

INDUSTRIAL DEVELOPMENT IN PAKISTAN  
FROM 1947 TO 1970: AN OVERVIEW

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## CHAPTER I

### INTRODUCTION

This study will trace the growth and development of industry in Pakistan since 1947. A number of factors that contributed to industrial growth, in addition to development planning, will be discussed. The main emphasis will be on the period from 1947 to 1970, the time when East Pakistan (now Bangladesh) was still a part of Pakistan. This time period would be of special interest to any Pakistan, since it was during these twenty three years that Pakistan's industry, which was virtually non-existent at the time of Partition in 1947 (see table 5), emerged to become one of the most rapidly growing among the developing nations of the world. It was a period when Pakistan was often quoted as one of the few developing nations that showed the greatest potential for achieving a high rate of economic growth.<sup>1</sup>

As Gustav Papanek puts it:<sup>2</sup>

Even after the middle 1950's when Pakistan had a significant industrial sector, the rate of growth in Pakistan's output continued to be as high as, or higher than, that of any other country in the world. (Japan's rate of industrial growth was similar).

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<sup>1</sup>Azimusshan Haider, Economic History of the Region Constituting Pakistan, (Karachi: Afro-Asian Research Center, 1975), pp.70-74.

<sup>2</sup>Gustav Papanek, Pakistan's Development, Social Goals and Private Incentives, (Mass: The Harvard University Press, 1967), p.30.

The annual rate of growth, in West Pakistan, of the manufacturing sector was 34 per cent during 1949-1955, 12.4 per cent during 1955-1960, about 16.3 per cent between 1960 and 1965,<sup>3</sup> and averaged about 12 per cent between 1965 and 1970.<sup>4</sup> Considering its pitiful resource and capital endowment at the time of independence as compared to other developing nations, Pakistan's performance has been considered to be remarkable. Before proceeding with the subject further, it would perhaps be appropriate to view, very briefly, Pakistan's background.

Pakistan came into existence on August 14, 1947, as on this day the Indian subcontinent was divided into two independent countries. The country was founded on the basis of religion. Of the two major population groups in India, the Hindus and the Muslims, the latter found it extremely difficult to co-exist in one nation under a Hindu majority. It was only after a long and bitter struggle that the Muslims of the subcontinent were able to carve out an independent nation for themselves which came to be known as Pakistan. The two wings of Pakistan, namely East and West Pakistan, were divided by a thousand miles of Indian territory. It was after about twenty-four years, in 1971, that a war with India and a civil war in East Pakistan led to the division of Pakistan and in place of East Pakistan emerged a new sovereign state by the name of Bangladesh.

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<sup>3</sup>Ibid., Table 6, p.20.

<sup>4</sup>Pakistan Economic Survey, 1970-71, (Rawalpindi: Ministry of Finance, Government of Pakistan, 1971), p.27.

At independence, Pakistan's economy lay shattered as an aftermath of the partition and, according to many knowledgeable experts, the newly established country was simply not viable. However, their dire predictions later proved to be incorrect when radical economic changes began in the late 1950's. As the mid-1960's approached, the rate of economic growth was more than double the rate of population growth, investment was nearing a healthy 20 per cent of G.N.P., and savings was in excess of 10 per cent of G.N.P.<sup>5</sup> The difference was, of course, made up through the inflow of external funds.

Despite the phenomenal gains in all facets of economic life, it is still much too soon to talk of "self-sustaining" growth. Pakistan's problems are typical of a large number of other developing countries, predominantly agricultural, little industry, high rate of illitracy, high rate of population growth, and political instability. The country is still heavily dependent upon foreign aid in order to push ahead with its development programs. In fact, the U.S. was the first country to provide Pakistan with economic aid, which steadily grew to tremendous proportions at the end of Pakistan's third Five-Year Plan (1965-1970). The World Bank has also played a very crucial role in Pakistan's development. Recently, communist countries like the U.S.S.R. have provided economic aid to Pakistan for its development projects.

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<sup>5</sup> Papanek, op.cit., p.2.

Industrialization in Pakistan has been the result of private initiative and Government action, including generous assistance from abroad. The importance of the Government's role in promoting industrial growth in the country must be appreciated. Even though private enterprise is widespread, the major decisions in the economy are made by the government. Government agencies assume the responsibility of proceeding with any industrial investment for which no private interest exists - and some for which it does. Most of the country's resources are also controlled by the Government. Much of the private investment in the country is controlled through the Government's allocation of foreign exchange and other controls. All major industrial investments need some imported capital goods or raw materials, and imports of such items are tightly controlled by the Government. In view of the limited availability of foreign exchange, the Government has to decide which firm can be established and which can operate profitably. In other words, Government policy prevails over all large-scale industrial investment in addition to other fields of economic activity. Furthermore, Government policy in relation to import and export taxes, on export subsidies, and on guaranteed prices for agricultural commodities is responsible for determining, to a large extent, relative prices. It is due to such reasons, and in particular because of its ability to control investment funds and foreign exchange, that the Government can and does influence and

determine important economic decisions in the country.

Since it is commonly acknowledged that industrialization results in a rapid rate of increase in national income and hence per capita income of the people, industrial development under the Government's industrial policy has been given considerable importance all along. This study attempts to demonstrate how Pakistan, whose industry was virtually non-existent at the time of Partition, was able to enlarge its industrial base significantly in a short period of time through the effective planning of public investment, through the combination of private as well as Government initiative, plus significant contributions from external sources.

## CHAPTER II

## THE ECONOMY IN 1947: BACKGROUND

When the Indian subcontinent was divided into two countries, Pakistan's share consisted of areas that were mainly backward which posed a serious threat to the country's economy. On the Western side, the province of Punjab, and on the Eastern side the province of Bengal had to be partitioned. This caused widespread disruption of the transportation and communication system as well as of trade and industry. Huge numbers of people had migrated to each side leaving behind their assets before arriving in the new country. Most of the trade and commerce of the pre-partition days had been handled by Hindus. So when these people migrated to India by millions, serious gaps were created in the areas of banking, insurance, education and trade and industry. To fill these gaps was in itself a mammoth task, and as a result of which dislocations persisted for a long time. All the essential sea-ports, cities, centers of trade and business, and most of the industrial facilities that existed at that time remained in India territory.<sup>1</sup> Pakistan mostly consisted of those areas that were involved in the production of agricultural raw materials. Most of the marketing facilities remained in India. There

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<sup>1</sup>M.R. Sharif, Modern Economic Development of Pakistan, (Dacca: Mullick Brothers, 1966), p.4.

were a total of 14,569 industrial establishments that existed in the subcontinent in 1947, of these about 1,406 units were in Pakistan (including the region which is now Bangladesh). Most of these industrial units were of a relatively less important character such as flour and rice mills and cotton ginning factories. For instance, even though the bulk of Bengal jute was grown in East Pakistan, there was not even a single jute mill that existed in that province. All the jute mills operating at that time were located in India. It was only after 1947, that the world's largest jute mill was established in that region which is now Bangladesh. Moreover, there was also the serious problem of a lack of financial resources without which it was impossible to go ahead with any industrial development plan in the public sector.<sup>2</sup>

Thus in 1947, Pakistan possessed no natural resources aside from agricultural land, there was little industry and few technicians, professional leaders and "captains" of industry. Since the Pakistanis were mainly artisans, peasants and soldiers, it was imperative that the Government assume complete responsibility for spearheading the task of development. The Government meant the civil service, which was much better equipped in terms of training, experience and numbers to handle the problem as compared to the political leadership

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<sup>2</sup>Azimusshan Haider, Economic History of the Region Constituting Pakistan, (Karachi: Afro-Asian Research Center, 1975), pp. 70-71.

of the country. Its role was even more crucial because of the ineffectiveness of the private business sector. Thus no important centers of economic initiative existed other than the Government itself. It was only after some period of time that, as a result of strong economic incentives, Pakistan was eventually able to develop a significant entrepreneurial class. And once industrial development assumed a steady pace, even weaker economic incentives were sufficient in maintaining its momentum. The incentives that were provided to entrepreneurial activity in industry, combined with the disincentives attached to remaining in one's present occupation were such, that they were successful in producing a number of good industrial entrepreneurs.<sup>3</sup>

Pakistan in 1947, thus, was concerned with the rehabilitation of the economy which had been devastated as a result of the partition, the construction of the national capital, building a new administrative machinery and the rehabilitation of a great number of Indian refugees. For this very reason the Government, upto 1950, concentrated all its efforts to dealing with these urgent problems. Only after catering to these was Pakistan able to devote its energy and resources on economic development. The Government, ultimately, was successful in rebuilding the country's infrastructure. It also developed power, transport,

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<sup>3</sup>Papanek, op. cit., pp.3-55.

communications, and urban facilities with enough speed so as to avoid any significant bottlenecks to appear that would be hazardous to smooth and rapid growth of industry.

## CHAPTER III

DEVELOPMENT PLANNING AND "SOURCES"  
OF INDUSTRIAL GROWTH IN PAKISTAN

A wide variety of factors can be held responsible for influencing the pattern and rate of industrial growth in Pakistan in the period after 1947. The Government's development plans have also had influences, to varying extents, on the development of industry in the country.

The first step in development planning was taken when the Government set up a Development Board and a Planning Advisory Board in 1948. The Development Board had the authority to coordinate development plans, to recommend priorities, to monitor the progress of development projects and to make periodic reports to the Cabinet regarding the progress of development projects. The Planning Advisory Board consisted of officials and representatives of the private sector to advise the Government on matters relating to planning and development, to promote public cooperation of the development projects and to keep a watch on the progress in implementing plans. The Planning Advisory Board functioned with the assistance of various industrial boards and committees set up by the Central and Provincial Governments, and jointly they fixed targets for 27 industries. Even though the need for long-term planning was acutely felt at that time, the Board did not endeavour to formulate any plan or even to relate projects to one another.<sup>1</sup>

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<sup>1</sup>Albert Waterston, Planning in Pakistan, (Maryland: The Johns Hopkins Press, 1963), pp.13-15.

The first attempts at systematic and well-coordinated planning were not made until 1951. In May 1950, a meeting of the Commonwealth Ministers was convened which expressed the need for a program of economic development for the countries belonging to the region of South and South-East Asia. In this regard, a Commonwealth Consultative Committee was set up which directed the participating countries to draw up six-year development plans that would be implemented in 1951. As a result national plans were drawn up by Pakistan, India, Malaya, Singapore, North Borneo and Sarawak. These were called the Colombo Plans.<sup>2</sup>

The strategy adopted by the Planning Board was to direct resources to areas and agencies providing the highest return, rather than to those which could exert greatest pressure or which started with the most well-trained staffs. Accomplishments lagged far behind plans.<sup>3</sup> Thus, in 1953, the planning Board and the Development Board, because of poor performance, were replaced by the Planning Commission. It was only after the creation of the Planning Commission that Pakistan prepared and implemented its first well-balanced, coordinated and integrated five-year plan (1955-1960).<sup>4</sup> However, such planning

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<sup>2</sup>Sharif, op.cit., p.307.

<sup>3</sup>Papanek, op.cit., p.13.

<sup>4</sup>Industrial Development, Asia and the Far East, Vol.III  
(New York: United Nations Publications, 1966), p.113.

could not have been possible without the availability of foreign expertise. The Ford Foundation agreed to finance the cost of a group of foreign advisors to the planning agencies recruited and supervised by the Graduate School of Public Administration of Harvard University.<sup>5</sup>

It was only after some time that Government planning started bearing fruits.

In Papanek's words:<sup>6</sup>

Gradually, however, the pressure of plans and planners began to be felt. Planned strategy and actual development showed increasing similarity, and closely resembled each other by the middle 1960's.

#### Industrial Policy

In April 1948, the Government announced the industrial policy that continued to guide industrial development in Pakistan until 1970. However, when a new regime headed by President Mohammad Ayub Khan, assumed the administration of the country, the policy acquired a pragmatic character. It was directed at establishing all facilities for the processing of domestically produced raw materials such as jute, cotton, sugar, leather, cement and paper. The Central Government was responsible for the development of twenty-seven industries. Private enterprise was greatly encouraged and was provided with

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<sup>5</sup>Waterston, op.cit., pp.33-34.

<sup>6</sup>Papanek, op.cit., p.13.

all possible assistance in the setting up of all types of industries excluding hydroelectric power generation, arms and ammunition and telephone and telegraph.<sup>7</sup> Pakistan's planning philosophy and general economic policy was made clear by President Ayub in his preface to the third Five-Year Plan (1965-1970).<sup>8</sup>

Our approach to economic planning has been pragmatic all along. It has been the constant endeavour of the Government to mobilize the creative energies of the nation and to give all possible incentives for the stimulation of private initiative. The Government has limited its own role to providing a suitable framework for the private sector and to the creation of those facilities which the private sector had neither the ability nor the willingness to develop. There have been no grand experiments in nationalization, no fancy slogans about socialism, no undue intervention in the private sector.

By 1959, Pakistan had experienced considerable industrial development and the Government, taking into consideration the problems related to the operation of existing industries and appreciating the need for further expansion, made a fresh announcement of its industrial policy which aimed at enhancing production, establishing industries that would earn and save foreign exchange, providing tariff protection to "infant" industries, undertaking scientific and industrial research and giving incentives to the establishment of industries in economically backward areas. Encouragement of foreign investment was reiterated and measures for their promotion were

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<sup>7</sup>Industrial Development, Asia and the Far East, Volume III, op.cit., p.iii.

<sup>8</sup>The Third Five-Year Plan, (Rawalpindi: Government of Pakistan, 1965), p.iv.

specified. These policies did contribute to rapid expansion of consumer, export and producer goods in the country. Besides, there was marked improvement in industrial efficiency and in the quality of domestically produced goods.<sup>9</sup>

### Pakistan's Economic Development Plans

As was true of most underdeveloped country's desirous of economic growth, Pakistan's planning consisted of three distinct parts:

1. Long-term planning - twenty to twenty five years,
2. five-year planning - a series of five-year plans covering the long term period,
3. and annual development plans - to give flexibility to the five-year plans.

### The Six-Year Development Plan (1951-1957)

The Six-Year Plan was officially described as "essentially one of basic development intended to prepare the country for future advancement."<sup>10</sup> The allocation of funds was as shown in Table 1 below.

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<sup>9</sup>Industrial Development, Asia and the Far East, Vol. III, op.cit., p.112.

<sup>10</sup>Sharif, op.cit., p.307.

Table 1  
THE SIX-YEAR DEVELOPMENT PROGRAM: 1951-1957

Sectors	Rupees in Millions	Percentage Distribution
Agriculture	820	31.6
Transport and Communications	530	20.4
Fuel and Power	470	18.1
Industry and Mining	490	18.8
Education and Training	190	7.3
Housing	40	1.5
Health	40	1.5
Water Supply	20	0.8
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Total	2600	100.0

Source: Report of the Economic Appraisal Committee,  
(Karachi: 1962), pp.72-73.

The Six-Year Plan was, however, substituted after four years of operation by the First Five-Year Plan in 1955. In the four years that it was operational, the Central Government undertook a total investment of over Rs.2,090 million as opposed to the targeted amount of Rs.2,600 million.<sup>11</sup> Since the plan had been hastily prepared it did not reflect balanced and coordinated planning. Both human as well as material resources fell short of expectations. The initiation of the Plan coincided with the economic boom which resulted because of the outbreak of the Korean War. Cotton and jute exports to the United States increased sharply thereby increasing the Government's revenues and foreign exchange earnings. On the other hand, Korean War also resulted in the rise of the prices of capital goods and costs of projects which were not offset by the rise in the prices of Pakistan's exports. The balance of payments deteriorated sharply. External aid, too, fell short of expectations. The foreign exchange problem gave rise to the formulation of a two-year Priority Program for 1952 and 1953. This Plan included some projects of the Six-Year Plan and some new projects, particularly, in transportation and industry. The Plan also emphasized self-sufficiency in consumer goods (import substitution industries) and development in the two key sectors of power and transport. The importance,

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<sup>11</sup>Industrial Development, Asia and the Far East, Vol.III, op.cit., p.113.

that had been assigned to agriculture in the earlier program was removed. The period shortly after the end of the Korean War brought even more hazards for the country's economy. As exports contracted, revenue and foreign exchange earnings dropped even further. Due to a wheat shortage in 1952-1953 a large part of Pakistan's foreign exchange earnings were directed to wheat imports. The general economic conditions worsened and terms of trade declined.<sup>12</sup> In spite of such shortages as of capital goods, managerial and technical skills, etc., the Six-Year Plan continued to be implemented, though not very successfully. There was great protection extended to the private sector industries which contributed to rapid industrial growth during the period.

