therefore lost over $ 1500 million on account of imported international inflation alone.

Increase inflow of foreign exchange by way of larger exports at higher prices and larger payments for imports led to an expansion in the foreign sector ; while, heavier requirements for bank financing of external trade at devalued parity rate of exchange was responsible for expansion in the private sector, and a much larger expansion in the public sector has resulted in excessive growth of monetary assets without an 'adequate coverage' for the real growth in GNP.

Currently, Pakistan is facing serious balance of payments difficulties which primarily stem from the following factors :—

(*a*) increase in the import prices of wheat, edible oil, POL, and fertilizer ;

(*b*) increases in the prices of machinery, chemicals, metals, and other capital goods; and,

(*c*) a decline in the price of cotton, cotten yarn and rice, and a slow-down in the demand for cotton yarn and textiles.

This is reflected in acute worsening of Pakistan's net barter terms of trade, and is estimated to be running at an annual rate of 25 percent.

The adverse impact of international economic situation has not been confined to balance of payments position only. It also resulted in loss of government revenues. Export and import duties for 1974-75, which were projected at $ 600 million (*i.e.* 55 percent of the tax revenue of the government, or 43 percent of the total revenues), could only amount to less than $ 300 million.

Trend of Receipts from Export Duties
(Million Rs.)

	1972-73	1973-74	1974-75	1975-76*
Cotton-based products	810	1127	595	610
Rice	128	465	500	500
Raw wool	17	15	Nil	Nil
Hides & skins	131	128	60	60

*Budget Estimates

At the same time, policy of 'credit squeeze' is seriously aggravating the effects of recession on the domestic economy, and aggravation is being compounded by the losses of revenues and food subsidies.

The manufacturing sector is the other significant area of the economy that has taken the maximum of bad flavour from the international economic events. The manufacturing of cotton-based products, general consumer goods, chemicals, heavy and light engineering, and capital goods have been considerably affected. Production index of cotton cloth declined by 13 percentage points between June 1972 and June 1975, while yarn declined from 183.2 to 172·4 points. Similarly, the recessionary effects were pronounced on the BIM-family of industries. Products of the Peoples' Steel Mill have become uncompetitive due to the declining import prices of products to almost dumping level, whereas the prices of imported inputs have not decreased by the same margin. Again, the HMC products have become uncompetitive, and therefore offtake is very poor as against production and capacity which is resulting in unbearable inventory level. These adverse developments is a vital sector of the economy have affected the purchasing power of the people and the recession-inspired high priced capital goods and inflation-inspired expensive consumer goods have almost eroded the people's financial capacity to survive above the poverty-line.

The effects of the world inflation have been very harsh on the price level within the economy due to the following reasons :—

Firstly, there have been the direct effects on prices that could not be neutralised by export and import duties.

Secondly, there have been indirect effects due to scarcities of imported goods, caused by foreign exchange shortages, and consequent scarcity premia.

Thirdly, the entirely new level of energy costs has obliged the Amdinistration to raise the price of natural gas in order to reflect its opportunity cost better. It is estimated that the general price level has been increasing at an annual rate of 25 per cent, after having reached its peak in 1973-74 when the price rise was around 30 percent.

The wholesale prices increased by 165 percent during June, 1972 and June 1975 ; while, the consumer price index increased at a somewhat lower rate by 112 per cent due to a greater weightage of the controlled price of essential items of consumption.

The annual rate of increase in the wholesale price index (general) was 28%, while most abrupt fluctuations occurred in the prices of fuel, lighting and lubricants which recorded a compound increase of 130 percent, or an annual increase of 33 percent. The prices of manufactures increased by 110 % against an increase of 75% in the raw material prices. Similarly, food prices went up by 122 %.

The higher increase in prices of fuel, lighting, lubricant and manufactured items reflect the higher international import cost for POL, industrial machinery and equipment; and, a relatively slow increase for industrial raw materials is attributed to worldwide recession. More expensive wheat (and other food-grains) is also largely attributed to a three-fold increase in the world wheat prices for $ 59 per ton (1970-72 average) to $ 185 per ton in 1974-75.

