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COMMENTS

The Budget : 1969-70

In any developing economy the initial gains of economic growth accrue mainly to the minority capitalists at the expense of majority common man. This has been the fashion of our financial set up duly authenticated by the Governmental policies and planning. Of course, in theory there was the appealing diction of synthesing social justice with economic progress through increasing expenditure on social welfare projects but the facts were anomolies of illustrations. This trend continued till a mass public uprising threatened to paralyse the economic life of the nation. Alongwith change in Government came the change in policy outlook. As Admiral Ahsan emphasised : "If growth imposes sacrifices on different sections of society disproportionate to their immediate capacity to bear, it tends to make the entire development devoid of meaning for the mass of society." The present budget has thus been made with the dual objective of maintaining the growth tempo and at the same time transfer some of its benefits to the common man.

This budget is more significant for it marks the end of the Third Five-Year Plan—a plan which has been subjected to considerable restraints both external and internal. It is estimated now that despite additional taxation of Rs. 625 crore during the plan period resources available for development of the plan as a whole will fall short of financial targets by about 28%. With the projected growth rate of 6.5% for the next year it may be possible to achieve an average growth rate of 6% per annum, despite all the shortfalls, but that will be accomplished largely through the diversion of the available resources towards development outlays and fuller utilization of resources As such steps have been taken to increase productivity of the public enterprises whose role in the past has been that of a "losing competition". Development Expenditure to the extent of Rs. 530 crore has been taken in the public sector which represents an acceleration of resources by more than 10% over last year. This seems creditable particularly after the recent politico-economic crises. An additional allocation of Rs. 40 crore on human capital will lead to improve the productivity of human capital. To reverse the cycle of regional disperity to an equilibrium level the Government has continued with the policy of providing higher funds for East Pakistan, which is shown underneath :

REGIONAL WISE ALLOCATIONS

	Allocation	Percentage
EP	231 crores	46.2
WP	190 crores	38.0
Centre	79 crores	15.8

Out of Central Governments own projects amounting to Rs. 79 crore a ratio of 53:47 shall be maintained in favour of East Pakistan. In order to promote private capital formation industries have been allowed to enjoy tax holiday in East Pakistan while in West Pakistan except for under developed areas this concession have been withdrawn. Furthermore an equity participation fund with a share capital of Rs. 5 crore and facilities for the refinancing of loans have been permitted. In persuance to the Third Plan objective of self reliance a ratio of 56:44 has been maintained between the internal and external resources in the development expenditure. To mobilise internal finance the National Saving Scheme has been made more lucrative so as to attract savings of the small and middle class.

The taxation structure has been re-arranged so as to fulfil a triparite objective : (i) Promote investment in productive channels (ii) Check rising prices (iii) Maximise Government revenue. In the first case custom duty on the import of automobiles valued between 11,000 to 20,000 has been raised from 200 to 300%. The fulfilment of this objective of course seem to be a little difficult for such items are a matter of presitage with negative elasticity. As regards the increase of duty on the import of industrial equipment it seems a little unsuited in the present state of economy with the import price of industrial machinery already too high (it is on bonus) a further rise in price would increase the cost of production thereby affecting our exports.

Our economy has not yet attained a place where import substitution of heavy machinery and equipment could be possible with domestic production. On the contrary, its non-availability would make our already underdeveloped industry more unbalanced and backward. The imposition of wealth tax on agricultural land can be justified from the point of view that it will only effect large scale holdings (Rupee one lakh is the minimum exemption limit for the tax). Again, agricultural sector in Pakistan is much subsidised by the state-agricultural implements are imported at prices below the International level, whereas the price of some agricultural commodities like wheat in Pakistan is almost double the International price. These differentials provide gains to agricultural sector—a part of which can be syphoned off for capital formation.

New taxation measures have been adopted so as to curtail prices of goods of common use. A scheme has been introduced to link excise duty with retail price of excisable goods. The broad features of this scheme are:

(*a*) Printing of retail price fixed by the manufacturers on the article itself or its package.

(*b*) Levy of excise duty as a part of the printed retail price.

(*c*) Conversion of separate levies of excise duty, sale tax, defence surcharge and rehabilitation tax in one single consolidated duty.

(*d*) Progressive incidence of duty in step with printed retail price keeping the rate low for cheaper varieties.

(*e*) Prohibitative rate of duty for not promoting retail price.

This scheme shall serve the dual objective of avoidance of tax evasion and curtailment of the price level which shall be a solace to common man. The goods included under the scheme are 11 in all including tea, electric bulb, vegetable products, cotton fibre and wool. Similarly to reduce rising prices sales tax has been waved off on the import of milk for infants and Electro-Medical apparatus. As regards the third objective of increasing govt. revenue, the govt. has shown its awareness to snatch some of the surplus gains from the big moneyed class for the common man. Hence measures have been adopted to increase govt. receipts by 46.98 crores. To avoid tax evasion the govt. has formed inspection teams at various levels—which is a right step towards stopping this revenue leakage.

The most significant aspect of the budget is that a separate sum of Rs. 40 crores has been placed for investment on human capital. This has been done to finance the new educational, health and other social welfare projects. Provision has been made to encourage the private sector to participate in the government's resolve in providing low cost housing. In this respect government has shown its willingness to provide fiscal incentives to corporate bodies willing to undertake housing schemes. This step is justifiable. Benefits of investment in human capital was fully realised but it was long overdue. The previous finance ministers were more occupied in patronising projects which could yield quick returns. It is felt that the economy has reached the stage where it can allocate a modest amount of investment in social overheads which will show the results over a long period of time. This investment, it is believed, shall assist economic progress, rather than curtailing it.

The Government has also shown its awareness to the acute problem or concentration of wealth in a few hands. In this respect the govt. has adopted regressive measures, but anti-cartellisation measures shall only be successful after the implementation of the proposed Monopolies and Unfair Trade Practice Ordinance 1969 (Control and Prevention), expected to be promulgated in December this year.

Concluding we can state that the present budget as a whole is a first step towards the achievement of a social and just political economy in the country. To some of the extremists the budget may not have been very optimistic but economic prosperity cannot be sacrificed at the altar of social values and therefore we have to maintain a good balance.

Population and Economic Development in Pakistan*

An Independent Analysis

AL-HAMZA**

Sometimes in 1959 the realisation dawned in the country that the First Five-Year Plan had failed.

It was an agricultural plan, built on the basic idea that production for Pakistan meant agricultural production. The extent to which the Plan was a failure might be gauged from the fact that the planners had estimated a rise of 9% in the production of foodgrains by 1960. By 1959 foodgrain production had risen only by less than half per cent. (0.3% to be exact). The failure was only relatively less apparent in the case of major cash crops. For cotton the estimated rise by 1960 had been 21%; the actual rise in 1959 was only 5%. For jute the corresponding figures were 15% and 4%.