The Six-Year Plan as mentioned was not a very well integrated and coordinated plan. As Haq puts it, "The Six-Year Development Plan was a plan more in name than in content and represented merely a loose aggregation of a number of individual projects in a number of fields."<sup>13</sup> In the words of Waterston, "Although envisaged by its compilers as a development plan because it included some reference to the private sector and attempted to group public sector projects by sectors, the Six-Year Development Plan was little more than a public investment

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<sup>12</sup>Sharif, op.cit., pp.308-309.

<sup>13</sup>Mahbub Ul Haq, Planning Machinery in Pakistan, (Paris: Paper to OECD Seminar, October 1964), p.1.

program containing projects which had been selected on an ad hoc basis without reference to available resources and requirements of the economy."<sup>14</sup> Private investment was attracted to those industries that provided the highest profits, least investment and the smallest amount of organizational effort. Future needs were totally disregarded.

Whatever its shortcomings, the Plan did contribute towards industrial growth in the country. Industrial assets, in fact, increased by three and a half times during 1950-1955. Even though the industrial base had been extremely narrow in 1950, there were significant absolute increases in capacity in existing as well as newly established industries. Private investment in combination with Government outlays through the Pakistan Industrial Development Corporation (P.I.D.C.) contributed to industrial growth.<sup>15</sup> The P.I.D.C. was established in 1952 by the Government for the purpose of promoting industrial projects which private entrepreneurs were unwilling or unable to undertake.

#### The First Five-Year Plan (1955-1960)

In 1955, Pakistan entered its second phase of economic planning when it launched its first well coordinated and integrated development plan which replaced the Six-Year Plan,

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<sup>14</sup> Waterston, op.cit., p.15.

<sup>15</sup> Ibid., p.18.

after the latter had been operational for four years.

The First Five-Year Plan allocated Rs.3,215 million for industrial investment, of which Rs.1,735 million was to be undertaken in the private sector and Rs.1,480 million in the public sector. The actual investment, however, was estimated at Rs.1,100 million in the private sector and Rs.770 million in the public sector during 1955-60. This reflected a shortfall of about 635 million in the private sector and about Rs.710 million in the public sector.<sup>16</sup> In fact, accomplishments in physical terms fell considerably short of targets in mostly all sectors even though total development expenditures had only been about 10 per cent below the plan's estimates. Some of the reasons for the set-backs faced by the plan are given below:<sup>17</sup>

1. Resources fell short of requirements mainly because non-development expenditure exceeded expectation, foreign exchange earnings were smaller than expected both because of lower international demand and inadequate domestic production, and foreign aid was also much smaller than expected.
2. Substantial rises in both internal as well as

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<sup>16</sup>Industrial Development in Asia and the Far East, Vol.III, op.cit., pp.140-141.

<sup>17</sup>Sharif, op.cit., pp.313-314.

external prices upset the cost-calculations included in the Plan. Costs of projects had to be revised upward which meant additional resources of financing had to be found.

3. There were shortages of technical personnel, deficiencies of equipment and materials and poor coordination between Government agencies which further delayed completion of projects.
4. There were other factors like adverse climatic conditions and serious decline in the terms of trade that affected the Plan for the worse.
5. One of the important factors that seriously affected the performance of the Plan was the lack of ability and willingness, exhibited by the administrative machinery, to observe the discipline of the Plan.

Despite the problems, the industrial sector grew substantially. The index of industrial production, spanning seventeen major industries, rose from 100 in 1953 to 336.6 in 1955 and 543 in 1960. This was because of many factors such as the existence of a large number of opportunities for profits in private industry, extensive protection was provided to domestic industry from foreign competition, favorable exchange rates for imported capital goods, reduced tax rates, high depreciation allowances and so forth. Large numbers of loans by public agencies coupled with heavy public outlays on basic

facilities needed by industry all contributed to industrial investment during the First Five-Year Plan. In the public sector, P.I.D.C. (Pakistan Industrial Development Corporation) continued to set up jute, paper, woolen and sugar mills, cement factories, chemical plants and shipyards. In fact, P.I.D.C. was responsible for expanding capacities in many fields.<sup>18</sup>

Even though industrial growth had been impressive during the Plan (see Tables 2 and 3), it had serious drawbacks. Much of the industrial expansion was confined to large and medium-scale industry whereas the small and cottage industries were neglected. In fact, the evidence reflects that industrial growth was not only independent of the Plan, but haphazard as well. Many of the new industries that had been set up neither earned foreign exchange nor helped minimize the drain on external resources by substituting domestic products for imports. In some instances, the existing capacity was larger than was justified by the domestic market or export possibilities. This often resulted in operations below installed capacity.<sup>19</sup>

External aid continued to play an extremely significant role in the industrial development of the country. It had been helpful to Pakistan in providing Pakistan with capital

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<sup>18</sup> Waterston, op.cit., p.69.

<sup>19</sup> Ibid., pp. 69-70.

Table 2

## ACTUAL PRODUCTION OF KEY INDUSTRIAL GOODS DURING THE FIRST PLAN

Industry	Unit	1955	1960	Percentage increase
ton cloth	million yds	453	629	38
le goods	000 tons	103	265	156
gar	000 tons	95	145	52
igarettes	million	4833	9,946	105
ble oils	000 tons	120	150	25
etable oils	000 tons	15	34	125
	million lbs	54	42	-22
er & board	000 tons	20	40	100
ent	000 tons	681	1,120	64
ertilizers	000 tons	nil	42	-
ural gas	million cu.ft.	1,376	29,842	2,150
el ingots	000 tons	10.6	7.4	-30

ce: HAQ, op. cit., p.164.

Table 3

FIXED ASSETS IN INDUSTRIES, 1955-1960  
(MILLION RUPEES)

gion	1955	1957	1958	1960	*Difference 1955-1960
t Pakistan	302.47	398.80	532.72	522.47	219.99
t Pakistan	473.08	705.70	904.24	951.63	478.54
achi	304.96	424.53	471.40	489.76	184.79
al	1,080.52	1529.04	1908.37	1,963.86	883.33

ce: Industrial Development, Asia and the Far East, Vol.III  
op.cit., p.114.

e difference of 833.33 million rupees between the fixed assets  
1955 and 1960 is net of annual depreciation.

goods, commodities, technicians and training facilities.

Total foreign aid received and utilized by Pakistan upto 30th June 1960, is shown in Table 4. Foreign private investment, from the following countries, arose to Rs. 305.04 million in December 1959:<sup>20</sup>

<u>Country</u>	<u>Amount (Million Rs.)</u>
United Kingdom	72.93
India	209.46
United States	11.28
Others	11.37
<hr/>	
Total	305.04

Overall, the Plan was a mixture of successes and failures.

Table 4

FOREIGN AID TO PAKISTAN  
(U.S. \$MILLION)

	To 30th June 1960	
	Allocation	Utilization
Project assistance	327	239
Technical assistance	105	87
Commodity assistance	727	637
Relief assistance	182	182
Credits and loans	249	172
<hr/>		
Total	1590	1317

Source: The Colombo Plan, Ninth Annual Report of the Consultative Committee on Economic Development in South and South-East Asia, 1960, (London: H.M. Stationery office, 1961), p.114.

<sup>20</sup> Industrial Development, Asia and the Far-East, Vol.III, op.cit., p.114.

According to Waterston:<sup>21</sup>

The First-Plan was necessarily a time for diagnosing administrative, organizational and other problems and testing alternative solutions. It was also a time for resolving difficulties in meeting the requirements of different foreign aid and international lending agencies which had greatly slowed down the flow of foreign financing for Pakistan's development programs and projects. While the benefits from these did not manifest themselves at the time, they were essential to the progress made during the Second Plan period. Moreover, the Plan and many important recommendations for reorganizing governmental bodies, establishing new agencies and for reforms which over a period of time were gradually adopted .....

A significant improvement had also taken place in the climate for economic growth. The country was now more politically stable since the assumption of power by Gen. Muhammed Ayub Khan in 1958. The Government had been successful in developing power, transport, communications, and urban facilities to minimize obstacles to rapid industrial growth. Moreover, the Government also produced an environment in which there were strong incentives to the private sector for the development of various industries.

#### The Second Five-Year Plan (1960-1965)

In 1960, the First Five-Year Plan ended, and the Second Five-Year Plan was implemented. Because of the gainful experience of the First Plan, the Second Plan got off to a much better start. The private sector, in particular, showed

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<sup>21</sup>Waterston, op.cit., pp.71-72.

great promise during the Plan. Actual industrial investment, in the private sector, was Rs.5885.3 million as against the Plan target of Rs.4370.3 million.<sup>22</sup> The index of production of manufacturing industries (base:1959-60 = 100) reflected an indeed impressive increase by rising to 181.3 in 1963-64 and to 201.7 in 1964-65.<sup>23</sup> The achievements in specific industries are elaborated upon in Chapter VIII.

The Government's decision to place increased reliance on private initiative had thus been justified. The entire industrial field, in fact, was made available to the private sector with the exception of arms and ammunition and atomic energy. The public sector limited its role to those industries that were imperative for the national economy and where private investment was not readily forthcoming. In spite of this limited role, the public sector contributed significantly to industrial development in the country by stimulating and initiating growth in new fields and ventures and by always willing to let the private sector take over whenever the latter was ready and willing to do so.<sup>24</sup> The manufacturing sector witnessed a growth rate of 16.3 per cent per annum during

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<sup>22</sup> Pakistan Economic Survey, 1965-66, (Rawalpindi: Pakistan Ministry of Finance, Government of Pakistan, 1966), p.29.

<sup>23</sup> Ibid., p.27.

<sup>24</sup> Industrial Investment in Asia and the Far East, Vol. III, pp.114-115.

1960-65.<sup>25</sup>

The Government, during the Second Plan, issued two Industrial Investment Schedules in the private sector, with an allocation of Rs.4370.3 million. The private sector was so responsive, that investment sanctions exceeded the provisions by reaching Rs.5885.3 million. Most of the projects sanctioned against the two schedules were completed by the end of the second plan, but a number of them were still in various stages of completion. The purpose of the Industrial Investment Schedules was to guide private investors as to where investment was desired. The Government was only responsible for overall industrial policy and for provision of foreign exchange.<sup>26</sup>

A number of measures adopted by the Government boosted industrial production, for instance, the import policy was liberalized, the imports of machinery, spares and raw materials were increased. Infant industries were provided with tax holidays for as much as four to eight years. Furthermore, price and distribution controls were relaxed so as to increase production and to bring about price stability. Credit facilities were also liberalized, both in local and foreign currencies. A variety of technical institutes were set up to provide industry with skilled manpower. Tariff protection was

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<sup>25</sup> Papanek, op.cit., Table 6, p.20.

<sup>26</sup> Pakistan Economic Survey, 1965-66, op.cit., pp. 28-29.

extended to chosen industries. Basic facilities such as land, water and power were provided through the establishment of industrial estates. By the end of the Plan period private enterprise had also developed enough expertise which enabled it to expand its operations.

Foreign aid, loans and credits greatly contributed to the industrial development in Pakistan. Out of the total amount of foreign loans received during the Second Plan period (\$980.55 million), the United States provided the largest portion (43.7%), followed by the World Bank (14.4%), Japan (13.4%) and Germany (11.2%). Foreign investment, too, played an important role. An estimated Rs.450 million worth of new foreign investment was undertaken during the Second Plan.<sup>27</sup>

#### The Third Five-Year Plan (1965-1970)

Despite the successful performance of the Second Five-Year Plan, Pakistan's problems were far from being over. It was a time when foreign aid, crucial to Pakistan's industrial development, fell short of targets. The 1965 war with India resulted in the cancellation of all U.S. economic and military aid to Pakistan. This caused essential resources to be diverted away from development investment to financing war activities. In addition, the agricultural sector faced a whole host of setbacks arising from floods, droughts and poor crops. This

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<sup>27</sup> Ibid., pp.32-33.

caused substantial increases in the amount of foreign exchange being spend on importing food items. However, all was not lost and, in fact, from 1967 onwards things started looking brighter and the Third Five-Year Plan was ultimately successful, in part, in achieving its objectives.

The Plan had initially earmarked Rs.12,779 million for industrial development, of which Rs.4470 million was in the public sector and Rs.8300 million in the private sector. The total expenditure on industrial development was 24 per cent of the total plan outlay of Rs.5200 million. However, due to some of the reasons mentioned above, actual investment was much lower in both the private as well as the public sectors. Actual industrial investment in the public sector in the Third Plan was estimated at Rs.2677 million and in the private sector at Rs.6326 million.<sup>28</sup>

The year 1966-67 was one of transition. The first half of the year, in particular, reflected the aftermath of the effects of a variety of problems and difficulties that had engulfed the country in 1965. However, there were some indications of the economy showing an improved look towards the end of the year. During the year Pakistan had faced a shortage of many essential raw materials, an abnormal increase in prices and strains on many basic facilities, especially transport and power. The shortage in the supply of raw

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<sup>28</sup> Pakistan Economic Survey, 1969-70, op.cit., pp.26-27.

materials was largely the result of the cancellation of foreign assistance in 1965 by the U.S. The monetary and price situations had also shown considerable strains.

By the end of 1967-68 conditions had improved considerably which also meant the end of the period of adjustments through which the third Plan had to pass in its first two years of implementation. The growth rate of the large-scale industries sector slid from an average of 15 per cent per annum during the Second Plan to 6 per cent in 1965-66 and rose again to 10 per cent in 1967-68.<sup>29</sup> However, the average annual rate of growth in large-scale industries was only 8.6 per cent during the Third Plan. During the period from 1968 to 1970 many industries reflected a substantial increase in production, including cement, cotton yarn and cloth, chemicals, sugar, etc. The quantum index of industrial production (1959-60 = 100) showed a rise from 201.7 in 1964-65 to 282.9 in 1968-69 and was estimated at 303.8 in 1969-70.<sup>30</sup>

Foreign assistance continued to play a very significant part in the country's industrial development. The major donor of foreign aid was the United States. In addition, a consortium

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<sup>29</sup> The Colombo Plan, Sixteenth Annual Report of the Consultative Committee on Economic Development in South and South-East Asia, 1968, (London: H.M. Stationery Office, 1969), p.212.

<sup>30</sup> The Colombo Plan, Eighteenth Annual Report of the Consultative Committee on Economic Development in South and South-East Asia, 1971, op.cit., p.256.

led by the World Bank and made up of the United States, Belgium, Canada, France, West Germany, Japan, Norway, the Netherlands, Sweden and Great Britain also provided coordinated economic assistance and has helped work out plans for its effective use. The United Nations Development Program (U.N.D.P), in conjunction with several specialized agencies, also provided economic aid for the country's development programs.

While in the First Plan foreign aid financed about 50 per cent of the total development expenditure, in the Second Plan period this figure had dropped down to 35 per cent. And in the Third Plan foreign aid financed only 22 per cent of the total development expenditure.<sup>31</sup> From this trend it would not be difficult to ascertain Pakistan's persistence on self-reliance rather than letting foreign aid become a substitute for the country's own efforts.

At the end of the Plan period in 1970, Pakistan was in a relatively better position. During the twenty-year period (1950-1970) the average annual rate of industrial growth was 8 per cent whereas large-scale manufacturing showed a growth rate of 14 percent, which was one of the highest among the less developed nations of the world. The nation's foreign exchange earnings from industrial production had, by 1970, increased threefold since 1960. Half of her total exports by this time consisted of manufactured items, mostly textiles.<sup>32</sup>

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<sup>31</sup> Ibid., p.259.

<sup>32</sup> Operations Report, F.Y. 1970, Agency for International Development, Washington D.C., 1970, p.31.

Industrial development in Pakistan, during the period from 1947 to 1970, was mainly the result of the efforts of the private sector. However, the Government also performed some essential functions that contributed to industrial growth. It was responsible for developing the infrastructure, extending industrial credit, framing plans and policies, and also carrying out some industrial investment<sup>33</sup> under the auspices of the P.I.D.C. In the early 1950's the Government could not adequately prevent bottlenecks largely because of its inefficient operations and limitations on the amount of resources available. This resulted in substantial waste in the private sector. For instance, insufficient public power meant that private firms were forced to install their own highly expensive power generating equipment; often there were shortages of equipments which meant that firms had to delay their operations for long periods of time. Furthermore, the usual horror stories, associated with any developing country, can be cited including such instances as of bribery and pilferage, of investment not used to capacity, of poor maintenance, of poor organizational arrangements and so forth. Yet, there is also evidence that the efficiency of the Government increased over time. The planning process become more refined as the planning agencies gained more experience. In fact, by 1965 Pakistan had the necessary machinery "to rationally examine and execute quite

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<sup>33</sup>Papanek, op.cit., p.75.

sophisticated economic policies."<sup>34</sup>

In Papanek's words:<sup>35</sup>

Besides providing much of the infrastructure and doing the overall planning which affected the economy as a whole, the Government also carried out two activities specifically concerned with industrial development. It was instrumental in setting up institutions to provide credit to private investors, and it invested directly in industry.