Within the consumer price index, the more pronounced increase has been in the three major groups, viz. food, apparel, textiles, footwear, and housing-household-operations.

Consumer Price Index

(Base : 1969-70)

	1971 Dec	1972 June	1973 June	1974 June	1975 June	1976 June
General	111	112	131	175	214	227
Food etc.	109	110	134	181	226	232
Apparel, Textiles, and Footwear	109	110	138	192	228	248
Housing & Household Operations.	109	111	119	159	193	213
Miscellaneous	116	119	129	163	196	217

The pressures to raise prices of domestic products to comparable international levels were acute in cases when imported goods met a substantial part of the domestic demand and entered into the cost of production of the items of the major commodity groups.

There are a variety of factors responsible for a doubling of the general price index, and a two-digit inflation during the first half of the seventies. Devaluation of May 1972 brought the latent inflation into open in the process of correcting distortions ; while, the increase in bank credit to the private sector (Rs. 11680 million) and for government commodity operations (Rs. 3900 million) was directly affected by a continuing upward trend of international inflation. The deficit financing of the public sector (Rs. 8000 million) was also necessiated, by and large, due to the 'stag-flation' conditions which adversely affected the domestic revenue generation and resource position. A weak domestic situation was thus compounded by an essentially difficult international situation which threatened the socio-economic fabric of the country.

Evolving of a price stabilization policy in the context of wild fluctuations in the business cycles all over the World is not only difficult but practically impossible. However, an optimal mix of monetary and fiscal policies can be worked out to minimize the effects of international events on the domestic production-cost-price structure.

Stability of the price level in general cannot be secured without adequate monetary and fiscal control. However, prices of individual commodities and services may sometimes have to be deliberately adjusted to seek the following objectives :—

(*a*) assure reasonable return on capital,

(*b*) provide incentive for increased production, (*c*) channel resources into priority fields,

(*d*) discourage non-essential/undesirable consumption,

(*e*) conserve foreign exchange resources and,

(*f*) bring about a new balance between supply and demand of the commodities likely to be in short supply.

In such cases, the price adjustments serve as an important policy instrument for the regulation of the economy. However, for formulating a long-term non-inflationary approach to achieving price stability, the following points need to be looked into :—

(*a*) There must be a strict scrutiny and control of all the expenditure, except the one which has a functional justification, such as : meeting the basic consumption requirements of the community, producing socially desired investment goods and services, or/and increasing overall productivity. All other types of expenditure should be stopped by a deliberate policy decision of the Government.

(*b*) All profits of a non-functional character, viz., monopoly profits, profits arising from domestic shortages or shortages of imports, should as far as possible, be tapped at the source and brought into the public exchequer.

(*c*) Administrative, fiscal and pricing policies should be reviewed with a view to arresting the generation of black money. Consideration may also be given to the socialization of all urbanizable land.

(*d*) The rate of interest should be raised so that, on the one hand, savings are promoted and, on the other, non-priority uses of capital are discouraged.

(*e*) While financing the development programmes, every effort should be made to avoid generating excess demand. Deficit financing should be kept down to the level at which the consequential increase in money supply will not exceed the requirements of the economy arising from growth in real terms.

(*f*) As far as possible, all increases in incomes as well as consumption must be accompanied by an increase in output and this should apply not only to an increase in income in general but also to increases in sectional incomes.

(*g*) Government should take up the responsibility for ensuring to the consumer, per capita supplies near about existing availabilities of basic consumption goods ; such as, wheat, edible oils, standard cloth, sugar and kerosene, at prices near about their current level. To effectively discharge this responsibility, it has to plan the availability of these items in line with the growing demand. For certain items, like wheat and sugar, partial rationing in urban areas may continue till the supply position really becomes comfortable and poses no threat to the maintenance of stable prices at a reasonable level in respect of these items. In respect of certain other essential items, their adequate availability at stable prices should be ensured through a wide network of fair price shops in urban as well as rural area.