National Income means the total wealth produced by a nation. It is of two kinds. First : the real usable commodities such as agricultural produce and manufactured goods, and second, income from services, rents, transport, trade, etc. Divide the total national income by the population and you get the income per head or the *per capita* income as it is called. *Per capita* income is a good index of where the country stands economically and variations in it are a measure of whether things are better or worse. The *per capita* income in the year 1953-54, before the First Five-Year Plan period began, was Rs. 241. In the year 1959-60 it was Rs. 238. These figures have been arrived at on the basis of constant prices. The country had not improved economically as a result of the policies of the First Plan.

Naturally enough, there was reluctance in both official and unofficial quarters in admitting that the nation's First Five-Year Plan had failed. The advice of

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*Read out at a meeting of Economics Society, Govt. College, Lahore.

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foreign experts had been given great weight when the Plan had been made. Foreign powers had also offered substantial monetary inducement attractively called "Aid" so that policies favoured by them should be adopted. It was, therefore, not surprising that despite the unfavourable figures quoted above, foreign observers went on admiring the "progress" which Pakistan had made. By now the Second Five-Year Plan had been outlined on the same lines. Foreign advice and inducement or "aid" again figured prominently. The failure of the First Five-Year Plan was referred to as "insufficient progress in some sectors" and people were invited to look at the "bright feature" of investment in the private sector which compared "very favourably" with the target. What had actually happened was that the enormous total of Rs. 275 crores private capital had been sunk in putting up houses and bungalows.

In 1959, the Government invited public criticism and comment on the Second Plan. In response the policies underlying the two Plans were vigorously criticized. One view was that the First Plan had failed because it did not provide for heavy industry such as steel and heavy engineering.It was pointed out that development plans of India, China, Egypt and the U.S.S.R. had succeeded because of the highest priorities for steel, heavy engineering and power. The Pakistani Plans lacked this foundation and, therefore, could not lead to economic betterment. This quarter maintained that foreign aid and advice had been aimed at preventing industrialisation by directing the country's energies into superficial development. This had been done só that Pakistan should keep on exporting agricultural commodities to West European nations whose industry and military strength was being built up by the U.S. to fight the Soviet Union.

On the other hand, those who had helped to make the Plans said that the Plans were based on a sound philosophy of development and that the shortfalls in the First Plan were due to bad weather and weaknesses of the people who implemented the Plan. The argument was advanced that the Plan had in fact resulted in an increase in national income, but that the population had increased at a greater rate and, therefore, the *per capita* income had not improved. It was said that a 1.4 per cent increase in population had been assumed on the First Plan but that the actual increase had been 1.6%. The fear was expressed that the rate of population growth might even become 1.8% by the time that the Second Plan draws to its end.

This was how the population argument to explain the stagnation of Pakistan's economy was born. It soon gained currency and many people thought that the real key to the failure of the First Five-Year Plan had been discovered. By giving money for birth control, foreign agencies including some foreign individual do-gooders helped to strengthen the idea that Pakistan was poor because her population was increasing at a fast rate. As soon as wealth was created, new mouths gobbled it up. New English phrases like "a run-away birth-rate," "population explosion", "Asia's proliferating millions" seemed to clinch the argument for the English-literate class who as usual savoured the phrases and never thought of analysing or questioning them.

The average person who could read a newspaper thought that he had got to the root of the problem when he said that the number of mouths to be fed and backs to be covered were multiplying at such a fast rate that production and foreign "aid" combined together could not catch up with it. The picture of the situation which these quarters had in their mind was that the planners and aid-givers were raising the production and that a quickly multiplying population was eating it up faster and faster and asking for more.

If this continued, the expanding multitudes would engulf everything. There was nothing to it but that somehow the floodgates of population increase must be closed or at least narrowed.

What were, however, the facts? Did it occur to anyone that this interpretation had flaws in it? Was such an interpretation valid in the light of reason and logic? When a population increases, does it only consume or does it also produce? Was it possible that the rise in the national income which was supposed to be neutralised by population-increase was actually caused by that population-increase? If on analysis it turned out that the rise in national income was in the main due to a rise in population, how far would it be correct to say that the chief gain which had accrued to Pakistan from the point of view of productional capacity and hence strength during the past decade was that its population had increased ?

Let us examine the facts as they are available in official statistics. Let us take the period between 1949-50 to 1959-60 and look at the national income figures on the one hand and the population figures on the other. Let us then see by what process has the national income risen and whether that process could have come about with a static population. If it turns out that the process by which the national income has risen could have been brought about only with a bigger manpower, (*i.e.* it could not have, under the given conditions, come about with a static manpower) then the notion that Pakistan's increasing population is an economic liability should be qualified and revised.

Here are the figures for the period 1949-50—1959-60*.

NATIONAL INCOME (In Million Rupees)

SECTOR	Year 1949-50	Year 1959-60
1. Agriculture	... 10,696	12,532
2. Mining & Manufacturing	1,236	2,857
3. Services, Rents, Transport, trade, etc.	5,610	6,243
Total National income	17,542	21,632
POPULATION	74 million	91 million

What do the above figures show ? In the ten years between 1950 and 1960 national income has increased by 4,090 million while the population had increased by 17 million. In the national income, agriculture is the most important item, and in a sense the other big item of service, trade, etc., springs from it. Now let us see how the increase in agriculture has come about. Here are round figures for area sown under principal crops:-

*The period for which all the figures are available.

1949-50	1959-60
47 million acres	53 million acres.

This means that the enormous area of six million acres was increased under the principal crops only (excluding increases in minor crops, forests, etc).

The question arises: Who cultivated these six million acres of extra crops? How big this increase of six million acres is, will be gauged from the fact that according to the Encyclopaedia Britanica this was the total area under the food crops in the year 1939 in the United Kingdom including England, Scotland, Wales and Northern Ireland. There was no mechanization. The working capacity of the average farm labourer and the average bullock remained the same. The length of the day was the same. Then how were these 60 lakh extra acres ploughed, sown, reaped and garnered, loaded in trucks or wagons, taken to markets at home and abroad, sold in shops and stores and earnings from all these processes generated? The answer inevitably is—this was done by the 17 million extra pairs of hands which were accompanied with 17 million extra mouths. In ten years the child of seven years became seventeen, one of six grew up to sixteen and 17 million were born to take the place of those who grew up to become working hands.

When we deplore the rise in population which consumed the increase in national income, we take the 17 million extra pairs of hands for granted but do not want the mouths that go with them. We fall into this illogicability because of the wishful thinking of those who seek to justify the kind of development into which we have been led by foreign advice and monetary inducement, miscalled "aid".

A consideration of the above figures leads us to the Law of Development for countries like Pakistan. This law may be stated thus :

"In an old community working with human and animal power, the ratio between population and production is a constant factor.—or "Production/Population = K"

You cannot raise the one without raising the other. If you lower the population, the production will inexorably go down. This constant can be improved only by introduction of the factor of mechanical power. All other improvements like improved seed, fertilizer, etc., do not substantially change the constant for howsoever effective they may seem and be under experimental conditions, when it comes to making them operate over millions of acres, the barrier of human and animal power intervenes. This has been dramatically illustrated by the results of the First Five-Year Plan. Literally, dozens of schemes like the use of fertilizers, soil improvement, better seed, etc., were taken in hand. In all reason fertilizer and improved seed should have caused the yield per acre to go up but the over-all results were that the yield per acre *went down.*

In the figures quoted above, there is no reason to believe that the increase in agricultural production on which increase in national income depends in an agricultural, colonial type of economy, could have come about if the population had not been risen.