Waterston's opening remarks concerning development planning in Pakistan are worth mentioning here:<sup>36</sup>

Within these sixteen years, however, a faltering economy with a precarious outlook has been converted to one beginning to grow at an encouraging rate with promising prospects for continued advance. Planning helped bring about this transformation. From inauspicious beginnings in a politically unstable and largely unstable environment, planning has developed into an accepted function of Government. Within a decade of its establishment as a temporary body, the central planning agency is not merely accepted as a permanent part of governmental administration; it is widely recognized as one of the most effective governmental bodies in Pakistan. Few planning offices in developing countries can claim such clear progress.

Planning experience in Pakistan has revealed the importance of relating plans to basic, economic, financial and fiscal policies. In the early stages of planning, various Government bodies devised policies that were often in conflict with plan objectives. Thus, agricultural programs and controls often hampered industrial development in the country. It was not

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<sup>34</sup>Ibid., pp.81-87.

<sup>35</sup>Ibid.

<sup>36</sup>Waterston, op.cit., p.1.

until the implementation of the Second Plan (1960-65), that the Government fully understood the importance of integrating development plans with economic and financial policy.

### "Sources" of Industrial Growth

There are other factors, besides the development plans of the Government, that have had important influences on the pattern and rate of industrial growth in Pakistan. Some of the major ones are examined below:<sup>37</sup>

1. One of the major influences was the Partition itself. It is argued that even if Pakistan had not adopted protectionist policies, but had continued to trade with India, it is very likely that industrial development would have occurred in Pakistan anyway.
2. The trade policy adopted by the Government was also responsible for the high rate of industrial growth.
3. The third major factor that affected the structure of industrial production was the domestic production of a variety of agricultural raw materials that could be processed within Pakistan instead of being exported.

These three factors are discussed, briefly, in the paragraphs below. "Source" is deliberately kept in quotation marks, since

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<sup>37</sup>Stephen R. Lewis, Economic Policy and Industrial Growth in Pakistan, (London: George Allen and Unwin Ltd., 1969), pp. 12-16.

the definition of those sources is not of universal acceptability.

#### The effects of Partition

As suggested, there was little manufacturing activity in the area that became Pakistan in 1947. This region (Pakistan) sent agricultural raw materials to other parts of India in exchange for manufactured goods. Most of this trade was with other regions of India. Looking at Table 5 an idea can be made as to how much Pakistan's manufacturing output was below that of a "typical" country. This kind of indirect evidence suggests that Pakistan came into existence with a disequilibrium in her domestic productive structure and that a large part of the growth occurring after Partition was an adjustment process, "working off the effects of a very large shock to the economy's cost, price and productive structure."<sup>38</sup>

Before Partition, there was little incentive to establish industrial facilities in the area that became Pakistan because adequate productive capacity existed in India which could serve both the markets. After Partition, even if relations between the two countries had been normal, the cost of imports would still have gone up owing to the normal problems involved in currency conversion and trade beyond

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<sup>38</sup>Ibid., pp.50-53.

Table 5

PROPORTION OF DOMESTIC PRODUCTION IN  
TOTAL SUPPLY OF MANUFACTURES

	*Typical* Country	Pakistan 1951/52	1954/55
2000 } Food,			
2100 } beverages	0.962	0.415	0.778
2200 } & tobacco			
2300 Textiles	0.868	0.129	0.786
2400 Footwear/ clothing	0.977	n.a.	0.998
2500/2600 Wood products/ furniture	0.938	n.a.	0.345
2700 Paper manufacturing	0.629	n.a.	0.494
2800 Printing and Publishing	0.977	n.a.	0.910
2900 Leather manufacturing	0.933	n.a.	0.989
3000 Rubber manufacturing	0.852	0.254	0.409
3100/3200 Chemicals/ petroleums/ coal products	0.842	n.a.	0.176
3300 Non-metallic minerals	0.958	0.800	0.806
3400/3500 Basic metals and metal products	0.913	0.142	0.440
3600/3700 Machinery including electrical	0.169	n.a.	0.092
3800 Transport equipment	0.413	n.a.	0.140

Note: "Typical Country" here refers to one of \$75.00 per capita income and 100 million population.

Source: Lewis, op.cit., p.52.

national boundaries. Thus it became cheaper to produce goods, from domestic raw materials, than to import them from other countries. There existed a large market in Pakistan for manufactured items that had been previously imported from India. Most of these items were made out of agricultural raw materials produced in the region which was now Pakistan. "The nature of equilibrating mechanism was the change in profitabilities of investing in different industries." Had the trade policy of the Government been not restrictive, the equilibration process would have taken much longer, since the profitability of industrial investment in Pakistan would not have been so high.<sup>39</sup>

#### Economic policies

The Government used direct quantitative controls on imports to regulate the level and the composition of imported goods. Furthermore, tariffs were imposed on imports, and export taxes on the two major agricultural exports: Jute and cotton. The terms of trade were deliberately turned against the agricultural sector in favor of industry for the purpose of transferring income to the high-saving manufacturing sector.<sup>40</sup> It would be interesting to view the implicit exchange rates given in Table 6 (an implicit exchange rate is a ratio

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<sup>39</sup>Ibid., pp.58-59.

<sup>40</sup>Ibid., p.59.

Table 6

IMPLICIT EXCHANGE RATES FOR AGRICULTURAL AND MANUFACTURED  
GOODS, EAST AND WEST PAKISTAN (THREE-YEAR AVERAGES)

	EAST PAKISTAN				WEST PAKISTAN			
	Manufactured Goods Purchased by Agriculture	Agricultural Goods Purchased by Market- ings	Manufactured Goods Purchased by Manufac- turing	Gross Output	Manufactured Goods Purchased by Agriculture	Agricultural Goods Purchased by Market- ings	Manufactured Goods Purchased by Manufac- turing	Official Exchange Rate
1951-54	6.15	9.07	2.87	3.32	7.07	8.39	3.81	3.31
1952-55	6.62	9.74	2.73	3.01	7.63	8.94	3.81	3.31
1953-56	6.88	10.17	2.86	2.97	7.84	9.00	3.76	3.78
1954-57	7.00	9.81	3.70	3.77	7.66	8.51	3.94	4.27
1955-58	7.20	9.83	4.46	4.57	7.90	8.56	4.33	4.75
1956-59	7.14	9.46	4.85	5.01	7.95	8.57	4.73	4.75
1957-60	7.20	9.07	4.65	4.95	7.95	8.68	4.85	4.75
1958-61	7.21	8.56	4.75	5.10	7.73	8.59	5.06	4.75
1959-62	7.13	8.42	4.83	5.17	7.68	8.61	5.19	4.75
1960-63	6.85	8.29	4.87	5.09	7.53	8.41	5.40	4.75
1961-64	6.63	8.15	4.77	4.93	7.39	8.33	5.35	4.75

Source: Lewis, op.cit., p.19.

between the domestic wholesale price in rupees and the international price of the same item in any international medium of exchange, in this case dollars). It will be seen that even in the mid-1960's the agricultural sector received around Rs.5.00 for agricultural goods worth \$1.00, but it paid over Rs.8.00 for manufactured goods worth \$1. This suggests that agriculture got about one-third less than it might have under free-trade. However, it can also be seen that this gap has narrowed considerably in a gradual fashion "which is consistent with the hypothesis that the growth process worked off the disequilibrium of Partition and the trade policies adopted in the 1960's."<sup>41</sup> Furthermore, East Pakistani farmers had to face even worse terms of trade in the 1950's because of a lower implicit rate for agricultural goods as well as due to a higher implicit rate for manufactured goods in that province.<sup>42</sup>

Tariffs and indirect taxes have played a relatively minor role in directing resource allocation. It was the direct quantitative controls that were mainly responsible in setting prices and incentives. Because of their substantial effect on relative prices, these controls accelerated the process of structural change both by inducing the entrepreneurs to invest in different industries and by transferring great

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<sup>41</sup> Ibid., pp.89-94.

<sup>42</sup> Ibid.

amounts of income to such industrialists who reinvested them in the highly profitable manufacturing sector. It is argued that the directions that industrial growth took would probably have been the same if there had been an absence of major policy decisions simply because of the market size and domestic resource availabilities. The policies only served to speed up industrial growth owing to the reasons just discussed.<sup>43</sup>

### Regional Disparities

It would be worth noting that much of the industrial development, occurring in Pakistan, between 1947 and 1970, took place in the western wing. It is argued that differences between East and West Pakistan, in terms of factor endowments, resource position, or growth potential, were not of such a magnitude that would lead one to believe that it was in the nature of things that West Pakistan would enjoy a much faster rate of economic growth than East Pakistan. In fact, between 1947 and 1950, the total income of East Pakistan had remained slightly higher than that of West Pakistan.<sup>44</sup> The G.D.P of West Pakistan (in 1949-50) was Rs. 12,091 million at 1959-60 factor cost, while East Pakistan's G.D.P was Rs. 12,374 million. These

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<sup>43</sup>Ibid., p.111.

<sup>44</sup>Arjun Gupta, "Regional Disparity and Economic Development of Pakistan" in Bangladesh Economy, Problems and Prospects, ed., V.K.R.V. Rao, (Delhi: Vikas Publications, 1972), p.17.

figures suggest that, in terms of the level of G.D.P., the two regions started roughly from the same base (East Pakistan's per capita income was slightly lower because of larger population size).<sup>45</sup> And yet economic development was much higher in West Pakistan than in East Pakistan. For instance, East Pakistan in 1947 had more textile mills than West Pakistan, and yet by 1970's the eastern wing was the largest importer of finished textiles from West Pakistan.<sup>46</sup>

One reason why disparities between the two regions began to grow over time was the, comparatively, lower level of Government expenditure, in East Pakistan, on physical infrastructure, transport and communications (see table 7), even though 55 per cent of the population resided in that province.

There is also evidence that suggests that certain financial institutions designed to accelerate industrial development, such as the Pakistan Industrial Credit and Investment Corporation (P.I.C.I.C.) and the Industrial Development Bank of Pakistan (I.D.B.P.), favored the West Pakistani industrialists in granting industrial credit (see table 8).

Furthermore, with a system of import licensing and foreign exchange allocation, much depended on Government policy in determining both the location and growth of industries in

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<sup>45</sup>Kalyan Dutt and Others, Bangladesh Economy, An Analytical Study, (New Delhi: People's Publishing House, 1973), p.15.

<sup>46</sup>Nurul Islam, Development Strategy of Bangladesh, (Oxford: Pergamon Press, 1978), p.3.

Table 7

## DEVELOPMENT EXPENDITURE IN EAST AND WEST PAKISTAN

Period	(in millions of rupees)							
	Development plan expenditures		Outside plan expenditure		Total development expenditure (2+5+6)		Total expenditure	
	total	public	private	works programme				Development expenditure in regions as per cent of all Pakistan total
1	2	3	4	5	6	7	8	9
<b>East Pakistan</b>								
1950/51-1954/55	1,000	700	300	-	-	1,000	2,710	20
1955/56-1959/60	2,700	1,970	730	-	-	2,700	5,240	26
1960/61-1964/65	9,250	6,250	3,000	-	450	9,700	14,040	32
1965/66-1969/70	16,560	11,060	5,550	-	-	16,560	21,410	36
<b>West Pakistan</b>								
				Indus Basin Works Programme				
1950/51-1954/55	4,000	2,000	2,000	-	-	4,000	11,290	80
1955/56-1959/60	7,570	4,640	2,930	-	-	7,570	16,550	74
1960/61-1964/65	18,400	7,700	10,700	2,110	200	20,710	33,550	68
1965/66-1969/70	26,100	10,100	16,000	3,600	-	29,700	51,950	64

Note: Public sector development expenditure of the provincial government plus that of central government on projects located in the province, mainly based on Planning Commission estimates. Private development expenditure as estimated by Planning Commission.

Source: Kalyan Dutt, op. cit., p.23.

Table 8

REGIONAL DISTRIBUTION OF LOANS BY CERTAIN  
FINANCIAL INSTITUTIONS, 1961-62 TO 1966-67

Years	(in millions of rupees)					
	PICIC		IDBP		HBFC	
	East	West	East	West	East	West
1961-62	29	95	87	81	-	-
1962-63	47	103	110	69	12	37
1963-64	9	132	195	149	32	32
1964-65	38	227	86	150	35	36
1965-66	76	140	47	149	32	29
1966-67	-	-	151	173	30	30

Source: Kalyan Dutt, op. cit., p.25.

Pakistan. On the average, East Pakistan received only 30 per cent of the total commercial and industrial licenses issued during the 1950's and early 1960's.<sup>47</sup> This promoted rapid industrial growth in the West, whereas the East lagged behind.

Another related aspect is that East Pakistan continued to have a large deficit in trade with West Pakistan. Since the eastern wing had comparatively little industry, her imports from West Pakistan consisted of large amounts of consumer goods, raw materials and capital goods. Much of East Pakistan's foreign exchange, earned from jute exports to other countries, was diverted to West Pakistan.<sup>48</sup> Hence, West Pakistan received

<sup>47</sup>Kulyan Dutt, op.cit., pp.26-27.

<sup>48</sup>Ibid., pp.25-26.

a net transfer of real income from East to West Pakistan to the extent of Rs.180 million per year (from 1948 to 1961). This represented more than 2 per cent of East Pakistan's average annual income.<sup>49</sup>

Such were the factors that brought about a much higher rate of industrial development in West Pakistan as compared to East Pakistan.

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<sup>49</sup>Ibid., pp.31-32.

## CHAPTER IV

## PAKISTAN'S INDUSTRIALISTS

This chapter focuses on the background of Pakistan's industrial entrepreneurs and their sources of finance. These were the people who were mainly small-time traders before 1947, with hardly any industrial experience. Many of these merchants had migrated from India at the time of Partition. In the early stages of industrial development, whatever capital that was required for investment purposes originated from the entrepreneurs' own savings.

It is rather interesting to note that, in the middle 1960's, two-thirds of private industrial investment, owned by Muslims, was controlled by entrepreneurs who had been traders previously. Most of these entrepreneurs belonged to "communities" known as the Memons and the Chiniots, and they migrated to West Pakistan in 1947. On the other hand, there were very few traders among the Bengali Muslims, and so East Pakistan produced few industrial entrepreneurs.<sup>1</sup>

There are three characteristics of Pakistan's industrial development which differ from the early stages of the industrial development process in some of the currently

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<sup>1</sup>Papanek, op.cit., pp.42-43.

developed countries.<sup>2</sup>

1. The firms that started emerging in the country were large.
2. Much of the technology was imported from the developed countries.
3. The process of industrial development was very rapid because of extremely lucrative incentives.

All three of these characteristics influenced the financing of industrialization and the nature of the entrepreneurial group that was responsible for bringing about this industrialization. The firms were large and so required huge capital outlays. Since very few credit institutions existed in the beginning only those traders that had enough savings of their own were successful in establishing industrial facilities. These merchant-capitalists could easily expand their operations by reinvesting profits, thus forcing the smaller manufacturers-cum-traders out of business. The result was that, the industrial structure which emerged reflected a high degree of concentration. As regards the second characteristic, since most of the units were large and technology could be imported from abroad, it was not important that the entrepreneurs be in possession of the relevant

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<sup>2</sup>Papanek "Pakistan's Industrial Entrepreneurs - Education, Occupational Background and Finance" in Development Policy II - The Pakistan Experience, ed., Walter P. Falcon and Gustav F. Papanek, (Mass: Harvard University Press, 1971), p. 237

technical knowledge and/or formal education. Furthermore, the speed of the industrial development process, the third characteristic, owed a great deal to the Government's policies of providing extensive protection to domestic industry from foreign competition.<sup>3</sup>

Thus, these three factors decided which group would dominate industrialization, the educational and technical knowledge required by them, and their sources of finance.<sup>4</sup>

#### Educational Background of the Entrepreneurs

Most of the nation's entrepreneurs had not received a formal education but were still better off as compared to the majority of the population that largely consisted of cultivators. However, they were less well educated than other elite groups like the large landlords and government officials. Furthermore, as Papanek suggests, it is not possible to find any clear relationship between education and success in industry in Pakistan. Most of the industrialists had at best completed education upto the primary school level. And this group controlled one-third of the country's industrial investments. The industries that they controlled were mainly non-traditional whereas the firms in traditional industries were handled by the most highly educated entrepreneurs.