(*h*) In case of an acute disequilibrium in the demand supply question of an essential item, despite ensuring adequate production efficiency, statutory price control may be resorted to. This should, however, always be supplemented by control over supplies and distribution of the relevant item.

(*i*) Effective steps need to be taken to operate buffer stocks in essential items of consumption, as well as curb smuggling and tax evasion.

Over the past few years, the Government has taken number of steps to protect real incomes of the people in a situation which was wrecked with economic turmoil all over the world. For various groups, and the fixed salaried groups in particular, these efforts have not meant significant compensation against the inflationary erosion. This is, by and large, due to the absence of a defined and adequate price policy. I think the Government's efforts to protect the cost of living would be much more helpful when such steps fit into the broader framework of a Prices and Incomes Policy.

VI

PROFILE OF PERFORMANCE

ECONOMIC PROFILE

(1976)

1. **Area**	803,943 sq. km
2. **Population**	72 million
3. **Literacy**	20 percent
4. **Primary School Enrolment**	44 percent
5. **Population characteristics**	
(*a*) Urbanized	26 percent
(*b*) Crude birth rate	47 per 1000
(*c*) Crude death rate	14 per 1000
(*d*) Infant mortality	113 per 1000
(*e*) Persons per physician	7,000
(*f*) Persons per hospital bed	6,800
6. **Labour force (%)**	
(*a*) Agricultural	56.4
(*b*) Manufacturing	17.6
(*c*) Services	22.6
7. **Land utilization (acres)**	
(*a*) Rice	4.2 million
(*b*) Wheat	15.1 million
(*c*) Cotton	4.6 million
(*d*) Sugarcane	1.7 million
8. **Labour productivity** (%)	
(*a*) Agriculture	58.5
(*b*) Manufacturing	135.2
(*c*) Services	191.3
9. **Merchandise Exports** (%)	
(*a*) Cotton and products	33.5
(*b*) Rice	22.1
(*c*) Others	44.4
10. **Gross National Product** (%)	
(*a*) Gross Domestic Investment	18.0
(*b*) Gross National Savings	9.0

	(*c*) Current Account Balance	11.3
	(*d*) Exports of goods	11.5
	(*e*) Imports of goods	24.0
11.	**Income Per Capita**	$ 150
12.	**Income distribution (%)**	
	(*a*) Highest quintile	42
	(*b*) Lowest quintile	8
13.	**Nutrition**	
	(*a*) Caloric intake as % of requirement	69
	(*b*) Per Capita protein intake	59

14. **Rate of Exchange**
US $ 1.00 = Rs. 9.90
Rs. 1.00 = US $ 0.10

Social Indicators

	71/72	72/73	73/74	74/75	75/76*
Housing	22	23	25	38	42
Residential Plots	6.0	6.7	20	35.3	47.5
Medical Facilities :					
Hospitals (No.)	496	531	517	518	525
Dispensaries (No.)	2137	2566	2836	2908	3061
Registered Doctors (000 Nos.)	14.8	15.8	16.5	17.2	17.8
Registered Nurses (000 Nos.)	5.0	5.5	5.7	6.0	6.1
Registered LHVs (Nos.)	1322	1458	1618	1627	1636
Infrastructure :					
Roads (000 miles)	21.6	22.2	22.5	24.0	31.0
Post Offices (Nos.)	7.8	7.9	8.2	8.7	9.0
Telegraph Offices (Nos.)	237	239	240	247	254
Telephones (000 Nos.)	167	184	204	227	249
Public Call Offices (Nos.)	815	728	724	742	1213
Villages electrified ,,	55	268	530	845	500