In fact it would be correct to argue that if the population had not increased, the crop acreage and the national income which is linked to it, would also not have increased very much.

We cannot, therefore, merely say that the increase in production is all eaten up by the increasing population. We should, on the other hand, also say that the *increase in production is due to the increase in population.*

The law of development proposed above can also be stated in another form.

"*In an old, settled community, increase in* per capita *production can be brought about only by replacing human and animal power with mechanical power.*"

It is, therefore, correct to assume that the index of *per capita* income under the conditions prevailing in Pakistan is not greatly affected by the rise in population. As the population increases, the new manpower is absorbed mainly in expanding agriculture of the non-mechanised kind and rise in national income flows from it.

Asian Population :

In Western publicity one often comes across expressions like "Population Explosion in Asia", "Asia's proliferating millions" and the like. Let us look at the figures.

POPULATION BY CONTINENTS (In Millions)
(EXCLUDING U.S.S.R.)

Asia	Europe	North America	South America	Whole World
In the year 1650				
330	100	1	12	545
In the year 1950				
1,360	574	168	162	2,476

The above figures show that during the last three hundred years the population of Asia has increased four times, that of Europe about six times, that of North America one hundred and sixty-eight times, and that of South America thirteen times. The rate of growth of Asia is relatively the smallest of Asia, Europe and the Americas. Population growth is, therefore, certainly not the problem of Asia or of any one Asian country alone. It is a general phenomenon in the life of the human species. In fact, Asian growth rate is lower than the world growth-rate. A non-Asian might wish it to be lower still but where is the necessity of all Asians agreeing with him? Incidentally, the present population of the U. S. is about twice that of Pakistan. In twenty years between 1940—60 the increase in U.S. population was 48 million or about as much as the population of East Pakistan ! Still it may be said that a strong reason for our abysmal misery is that we are too many. The answer is 'no', as our population rises, in keeping with the world trend, we expand our acreage under crops and raise our national income, we also export proportionately more and earn foreign exchange on most unfavourable terms. Then we send back this "foreign exchange" to where it comes from for a trickle of machinery, again on unfavourable terms. Our misery is owing to the fact that we are supporting the burden of the exploding European population. Europeans have become 600 millions and we are perhaps the biggest single agricultural farm which has to work over-time and keep Europe supplied with the mountains of agricultural produce which Europe consumes and for which it pays less and less because of unfavourable trade.

That this is not a fanciful notion will become clear by a little consideration. A few years back there was a big hue and cry that the Soviet agricultural production had lagged behind and that Mr. Khrushchev had expressed his displeasure with the crop shortages. Now, the Soviets have all the land, machinery and science. Yet they were in difficulties about supplying the needs of a population of about 20 crores. The question arises how are the needs of the 60 crore Europeans met while Europe does not have one-fifth of the Soviet arable land? The undoubtable answer is: From the so-called under-developed countries through the process of ever-expanding trade. The misery of the agricultural countries is due to the fact that this trade is very unfair. The prices of agricultural produce are fixed at a lower level while the prices of manufactured produce are constantly rising. Such organizations as GATT (General Agreement on Trade and Tariffs) are used to eliminate competition among European buyers and to pay the agricultural producers less and less. In the meanwhile, the economies of the under-developed countries have been taken over by the World Bank, the International Monetary Fund, etc. and they are being developed as agricultural supply bases with canals, railways and ports. One of the chief objectives of the Western industrial countries is the prevention of basic or heavy industry appearing in the farmed countries.

After Britain joins the European Common Market, industrialised Europe and the U.S. will be solidly united in the exploitation of Asian, African and South American under-developed countries. Then the North Atlantic community will be able to buy Agricultural goods from the rest of the world without even the appearance of keeping two shops open, on terms of its own choice. The only possible competition left in the world will be from the Communist nations.

The problem of the people of Pakistan is not so much that they should prevent their population from growing as that they should save their population from foreign economic exploitation through unfavourable trade. The only way in which they can do so, is by setting up their own mines, steel mills and nuclear power plants. The population argument is being advanced to mislead the exploited nation so that its people should think that their misery is owing to their own shortcomings and not to economic exploitation through unfavourable trade. Today, Pakistan is awake to the need of having its own heavy industry but it is not being realised that the under-developed countries encounter the greatest opposition when they try to set up their own heavy industry. Ruthless propaganda, political manipulation of all possible kinds, delays, side tracking, wrecking from-within, committing the country concerned to colossal programmes of development in fields other than mines, steel mills and heavy engineering plants, are some of the methods which are employed. To make all this possible, extensive means of thought-control like books, journals, educational influence, foreign tours, scholarships, advisers, experts, missions, foundations, cultural councils, information services and personal influences with leaders and executives in industry and education are employed.

How far are the following true.

1. Suppose Pakistan's population suddenly becomes 47 million instead of being 94 million, as at present. Its agricultural produce and other sources of national income will decrease. Its defensive strength will decrease and its ability to industrialise will become less. Its political importance will be less. Its chances of survival will be lessened.

2. When the rest of the world is increasing, for a group to become static in numbers, is to be faced with biological defeat. France was alarmed when her population did not grow and took drastic measures to encourage populatiou growth. This was a strong reason for lifting the colour bar in France.

3. Numbers make big or small families, tribes and nations. If a nation thinks of its children as a liability or wishes that a part of it was not there, it will hurt its urge to break through to a better life.

4. Fecundity is a factor of (*i*) chastity and (*ii*) a life of hard physical labour. Promiscuousness and a life of well-fed ease hinder fertility. France's falling birthrate picked up because the war sobered her population

5. When a community is subjected to arduous and taxing physical labour, nature tends to give them more working hands.

6. Suppose, the production processes of a country are so primitive that a hundred people working round the year cannot produce enough for a hundred but can produce enough for only 98. Then it is fallacious to argue that if their number falls to 98, they will have enough. This is so, because by the same primitive methods of production, ninety-eight working hands will not be able to produce enough for ninety-eight. Thus when a country is poor, we should improve the efficiency of its production by equipping its work-force with modern tools and weapons. To seek to reduce the numbers of the work-force because they eat, is no solution.

7. It is a fact that in countries in which the rate of population growth has been the highest, e.g. U.S., U.S.S.R. Japan, West Germany, etc., are also the countries in which the pace of economic progress has been the fastest. Then is it logical to present population growth as a hurdle in the path of economic progress ?

Annual Planning In Third Plan

FIZA-UR-REHMAN*

In the first two years of the Third Five-Year Plan, the susceptibility of Pakistan's economy to an uncertain inflow of foreign exchange, through aid or trade, became more pronounced. Also, the lack of effective coordination between various sectors and economic policies was found to be seriously telling upon plan implementation. Taking cognisance of these facts, the National Economic Council at its meeting on 16th November, 1967, recommended introduction of the device of annual planning from 1968-69. The Annual Plan shall now be a regular feature of the process of planned development in this country.