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<sup>3</sup>Ibid., pp.237-238.

<sup>4</sup>Ibid.

Normally, one would expect the opposite, i.e., the less educated entrepreneurs be involved in the simple processing industries whereas the highly educated group be engaged in the non-traditional industries.<sup>5</sup>

Studies have been undertaken that suggest Pakistan's industrial development was initiated by entrepreneurs who had little or no formal education, whose performance was comparable to their educated colleagues and were greatly successful in establishing industries that required complex technology or huge capital outlays. In fact, it can be ascertained from these studies that industrialists with secondary education performed above average in terms of growth and profits whereas those who had college or other advanced technical education showed a relatively poor performance. It was after about ten to twelve years of the start of industrial development in the country, that conditions changed as decision-makers increasingly were trained technicians and managers. Thus in Pakistan, education followed industrial development rather than preceding it.<sup>6</sup>

As regards technical knowledge, Pakistan's industrial entrepreneurs who controlled complex industries bought their technical know-how the same way as they bought their plant and equipment. Foreign technicians played an important role

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<sup>5</sup>Ibid., p.240.

<sup>6</sup>Ibid., pp.239-240.

even in late 1950's, when many of the foreigners who had accompanied the industrial machinery were gone. In the late 1960's, this role of the foreign technicians had diminished considerably as the young family members were increasingly being trained in technical skills.<sup>7</sup>

The lack of technical knowledge is considered to be quite a serious problem for the less developed countries. In Pakistan's case, this problem proved to be quite manageable. Machinery was imported from abroad only if the company could provide technicians with it who would establish the plant and supervise its operations for a given period of time. The Pakistani entrepreneur controlling the firm thus, had to make adequate financial arrangements, hiring indigenous workers, purchasing machinery and other imports, and making arrangements for marketing his products. They hired their engineers and some plant managers from abroad, but their lawyers, accountants, labor relations officers, and most plant managers were mostly Pakistanis.<sup>8</sup>

#### Their occupational background

Most of the industrial entrepreneurs that had initiated the industrial development process in the country were primarily traders before 1947. Yet these people

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<sup>7</sup>Ibid., p.245.

<sup>8</sup>Ibid., pp.246-247.

controlled two-thirds of the industrial assets in 1959. An important reason why small shopkeepers, employees and artisans were unsuccessful was their lack of access to sufficient capital, technology and contacts that are required by modern industry. Another pre-requisite to industrial expertise was the willingness to take substantial risks. The entrepreneurs who helped develop Pakistan's most sophisticated industry were experienced large-scale traders before 1947. In trying to ascertain the reasons for their innovative behavior, one would find incentives and capital to be of greater importance than technical knowledge or industrial background.<sup>9</sup>

#### Their sources of finance

The start of industrialization in Pakistan began by the investment of profits arising from trade. Of the total funds used in financing the initial establishment of industries, about 40 per cent was from trade profits (including government contracting). In the early period of industrialization, banks and other financial institutions did not significantly contribute to the initial financing of privately held industry. Only about 10 per cent of the finances for initial investment came from commercial banks and none from government credit institutions like the P.I.C.I.C. As stated by Papanek, "often the dominant family allowed an enterprise

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<sup>9</sup>Ibid., pp.248-255.

to go public after they had skimmed off the high profits of the early years, thus obtaining funds for new investment in high-profits areas." Thus, the most important source of financing was reinvested earnings, which provided almost half of the industrial investment in 1958-59. Later on, the role of the various financing institutions expanded, and assets doubled as profits were reinvested.<sup>10</sup>

In conclusion, the Pakistan experience indicates that if an underdeveloped country, starting from scratch, desires to undertake private industrial development can succeed in this direction even if it lacks an experienced industrial class, a well-educated populace, or trained technicians and managers. All that Pakistan required to initiate its process of industrial development was to group together a handful of enterprising individuals who were willing to partake in a new activity, were willing to take a substantial amount of risks, had the ability to organize the required capital and skilled manpower and also possessed good contacts with suppliers and buyers. However, the planners and policy-makers of such countries must be forewarned about the distributional implications of whatever type of economic policy they may ultimately decide to pursue. For the concentration of wealth in a few hands may subsequently lead to social and political upheavels of a magnitude comparable to those occurring in Pakistan in 1971, when East Pakistan decided to exist separately as an independent nation by the name of Bangladesh.

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<sup>10</sup>Ibid., pp.255-257.

## CHAPTER V

## MOBILIZATION OF CAPITAL FOR INDUSTRIAL DEVELOPMENT

This chapter briefly reviews some of the various ways that have been used to mobilize capital for industrial development.

A developing country like Pakistan has to depend to a great extent on external aid for the purposes of financing capital investments. One reason for this is that the amount of savings is simply inadequate to meet the growing needs of industry. This was one of the major problems confronting the proper implementation of the Third Five-Year Plan (1965-70). Because a large part of Pakistan's population is still engaged in subsistence agriculture, it is not possible to generate an adequate level of savings.

Ragnar Nurkse describes the poverty cycle in this way:<sup>1</sup>

On the supply side, there is small capacity to save, resulting from the low level of income. The low real income is a reflection of low productivity, which in its turn is due largely to the lack of capital. The lack of capital is the result of the small capacity to save, and so the circle is complete.

Describing the demand side of the cycle he says:<sup>2</sup>

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<sup>1</sup>Ragnar Nurkse, Problems of Capital formation in Under-developed Countries, (New York: Oxford University Press, 1953) p.5.

<sup>2</sup>Ibid.

On the demand side, the inducement to invest may be low because of the small buying power of the people, which is due to their small real income, which again is due to low productivity. The low level of productivity, however, is the result of the small amount of capital used in production, which in its turn may be caused at least partly by the small inducement to invest.

For such reasons Pakistan has looked towards external assistance for the financing of its development projects.

### Foreign Economic Assistance

Much of Pakistan's industrial development could not have taken place without external assistance. Even today foreign aid plays one of the most important roles in implementing development plans in the country.

Pakistan's first development plan, the Six-Year Plan, was implemented in 1951 but was operational for only four years before being replaced by the First Five-Year Plan in June 1955. During these four years Pakistan was the recipient of a large amount of foreign aid for the implementation of the Six-Year Plan in the form of capital grants as well as loans and technical assistance. This aid, however, was mainly for the purpose of basic development (agriculture, irrigation and power). Only to a limited extent was it utilized for industrial development. The total amount of foreign aid received by Pakistan upto June 1955 was Rs.1,275 million, which represented an increase of Rs.180 million in 1951-52 to Rs.469 million in 1954-55. However, the actual utilization of these loans and grants during the Six-Year Plan period

was limited to only 10% of the total development outlay.<sup>3</sup> This low percentage, however, improved in the later plans.

The First Five-Year Plan (1955-60), as mentioned earlier, was only partially successful in achieving its targets. Even though expenditures were on target, physical achievements showed a substantial shortfall. There were a number of reasons attributed to the partial failure of the First Plan and one of these was that the availability of foreign aid was much lower than plan projections. Also foreign exchange earnings were below Plan targets. Nevertheless, whatever foreign assistance was available was helpful in providing capital goods, technicians essential raw materials and training facilities. Total foreign economic aid received until 30th June 1960 amounted to nearly Rs.7950 million (U.S. \$1,590 million) of which a total of about Rs.6585 million (U.S. \$1,317 million) had already been spent by this time. Total development expenditure since the inception of the Colombo Plan in 1951 was Rs.10,478 million (U.S.\$2,203 million) and the total project assistance utilized, including credits and loans, amounted to about Rs.2,055 million (U.S.\$411 million). This suggests that foreign aid had contributed about 18.6 per cent of the total public expenditure on development during 1951-60.<sup>4</sup>

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<sup>3</sup>The Colombo Plan, Fourth Annual Report of the Consultative Committee, 1955, op.cit., p.107.

<sup>4</sup>The Colombo Plan, Ninth Annual Report of the Consultative Committee, 1960, op.cit., p.114.

Foreign aid financed about 50 per cent of the total development expenditure during the First Five-Year Plan. However, during the Second and Third Five-Year Plans (1960-70), foreign aid financed 35 per cent and 22 per cent of the total development expenditure respectively. One of the major obstacles faced by the Third Plan was that foreign aid fell short of Plan targets (see Table 9). For instance, total disbursements during 1965-70 were 20 per cent below Plan projections. Foreign assistance had been more than adequate during the Second Plan (1960-65) in that annual disbursements were usually below the actual availability of foreign aid (see Table 10).<sup>5</sup> Compared to the total disbursements of U.S. \$1,317 million during the Six-Year and the First Five-Year Plans (1951-60), the total disbursements during the Second and Third Five-Year Plans (1960-70) amounted to U.S. \$1,546 million and \$2,397 million respectively.

Upto 31st. December 1970, foreign loans and credits amounting to Rs.5985 million (U.S. \$1197 million) were made available for the industrial sector. Ninety per cent of these had already been committed by the end of 1970.<sup>6</sup>

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<sup>5</sup>The Colombo Plan, Eighteenth Annual Report of the Consultative Committee, 1971, op.cit., pp.259-260.

<sup>6</sup>Pakistan Economic Survey, 1970-71, op.cit., p.35.

Table 9

FOREIGN GRANTS AND LOANS, PLEDGES, COMMITMENTS AND DISBURSEMENTS  
(IN U.S. MILLION DOLLARS)

Year	Plan Projections	Actuals	Percentage Shortfalls
1965 - 66 to 1969 -70			
Pledges	2,860	2,565	10
Commitments	2,787	2,702	3
Disbursements	3,000	2,397	20

Source: The Colombo Plan, Eighteenth Annual Report of the Consultative Committee, 1971, op.cit., p.260.

Table 10

GRANTS AND LOANS COMMITTED AND UTILIZED  
(IN U.S. MILLION DOLLARS)

Year July - June	Total Availability		Disbursements	
	Grants	Loans	Grants	Loans
1960-61	166.076	357	119.538	104
1961-62	123.026	416	157.889	106
1962-63	138.356	778	57.068	236
1963-64	117.155	993	33.684	307
1964-65	119.167	1,295	44.339	380

Source: The Colombo Plan, Fourteenth Annual Report of the Consultative Committee, 1966 , op.cit., p.260.

### The Industrial Investment Schedule (I.I.S.)

The Industrial Investment Schedule is an instrument of industrial sanction that indicates to the private sector where investment is desired. It has been devised to accelerate industrial development. The first schedule was announced in 1960 and was supposed to cover the Second Plan period (1960-65). However, so buoyant was the private sector that within two years it was over-fulfilled with the result that another I.I.S. had to be announced during the Second Plan period. Even this was heavily over-committed. Thus investment during the Second Plan amounted to Rs.5885 million as against Rs.4370 million originally estimated in the two schedules combined. A third schedule was announced in 1966 that covered the Third Plan Period.<sup>7</sup> However, the third schedule met with considerable failure. The pace of sanctions and utilization was far from satisfactory (see table 11). This was due to the adverse conditions experienced by the economy during the Third Plan period. These schedules covered over 107 items spanning all industrial fields.

Another scheme, known as the Pay-As-You-Earn Scheme, was designed during the Third Plan which was treated outside of the investment schedules. This scheme involved no provisions for foreign exchange from official resources. Export industries, under the scheme, were allowed to utilize a part of their

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<sup>7</sup>Pakistan Economic Survey, 1965-66, op.cit., p:29.

Table 11

UTILIZATION OF THE I.I.S. DURING THE  
THIRD PLAN (1965-1970)  
(In Million Rupees)

Province	Total Provision	Sanctioned	Utilized	Percentage of Sanctions Utilized
West Pakistan	5860.7	4678.1	1647.8	35%
East Pakistan	5024.5	2099.0	902.2	43%
Total	10,885.2	6,777.1	2550.0	38%

Source: Pakistan Economic Survey, 1970-71. op.cit., p.35.

earnings that were derived from their externally financed investments to meet the associated debt service. However, private investment was much below expectations under this scheme as well. The total amount of investments approved amounted to Rs.341.0 million (Rs.32.9 million in East Pakistan) whereas actual investment was only Rs.8.80 million (Rs.2.0 million in East Pakistan).<sup>8</sup> Overall, investment spending was extremely disappointing during the Third Plan owing to a number of reasons already discussed.

Structure of the Capital Market

The capital market in Pakistan consists of stock exchanges, insurance companies, specialized credit institutions,

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<sup>8</sup> Pakistan Economic Survey, 1970-71, op.cit., p.35.

a National Investment Trust and a postal savings scheme. A brief discussion of some of the major financial institutions, all of whom are sponsored by the Central Government is given below.

### Stock Exchanges

At the present there are two registered stock exchanges in Pakistan that occupy a position of considerable importance in the Country. One is located at Karachi and the other at Lahore. In addition, there are two regulatory agencies, namely, the Security and Exchange Authority of Pakistan (S.E.A.) and the Controller of Capital Issues (C.C.I), the latter being responsible for the sanctioning of capital stock issues of the corporate sector.<sup>9</sup>

### Insurance Companies

Since 1947, the volume of insurance business in Pakistan has witnessed a considerable expansion in major part owing to the encouraging policies of the Central Government. The Pakistan Insurance Corporation was established in 1952 to safeguard and to provide a broad base to the insurance business.

The Life Insurance business was, however, nationalized in 1972 and thus came under the jurisdiction of the newly established State Life Insurance Corporation of Pakistan.

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<sup>9</sup>Pakistan Economic Survey, 1976-77, op.cit., p.87.

The main reason for nationalizing the business, among others, was to make life insurance a more effective means of mobilizing national savings.<sup>10</sup>

### Specialized Credit Institutions

In 1957, the Pakistan Industrial Credit and Investment Corporation was set up for the purpose of promoting industrial development by extending financial assistance to the new and existing industries in the private sector. It also underwrites any public issues of shares and debentures and provides managerial, technical and administrative advice to the private sector of industry.<sup>11</sup>

The Industrial Development Bank of Pakistan (IDBP), set up in 1961, provides medium and long-term credit facilities to medium-and small-scale industries, both existing and new.<sup>12</sup>

The Agricultural Development Bank of Pakistan (ADBP) was established in 1961 for the purpose of providing loans to individuals engaged in agriculture and also those engaged in cottage industries in rural areas.<sup>13</sup>

The House Building Finance Corporation (HBFC) was set up in 1952 to advance loans to the people for the purchase of

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<sup>10</sup>Pakistan Economic Survey, 1973-74, op.cit., p.16

<sup>11</sup>Industrial Development in Asia and the Far East, Vol.III, op.cit., p.145.

<sup>12</sup>Ibid., p.146.

<sup>13</sup>Ibid.

land and construction of houses in urban areas.<sup>14</sup>

The National Investment Trust (NIT) was set up in 1962 under the auspices of the Central Government to encourage savings and investment by people in low-income categories. Such people are enabled by the Trust to pool their resources for investment in shares and securities.<sup>15</sup>

A small-savings scheme known as the National Development Savings Certificate operates under the direction of the post office. This scheme, too, is directed at the people in low-income categories.<sup>16</sup>

A whole host of other measures have been adopted to promote savings and investment since independence. To increase Government savings the tax base was broadened. Several measures to increase business and personal savings were undertaken. In order to attract private capital to the industrial sector the Government gave generous tax concessions such as investment allowances, tax rebates, reduction in the marginal rate of personal taxes, and tax holidays. In addition, a Tariff Commission was set up in 1950 for granting protection to newly established domestic industries. Also, the Pakistan Industrial Development Corporation (P.I.D.C.) was set up

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<sup>14</sup>Ibid.

<sup>15</sup>Ibid.

<sup>16</sup>Ibid.

to aid the private sector in establishing various types of industries. The P.I.D.C engages in industrial ventures with or without the participation of private capital. Besides, the Government has always recognized the importance of foreign investment in underdeveloped countries where capital formation is generally low and technical knowhow is fairly limited. With this in view, a variety of measures have been taken from time to time to attract foreign capital, including special protection to foreign investment, compensation guarantees in case of nationalization should circumstances necessitate, allowing almost all spheres of industry to be open to foreign investment, publicizing and promoting investment opportunities, setting up an Investment Advisory Center for the benefit of both local as well as foreign investors, streamlining the sanction procedure and so forth.<sup>17</sup>

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<sup>17</sup>Ibid., p.151.