*Provisional

Per Capita Availability of Essential Consumption Items

	Unit	1971-72	1972/73	1973/74	1974/75	1975/76
Wheat	lbs. p.a	230.4	260.1	257.1	252.4	267.1
Rice	,,	63.9	45.6	57.3	48.1	54.1
Pulses	,,	15.7	17.1	18.9	18.1	17.0
Sugar (Raw)	,,	44.4	39.0	39.8	39.6	44.4
Sugar (Refined)	,,	18.9	17.4	18.7	17.2	19.5
Vegetable Ghee	,,	6.7	7.2	7.7	11.5	11.8
Meat	,,	17.0	16.0	16.0	15.0	16.0
Milk	,,	120.0	120.0	121.0	124.0	126.0
Vegetables	,,	48.6	53.4	54.5	55.6	67.4
Tea	,,	1.1	1.2	1.4	1.6	1.7
Cotton Cloth	yds. p.a.	10.2	11.9	16.8	16.6	16.5

*Provisional

The Course of Development

	1972-73	1973-74	1974-75	1975-76*
1. GDP growth rate (%)	7.3	4.6	2.6	5.0
2. Per capita (Income (Rs.)	933	1188	1509	1701
3. Share of Agriculture in GDP.	35.9	35.1	32.2	31.8
4. Share of Manufacturing in GDP	15.4	15.3	15.9	15.4
5. Domestic Investment as % of GDP	11.8	13.2	16.4	18.0
6. Domestic savings as % of GDP	7.8	9.0	7.0	9.0
7. Revenue Receipts from				
(*a*) Export Duties (Rs. million)	1060	1876	1160	1211
(*b*) Import Duties (Rs. million)	1585	2293	3565	4714
8. Subsidies (Rs. million)	1311	2668	3824	2505
9. Disbursement of foreign loans as % of total investments.	46	43	68	57
10. Debt Servicing (net of rescheduling) as % of export receipts	24	19	25	24

*Provisional

PRODUCTION OF SELECTED MANUFACTURING INDUSTRIES

Main items	Unit	1971-72	1972-73	1973-74	1974-75	1975-76*
1. Sugar	000 tons	369	422	598	496	630
2. Vegetable Ghee	,, ,,	159	184	222	268	273
3. Cigarettes	Crore Nos.	2,177	2,762	2,748	2,680	2,594
4. Cotton yarn	Crore Lbs.	74	83	84	77	79
5. Cotton Cloth	Crore Yds.	75	70	71	66	66
6. Cycle tyres	Lakh Nos.	20	25	33	30	29
7. Cycle tubes	,, ,,	25	33	39	42	45
8. Safety Matches	Lakh gross boxes	17	24	26	32	37
9. Cement	Lakh tons	26	28	31	33	31
10. Nitrogenous fertilizer	000 N/tons	215	275	300	295	320
11. Phosphatic fertilizer	,, ,,	5	8	4	11	13
12. Caustic Soda	000 tons	34	35	37	36	38
13. Bicycles	000 Nos.	122	212	178	210	154
14. Electric Fans	,, ,,	201	223	191	193	97
15. Paper board	000 tons	20	20	21	14	22
16. Mild steel products	,, ,,	163	181	215	219	216

*Provisional

AGRICULTURAL PRODUCTION

	Unit	1971-72	1972-73	1973-74	1974-75	1975-76*
Wheat (Total)	000 tons	6782	7325	7508	7552	8200
Wheat (Desi)	,, ,,	1602	1854	1870	1653	2250
Wheat (High yielding varieties)	,, ,,	5180	5471	5638	5899	5950
Rice (Total)	,, ,,	2226	2293	2416	2277	2576
Rice (High yielding varieties)	,, ,,	1386	1235	1279	1089	1376
Rice (Others)	,, ,,	840	1058	1137	1188	1200
Cotton (Desi)	000 bales	205	210	185	175	174
Cotton upland	,, ,,	3774	3746	3520	3392	2716
Sugarcane	000 tons	19648	19632	23533	20906	25146
Onions.	,, ,,	249	184	236	290	290
Chillies.	,, ,,	52	56	50	55	55
Potatoes	,, ,,	249	237	235	286	300
Cotton seeds	,, ,,	1393	1381	1296	1248	1011

*Estimates.