The shorter the time horizon, the more ardous the task of economic planning—that is the maxim in what has come to be pedantically known as planology. The reason being that, on a technical level, good short term planning stems from long and varied experience and is rarely an exercise in sophisticated theory. Pakistan has accumulated a fund of expertise in perspective and medium term planning. However, she, like most developing countries has lagged behind in short term planning.

The reasons are not hard to pinpoint. Planning for an year involves an intelligently devised apparatus to process a huge amount of data in an unusually quicker manner. The situation in underdeveloped countries is that reliable data is not available, rendering the task of making valid projections difficult. Even if the data were available, it cannot be as readily processed as is required. Lacking in facts as well as in technique (developed out of experience and not imported from abroad), the rule of thumb assumes a greater role. In case of Pakistan, correct projections are needed for (1) agricultural output, (2) foreign trade earnings on visible and invisible account,

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(3) general purpose and project aid,(4) the level of domestic prices and consumption, (5) vagaries of nature, (6) success or failure of projected import substitution.

First of its kind, the path to annual planning in Pakistan is going to face some hardships. But then same is so with anything in its embryonic stage, and none but the short-sighted can have doubts about starting off, The key to successful planning is bold experimentation in a trial-and-error way until the "error" in each "trial" is reduced to a minimum. Though it will take its time, the task is worth undertaking in view of the fact that the asset side of the balance sheet of annual planning outweighs the liabilities.

A long term plan, no matter how sound at the time of preparation, may become anachronous unless supplemented by a precise and detailed time-table of capital receipts and outlays on an annual basis. An Annual Plan is operational by definition. It is merely a blueprint containing short term instruments for realising long term goals. More meaningfully, the national aspirations reflected in a perspective plan are concretised into a series of five year plans and launched into operation through Annual Plans.

Such a demarcation of time by no means imply that an Annual plan is independent of the long term plans. Nothing could be more false. The planners have to maintain the internal consistency and the organic unity of the three time horizons if serious discontinuities are to be avoided and the process of economic growth is to gain a positive direction. For instance, in order to achieve the average annual growth rate of 7.2% envisaged over the perspective plan period (1965-85), the Third Five-Year Plan (1965-70) has been assigned a target of 6.5% per annum. Since the average for the first three years is about 6% due to a variety of internal and external disturbances, the Annual Plan for 1968-69 fixes a target of 7% which, given the same rate for the next year, would imply a growth rate of 6.5% over the entire Third Five-Year Plan.

Annual planning consists in decomposing the medium term plans into yearly tasks by allowing, as expediently as possible, for the ever changing and challenging economic situation. In Pakistan where agriculture still contributes 45.8% of GNP, a good measure of flexibility is even more necessary. The dependence on agriculture to such a magnitude exposes the economy to the fluctuations in international commodity prices, which are more pronounced over shorter periods. Internally, the vagaries of nature introduce a considerable element of uncertainty. To the extent that investment in next year depends upon income in the current year, these random factors have to be incorporated in an Annual Plan without losing sight of the medium term objectives. The Annual Plan for 1968-69, has allocated 14% of the public sector funds to agriculture. The strategy is to maintain the tempo of development in West Pakistan and to boost up production in East Pakistan, which has lagged behind, by supplying better inputs and bringing more area under the plough. The plan fixes physical targets for major crops, identifies inputs required for their realisation and specifies the consonant investment level.

Foreign assistance in the context of Pakistan supplements, and not compensates any deficiency in the domestic contribution to development effort. In this role, it constitutes another element of instability that can't be correctly visualized for the medium term plan. For one thing, the bulk of loans and grants come under project aid. For another, disbursements under PL-480 are made on an yearly basis, rendering it inherently unstable. This leaves planners with a Hobson's choice : to fix the global estimates of investment in various sectors and translate them into specific projects in a short term plan in adherence to appropriate criteria of selection.

The process of development is seldom smooth and a host of unforeseeable bottle-necks, both internal and external, are bound to occur. The Annual Plan is just the right device to apply necessary corrections. Similarly, it is through the Annual Plan that the extraordinary events, viz. availability of new opportunities, can be duly fitted into the planned scheme of progress.

The Annual Plan furnishes an in-built flexibility for making circumstantial amends. There is an adequate scope for correcting and revising the estimates, and even their analytical framework, with the progressive narrowing down of information gap. What is more, an annual evaluation of the degree of implementation, helps isolate the shortfalls and over-fulfilments which could be balanced against the overall targets with a view to effecting requisite alterations.

It must be noted that any conflict between short term and long term objectives has to be resolved in favour of the later, for it is for this that the government is politically committed.

Since 1959, Annual Development Programme has been the principal instrument of plan implementation in Pakistan. It has gone a long way in harmonising project preparation, scrutiny and selection, or in a word, development programming with the formulation of budgets. An in-built flexibility was thus ensured through the allocation of resources. But this was hardly enough. A "programme" could never supplant a comprehensive and more detailed "plan". Annual Development Programme concentrated on public sector and, even here, expenditures were allocated among various lines of productive activity with almost no regard for the balance between various sectors and industries. On the top of it, coordination with private sector, constituting half the plan, was practically non-existent. Reduced to the position of a residue, it received the remainder of the resources after the requirements of the public sector had been met.

The Annual Plan marks an advance over the Annual Development Programme. In addition to removing the shortcomings of the later, it introduces many new elements so that the economic activity is organized, and the resources allocated, in the best interest of the community.

The foremost task in the annual planning is to evaluate the performance in the previous year and to devise on that basis a strategy of development for the current year, of course within the overall objectives of the five year plan. Next comes the seletion of objectives and fixation of annual targets for GNP growth, private and public savings and investment, exports, imports and changes in prices and employment. The Annual Plan for 1968-69 knits together the conventional budgeting, public sector programming, foreign exchange budgeting, import policy and the newly introduced export policy as its operative tools. It affords a systematic, consistent and well-coordinated view of all the resources available during an year, the policy mix for their allocation to realise the specified targets and objectives.

Private sector will be guided by an "indicative" plan, containing output projections for various productive activities. The finances will be made available through the specialised credit institutions, with consistent changes in general economic policies.

In conculsion, it can be safely said that annual planning will do its job well as a flexible instrument of make-shift arrangements in response to a change in objective data. As the Planning Commission notes, "the concept of an Annual Plan is one further step towards the completion of our overall framework of pragmatic planning".