## CHAPTER VI .

## INSTITUTIONAL ARRANGEMENTS FOR INDUSTRIAL PROMOTION

Pakistan's industrial progress has been made possible due both to private as well as public initiative, mainly through the various important organizations assisting industrial development. Some of these are described in the following paragraphs:<sup>1</sup>

Department of Investment Promotion and Supplies

The main functions of this department are to attract foreign investment and to examine and to sanction proposals for investment, provide guidance to industrialists and to serve as a clearing house for the problems of foreign investors in procuring land, building materials, water, power, railway and so on.

Pakistan Industrial Development Corporation

The P.I.D.C. was established in 1952 and was assigned the responsibility of promoting and developing industries in fields where private capital is not readily forthcoming. Its charter includes such industries as jute, paper, board, and newsprint, heavy engineering including iron and steel, shipbuilding, heavy chemicals, fertilizers, sugar, cement,

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<sup>1</sup>Industrial Development in Asia and the Far East, Vol.III, op.cit., pp.118-153.

pharmaceuticals and so forth. The P.I.D.C. was originally divided into the West Pakistan Industrial Development Corporation (W.P.I.D.C.) and the East Pakistan Development Corporation (E.P.I.D.C). However, the separation of East Pakistan led to the renaming of W.P.I.D.C. as P.I.D.C. The P.I.D.C. has the responsibility to plan, promote and organize joint ventures with the private sector, and subsequently transfer subscribed shares at the proper time to the private sector. Industries that were set up exclusively by the P.I.D.C. were also sold to the private sector at the appropriate time. Upto now the P.I.D.C. has been successful in establishing a number of industrial units either on its account or in partnership with private enterprise. The Corporation is also responsible for the transfer and distribution of natural gas, as an agent of the Central Government.

The Institute of Management Development, and organization that was set up to provide training to top administration of business and industry in the subject of modern industrial arrangement is also under the control of the P.I.D.C.

Pakistan Council for Scientific and  
Industrial Research (P.C.S.I.R.)

This council was set up in April 1953. It controls the National Laboratories. Its research activities cover a wide range of scientific and industrial subjects in the pure and applied fields, followed by pilot plant studies, the

industrial exploitation of new discoveries, the improvement of manufacturing processes, etc.

Pakistan Industrial Technical  
Assistance Center (P.I.T.A.C.)

This was established in 1957 and was later expanded and converted into an autonomous body in 1962. Its main functions are to provide the labor force with industrial training, to provide various technical and managerial advice for the purpose of overcoming day-to-day bottlenecks in industrial facilities, to provide assistance in the production of newly designed and sophisticated equipment, etc.

Other Government Agencies

The Pakistan Standards Institute was set up in 1951 to undertake work for the fixation of industrial standards.

The Central Testing Laboratories, since their establishment in 1951, have assisted in advancing indigenous industries by testing and inspecting industrial raw materials, finished products and, in particular, exportable products.

The Swedish-Pakistan Institute of Technology, since its inception in 1956, has provided training facilities in wood-working, ready-to-wear garments, electric and gas welding, mechanical maintenance, etc.

The Patent office has granted a large number of patents for new inventions since its establishment.

The Investment Advisory Center was set up in 1963 for the purpose of providing information to attract foreign

capital, to encourage optimum effectiveness in the use of local capital and so forth.

The National Investment Trust, established in 1962, serves the purpose of channeling savings and giving people a stake in the industrialization of the country, in addition to a share in industrial profits.

Credit agencies, such as the Pakistan Industrial Credit and Investment Corporation (P.I.C.I.C.) and the Industrial Development Bank of Pakistan (I.D.B.P.) participate in the industrial development of the country for the benefit of the private sector. These agencies or departments have been greatly helpful in providing the country with a high rate of industrial growth.

In addition, there are other institutions that assist in the process of industrial development in special fields, such as:<sup>2</sup>

#### Leather Industry Development Project

This was established in 1974 with the object of assisting and advising the manufacturers of leather, footwear and leather products in upgrading the quality of their products upto the standards acceptable in the international markets and upgrading the training and research facilities available in the country.

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<sup>2</sup>Pakistan Economic Survey, 1976-77, op.cit., pp.154-155.

Cotton Textile Industry Research  
and Development Center.

This is a U.N.I.D.O. financed project set up for the purpose of assisting the cotton textile industry to increase its efficiency and productivity. It is also involved in design and product development and improvement of quality to make the textile industry more competitive in the export market and also its specified objectives.

## CHAPTER VII :

## DEVELOPMENT OF MAJOR INDUSTRIES

This section will focus on the development of some major industries since independence. In 1947, Pakistan had only 35 proper factories in operation. Furthermore, Pakistan at that time had little financial resources and reserves to initiate any industrial undertaking in the public sector. For this reason, the private sector was provided with the greatest encouragement and flexibility possible with the idea of promoting rapid industrial growth. In the early stages of industrial development, whatever capital was required for investment purposes originated from the entrepreneurs' own savings. These were the people who had mainly been small-time traders in India before migrating to Pakistan in 1947. Gradually, the Government became more involved in the industrial activity in the country by adopting a number of measures, many of which have been discussed in the previous chapters.

Thus, initially, Pakistan had no factories for the production of fertilizers, paper, newsprint, wires and cables, steel or any other heavy industries. Most of these items had to be imported from abroad thereby consuming a lot of foreign exchange. All the development plans in Pakistan attached significant importance to the development of industry. A brief view of some of the progress achieved in various industrial sectors is provided in the following paragraphs.

### Cotton Textiles

In 1947, there were only 17 textile mills with a total capacity of 177,418 spindles and 4,824 looms. In that year, the total cloth produced amounted to less than one yard per person. By 1955 (at the beginning of the first five year plan) actual installed capacity had been raised to 1.68 million spindles and 26,000 looms. Consumption of cloth was now 12.2 yards per capita. By 1960, the installed capacity stood at 2.0 million spindles and 30,000 looms.<sup>1</sup> This figure had climbed to 2.7 million spindles and 36,000 looms by the end of the Second Plan in 1965.<sup>2</sup> At the end of the Third Plan the total installed capacity reached 3.15 million spindles and 38,000 looms (7.5 million spindles and 7,000 looms were in East Pakistan).<sup>3</sup> In March 1979, the total capacity was estimated at 3.59 million spindles and 80,500 looms, the latter including both the mill and non-mill sectors.<sup>4</sup>

By 1982-83, the total requirement of yarn is expected to rise to 42.8 million Kgs. and that of cloth of 2,040 million square meters. Thus to bridge this gap, 15,000 new

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<sup>1</sup>Industrial Development in Asia and the Far East, Vol.III, op.cit., pp.181-183.

<sup>2</sup>Pakistan Economic Survey, 1965-66, op.cit., p.39.

<sup>3</sup>Pakistan Economic Survey, 1970-71, op.cit., p.41.

<sup>4</sup>Pakistan Economic Survey, 1978-79, op.cit., pp.60-61.

looms need to be installed by 1982-83. The textile industry has been under serious strain for the last many years because of a series of national and international factors. However, certain measures were taken by the Government as a result of which the production of cotton yarn increased by 11.9 per cent during 1978-79.<sup>5</sup>

#### Jute Manufacturers

At the time of independence, Pakistan did not have even one jute manufacturing unit, even though it produced about 85 per cent of the world's raw jute. Unlike the textile industry, which was faced with a very attractive domestic market, the jute industry had to be planned to meet world market demands. The installed capacity at the end of the Third Plan (1965-70) stood at about 25,000 looms (including East Pakistan).<sup>6</sup> The products made out of jute include hessian, sacking and carpets, gunny bags and similar products. Even though demand for jute in international markets has declined over the years because of the increased availability of synthetic substitutes, it is still widely demanded within Pakistan.

At present there are 6 jute mills in Pakistan with a capacity to produce 77,907 tons of jute goods annually.

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<sup>5</sup>Ibid.

<sup>6</sup>Pakistan Economic Survey, 1970-71, op.cit., p.40.

Besides, two more jute mills are expected to go into operation soon.<sup>7</sup> The installed capacity of the four mills, in June 1977, stood at 1,509 looms and 22,224 spindles.<sup>8</sup> As most of the jute mills were located in East Pakistan (now Bangladesh), the present Pakistan, after the separation, only inherited a small fraction of the total installed capacity in 1972-73. The present demand of jute goods is estimated to be 90,000 tons as against the actual production of 33.4 thousand tons in 1977-78. The excess demand is covered by resorting to substitutes such as cotton cloth, etc. and from imports. The requirements in 1982-83 are expected to be 140 140,000 tons of jute goods, which requires the installation of an additional, 1,470 looms for which a provision of Rs. 300 million has been made under the Fifth Plan.<sup>9</sup>

#### Cement

In 1947, there were only five cement factories in the country, of which four were in West Pakistan and one in East Pakistan. The total annual production capacity of these units was 600,000 tons.<sup>10</sup>

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<sup>7</sup>Pakistan Economic Survey, 1978-79, op.cit., p.62..

<sup>8</sup>Pakistan Economic Survey, 1977-78, op.cit, p.50.

<sup>9</sup>Pakistan Economic Survey, 1978-79, op.cit., p.62.

<sup>10</sup>Industrial Development in Asia and the Far East, Vol.III op.cit., p.184.

The Third Five-Year Plan (1965-70) had envisaged a production target of 60 million tons of cement per year. However, by 1970 production had only reached the level of 2.62 million tons per year of which 2.57 million tons was being produced in West Pakistan. The Third Plan was a partial failure because of various reasons that have been mentioned earlier.<sup>11</sup>

Currently, there are a total of ten cement plants in operation in the country, all in the public sector, which have an installed capacity of 3.4 million tons. In spite of the phenomenal growth in the demand for cement during the last decade there has been no increase in installed capacity. It is expected that by the end of the Fifth Five-Year Plan (1978-83) three more cement plants will be set up. The demand for cement is expected to be about 6.0 million tons in 1982-83. This means that the installed capacity must reach 6.7 million tons in order to produce 6.0 million tons at a 90 per cent utilization rate. It is expected that after the projects under implementation are completed, the targets will be attained by 1982-83.<sup>12</sup>

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<sup>11</sup>Pakistan Economic Survey, 1970-71, op.cit., p.44.

<sup>12</sup>Pakistan Economic Survey, 1978-79, op.cit., p.66.

### Sugar

In 1947, there were seven sugar mills in operation in Pakistan (of these five were in East Pakistan) with a production capacity of 52,000 tons per year. In the First Plan period (1955-60) the number of sugar mills increased to fourteen (eight in East Pakistan) and the total production in 1955-56 stood at 102,175 tons. By the end of the Second Plan period (1960-65) ten new sugar factories had been installed and the total production of sugar exceeded Plan targets raising per capita consumption of sugar to ten pounds.<sup>13</sup>

Actual production of sugar at the end of the Third Plan in 1969-70, was placed at 640,000 tons which was in accordance with Plan targets (230,000 was in East Pakistan).<sup>14</sup>

Currently there are 31 sugar mills operating in the country with a total production capacity of 816,600 tons per year based on a crushing season of 160 days and an average recovery rate of 8.5 per cent. The actual production of sugar in 1977-78 was 856,000 tons. The year 1977-78 was an exceptionally good year for the production of sugar because the sugar mills were able to crush cane for a much longer period than would normally be the case. The Fifth Plan envisages sugar production to reach 1.2 million tons by 1982.

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<sup>13</sup>Industrial Development in Asia and the Far East, Vol.III, op.cit., p.184.

<sup>14</sup>Pakistan Economic Survey, 1970-71, op.cit., p.38.

But this will still be short of the total demand for sugar which is expected to be 1.2 million tons by 1982-83.<sup>15</sup> However, it must be pointed out that Pakistan's sugar is considered to be quite expensive because of a variety of reasons including high cost of sugar cane, high cost of imported goods, high cost of labor, low recovery of sugar and low efficiency.

### Chemicals

In 1947, production of chemicals was almost non-existent. The only chemical that was produced at that time was soda ash (18,000 tons per annum).

Thus, starting from scratch, Pakistan swiftly developed its chemical industry, and today is self-sufficient in the manufacture of paints, mineral acids, aluminum sulphate, acetone, sodium bicarbonate, sulphur, etc. In addition, chemical fertilizers, insecticides and other important chemicals are being manufactured.<sup>16</sup>

Production and consumption of chemical fertilizers has greatly increased since 1960. Production of chemical fertilizers rose from 43,000 tons in 1959-60 to 234,000 tons in 1964-65 and further to 438,800 tons in 1969-70. The production target established for the Third Plan (1965-70)

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<sup>15</sup>Pakistan Economic Survey, 1978-79, op.cit., pp.45-63.

<sup>16</sup>Industrial Development in Asia and the Far East, Vol.III, op.cit., p.184.

was 765,000 tons against which the actual production in 1969-70 was only 195,000 tons, i.e, 25.5 per cent of the target.<sup>17</sup>

Currently, the installed capacity for the production of chemical fertilizers in the country is 571,000 nutrient tons. Once the projects under completion start their operations, the total capacity is expected to reach 1,237,000 nutrient tons by 1982-83. The Fifth Plan (1978-83) envisages a total investment of Rs.5,800 million in the fertilizer industry that includes a foreign exchange component of Rs. 2,000 million. At the moment, however, fertilizer consumption in Pakistan is far below international standards being 32 nutrient lbs. per acre as compared to 400 lbs. per acre in Japan and 150 lbs. per acre in Egypt.<sup>18</sup>

### Heavy Engineering

Pakistan is highly dependent on importing producer goods from abroad which use up a great part of the country's foreign exchange reserves and also force its foreign aid requirements to increase sharply. In order to reduce this dependence, there has been an increasing emphasis on developing the heavy engineering industry. In this regard, a number of steps have already been taken.

The Heavy Mechanical Complex (HMC) was set up at

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<sup>17</sup>Pakistan Economic Survey, 1970-71, op.cit., p.42.

<sup>18</sup>Pakistan Economic Survey, 1978-79, op.cit., pp.64-65.

Taxila, with Chinese assistance. The factory has been functioning since 1975 and has heavy machining and large fabrication facilities, including supplementary foreign capacity, for the manufacture of industrial plants, machinery and equipment. The items produced include sugar mills equipment, cement factories equipment, low package type boilers, overhead travelling cranes, road rollers, truck chasis and so forth.<sup>19</sup>

The Heavy Foundary and Forge (HFF) factory, also set up in Taxila, started its trial production in 1976. It has also been set up with the technical and financial assistance of the People's Republic of China. The total fixed cost of the project is 616.36 million with a foreign exchange component of Rs.202.25 million. The factory has an annual steel melting capacity of 60,000 tons to produce about 46,000 tons of castings and forgings. The factory sales were Rs.46.3 million during the first half of 1978-79 thereby incurring a loss of Rs.5.2 million during the trial production year 1977-78. The factory is currently supplying castings and forgings to the Heavy Mechanical Complex, Pakistan Steel Mills, Pakistan Railways and also to a number of other engineering industries in the public and private sector.<sup>20</sup> It is, currently, the

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<sup>19</sup>Pakistan Economic Survey, 1974-75, op.cit., p.56.

<sup>20</sup>Pakistan Economic Survey, 1978-79, op.cit., p.68.

largest project of its kind existing in Pakistan, and is of immense importance to the country since quality castings and forgings are most vital to the needs of the capital goods industry.

The nation's first large-scale steel mill was established at Chittagong (East Pakistan) at a cost of Rs. 335.7 million in 1969. However, after the secession of East Pakistan in 1971-72, there existed no such steel mill in the western part of Pakistan that could adequately meet the needs of the heavy engineering industry. Thus, the Government in 1974 started to work on Pakistan's first integrated iron and steel works with an annual capacity of 2.0 million tons based on imported high grade iron ore and metallurgical coking coal. The estimated cost of the mill is Rs.14,000 million with a foreign exchange component of Rs.7,370 million and is being set up with Soviet assistance. The Soviets are providing a loan of 340 million Roubles (Rs.4,511 million) to cover the major portion of the foreign exchange cost.<sup>21</sup> The actual expenditure incurred so far, up to March 1979, amounted to Rs.8,738.29 million (of which foreign exchange was Rs.3,777.30 million). The project is planned to be completed in two stages. The first stage will be completed by 1981 when steel making will commence, whereas the second stage is expected to be completed by 1983 when the Hot and

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<sup>21</sup>Pakistan Economic Survey, 1974-75, op.cit., p.57.