EXTERNAL TRADE : EXPORTS
(US $ Million)

Commodities.	1971-72	1972-73	1973-74	1974-75	1975-76*
Raw cotton	168	109	38	156	99
Rice	44	111	207	233	250
Fish (Fresh and Dried)	21	22	28	16	28
Cotton yarn	101	186	182	86	143
Cotton Cloth	72	120	143	133	137
Leather	25	52	42	37	62
Others	159	218	378	379	413
Total	591	817	1019	1039	1132

*Revised Estimates.

EXTERNAL TRADE : IMPORTS

(US $ Million)

Commodities	1971-72	1972-73	1973-74	1974-75	1975-76*
Wheat	39	106	156	249	144
Tea	26	32	35	67	70
POL Crude	31	44	107	219	254
POL Products	15	18	46	118	126
Edible oils	17	21	83	137	70
Fertilizers	11	37	90	103	40
Capital goods	272	237	411	621	850
Raw material for Capital goods	63	77	88	179	222
Others	148	225	355	421	587
Total :—	622	797	1371	2114	2363

(*Original Estimates)

BALANCE OF PAYMENTS

(Million US $)

	1971-72	1972-73	1973-74	1974-75	1975-76*
Exports of goods.	686	903	1202	1251	1132
Imports of goods.	1050	1094	1844	2607	2100
Trade Gap	— 364	+ 191	— 642	— 1356	— 968
Interest payments	— 55	— 85	— 74	— 97	— 155
Home Remittances	92	147	151	230	300
Other Factor Payments	— 1	— 130	— 1	— 1	— 60
Balance on Current Account	— 328	— 130	— 566	— 1224	— 883

*Provisional

PROCUREMENT PRICES OF AGRICULTURAL PRODUCES

(Rs. per Maund)

	Wheat	Rice					Sugarcane		
		Basmati	Begmi	Kangni	Joshi	Irri	Punjab	Sind	NWFP
1971-72	17.00	38.00	20.00	19.00	19.50	19.50 21.00	2.50	2.65	2.25
1972-73	17.00	46.00	21.00	20.50	20.50	19.00 21.00	4.25	4.40	4.00
	20.00 (Sept. 1972	60·00 (May 72)	26.00	25.00	25.00	24.00 26.00			
1973-74	22.50 25.50 (April 74)	62.00	27.00	26.00	26.00	25.00 27.00	4.25	4.40	4.00
1974-75	37.00	90.00	40.00	39.00	39.00	38.00 40.00 48.00	5.25	15.40	5.00
1975-76	37.00	90.00 100.00	40.00	39.00 47.00	39.00	38.00 40.00 48.00	5.75	5.90	5.50

COMBINED CONSUMER PRICE INDIX NUMBERS
ALL INCOME GROUPS
(1969-70=100)

Period	General	Food, Beverages and Tobacco	Apparel, Textile and Footwear	Housing and House Hold Operation	Miscellaneous
1971-72	116.06	109.56	109.29	110.23	116.05
1972-73	121.39	121.15	121.68	115.63	125.71
1973-74	157.79	163.33	115.95	142.12	146.63
1974-75	199.96	208.74	219.43	178.50	186.16
1975-76					
July	218.19	230.90	229.13	194.53	198.82
August	219.11	230.66	231.08	196.84	201.56
September	221.21	232.72	234.02	199.45	202.92
October	224.48	237.14	237.86	200.35	204.32
November	222.99	232.87	239.41	202.02	206.73
December	223.42	231.20	241.69	203.67	211.47
January	222.27	228.21	242.10	205.24	212.46
February	223.09	228.42	243.07	207.08	214.02
March	224.25	230.14	243.28	208.24	213.93
April	226.69	233.36	243.77	210.39	215.07
May	226.67	232.12	247.11	211.74	216.11
June	227.01	232.00	247.89	213.00	216.79