Regional Cooperation for Development among Turkey, Iran and Pakistan—(I)

PERVEZ TAHIR*

I. INTRODUCTORY REMARKS

The primary objective of LDC's (less developed countries) is to maximize their economic growth subject to the constraints of savings, skills and foreign exchange. In the ultimate analysis, the realisation of this objective no doubt depends on the removal of the bottlenecks of domestic savings and skills. Immediately, however, foreign exchange represents a more strategic constraint.[1] The economy of a LDC typically suffers from internal structural rigidity leading to a high "import-sensitivity"[2] in a development process. Figure 1 helps bring home this point.[3]

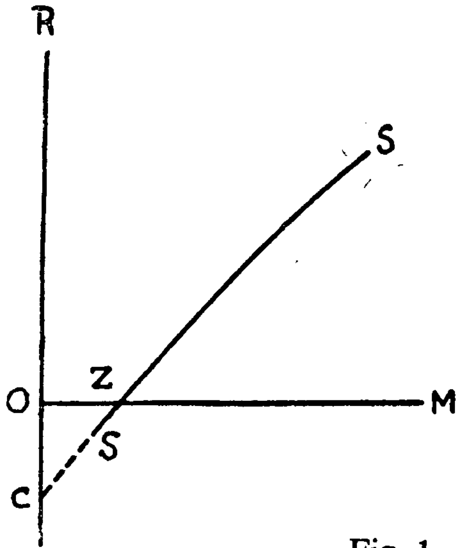

Fig. 1

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1. The case of Iran and other petroleum-exporting countries is an exception, though the problem whether foreign exchange is actually available for development remains.

(Contd. on page 134)

Rate of growth is shown vertically and imports horizontally. It will be seen that Z is the point of zero rate of growth, i.e. imports are just sufficient to maintain existing capacity. Beyond Z imports are expansionary in the sense that every rise in them corresponds to a high rate of growth. The rate of growth is negative below Z owing to an insufficient inflow of imported inputs resulting in the underutilization of capacity. Note that an extended SS curve will meet the vertical axis at C which, given that vertical axis indicates existing capacity, implies that certain factors will continue to be employed even with the total stoppage of maintenance imports.

So imports are necessary for maximization of economic growth. The fulfilment of this necessity presumes a symmetry between the growth of import needs and the capacity to import This being utterly lacking, the problem of economic growth in the initial stages boils down to a *consistent softening of foreign exchange constraint.* The various techniques available for this purpose can take the form of a transfer earning or saving of foreign exchange. It may be pointed out that these techniques are by no means mutually exclusive. Instead, they form the important components in an internally consistent and organically unified overall strategy of planned development.

Foreign Exchange Transfers

A foreign exchange transfer can be effected through *nonmarket* as well as *market* channels. The former is termed as foreign economic assistance[4] and the latter as foreign private investment. The professed philosophy is that by providing capital funds through loans and grants and cooperant factors through technical assistance, the donors help the recipient push up its marginal rate of saving considerably above the pre-existing average rate of saving so that the achievement of the so-called self-sustain-

(Contd. from page 133)

2. Ignacy Sachs, "The Significance of the Foreign Trade Sector and the Strategy of Foreign Trade Planning", in U.N. *Planning the External Sector: Techniques, Problems and Policies*, p. 42.
3. Staffan Burenstam Linder, "Customs Union and Economic Development," in Miguel S. Wionczek (ed), *Latin American Economic Integration*, pp. 33-4.
4. The term "assistance", like aid, is a misnomer as grants constitute a very small portion of the total inflow of resources.

ed growth becomes a matter of time only[5]. More technically, the purpose of economic assistance is to bridge the gap between absorptive capacity and maximum national effort.[6] The practice, however, betrays profession. The DC's (developed countries) have failed to fulfil the target of devoting to aid one per cent of their net national income at factor costs during the Development Decade of 1960's. A heavy burden of the BOP correctives invariably falls on aid programmes. The aid that did flow to the LDC's was mostly tied. What was given with one hand was thus taken back with the other. Bilateralism predominates, programme financing is non-existent, interest rates are rising and international organizations suffer from ectopia. In this background, the target of one per cent of GNP at market prices[7] as aid adopted at UNCTAD II for 1970's seems a far cry[8]. Even if the target is fulfilled under most optimistic assumptions, the disillusionment of the LDC's will increase rather than decrease when they find that dependence on aid, far from leading to self-sustained growth, has a tendency to perpetuate. To substantiate from Pakistan, an explicit aim of the Perspective Plan is that dependence on foreign assistance will be eliminated by 1985. Dr. Anis-ur-Rehman, however, has calculated, on the basis of World Bank figures and Planning Commission's own assumptions, that Pakistan will need in 1985 double the amount of assistance needed in 1965 absolutely, though their will be relative fall from 9 per cent of GNP to 4-5 per cent. He maintains that the desirable objective for a "self-respecting" nation is

5. P.N.Rosenstein-Rodan, "International Aid for Underdeveloped Countries", *Review of Economics and Statistics*, May 1961, pp. 107-8; Hollis B. Chenery and Allan M. Strout, "Foreign Assistance and Economic Development", *American Economic Review*, September 1966, pp. 679-733.

6. Benjamin Higgins, *United Nations and U.S. Foreign Economic Policy*, p. 47.

7. The aggregative variation between the two computations is to the order of 25 per cent, though the effect on the individual countries may be to reduce the present volume of aid. U.K., for instance, will now have to commit 0.9 per cent rather than the previous 1.16 per cent of "national income". Again, as Mr. Osman Ali pointed out in his address at the *Third Economic Development Seminar* at Karachi (March 30 - April 2, 1968), the target becomes meaningless as it is not fixed in relation to any particular year.

8. The pressures applied by the DC's to amend the draft resolution moved by LDC's at the recently held 25th session of ECAFE to fulfil this target are clearly indicative of their mood. The amended resolution urged the DC's to "provide aid at a rate consistent with their abilities and the developmental needs of developing countries". Reported in *The Pakistan Times*, April 27.

not self-sustained growth, but "self-assured growth" implying some "staying power" without bait aid.[9]

Foreign private investment, direct as well as portfolio, has been steadily dwindling ever since the world has outgrown colonialism. It is certainly more difficult to exploit the modern self-conscious nation-states. And investing on a profit without exploitation basis is not an economic preposition, given the politico-economic conditions obtaining in LDC's. The proclivity persists in spite of the lucrative allurements offered by some of the LDC's.[10]

Obstacles to Trade

The reaction to the gloomy prospects of foreign exchange transfers has manifested itself in the slogan of "*trade not aid*."[11] After all, it is more respectable to earn one's way through than beg. But the trouble is that the DC's have so devised the mode of international commercial intercourse that for LDC's, lacking bargaining power, asking for more favourable trade openings is well-nigh equivalent to begging for aid. The nineteenth century "straitjacket"[12] of international specialization, based on the classical theory of comparative advantage, with industrialized West as centre and the primary producers as its periphery,[13] has been allowed to spillover to the twentieth century in the vain hope that the growth in the "workshop" will be adequately transmitted to the "granary". In point of fact, the low income and price elasticity of demand for primary products, increasing low material-intensity made possible by technological advancement, growth of competition with the cheap

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9. M. Anisur Rahman, "The Pakistan Perspective Plan and the Objective of Elimination of Dependence on Foreign Assistance", *Pakistan Development Review*, Autumn 1967, pp. 412-15; "Perspective Planning for Self-Assured Growth : An Approach to Capital Inflows from a Recipient's Point of View", *ibid*, Spring 1968, pp. 1-22.