Cold Rolling Mills for the production of flat products go into operation.<sup>22</sup>

Work on the Pakistan Machine Tool Factory at Landhi was initiated by the Government in 1964. The total cost of the project is about Rs.280 million (Rs.109.9 million in foreign exchange). The factory is the first of its kind in Pakistan being a highly sophisticated engineering facility established for the purpose of meeting the rising need of precision machine tools for the engineering industry and of transmission components and automotive parts that would lend support to the progressive manufacturing program of tractors, jeeps, trucks and cars in the country. Items that are manufactured by the factory include machine tools, gearbox and axles for trucks, jeeps and tractors, pressure die castings, rough forgings, and so forth.<sup>23</sup>

#### Pharmaceuticals

In 1974, there were only two pharmaceutical units of some proper standing, which were engaged in producing limited types of medical products. A group of experts under the Colombo Plan surveyed the pharmaceutical industry in Pakistan as early as 1952. Development of the industry was well under way by 1954, and by 1955 there were twenty-eight units

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<sup>22</sup>Pakistan Economic Survey, 1978-79, op.cit., pp.69-71.

<sup>23</sup>Pakistan Economic Survey, 1974-75, op.cit., p.56.

producing pharmaceuticals worth over 1.4 million Rupees. The First-Five Year Plan (1955-60) expected to increase the production of drugs and pharmaceuticals to Rs. 3 million. However, production actually increased to Rs. 4.4 million by 1960. The total number of major pharmaceutical units had increased to sixty-eight units. At the end of the Second Plan in 1965, there were over 160 major units in the country with a total capacity of over Rs. 67 million. Most of these are located in the region now comprising Pakistan.<sup>24</sup> Total investment in the industry in 1976 was estimated to be Rs. 337 million. At present, Pakistan produces about 76 per cent of the pharmaceutical products consumed in the country. There is, in fact, excess production in certain areas which is exported to other countries.<sup>25</sup> The pharmaceutical industry continues to grow in response to an ever-increasing demand for pharmaceuticals.

#### Vegetable and Other Edible Oils

Hydrogenated vegetable oil is the main cooking medium in Pakistan. There was hardly any well-organized large oil mill in existence in 1947. Gradually, however, a large number of small and medium-sized oil mills were established raising the production of edible vegetable oils to 95,000 in 1964-65.<sup>26</sup>

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<sup>24</sup>Industrial Development in Asia and the Far East, Vol.III, op.cit., p.186.

<sup>25</sup>Pakistan Economist, Dec. 30 -- Jan. 4, 1979, p.34.

<sup>26</sup>Pakistan Economic Survey, 1970-71, op.cit., p.30.

The Third Plan (1965-70) had envisaged an annual target of 140,000 tons, however, the actual production in 1969-70 was estimated at 128,000 tons (of this 6,500 tons was in East Pakistan). Despite the growth in the industry, domestic production fell short of requirements.<sup>27</sup>

By January 1979, the installed capacity in the vegetable oil industry had been raised to 394,700 tons per annum. Two new factories, presently under construction, are expected to go into production each of which has a capacity of 9,000 tons per annum. With the completion of these factories, the total number of such units in the country will be raised to twenty-eight. The Government in 1973, nationalized this industry but later on reopened it for development in the private sector. The Fifth Plan (1978-83) will strive to raise the capacity of the industry to 570,000 tons per annum, which would suffice to meet the domestic requirements of both vegetable shortening and refined oil. Actually, the main problem faced in increasing production is not the capacity but the shortage of edible oils from the domestic market as a result of which large quantities have to be imported from other countries. The major source of the domestic supply of edible oils is cotton-seed oil, which in turn depends on the size of the cotton crop. For this reason, during 1977-78, nearly 267,788 tons of edible oils (palm oil and soyabean oil) had to be

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<sup>27</sup>Ibid., p.40.

imported as against the domestic supply of about 96,500 tons.<sup>28</sup>

The targets of the Fifth Plan are impressive but probably unrealistic. Unless the production of the non-traditional oil-seeds like sunflower and soyabean is not stressed upon, imports of edible oil should be expected to continue in the future.

#### Automotive Vehicles

During the Second Plan period (1960-65) various projects were sanctioned for the progressive manufacture of vehicles. One of these projects sanctioned was for the progressive manufacture of 3,500 jeeps per annum (1,000 in East Pakistan). Another plant for the assembly of motor vehicles was set up that has an annual capacity of 2,400 cars. The automobile industry in Pakistan was established in 1955 and since then has steadily expanded. By 1965, a number of such units had been set up that were involved in assembling cars, and also in the progressive manufacture of trucks and pick-ups and so forth, and also of motor cycles, scooters and tri-wheelers. The total installed sanctioned capacity, by 1965, had risen to 13,000 for commercial vehicles, 3,600 for the assembly of cars, 3,500 for jeeps, and 14,000 for scooters, motor-cycles and tri-wheelers.<sup>29</sup> A significant portion of

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<sup>28</sup>Pakistan Economic Survey (1978-79), op.cit., pp.62-63.

<sup>29</sup>Industrial Development in Asia and the Far East, Vol.III, op.cit., p.189.

the manufacture of commercial vehicles, today, consists of domestically produced parts.

#### Agricultural Machinery and Equipment

Realizing the importance of agriculture in the economy of Pakistan, The Government installed a unit for the progressive manufacture of tractors at a total cost of Rs.4.8 million, of which Rs.2.1 million was in foreign exchange. The total capacity of the plant upon completion, was 1,500 tractors per annum.<sup>30</sup>

#### Television Receivers

Permission for the assembly and manufacture of television sets and parts was first granted during the Second Five-Year Plan (1960-65) to nine recognized manufacturers of radio components in West Pakistan (as well as in East Pakistan).<sup>31</sup> Presently, many of these firms are assembling/manufacturing television receivers in the country. However, most of the parts used are still imported.

#### Petro-Chemicals

There exists great potential for the development of this industry because of the existence of abundant resources of natural gas. In 1947, there existed only one oil refinery

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<sup>30</sup>Ibid.

<sup>31</sup>Pakistan Economic Survey, 1965-66, op.cit., p.42.

(Attock Oil Company) in the country. Later on one more refinery had been set up at Karachi with two more sanctioned for the Third Five-Year Plan (one of these in East Pakistan).<sup>32</sup> At the end of the Third Plan (1969-70), there were a total of three oil refineries in West Pakistan (and one in East Pakistan).<sup>33</sup>

Presently, there are three refineries in operation in Pakistan with a total annual refining capacity of 4.77 million tons. Another refinery, presently under completion, is expected to go into operation soon, which will raise the total number of refineries in the country to four.<sup>34</sup> Moreover, various petro-chemical complexes have been established over a number of years. For instance, one polyethylene unit of 5,000 tons annual capacity was set up during the Third Plan (in West Pakistan).<sup>35</sup> Development of the petro-chemical industries has been assigned considerable importance because of the country being deficient in metals and forest resources. The refineries have provided the nucleus for the development of the petro-chemical industry.

#### Shipbuilding

Pakistan's first shipyard, the Karachi Shipyard and

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<sup>32</sup>Ibid., p.44.

<sup>33</sup>Pakistan Economic Survey, 1969-70, op.cit., p.44.

<sup>34</sup>Pakistan Economic Survey (1978-79), op.cit., p.184.

<sup>35</sup>Ibid., p.46.

and Engineering Works was commissioned in 1951 (later on another was built in East Pakistan). At present, Pakistan has one major shipyard at Karachi that has both shipbuilding and repair facilities. By the end of the Second Plan (1960-65) this shipyard had built about eighty vessels, mostly small ones. However, with the modernization and expansion of the Karachi Shipyards and Engineering Works, the first ocean-going vessel of 13,000 tons D.W.T. was launched in 1966-67.<sup>36</sup> The Shipyard is involved in the construction of all types of ships and floating craft upto 30,000 D.W.T. size. It can also perform under-water repairs of vessels of all types and also has the capability of manufacturing general engineering products. By 1975, the Karachi Shipyard had completed a total of 150 vessels for purchase by foreign as well as local customers. With its flexible and versatile layout, it can readily adapt itself to the changing pattern of shipbuilding. It is also manufacturing machinery for textile, sugar, cement and rolling mills, etc.<sup>37</sup>

#### Paper and Board

The Second Plan (1960-65) plan target for increasing the production capacity for paper, newsprint and board from 53,000 tons in 1959-60 to 102,000 by 1964-65 was easily

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<sup>36</sup>Ibid., p.46.

<sup>37</sup>Azimusshan Haider, op.cit., pp.133-134.

achieved. In 1964-65 the actual production of paper and board rose to 105,000 tons. The surplus of production over demand resulted in exporting substantial quantities of newsprint to the Middle East and the South-East Asian countries.<sup>38</sup>

The Third Plan had envisaged increasing the annual output of paper and board to 300,000 tons by 1970 (of which 160,000 was to be in East Pakistan). However, due to the adverse conditions faced during the Plan period caused the actual production in 1970 to rise to only 115,000 tons or 38.3 per cent of the Plan target, which was highly disappointing.<sup>39</sup>

At the present, Pakistan's paper industry is passing through a critical period. Production of all types of paper decreased from 29,900 tons in 1972-73 to 18,300 tons in 1977-78. The major reason for this decline is attributed to the Government's liberal import policy pertaining to all types of paper. Two major paper mills in the country were closed down because of their inability to compete effectively with imported paper products. Pakistan, thus, has to import huge quantities of newsprint from abroad. The Government has taken several measures to protect the domestic industry which have not proved very effective in dealing with the problem thus far.<sup>40</sup>

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<sup>38</sup>Pakistan Economic Survey, 1965-66, op.cit., p.45.

<sup>39</sup>Pakistan Economic Survey, 1970-71, op.cit., p.41.

<sup>40</sup>Pakistan Economist, June 9, 1979, p.7.

Pakistan's industry is, by and large, operated and controlled by indigenous entrepreneurs and that foreign investment over the years has been relatively small. However, external aid, and foreign technicians and advisors have contributed significantly to the industrial growth in the country. Table 12 presents the trend of industrial production from 1959 to 1968, and Table 13 reflects the trend from 1964 to 1979.

Table 12

REVISED QUANTUM INDEX OF INDUSTRIAL PRODUCTION  
(EAST AND WEST PAKISTAN)

(Base: 1959-60 (July-June) = 100)

Year (July-June)	Manufacturing
1959 - 60	100.0
1960 - 61	118.7
1961 - 62	138.8
1962 - 63	159.5
1963 - 64	181.3
1964 - 65	201.7
1965 - 66	214.2
1966 - 67	237.0
1967 - 68	261.0

N.B: Because of the broadening of the industrial base and fast increase in the production of some industries, the old index, that was based on the production trend of only 32 items, was revised. This revised index is based on the production data of 200 items and gives a coverage of about 94% production on all Pakistan basis.

Source: Pakistan Economic Survey, 1967-68, op.cit., p.17.

Table 13(a)  
 PRODUCTION INDEX OF LARGE-SCALE MANUFACTURING  
 (WEST PAKISTAN)  
 (Base: 1964-65=100)

Year	Manufacturing
1964-65	100.0
1965-66	110.8
1966-67	118.2
1967-68	127.2
1968-69	140.6
1969-70	160.2
1970-71	162.1
1971-72	151.1
1972-73	169.0
1973-74	181.7

Table 13(b)  
 REVISED PRODUCTION INDEX OF LARGE SCALE MANUFACTURING  
 (WEST PAKISTAN)  
 (Base: 1969-70)

Year	Manufacturing
1969-70	100.0
1970-71	106.2
1971-72	105.7
1972-73	115.4
1973-74	122.4
1974-75	120.5
1975-75	119.8
1976-77	117.1
1977-78	128.8
1978-79 (estimated)	133.6

Note: The index is based on the production data of 76 major industrial items covering 76.9% of the total value added.

Source: Pakistan Economic Survey 1978-79, op.cit., p.45.

## CHAPTER VIII

THE PROCESS OF INDUSTRIAL DEVELOPMENT  
SINCE 1970: A REVIEWThe Economy During 1970-77

The Fourth Five-Year Plan was to encompass the period from 1970 to 1975. However, it was never implemented. The Third Plan which ended in 1970 was the last of the five-year plans to have undergone complete implementation.<sup>1</sup> There were a number of reasons why this was so, and of these the main were political instability and the outbreak of the 1971 war with India. In 1969, President Ayub Khan was forced to step down in response to widespread anti-government protests and agitation in the country. The new interim Government, headed by General Yahya Khan, further created economic and political instability in the country. Moreover, the 1971 war with India resulted in the division of Pakistan (the Eastern wing became independent which is now known as Bangladesh). The years that followed also witnessed political and social turmoil due to which hardly any attention could be paid to the five-year plans. Thus the Government felt the need to discontinue medium-term planning and to replace it with short-term planning which was on an annual basis.<sup>2</sup>

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<sup>1</sup>Pakistan Pictorial, Vol.II, No.7 and 8, July-August 1978, p.16.

<sup>2</sup>Pakistan Economic Survey, 1977-78, op.cit., p.197.

During the period between 1972 and 1977, the economies of the non-oil producing countries had to undergo a series of stresses and strains. High rates of inflation in the early seventies in the developed nations subjected the developing nations of the world to imported inflation because of the latter's need to import expensive machinery and other items from the developed countries. Moreover, the surging oil prices further worsened the situation for developing countries like Pakistan. Furthermore, natural disasters like floods in 1973, drought in 1974 and again floods in 1976, created further headaches for Pakistan's economy.

As Pakistan's economy is based mainly on agricultural products, it is extremely vulnerable to international factors. Due to this Pakistan's export earnings are not only small but also uncertain. On the import side, the demand is inflexible and high prices have to be paid for essential items such as wheat, fertilizer, edible oil, machinery and petroleum. This greatly affects Pakistan's ability to undertake large-scale development from indigenous resources. The Government has undertaken a variety of fiscal and monetary measures to reduce inflationary pressures and to revive the economy such as, strictly controlling deficit financing, restricting imports of luxury items, protection of domestic industry from foreign competition in domestic markets, changing of export duties from time to time so that domestic products can successfully compete in international markets and so on.

Planning Strategy After the Third Five-Year Plan  
(1972-1979)

Planning during 1972-77

The planning strategy during the first three plans, starting from 1955, was oriented towards achieving a high rate of economic growth. The private sector was given as much encouragement as possible. However, little attention, if any, was paid to the problem of growing income inequalities. It was only after the tragedy of East Pakistan was it realized that a strategy based on growth maximization in an abstract manner was quite inappropriate for the prime and most fundamental objective of eradicating mass poverty. Traditionally, it had been assumed that a high growth rate achieved through rising investment would by itself enable employment to go up. Fiscal policies would then be used to reduce the growing inequalities in incomes. However, as suggested, such a planning strategy back-fired in Pakistan when regional and social disparities led to widespread violence in the early seventies. Even though the country had witnessed a fast rate of economic growth thereby raising the average per capita income, the majority of the people still remained very poor. Since it was believed that the industrial sector would bring about greater benefits for the country through mobilization and ploughing back of resources, a whole host of concessions and subsidies were provided to this sector. Sometimes, these incentives resulted in rather uneconomic and inefficient investments. The concessions ranged from industrial licensing on attractive

terms, fiscal subsidies and export bonuses to protection from external competition. All of these benefits were reaped by a select group of people. The Government's incentives to increase agricultural production helped mainly the larger and medium sized farmers whereas the conditions of the small farmers or the landless tenants and laborers further deteriorated. Thus, to solve the problem of mass poverty a basic revision of the fundamentals of planning was initiated. The most fundamental objective of economic development is to achieve economic prosperity and social justice. The new planning policy was directed to this goal.

Thus in 1972, the new Government of Prime Minister Bhutto nationalized ten basic industries, viz., iron and steel, basic metals, heavy engineering, heavy electrical, assembly and manufacture of motor vehicles, assembly and manufacture of tractors, heavy and basic chemicals, petrochemicals, cement, and public utilities, i.e., electricity, gas and oil refineries. Of these, only the largest plants were taken over. However, 82 per cent of investment in organized industry still remained in the private sector.<sup>3</sup> All of the taken over industries came under the management of the Board of Industrial Management (B.I.M.), which ultimately was dissolved in January, 1979.<sup>4</sup>

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<sup>3</sup>Pakistan Economic Survey, 1971-72, op.cit., p.28.

<sup>4</sup>Pakistan Economic Survey, 1978-79, op.cit., p.50.