INDICES OF WHOLESALE PRICES

(1959-60 = 100)

Period	General	Food	Raw Materials	Fuel, Lighting & Lubricants	Manufacturers
1971-72	150.31	153.50	136.34	150.63	151.52
1972-73	179.74	189.05	157.81	182.20	170.75
1973-74	229.07	242.68	205.10	236.04	209.00
1974-75	288.89	302.38	232.13	314.24	284.85
1975-76					
July	315.85	332.46	252.72	362.92	310.42
August	317.44	334.17	252.81	363.02	312.99
September	320.34	339.30	253.10	363.02	312.48
October	318.44	336.73	251.25	369.76	310.91
November	316.68	333.29	251.30	369.43	311.98
December	322.13	336.80	263.65	370.13	318.32
January	321.28	330.57	270.81	370.36	325.51
February	318.03	324.63	269.71	371.94	326.98
March	320.07	327.95	260.54	371.94	329.70
April	325.56	331.72	274.16	371.94	333.19
May	328.86	336.75	283.63	376.10	333.33
June	335.67	346.54	286.91	376.10	335.91

INDICES OF WHOLESALE PRICES OF ESSENTIAL CONSUMER ITEMS
(1959-60 = 100)

Period	Rice	Wheat	Gram	Sugar	Vegetable Ghee	Tea	Mineral oils	Soap	Matches	Cotton	Cotton Yarn	Meat
1971-72	128.64	148.55	149.35	138.33	152.06	119.35	176.95	136.28	261.75	151.12	178.21	196.79
1972-73	185.66	153.62	219.99	167.35	151.57	158.73	177.65	141.34	213.23	184.12	268.06	191.93
1973-74	238.36	190.55	247.35	184.33	190.77	148.59	233.53	196.64	213.68	264.67	330.90	272.72
1974-75	260.13	294.14	286 84	226.24	247.04	162.04	249.15	321.08	253.87	235.10	267.00	366.53
1975-76												
July	292.03	293.63	311.07	250.29	283.06	175.69	246,77	258.15	262.88	243.89	275.65	378.95
August	302.50	285.10	303.00	250.29	283.06	175.69	346.77	265.46	262.88	245.67	289.38	386.65
Sept.	313.68	280.89	297.94	250.29	283.06	175.69	3.46.77	265.46	262.88	242.63	286.46	393.32
October	304.82	282.31	310.29	250.29	383.06	174.43	361.07	260.11	248.17	243.22	286.60	412.36
Nov.	305.17	280.77	303.27	250.29	283.06	173.18	316.07	262.90	286.51	250.04	288.73	425.34
Dec.	306.31	295.88	304.19	250 29	383.06	173.18	316 07	260 46	286.51	258.82	308.84	424.97
January	276.67	292.74	307.49	250.29	283.06	173.18	361.07	262.43	286.51	287.03	330.77	424.86
February	282.[illegible]0	275.07	286.19	250.29	283.06	173.18	361.07	262.43	286.51	329.28	327.96	432.87
March	289.42	273.11	267.05	250.29	283.06	173.18	361.07	260.93	286.51	323.36	321.03	410.30
April	290.17	274.22	265.18	250.29	283.06	173.18	361.07	260,93	286.31	339.92	330.64	425,33
May	289.80	266.14	239.67	250.29	283.06	173.18	361.07	259.53	286.51	353.85	330.64	428.70
June	390.88	269.26	233.19	250.29	283.06	173.18	361.07	259.53	286.51	369.10	330.64	458.64

MONETARY ASSETS

(Rs. million)

Period	Currency in Circulation	Scheduled Banks, Demand Liabilities	Scheduled Banks, Time Liabilities	Post Office Savings Bank Deposits	Monetary Assets
1971-72	7370	9460	7870	1080	26550
1972-73	9530	11430	9670	1370	32740
1973-74	10080	12750	9940	1480	34800
1974-75	10450	13400	11310	1430	37270
1975-76*	12774	16453	15054	1411	46334

*Provisional

TAX RECEIPTS OF THE FEDERAL GOVERNMENT

(Million Rs.)