10. U.N., *The Promotion of International Flow of Private Capital*, pp. 17-27; H.W. Singer, "The Distribution of Gains Between the Investing and Borrowing Countries", *American Economic Review*, pp. 773-85.

11. For a full-fledged discussion see, G. Ranis, *Trade Aid and What?*; W.L. Thrope, *Trade, Aid or What?*; Harry G. Johnson, *Economic Policies Towards Less Developed Countries*.

12. Ignacy Sachs, *Foreign Trade and Economic Development of Underdeveloped Countries*, p. 2.

13. Raul Prebisch, "The Economic Development of Latin America and its Principal Problems", *Economic Bulletin for Latin America*, February 1962, pp. 1-6.

synthetics, direct competition from industrial countries themselves, the tendency for great import substitution in agriculture and their sluggish growth lead one to say that further prdouction will only aggravate the already deteriorating terms of trade.[14] International action for commodity stabilization and compensation, a thing not very easy to achieve,[15] may at best freeze the foreign exchange earnings at present levels. Moreover, the undesirable consequences of such "aid through trade" should not be over-looked. For one thing, it perpetuates the commodity pattern of production. For another, it promotes allocative inefficiency as the basis of aid will now be the "accident" of the world distribution of commodity production.[16] Insofar as the demand conditions are other-controlled, it might even be concluded that LDC's have in effect explored all their export possibilities.[17].

The situation is even worse in the field of manufactures. The DC's eat their own words when they refuse to specialize in sophisticated industries and leave certain types of light manufactures and semi-finished goods to the LDC's. The degree of protection is directly correlated with the degree of processing. A little amount of processing before shipment reduces the weight of the raw materials and hence the invisible costs.[18] The LDC's either face competition from parallel facilities in the DC's or the protective walls raised to safeguard the interests of the local producers. Iran is a case in point. The predominance of foreign hold on oil refineries has resulted into a fall in the production of refined oil and a rise in the output of crude oil.

More and more bricks are added, on one pretext or the other, to the protective walls when it comes to

14. Dudley Seers, "A Model of Comparative Rates of Growth in the World Economy", *Economic Journal*, March 1962, pp. 45-78 ; Raul Prebisch, "Commercial Policy in Underdeveloped Countries", *American Economic Review, Papers and Proceedings, March 1959*; Bela Balassa, *Trade Prospects for Developing Countries*, p. 3.

15. For instance, the Swedish-U.K. Scheme for supplementary measures to financially compensate for the instability in commodity prices at the UNCTAD II, though signed by U.S.A. and France, is most likely to come a cropper as their opposition to such measures is an open secret.

16. M Z. Cutajar and A. Franks, *The Less Developed Countries in World Trade*, p. 18.

17. Linder, *op. cit*, p. 35.

18. The reduction of weight in case of Jute, for instance, is as much as 90 per cent.

light manufactures like textiles. Stampeded by the cost advantage of LDC's, the spokesmen of the DC's yell that cheap-labour based competition is "unfair" and "disruptive." But then they are speaking through their hats. Their own theorists tells us that international division of labour exists because there are differences in cost levels which, in turn, are a function of the relative factor supplies. Accordingly, the labour-surplus economies of the LDC's will produce labour-intensive goods. The argument that labour involves social problems is wooden-legged, for the skewness of average income will then put a halt to intra-U.S. trade, what to speak of international trade. The fact of the matter is that in the DC's what the labourer gets is not merely the labour cost, but the wage per unit of product. This is how it should be because of the higher productivity.[19]

The chanees for removing these obstacles to trade are meagre. There is a visible post-war trend towards a successive liberalization of trade between the DC's and deliberalization of trade between the DC's and LDC's. Six major rounds of tariff cuts have thus far been negotiated under GATT. The biggest and the paramountly important was the Kennedy Round,[20] negotiated after the passage of Trade Expansion Act by the U.S. congress. It was for the first time that item-by-item cuts gave way to across-the-board or linear reductions. For the LDC's, hoping for a preferential access to the markets of DC's recommended at UNCTAD I, it has proved to be a mirage. The GATT rules continue to nourish a "richman's club".

With most of the exports from LDC's placed on the "exceptional list", the commitment to give 4.5 million tons of food aid " looks like a dose of vitamins administrated by a clever doctor to a patient in the hope that the latter would not cry for the treatment of his gradually-killing disease."[21] Some of the highest tariffs are those on imports from

19. Sidney Dell, *Trade Blocks and Common Markets*, pp. 201-2.

20. The successive rounds include : Geneva, 1947; Annecy, 1949; Torquauy, 1951-52; Geneva, 1956, 1960-61; and Kennedy Round, June 1967.

21. M. Yaqub, "The Kennedy Round of Tariff Cuts and the Developing Countries", paper presented at the *Third Economic Development Seminar*, Karachi : March 30-April 2, 1968.

LDC's[22]. Moreover, it is hard to share any optimism about the Committee on preferences set up at UNCTAD II to study the possibility of a generalised system of tariff preferences without reciprocity and discrimination. Firstly, the cleavage between U.S.A. and France over the rate of phasing out the "reverse" preferences under Yaounde Convention and between U.K. and France over the method of incorporating existing Commonwealth and EEC preferences has been hushed up only for the time being.[23] Secondly, the LDC's enjoying preferences in one form or the other will resist any change in the *status quo* unless it was outweighed in advantages by any new arrangement.[24] Thirdly, the new system, taking an *en bloc* view of LDC's, is apprehended to distribute the benefits of preferences inequitably. The Algier's Charter underlined the need to ensure that "the least developed among the developing countries.........derive equitable benefits so that all the developing countries would gain comparable results from international economic co-operation.........". The least developed countries would gain from generalised preferences only if they are extended to processed and semi-processed primary products.[25]

The trade problems of the LDC's will not come to an end even if the tariff barriers were completely lifted. The non-tariff barriers———including foreign trade policies incorporating quantitive restrictions and export subsidies and licensing and so forth, administrative practices, domestic policies influencing imports———are even more restrictive and more widely practised against LDC's. While a tariff wall can always be crossed over through increased efficiency, the non-tariff barriers are insuperable. The heavy bias in favour of such restrictions has resulted from an increased lessening of the protective incidence of tariffs due to rising prices[26].

22. United Nations, The World Economic Survey 1963, p. 201.

23. David Howell, "Failure at UNC TAD II", *Round Table*, pp. 251.

24. J.P. Hayes, "How Relevent was UNCTAD II", paper read out at the *Third Economic Development Seminar*, (Karachi: March 30-April 2), para 17.

25. *Ibid*, paras 19-20; Howell, *op. cit.*, p. 250.