At present, there exist nine sectoral corporations and two non-operating corporations. Each of these corporations is being managed by a Board of Directors under the direct control of the Ministry of Production. There are a total of 71 companies being managed by these corporations. The nine sectoral corporations are:<sup>5</sup>

- i) Federal Chemical and Ceramics Corporation.
- ii) Federal Light Engineering Corporation.
- iii) National Fertilizer Corporation.
- iv) Pakistan Automobile Corporation.
- v) Pakistan Industrial Development Corporation.
- vi) State Cement Corporation of Pakistan.
- vii) State Heavy Engineering and Machine Tool Corporation.
- viii) State Petroleum and Refining and Petro-Chemical Corporation.
- ix) Pakistan Tractors Corporation.

The two non-operating corporations are:

- a) National Design and Services Corporations.
- b) Pakistan Steel Mills Corporation.

Due to the nationalization policies of the Government, the private sector became unwilling to undertake large-scale industrial investment of any type. Thus, public sector investment in large-scale investment witnessed phenomenal

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<sup>5</sup>Ibid.

growth after the Third Plan (see Table 14).

Table 14

INDUSTRIAL INVESTMENT (1969-1979)  
(Million Rupees)

Year	Private Sector			Public Sector	Total Investment
	Large/Medium	Small	Total		
.969-70	1,208.2	187.7	1,395.9	179.2	1,575.1
.970-71	1,224.0	201.7	1,425.7	68.2	1,493.9
.971-72	1,016.3	291.1	1,235.4	98.5	1,333.9
.972-73	761.1*	255.9	1,019.0	110.6	1,129.6
.973-74	697.3*	325.5	1,022.8	382.3	1,405.1
.974-75	990.4*	446.5	1,436.9	1,064.9	2,501.8
.975-76	1,309.0*	509.5	1,818.5	3,181.6	5,000.1
.976-77	1,526.3	585.3	2,111.6	4,514.0	6,625.6
.977-78	1,539.1	634.4	2,173.5	6,143.5	8,317.0
.978-79	1,616.6	688.1	2,304.7	5,967.4	8,272.1

\*Excludes Rs.25.8 million for the year 1972-73, Rs.35.4 million for 1973-74, Rs.78.6 million for 1974-75 and Rs.100.7 million for 1975-76 as investment in vegetable oil establishment upto 1972-73 only.

Source: Pakistan Economic Survey, 1978-79, op.cit., p.47.

The new planning strategy and the Fifth Five-Year Plan (1978-1983)

Industrial Investment during the Plan period is proposed at Rs.40.0 billion (Rs.21.0 billion in the public sector and Rs.19.0 billion in the private sector). The Fifth Plan brings about a complete reversal of the planning strategy of the last decade in that it is now restricting its investment activities largely to on-going projects. The Government is

once again encouraging the private sector to assume the major role in the industrial development of the country. In the public sector program of Rs.21.0 billion, Rs.16.169 billion (77 per cent) have been allocated to on-going projects like the steel mill project, fertilizer and cement plants and so on. Briefly, the Plan targets are:<sup>6</sup>

1. Attain a growth rate of 12 per cent in large-scale industry.
2. Achieve greater self-reliance in the production of capital-goods industries.
3. Efforts will also be made to reduce inter-regional disparities in industrial development.

The Government issued an industrial Development Schedule in this respect, the size of which is Rs.39,288 million with a foreign, exchange component of Rs.21,314.50 million.<sup>7</sup>

The plan, however, is not without flaws and some of these are discussed below:<sup>8</sup>

1. As compared to those of the past seven years, the growth rates envisaged by the Fifth Five-Year Plan appear to be very unrealistic.

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<sup>6</sup>Pakistan Economic Survey, 1978-79, op.cit., pp.47-48.

<sup>7</sup>Ibid.

<sup>8</sup>Pakistan Economist, Sept. 2, 1978, p.24.

During this period the country was faced with many problems, both economic as well as political. The Government believes that since these factors are now smaller in their degree of seriousness, economic growth will occur at a rapid pace. However, in view of the presently deteriorating political conditions in Pakistan, prospects of such growth in the near future are not bright.

2. Greater reliance has been placed on the private sector for carrying out the expansion of the economy. But since the Government is thinking of financing the public sector expenditure through additional taxation, the private sector maybe discouraged from further investment.
3. The foreign assistance program is expected to amount to Rs.10,000 million annually. The outstanding debt liability is already Rs.70,000 million. Further borrowing is expected to complicate the situation even more. This means that the Plan cannot make any major breakthrough towards self-sustained growth in the near future. Moreover, the cancellation of U.S. economic aid to Pakistan is going to create additional problems.

4. Due to the nationalization policies of the previous regime, private investment has been discouraged. So it might not be easy to motivate the private sector into investing heavily.

#### Some Current Problems of Pakistan's Industry

During the early part of 1979, the Investment Promotion Bureau (I.P.B.) conducted an industrial survey which showed that as many as two hundred large-scale industries were on the sick list. These units have production facilities for a large variety of goods. Their total assets amount to an estimated value (at cost) of over Rs.12,000 million. Such units can be placed into three categories, (a) those that have been shut down for a long time, (b) those that face closures intermittently, and (c) the ones that are operating on shaky grounds.<sup>9</sup>

The I.P.B. has taken up the matter to identify the specific problems being faced by each of these industrial concerns and is trying to come up with remedial actions in cooperation with various government ministries, financing agencies and commercial banks. Some of the major problems being faced by Pakistan's industry are discussed in the following paragraphs.

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<sup>9</sup>Pakistan Economist, April 14, 1979, p.9.

### Unfavorable and unrealistic economic policies

One of the major factors that caused most of these firms to be included on the sick-list was the abrupt devaluation of the Rupee, in May 1972, by 57 per cent. And this was done at a time when the industrial sector had suffered huge losses due to the separation of East Pakistan (now Bangladesh). A huge amount of industrial assets and investments, belonging to West Pakistani Industrialists, were left in East Pakistan. So the untimely devaluation and of such a great magnitude resulted in a disastrous blow to the industrial sector. The immediate effect was that the outstanding foreign currency debt, against each of the industrial units, increased by threefold overnight. Besides, the facilities of tax holidays and the bonus voucher scheme were also withdrawn in 1972. Thus, even though the rising prices of their products did manage to offset a part of their losses, it was not enough to stop them from reaching near-bankruptcy conditions. The nationalization spree, during and after 1972, further spread jitters through the already shaken private sector. In most instances, only those units survived in the end which were either very efficiently managed and/or those that had facilities for diversifying their products.<sup>10</sup>

The taxation policies have been concerned with quickly raising government revenues rather than pursuing the objective

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<sup>10</sup>Ibid., pp. 9-10.

of enhancing production and bringing about a reasonably equitable level of income distribution. It has been seen that no one, in the Government circles, bothers about the adverse impact of a new tax measure until the devastation is complete and many industrial facilities start closing down. At that time, the Government announces certain concessions and incentives which are usually too late to be taken advantage of.<sup>11</sup> For instance, some industries also frequently complain of the high rate of import duty on some raw materials, which is even higher than the rate applicable to the import of finished products of similar nature.

The Government's monetary policies regarding the interest rate levels and credit controls have also been an obstacle to industrial development. Increases in the Bank Rate have led commercial banks to increase their lending rates considerably. Since the cost of funds is one of the basic factors that determines the cost of other inputs, and as bank credit is becoming dearer each day, the cost of procuring fuel and power, raw materials and machinery has also been increasing. This has decreased the profitability of many industries. In addition, the nationalization of the banking industry in 1972 has converted it into a new type of "stiff-neck bureaucracy." It is believed that the terms under which the loans are granted to various clients are very

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<sup>11</sup>Ibid.

unrealistic and highly inflexible, which just adds to the large magnitude of problems that are being faced by many of Pakistan's large-scale industries today.

The weakening of the U.S. Dollar has also proved to be a source of continuous concern for various investors. As the dollar declines, in relation to other currencies, the cost of imported machinery simply sky-rockets. Thus if the Letters of Credit for the import of machinery, for a sanctioned project, are not established immediately the suppliers simply keep on raising their prices at a rate of about 10 per cent per month.

#### Management problems

The State-held industries are showing poor performance ever since they were nationalized in 1972. Specifically, there are suffering from "poor performance, inefficiency and mismanagement." It has been pointed out that the reason the Central Budget for the year 1979-80 is expected to incur a huge deficit of Rs.11,102 million, is that these firms are in constant need of the Central Government's financial support.<sup>12</sup>

These Government Corporations are running on a commercial basis. Besides, they are allowed by the Government to raise the prices of their products such as of, power and gas rates, railway fares, cement prices, postal rates, etc. Despite these allowances, the public sector enterprises have

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<sup>12</sup>Pakistan Economist, August 18, 1979, pp. 29-30.

not succeeded in generating enough revenues to finance their maintenance and operational costs and at the same time to finance expansion programs. It appears that these firms are indifferent about their problems since they can always ask the Central Government for additional funds, whenever necessary, which, in turn, are raised by increasing tax rates and borrowing from external resources not to speak of printing more currency. It is believed that had these units remained in the private sector the need for increased taxation amounting to Rs.5,000 million in the 1979-80 budget would not have arisen. Even according to official estimates, performances of the nationalized industries have been extremely poor. The increases in their earnings due to rises in the prices of their products and other factors were largely offset by increases in operational costs.<sup>13</sup>

#### Quality control, standardization and productivity

Quality control has for a long time been a neglected aspect of Pakistan's industry. This is probably one of the most important reasons why locally-produced goods find it difficult to compete with foreign items in both domestic as well as foreign markets. The Pakistan Standards Institution has established about 1700 standards relating to a variety of electrical and mechanical items. However, it has no laboratory

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<sup>13</sup>Ibid.

of its own and is also poorly staffed. Many of the industries, including the state enterprises, are not interested in maintaining a specific standard of production. Often there are serious complaints about sub-standard products sold to domestic as well as foreign customers.<sup>14</sup>

Like several other countries facing the problem, Pakistan's industry is also confronted with the matter of declining or near-stagnant productivity. Developing countries, like Pakistan, must concern themselves with the effectiveness and competitiveness of these industries otherwise they face the imminent danger of being priced out of the world market.

Some of the major problems being faced by various industries have just been cited. It is suggested that the Government undertake a fresh examination of its monetary and fiscal policies in order to provide the industrial sector with a healthy economic climate. For instance, the Government should periodically formulate proposals for changing the rates of customs, excise duties and sales taxes, and also for providing tariff protection to deserving industries in accordance with prevalent conditions. Taxes that hinder industrial growth should be removed. Regarding inefficiency of the state enterprises, it is suggested that professional people having enough competence and expertise be hired to manage these establishments. Even some of the privately-run

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<sup>14</sup>Pakistan Economist, March 3, 1979, pp.18-21.

enterprises are suffering from the same dilemma and should be offered professional advice and/or training facilities for their management personnel. As regards quality control and standardization of products, design standards, specifications and quality must be sustained at each level of production. There are certain international standards that must be adhered to. The Government should also help provide a quality control system and should also strictly enforce its quality control standards. Furthermore, certain incentives should be provided to the firms to improve the quality of their plant and equipment so as to raise their productivity. Most plants and factories in the country are using old and obsolete equipment for it is cheaper to recruit additional labor than to buy new machines. Modern production methods and plants often require large capital outlays and also larger markets. Besides, much of the country's labor force requires adequate training and skills so as to increase their productivity. Finally the Government should avoid providing financial assistance to those industries that are inherently inefficient, for they are just a heavy burden to society.

#### Outlook for Industrial Investment

The change of the planning strategy occurred when the present regime took over the reigns of the country on July 5, 1977. The emphasis once again has shifted from public to private industrial investment. This is evident from the Fifth Five-Year Plan and the Federal 1979-80 budget.

Moreover, the Government has assigned considerable importance to foreign investment in Pakistan. According to the World Bank Development Report of 1978, the level of efficiency attained by various industrial concerns points to the fact that rapid industrial growth is possible in Pakistan. Besides, the country has a fairly-well developed economic infrastructure, is quite close to the oil-rich Persian Gulf and has abundant manpower. All these features should be able to attract increasing amounts of foreign investment. There is great scope for foreign investment in oil exploration, gas-based petrochemicals, manufacturing of synthetic rubber, plastics, synthetic fibres, electronics such as radios and television receivers, various transport accessories and so on. Even during the days of the former Prime Minister Bhutto (1972-77) when all large-scale industry was nationalized, no foreign industrial concern was taken over by the Government. Full protection was provided to foreign investors under the Foreign Private Investment Act of 1976. The repatriation and remittance facilities that are extended to foreign investors are among the most liberal in the world. In fact special tax reliefs are provided to foreign investors in fields of investment that are extremely risky, such as oil exploration. In addition, foreign investors are under no legal obligation to associate with local capital.<sup>15</sup>

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<sup>15</sup> Pakistan Economist, January 6, 1979, p.25.

Despite these and several other measures adopted by the Government, it has been observed in the past that foreign investment can only exist as a supplement to domestic private investment. Foreign investors seldom want to undertake investment on a large-scale entirely on their own. However, domestic investors have been greatly discouraged as a result of the nationalization policies of the previous Government. To revive their confidence, the present Government, under President Zia-ul-Haq, has undertaken a variety of steps which include denationalizing agro-based industries and amending the Banks (Nationalization) Act of 1974 to enable foreign banks to open new branches. Some units of the vegetable oil and light engineering industry were also denationalized.<sup>16</sup> To protect domestic investors' interests, the "Protection of Rights in Industrial Property Order, 1979" was issued in February 1979. This Order provides specific guarantees that no industrial property shall, henceforth, be nationalized except in "accordance with law and for a public purpose." If such a compulsory acquisition does take place then proper compensation will be given to the owners of that industrial concern.<sup>17</sup> It is expected that this Order will sufficiently satisfy the industrialists' demand for legal protection

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<sup>16</sup>Ibid., p.26.

<sup>17</sup>Pakistan Economic Survey, 1978-79, op.cit., p.48.

against arbitrary take-over by the Government.

Very recently, the Government announced plans to float a Rs.600 million State Enterprise Mutual Fund (S.E.M.F.)<sup>18</sup> The Investment Corporation of Pakistan (I.C.P.), by way of its first installment, offered a new Mutual Fund Series, the size of which was Rs.150 million. However, it was over-subscribed in that the I.C.P. received an amount of Rs.301 million for subscription in the State Enterprises Mutual Funds. Most of these remittances are from Pakistanis working abroad. No other developing country has, so far, floated a public issue of such magnitude.<sup>19</sup> The Fund was initially suggested for the purpose of bridging the gap between Government resources and expenditures. But it also provides an opportunity for Pakistanis working abroad to usefully participate in the development of the country in addition to acquiring property that will only appreciate over time. For a long time such people have remitted their savings in such a manner that has led to wasteful consumption in the country. Most of these cash remittances have been usually directed towards buying luxury goods needlessly, just for the purpose of impressing neighbours or for buying real-estate or spending on economically non-productive private ceremonies. This

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<sup>18</sup>Dawn Overseas, December 22, 1979, p.1.

<sup>19</sup>Dawn Overseas, March 1, 1980, p. 2.

obviously results in the misallocation of resources, increases the economy's propensity to import, depresses domestic industry besides adding to inflationary pressures. The scheme is quite attractive in that it guarantees a minimum profit of 15 per cent per annum. Furthermore, the Government has taken full responsibility of protecting the interests of the share-holders. The entire funds will be used to buy shares in the public sector industries which in turn would enlarge their equity base to improve their operations and to expand their operational base.

Another scheme to attract foreign capital is rapidly underway which is known as the Karachi Export Processing Zone (E.P.Z.). This would be the first free economic zone of its kind in Pakistan. It is argued that since the neighbouring oil-rich countries need Pakistan's labor because of it being relatively inexpensive, the free zone is likely to attract this oil wealth in the form of investment from such countries. The oil-rich Arabs, having appeared to have lost faith in the U.S. dollar, are investing more and more in the developing countries which have a great potential for profitable investment. This free zone would be free of income taxes and labor troubles which is going to be quite hard-to-resist from the point of view of foreign investors. In this context, the Government has undertaken certain specific steps and made some clear-cut policy announcements such as, (a) announcing an indicative Investment Schedule for E.P.Z.,

(b) income tax-reliefs for investors in E.P.Z., and (c) to undertake construction of infra-structure in the E.P.Z. The Investment Schedule reflects the Government's desire to establish producer goods industries and ones that incorporate sophisticated technologies. The various industries specifically mentioned in the Schedule include electronic items, light mechanical and electric engineering, communication equipment, Television sets, durable consumer goods and so forth. This does appear to be an attractive proposition.<sup>20</sup>

There has been some evidence of the revival of the private sector's interest in industrial investment. There are more projects being financed by the private sector now than was the case in the last decade. Many of these projects are being undertaken with the aid of foreign investment which is either being provided by Pakistanis working abroad or through the collaboration of foreign machinery manufacturers. According to the figures of the Investment Promotion Bureau (for the period July 1978 to February 1979), the Central Investment Promotion and Coordination Committee sanctioned new investments in industrial projects amounting to Rs.1,430 million (all in the private sector) which encompassed a total of thirty projects. This amount is about 50 per cent higher than the amount sanctioned during the same period last year. An important aspect that needs to be considered here is that

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<sup>20</sup>Dawn Overseas, January 19, 1980, p.1.

foreign capital has been showing an increased willingness to collaborate with local capital. Included in the projects sanctioned is a Rs.750 million unit for the manufacture of tires and tubes for cars and heavy vehicles, which has a designed capacity of 0.660 million tires annually. A cement plant is expected to be established in the province of Sind with an estimated capital cost of Rs.622 million. These aforementioned capital-intensive projects are being entirely handled by private investors who are also solely responsible for making their own loan arrangements from foreign firms and agencies for meeting the foreign exchange cost of the projects. Other plants that were sanctioned include plants for making paper, polypropylene bags, wire products, etc.<sup>21</sup>

On the whole, local as well as foreign private investment in the economy appears to be picking up. But whether this trend shall continue in the future remains to be determined.