	Import Duties	Export Duties	Miscellaneous	Gross
1971-72	1178	175	23	1376
1972-73	1608	1087	30	2725
1973-74	2418	1812	36	4265
1974-75	3837	1042	39	4916
1975-76*	4296	791	77	5164

*Provisional

DISBURSEMENT OF FOREIGN LOANS

(Million US $)

	1972-73 (Actuals)	1973-74 (Actuals)	1974-75 (Actuals)	1975-76 (Estimates)
A. *Project*				
(*i*) Public Sector	38·45	57·75	110·71	302·15
(*ii*) Indus/Tarbela	40·58	28·66	47·29	54·50
(*iii*) Autonomous/Private Sector	25·66	80·83	123·10	142·35
B. *Non-Project*				
(*i*) *Non-Food*				
(*a*) Traditional	170·99	173·08	186·42	200·35
(*b*) Non-traditional	—	—	410·00	480·00
(*c*) Short-term	—	—	—	25·00
(*ii*) Food	47·07	117·22	213·12	182·69
(*iii*) Others	—	30·00	42·81	—
C. Total	322·75	487·54	1133·45	11387·04

TERMS OF FOREIGN LOANS FROM TRADITIONAL SOURCES

Period	Amount $ million	Sum of weighted Grace	Sum of weighted interest	Sum of weighted Repayment
HARD LOANS				
1972-73	67·157	101·500	342·819	937·496
1973-74	262·908	555·C04	1,913·246	2,292.054
1974-75	304·733	249·743	1,181·018	3,868·131
1975-76 (Jul-Dec)	113·859	324·816	967·748	1,575·229
Total :	748·657	1,230·563	4,404·831	8,672·910
Averages:		1·643	5·883	11·584
SOFT LOANS				
1972-73	433·897	3,941·158	850·054	12,900·763
1973-74	332·203	2,664·269	860·754	8,498·319
1974-75	448·158	3,904·721	1,048·462	12,615·770
1975-76 (Jul-Dec)	278·988	2,634·C67	526·950	7,805·670
Total :	1,493·246	13,144·215	3,296·220	41,820·527
Averages :		8·802	2·207	28·006
Net Average Terms	2,241·903	14,374·778 6·411	7,701·051 3·435	50,493·437 22·522

ENERGY RESOURCES OF PAKISTAN

Hydal Power (M.W)		Natural Gas (M.M. Cft.		Coal (M. Tons)		Crude Oil (M. barrels)	
Mangla	600·0	Sui	8·62	Deghari	52	Balkassar	28·63
Warsak	160·0	Zia	0·10	Harnai	40	Joyamair	4·16
Dargai	20·0	Uch	2·50	Mach	15	Tut	14·00
Malakand	19·6	Khairpur	1·00	Makerwal	19	Meyal	38·00
Rasul	22·0	Mari	3·94	Salt Range	75	Dhullian	39·93
Chicho Ki Malian	13·2	Mazarani	0·09	Metting	28		
Kurram Garhi	4·0	Kandhkot	0·41	Lakhra	240		
Rehala	1·1	Sari Singh	0·03				
Shadiwal	13·5	Hundi	0·05				
Nandi Pur	13·8	Dhulian	0·15				