26. Survey, *op. cit.*, pp. 190-201.

Import Substitution

Sidney Dell aptly sums up the attitude of DC's towards the problems of LDC's when he observes :

> (They) stand as if hypnotized by the scale of the problem ; (They) skirt its fringes, unable to appreciate its essence.[27]

Thus the LDC's have to be of necessity inward-looking. The course left to them is no different from that adopted by the Germany of Friedrich List and United States of Alexander Hamilton against British hegemony.[28] The LDC's have endeavoured to raise the ratio of domestic production to total supply through consistent import substitution. By providing a mixture of price and quantity protection and cost reduction devices, local "infants"are developed on the basis of domestically available raw materials and cheap labour.Historically,50 per cent of industrialization is attributable to import substitution—a factor which has a considerably greater significance than a pure boosting up of demand.[29] Import substitution is not only exchange-saving, but also changes production pattern, relative supplies and prices of factor and hence comparative advantage.[30]

Economic Regionalism

Import substitution is limited by the extent of the market. As the industrialization transits "from the final touches stage to domestic production of intermediate and finally, to that of basic industrial materials,"[31] the economies of scale cannot be reaped fully. This is specially so in case of LDC's. The United States and *Zollverien* were viable customs unions. But most of the LDC's have limited domestic demand. This is precisely the point where cooperative effort on the part of LDC's is required. With the approaching of a sophisticated stage of development, the regional, as against national, "infants" should

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27. *Trade Blocks, op. cit.*, p. 169.
28. *Ibid.*, pp. 5-36 and 207-8; Miguel S. Wionczek, "Requisites for Viable Integration," in *Latin American, op. cit.*, p. 5.
29. Hollis B. Chenery, "Patterns of Industrial Growth", *American Economic Review*, September 1960, p. 641.
30. Ibid., p. 644; Shu-Chin Yang, "National Policies for Import Substitution and Export Promotion, " in *Planning External Sector, op. cit.*, p. 156.
31. Albert O. Hirschman, *Strategy of Economic Development.*

form the basis of an intelligently devised policy of integrated development through joint self-help.

The world trade statistics for the last two decades reveal a mounting trend towards economic regionalism. The intra-trade of the developed market economies and centrally planned economies has risen at an extremely faster rate than the inter-trade. In contradistinction, the relative insignificance of the intra-trade of LDC's is well-known. All this points up, respectively, "the presence and absence of a causal process in which the evolution of a complex of interrelated economies fosters reciprocal trade, and the latter, in turn, stimulates the growth process".[32]

It was in this background that UNCTAD I recommended :

> Regional economic groupings, integration or other forms of cooperation should be promoted among developing countries as a means of expanding their intra-regional and extra-regional trade and encouraging their economic growth and their industrial and agricultural diversification with due regard to special features of development of the various countries concerned as well as their economic and social systems.[33]

The RCD among Turkey, Iran and Pakistan is one such regional economic grouping. The present analysis has brought into sharp focus the general problems connected with the external obstacle to growth. It has served to throw some light on the *raison d'etre* of the tendency to regionalize in the scheme of international economic relations since War. The stubborn attitude of DC's towards the developmental problems of LDC's, leading to the failure of UNCTAD II, shall intensify this process among LDC's, though on patterns quite different from their European prototypes.

The RCD region has its own set of conditions and its discussion in a proper perspective requires the identification of the specific factors, economic as well as non-

32. PLACIDO GRACIO REYNOSO, Foreword to *Latin American*, *op. cit.*, p. viii.

33. U.N., *Proceedings of the United Nations Conference on Trade an Development, I : Final Act and Report*, p. 11.

economic, that interacted to give birth to it. It is to this that next section turns.

II. THE GENESIS

RCD is nothing but a recognition of the age-old links in history, geography and culture of "the three". It is a response to the modern socio-economic challenges and manifests the natural and deep-going process of historical continuity.[34]

Historico-Cultural Backlog

The ties between Iran and Pakistan can be traced back to the sixth century B.C. when Trans-Indus areas of Pakistan constituted an economically advanced tributary to the Persian Empire. Alexander's invasion in the fourth century B.C. brought the culmination of the Iranian hold.[35] It left the subcontinent wide-open to penetration, political and cultural, from West Asia including Turkistan. The huge expanse of land between the Indus and Asia Minor now presented an enviable spectacle of,

> the processes of cultural collision and assimilation and the eventual diffusion of common cultural traits and traditions.[36]

The use of Persian Wheel in the Indus Valley bears testimony to the fact that the increased interaction between the three peoples led to this advance in methods of irrigation. The Islamic dawn fostered a new and stronger element of cohesiveness. After the Arabs, the Iranians, Turks and Afghans became the torch-bearers of Islam. They were responsible for the creation of Delhi Sultanate and the spread of their faith to what is now East Pakistan.[37]

Most of the rulers of the subcontinent ever since Lahore fell to Mahmud of Ghazna in 1020 A.D. to the

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34. Rushbrook Williams, "Pakistan: Old and New", in *The Pakistan Times Annual 1968*, p. 34.

35. Mafizullah Kabir, "Iranian Influence on Pakistani Culture", paper read at *RCD Seminar on Common Cultural heritage*, (Tehran: March 10-13, 1965), pp. 55-6

36. N. A. Baloch, "Cultural Contacts Between the Iranian, Turkish and the Pakistani People in the Light of History", *ibid*, pp. 61-65.

37. Rushbrook Williams, *op. cit.*

last Mughal king in 1857 were Persian-speaking and of Turkish origin.[38] Urdu is a product of this socio-political milieu. The comparable instinctive responses of the peoples of Turkey and Iran have stemmed from the cultural intercourses over centuries between the historic Ghazna and Konya.[39] The quality of a culture is, more often than not, a reflection of the state of the economy. Beneath the process of cultural transmission lay a continuous trade flow between Iran and Ottoman Empire which not only initiated it, but also caused its sustained acceleration.[40]

The struggle for independence of Turkey as well as Muslim India is replete with memorable instances of *esprit de corps*. Sultan Tipu's endeavours to conclude a military pact with Turkey, the secret movement of the Shaykh-ul-Hind of Deoband, the episode of Ghazi Osman Pasha, the Khilafat Movement, the influence on Sir Sayyid of Turkish reform movement, Hijaz Railway, the expression of renascent passion for Muslim solidarity during the wars of Tripoli and Balkans are successive links in the chain of Pak-Turkish amity. Allama Iqbal, who dreamt of Pakistan, expressed the feelings of every Indian Muslim when he said : "Power with beauty is prophethood. If there has been any such political prophet, it is Mustafa Kemal Ataturk"—the architect of modern Turkey.[41]

Pre-CENTO Entente

The establishment of Pakistan gave a new vent to the Pak-Turkish relations as the cordiality existing between the two peoples was for the first time reflected in the official policy. These relations were concretised on July 26, 1951 when the Treaty of Friendship was signed with a view to broadening the scope of co-operation in the fields of politics, economics, society and culture. The two countries reciprocated to each other's stands on Kashmir and Cyprus. The all-embracing Agreement for Friendly Co-operation was concluded on April 2, 1954

38. S. M. Ikram, "Some Observations on the Common Cultural Heritage of Iran, Turkey and Pakistan," *RCD Seminar*, *op. cit.*, p. 84.
39. Zaryab Kohi, "From Ghazna to Konya," *ibid.*, pp. 114-9.
40. For details of silk trade between Ottoman Empire and Iran, see, Hilal Inalick, "A Note on the Turco-Iranian Economic Ties in History", *ibid.*, pp. 13-15.
41. Pakistan Publications, *Turkey and Pakistan*, pp. 5ff.