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<sup>21</sup>Pakistan Economist, May 12, 1979, p.27.

## CHAPTER IX

## CONCLUSION

This study has traced the growth and development of industry in Pakistan since its independence in 1947, mainly concentrating on the period between 1947 and 1970.

Industrial development in Pakistan, as suggested, has been largely due to the efforts of the private sector. However, the Government has been an active participant, especially, during the early period of Pakistan's industrial development when a great deal of direct Government investment was necessary because of a shortage of private entrepreneurs with sufficient capital. The importance of the role of the Government in contributing to the economic growth of the country is underlined by Papanek:<sup>1</sup>

The economic performance of Pakistan in the last few years has been primarily the result of good economic management - sensible policies and plans. Most important has been Pakistan's pragmatic approach to the role of government and private enterprise.

Probably the most crucial of all factors that determine investment and growth in a country is political stability. Unfortunately for Pakistan, the only politically stable period was during the administration of President Muhammad Ayub Khan, whose rule extended from 1958 up to 1969. Although the First Five-Year Plan was launched in 1955, it was only when Ayub Khan

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<sup>1</sup>Papanek, op.cit., pp.269-270.

assumed power that it was implemented with some success. It was during the Second and Third Five-Year Plans (1960-1970) that economic progress was the most remarkable in the whole of Pakistan's 33-year history.

Ayub Khan's superb leadership was commented upon by the Financial Times of London at the end of the Second Five-Year Plan in 1965,<sup>2</sup>

On July 1, Pakistan moves on from her Second to her Third Five-Year Plan. It is a good time to take stock of what already ranks as one of the success stories among the developing countries that are striving to increase the standard of living of their people . . . . . It is tempting to compare President Ayub Khan with General De Gaulle. Both took over the leadership of their countries in 1958 and both brought about a dramatic improvement in economic performance by putting an end to multiparty parliamentary system which had made it difficult for successive governments to exert sufficient authority in the economic sphere.

Before Ayub Khan, governments used to change hands frequently. Ministries used to be installed and then thrown out. This was obviously a big obstacle to effective economic planning and development. Policies were adopted, cancelled and reformulated with little or no concern, whatsoever, for national interests. Each of these governments indulged in deficit financing that led to rising prices, less competitive exports, a widening gap in the balance of payments, a decline in foreign exchange reserves, a decline in industrial production, and rising unemployment. It was only after Ayub Khan's take-

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<sup>2</sup>The Financial Times, London, June 28, 1965, p.8.

over in 1958 that the economy was saved from further deterioration. In the 1960's Pakistan entered a period of unprecedented growth. Foreign aid from friendly countries went a long way in helping the country in achieving a significant industrial base by 1970. The distributional implications of the economic policies pursued by Ayub's Government are discussed later in this chapter.

It was near the end of the Second Five-Year Plan that Mr. Walter P. McConaughy, the U.S. Ambassador to Pakistan said:<sup>3</sup>

Pakistan can be proud before any forum of the way in which it has utilized foreign aid to improve its economy and welfare of its people. Developing nations throughout the world, struggling to improve the standard of living of their peoples, can learn much from the way in which Pakistan has evolved ambitious development plans and then proved by remarkable accomplishment that the plans were practical and not visionary.

Mr. David Bell, Aid Administrator in 1965, in his testimony before the Senate Foreign Relations Committee on March 22, 1965, stated: "The rate of growth in agriculture, industry, education and other fields in Pakistan in the last several years has been encouraging indeed, and rather surprising to me, since I worked there about ten years and would not have expected such rapid progress to have been possible."

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<sup>3</sup>American News and Views, U.S. Information Service, Karachi, March 15, 1965.

According to Time Magazine:

Few nations have received as much U.S. aid in recent years as Pakistan and few have used it so well .... So efficiently have the Pakistanis employed their aid to reach a healthy 6% economic growth rate that economists have begun to refer to the "Pakistan example" as a measure of achievement for the underdeveloped countries.<sup>4</sup>

Pakistan has faced (and still does) the same economic problem as most developing countries and that is how to mobilize scarce internal and external resources and utilize them to produce greater output and higher per capita real income. In Pakistan's case, foreign aid has been, by and large, effectively utilized.

Pakistan's success at economic development was noted by Barbara Ward, a British Economist, while at Harvard Conference on Pakistan's Third Five-Year Plan:<sup>5</sup>

As the end of the Second Plan period approached, it became clear that the strategy had begun to succeed. The growth rate in agriculture went up by 3.5 per cent a year, exports increased sharply, domestic savings nearly doubled, unemployment began to fall. The rate of growth in industry rose to 8.6 per cent, and the expansion of the economy by over 5 per cent a year ensured that the targets for expansion fixed in 1960 were all surpassed. This is the basis of successful achievement on which the Third Plan is founded.

Pakistan, by the end of the Third Plan had proved that successes in the various sectors of the economy had occurred

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<sup>4</sup>Time Magazine, July 23, 1965, p.21.

<sup>5</sup>The Economist, London, June 5, 1965 ....a survey contributed by Barbara Ward at Harvard Conference on Pakistan's new economic Plan.

such as increases of acreage under cultivation and production, the increase in electrical power, industry, per capita income and G.N.P., to name only a few. Such was the magnitude of success that even Pakistan's traditional enemy, India, lauded her accomplishments, as indicated in an article in the Times of India:<sup>6</sup>

Pakistan has made impressive gains in the economic field during the last five years. On the basis of provisional data it will have achieved a cumulative growth rate of 28.4 per cent during its Second Five Year Plan which is due to end on June 30. Despite a population increase of 2.6 per cent per annum, the per capita income has risen at least by 13 per cent. Though some inflationary pressure did develop towards the end of last year, largely as a result of a liberal credit policy, Pakistan has on the whole been able to achieve a fairly high rate of economic growth with stability of prices. These are achievements of which Pakistan can be justly proud.

Pakistan's economy in 1947, as mentioned, was in a state of chaos. Hundreds of thousands of people had been killed in a few days time because of Hindu-Muslim riots that were spread all over the subcontinent. All modes of transportation lay destroyed. The teeming millions of refugees that were constantly pouring in had to be somehow rehabilitated. The fledgling nation's capital had to be established. In short, a whole host of serious problems confronted Pakistan's economy at the time of her independence.

Time Magazine noted:<sup>7</sup>

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<sup>6</sup>Times of India, Bombay, June 14, 1965.

<sup>7</sup>Time Magazine, December 8, 1947.

Pakistan (is) an economic wreck and serious social unrest (is) rising.

In his testimony before the Foreign Relations Committee, David Bell noted:<sup>8</sup>

... for .... Pakistan it is going to be a long tough road ... the country is in a precarious economic situation.

Yet Pakistan gradually recovered from its problems significantly and successfully embarked on the road to economic progress.

Near the end of the Second Five-Year Plan the New York Times commented:<sup>9</sup>

Pakistan may be on its way toward an economic milestone that so far has been reached by only one other populous country, the United States.

The Times of London had this to say:<sup>10</sup>

The survival and development of Pakistan is one of the most remarkable examples of state and nation building in the post-war world.

Despite so many stories of successes, for Pakistan it is still too soon to talk of "self-sustaining growth." It is still among the poorest countries of the world; its saving rate, though increased considerably, is still relatively low; its industrial development still depends excessively on external

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<sup>8</sup>David E. Bell, Testimony Before Subcommittee for Review of the Mutual Security, House Committee of Foreign Affairs, Jan. 21 and 22, 1959, p. 31.

<sup>9</sup>New York Times, Jan. 18, 1965.

<sup>10</sup>The Times (London), Feb. 26, 1966.

aid; it has still to find a viable political system; and it is presently faced with such geo-political conditions that threaten its very security as an independent and sovereign nation.

The three major economic problems being faced by the country today are a large trade imbalance, an air of uncertainty about foreign economic aid and a rather unmanageable budget deficit. Over two hundred of the nation's major industrial units were reported to be suffering from all sorts of serious problems. It will be recalled that the Fifth Five-Year Plan (1978-83) stresses the role of the private sector in the industrial development of the country. The total gross investment during the Fifth Plan is proposed to be Rs.204 billion for the creation of fixed assets, and of this amount the private sector is supposed to contribute Rs.62 billion or about 30 per cent of the proposed outlay in the plan. It has been assumed that the private sector will carry out investment in the industrial sector to the tune of Rs.19.50 billion. A number of incentives to revive the investment climate have been granted to the private sector. The growth of investment in the industrial and mining sector is estimated to be 17.49 per cent annually. The large-scale manufacturing sector is expected to register a growth rate of 12 per cent per annum during the Fifth Plan period.<sup>11</sup>

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<sup>11</sup>Pakistan Economist, Sept. 15, 1979, pp.21-23.

All of this seems to be quite an ambitious undertaking, especially, in view of the prevalent conditions. The World Bank has pledged, in its meeting in June 1979, fresh economic aid worth U.S. \$700 million which would just be sufficient to take care of the annual debt-service obligation against the previous loans. In addition, Pakistan's request for re-scheduling 75 per cent of the maturities coming due for payment during 1978-83 have so far been rejected by most of the creditor countries. On Pakistan's part, however, there has so far been no act of default in meeting its current debt-service obligations.<sup>12</sup> Pakistan has been borrowing heavily in the international money markets lately to finance its expenses even in the face of repeated I.M.F. objections. The recent 1978-79 budget came under heavy criticism from all circles because of exorbitant increases in tax rates which the Government was forced to adopt in order to bridge the wide gap between its total revenues and expenses. Successive finance ministers have shown a complete lack of fiscal discipline. In a large number of instances, departments have substantially exceeded their budgetary allocations. Despite the numerous sermons on austerity and concern shown for correcting the balance of payments situation by the present Government under President Zia-Ul-Haq, there seems to be no restriction on expensive officially-paid foreign tours, the large-scale

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<sup>12</sup>Ibid.

import of clothes for the rich and powerful, "the ostentation in interior decors of personal aircrafts," and the increases in tax-free allowances to the privileged few.<sup>13</sup>

Moreover, the nationalization policies adopted by the previous Government during 1972-77, even though for a good cause, have mainly backfired with the result that almost all of the State-held enterprises are in deep financial trouble because of inefficient management. The private sector, too, is not interested in undertaking any large-scale industrial investment in the country. This fact was pointed out by the Federal Finance Minister, on March 28, 1979, in his address to the Advisory Council of the Finance Ministry, "Private entrepreneurs have not attained the desired speed and proportions."<sup>14</sup>

So in view of all these circumstances it is extremely unrealistic to expect the First Five-Year Plan, which depends so much on the private sector and external assistance, to accomplish a growth rate of 12 per cent per annum in the large-scale industrial sector.

Finally, a word of caution to the planners and policy-makers in Pakistan. The distributional implications of the Government's economic policies, apparently, were totally ignored until the debacle of East Pakistan in 1971. President

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<sup>13</sup>Far Eastern Economic Review, July 27, 1979, p.83.

<sup>14</sup>Pakistan Economist, April 21, 1979, p.5.

Ayub, and others before him, had adopted a planning strategy based on growth maximization in an abstract manner which was certainly not the correct approach for the most fundamental objective of eradicating mass poverty. The traditional planning concept assumed that a high growth rate through rising investment would by itself be adequate to produce higher employment, and the higher productivity could be more equitably distributed through fiscal devices. However, this proved to be quite untrue in Pakistan. Despite the phenomenal growth rates in industry during the 1960's, no tangible progress was made in improving the lot of the masses. It was due to the firm belief that the industrial sector would assume the leading role in the economy through mobilization and ploughing back of resources, that all sorts of subsidies and concessions were provided to this sector. Industrial licencing on attractive terms, fiscal subsidies, export bonuses, and protection from external competition made possible for the industrial sector to reap benefits that were restricted mainly to a select group of families. Furthermore, these incentives and facilities sometimes led to substantial uneconomic and inefficient investments. None of the plans upto 1970 sought to harmonize economic growth with social justice. The loss of East Pakistan in 1971, to some extent, was a result of such policies. In light of this argument, it is imperative for the present Government in Pakistan to recognize the distributional implications of its planning strategy, if it is desirous of avoiding any further social and political turmoil in the country.

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INDUSTRIAL DEVELOPMENT IN PAKISTAN  
FROM 1947 TO 1970: AN OVERVIEW

by

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AN ABSTRACT OF A MASTER'S REPORT  
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MASTER OF ARTS

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## ABSTRACT

Pakistan achieved its independence in 1947 when the Indian subcontinent was divided into two independent countries. It was not until late 1971, that a war with India and a civil war in the eastern wing of Pakistan (East Pakistan) resulted in the division of the country, and in place of East Pakistan emerged a new sovereign state by the name of Bangladesh.

This study attempts to trace the growth and development of industry in Pakistan since 1947. The main emphasis, however, is on the period from 1947 to 1970, the time when East Pakistan was still a part of Pakistan.

In 1947, Pakistan possessed few natural resources besides agricultural land and faced serious shortages of technicians, professional leaders and entrepreneurs. The chaotic conditions prevailing at the time of Indian Partition had caused widespread devastation of the nation's transportation system, trade and commerce and so forth. To add to its problems, Pakistan mostly consisted of areas which were involved in the production of agricultural raw material. Most of the industry existed in the regions constituting India.

Thus Pakistan, in 1947, was mainly involved with the rehabilitation of the economy, the construction of the national capital, building a new administrative machinery

and the rehabilitation of a huge number of Indian refugees. For these reasons, the Government's responsibilities were immense and its role in developing the country of crucial importance.

Gradually, Pakistan's industry, which was virtually non-existent in 1947 grew to become one of the most rapidly growing and the most modern among the developing countries. Industrialization in Pakistan has resulted mainly because of the efforts of the private sector plus Government action. Besides, generous sums of economic aid from external sources, such as the United States and the World Bank, have played a key role in the industrial development of Pakistan. Government planning, although very haphazard in the beginning, became more scientific and systematic during the 1960's, thus contributing to rapid industrial growth. In addition, the Government performed other functions that aided industrial development such as developing the infrastructure, extending industrial credit, framing policies that favored the industrial sector relative to the agricultural sector, and also undertaking industrial investment under the auspices of the Pakistan Industrial Development Corporation.

Up until 1970, the Government provided extensive support to the private sector for the purpose of rapid industrial expansion. The planning strategy during the first three five-year plans (1955-1970) was geared towards achieving a high rate of economic growth. However, little attention

was given to the problem of growing income inequalities. It was only after the tragedy of East Pakistan was it realized that a strategy based on growth maximization in an abstract manner was quite inappropriate for the most important and basic objective of eradicating mass poverty. Thus in 1972, the new Government of Prime Minister Bhutto devised a new planning policy which was directed toward achieving economic prosperity and social justice. For this purpose the Government nationalized a large number of industries in the private sector. However, the present Government of General Zia-ul-haq, which assumed power in 1977 has completely reversed the planning strategy of the last decade in that greater emphasis is again being placed on the private sector's role in promoting speedy industrial growth in the country. All sorts of facilities are again being provided to private entrepreneurs to boost private industrial investment which had drastically been reduced as a result of the nationalization policies of the previous Government. However, the planners and policy-makers in Pakistan must be forewarned about the distributional implications of whatever type of economic policy that they may ultimately decide to pursue. For the concentration of wealth in a few hands may subsequently lead to social and political upheavals of a magnitude comparable to those occurring in East Pakistan (now Bangladesh) in 1971.