Performance of the BIM Corporations

	1972/73	1973/74	1974/75	1975/76
1. **Production Index**	—	+31.4	+21.8	+4.2
(*a*) Federal Chemical and Ceramics Corporation	—	11.7	−11.9	5.2
(*b*) Federal Light Engineering Corporation	—	24.0	17.2	−2.6
(*c*) National Fertilizer Corporation of Pakistan	—	26.7	1.3	15.0
(*d*) Pakistan Automobile Corporation	—	83.9	51.7	−12.0
(*e*) Pakistan Industrial Development Corporation	—	8.5	20.1	25.2
(*f*) State Cement Corporation of Pakistan	—	9.5	7.3	−3.4
(*g*) State Heavy Engineering and Mechine Tool Corporation	—	74.0	70.0	100.4
(*h*) State Petroleum Refining & Petrochemicals Corporation	—	−5.3	13.6	1.0
2. **Sales** (M. Rs.)	1806.0	2935.8	4690.2	5073.1
3. **Profits** (M. Rs.)	17.8	174.8	277.5	155.8
4. **Taxes** (M. Rs.)	198.0	666.6	1213.8	1331.0
5. **Exports** (M. Rs.)	111.1	252.5	345.3	400.0
6. **Employment** (No.)	40817	45118	54049	57828

*Provisional

Production of major items from the Corporations under BIM control

	Units	72/73	73/74	74/75	75/76*
1. Cement	Million tons	2.8	3.1	3.3	3.2
2. Tractors	No.	1100	632	2386	5676
3. Fertilizer	000 m/tons	398	411	493	548
4. POL	Million gallons	115	103	122	132
5. Light C. V.	No.	966	1603	2613	2191
6. Motor Cycles	No.	1845	4223	6191	6639
7. Diesel Engines	No.	378	3341	7037	3265
8. Caustic Soda	000 m/tons	32	33	33	34
9. Bicycles	000 No.	53	54	67	52

*Estimates

ANNUAL DEVELOPMENT PLAN EXPENDITURE
(Million Rs.)

SECTORS	1971-72	1972-73	1973-74	1974-75	1975-76*
1. Agriculture	200	390	617	998	1225
2. Water and Power	620	1140	1407	2095	3408
3. Industry, Fuels and Mineral	170	280	560	1686	3390
4. Transports and Communications	410	730	1108	2089	2413
5. Physical Planning and Housing	160	230	502	728	1092
6. Mass Media	—	—	—	—	89
7. Education and training	190	270	313	486	637
8. Health and Population Planning	150	140	227	454	838
9. Social Welfare	7	9	10	15	18
10. Manpower and Employment	4	8	39	28	32
11. People's Works Programme	40	100	83	110	211
12. Frontier Regions (Development Corporation for tribal areas)	20	20	—	—	—
13. Lump-sum provision for essential schemes	20	60	1	—	12
TOTAL (Sectoral Programme).	2000	3370	4967	8788	13365

*Estimates.

GROSS NATIONAL PRODUCT AT CURRENT FACTOR COST
(Rs. Billion)

Period	G.N.P.	Agriculture	Manufacturing	Services	Per Capita Income (in rupees)
1971-72	49	18	8	4	774
1972-73	61	22	9	5	933
1973-74	79	28	12	6	1188
1974-75	104	35	17	9	1509
1975-76	121	39	19	10	1701

*Estimates.

SECTORAL GROWTH RATES
(%)

		1971-72	1972-73	1973-74	1974.75	1975-76*
1.	Agriculture	3.5	1.7	1.3	—2.0	4.0
2.	Mining and Quarrying	1.9	1.3	11.8	10.6	2.5
3.	Manufacturing	—4.6	9.7	6.5	3.0	2.6
4.	Construction	—16.3	15.7	10.7	15.0	15.2
5.	Transport and communications	2.3	1.9	19.5	7.3	10.0
6.	Trade	—0.9	6.3	14.6	1.8	1.7
7.	Dwelling and Housing	3.4	3.6	3.6	3.6	4.6
8.	Public Administration and Defence	6.8	14.1	—10.5	10.0	8.6
9.	Services	5.1	5.2	5.4	5.7	5.5
10.	GDP	0.9	7.0	4.6	2.6	5.0

*Estimates

VII

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