which, *inter alia*, included Defence. It is this Agreement that prepared the ground for a more comprehensive military pact later on.[42]

The relations between Pakistan and Iran — the land of the Lion and the Sun—have right from the beginning been a perfect example of "neighbourly diplomacy."[43] The first formal step in this direction was the conclusion of a Treaty of Friendship on February 19, 1950 to accord most-favoured nation treatment to each other. It further provided for the subsequent negotiations of agreements on trade and commerce. Pakistan staunchly supported the nationalization of oil industry by Iran in early fifties.[44]

The community of approach between Iran and Turkey in regard to relations with each other as well as the policy *vis-a-vis* rest of the world dates back to 1937, when the Saadabad Pact was signed. According to this pact, the contracting parties—Turkey, Iran, Iraq and Afghanistan—had agreed on collective security of the region.[45]

Anachronism of CENTO

The strategic importance of the Middle East due to geographical proximity to U.S.S.R. has always invited a clash of interests between Big Powers. United States, by exploiting Turkey's "Traditional suspicion of Russia"[46] and external vulnerability of Iran and by keeping out Israel to attract the Arabs, has alway sought to juxtapose the countries of this area into a "Northern Tier" of her plans for the military envelopment of Russia. Consonantly, she, in league with U.K., France and Turkey, placed the proposal of a Middle Eastern command before Egypt on October 13, 1951. It did not materialise, and obviously so, since the latter could never think of it unless

42. *ibid.*, pp. 53-55.
43. Khalida Qureshi, "Pakistan and Iran—A study in Neighbourly Diplomacy", *Pakistan Horizon*, First Quarter, 1968, pp. 33-39.
44. Pakistan, Ministry of Information, *Twenty years of Pakistan*; see also, Iran, Ministry of Information, *Iran-Pakistan Ties of Brotherhood*, pp. 7-12; Abbas Khaleeli, "Some Aspects of Iran's Foreign Relations", *Pakistan Horizon, op. cit.*, pp. 14-20.
45. Donald N. Wilber, *Contemporary Iran*, p. 202.
46. Firouz Bahrampour, *Turkey : Political and Social Transformation*, p. 79.

U.K. evacuated the Canal Zone.[47] The idea was abandoned for the time being, though not the hope. The Americans studied the developments in the area carefully and introduced a strategic shift in their policy : they now planned to build up a chain of alliances between the non-neutral countries.[48] In 1954, as already noted, the Agreement of Friendly Co-operation was sponsored between Turkey and Pakistan. One can't fail to notice the significance of the Article 6 of the Agreement which stated :

> Any state, whose participation is considered by the contracting parties useful for achieving the purpose of the present agreement, may accede to the present agreement under the same conditions, and with the same obligations, as the contracting parties.[49]

Another treaty of cooperation was arranged between Turkey and Iraq on February 24, 1955 which developed into Baghdad Pact in less than an year. Britain joined on 4th April, with Pakistan (23rd September) and Iran (3rd November) following suit. United States herself stayed as an observer. Iraq defected after the *coup d'etat* of July 1958 and the organization had to be renamed as Central Treaty Organisation (CENTO).

For the most part, CENTO failed to come up to the expectations of the regional members. Their disillusionment continued to increase as the divergance between their interests and those of the Big Powers became more and more conspicuous. Iran has always been skeptical about the adequacy of the organization as a defence mechanism unless United States joined as a full member. Since the latter deemed in-expedient to do so, Iran tried to find out the possible alternative courses. The most important plank of this policy was to "return" to the region. On September 27, 1958, the Shah suggested an "Aryan Confederation"[50], including Afghanistan. In spite of the fact that the then Prime Ministers of Turkey and Pakistan were quite enthusiastic about it, there are real

47. Geoffrey Lewis, *Turkey*, p. 161.
48. *ibid.*, p. 168.
49. Quoted in *ibid.*
50. Wilber, *op. cit.*

obstacles to its formation. The foremost is that Afghanistan is unprepared to compromise her nonalignment. Further, the Pakhtunistan stunt and the water dispute with Iran have prevented any cordiality between the Pak-Afghan and Iran-Afghan relations. Thus it took the Shah a good two years before his mediatory efforts could restore the diplomatic relations between Pakistan and Afghanistan on May 28, 1963. Further still, the foreign policies of Turkey, Iran and Pakistan are by no means identical. The former President Ayub, though approved of the proposal in 1962 and again in 1965, visualised these impediments and rightly warned against any hasty decision.[51] Nevertheless, the immediate unworkability of the confederation idea only served to intensify Iran's orientation towards the region. The approach of necessity was cautious : a next-best arrangement had to be thrashed out before, as the Shah put it, "we can assist even verbally in the funeral of CENTO."[52] A major development in this direction was the opening up of Iran's "window to the east", a great setback to the very *raison d'etre* of CENTO.

At the same time, opinion in Turkey had also been mounting, of course not on the same scale as that of Iran, that a more rational way of conflict resolution *vis-a-vis* Russia would be to promote amity—and not enmity—through alliance with cold-war origins.

The craze for "Europeanization," let loose by Ataturk, began to be eroded after NATO let the Turks down over Cyprus. The consciousness that they are individually prostrate to the European giants is not hard to observe. To top it all, the irreconcilability in an oriental environment of many a concomitant of secular modernisation lent great strength to the proponents of Islam.[53] The slogan of "come back, Turkey" now fell on increasingly receptive ears.

The bitterest opposition to CENTO came from Pakistan. "Indian Challenge", if that is the correct phrase, caused in Pakistan an urge to exit, as it did to

51. Qureshi, *op. cit.*, p. 39.
52. Quoted in Economist Intelligence Unit, *Quarterly Economic Review of Iran*, No. 2, 1967, p. 2.
53. Dilip Mukerjee, "Karachi Plans Economic Co-operation with Turkey and Iran," *Statesman*, March 6, 1965.

enter, military alliances. With the Indian Democles' sword still over head, Pakistan paid an extra price in the form of Russian misgivings and Arabs apprehensions. And this "more than nullified whatever economic and military advantages we gained from the Pact."[54]

This rather extensive analysis of the political and military developments in the region brings to the fore certain similar trends in the three countries. For one thing, growing disappointment with the West suggested the need for a reapproachment with U.S.S.R., of course with a varying degree and without a major realignment. For another, it had begun to dawn on the three that an association, involving no extraregional director and the directed, might be a better deal for the region.[55] It is undeniable that the idea of such an association emerged directly out of the high level of rapport and understanding made possible by the CENTO framework. Said Ayub Khan :

> But for the Baghdad Pact we would not have had the necessary experience of each other which helped us to evolve the RCD pattern of association.[56]

To the extent that CENTO furnished the requisite spadework in the form of road, rail, air and telecommunication links, it is the most important precursor of RCD. By the time it became a mere anachronism, the three lost no time in agreeing in principle to work out an alternative pattern consistent with the changed circumstances. In practice, however, the nature and scope of such a pattern of association could not have been determined without taking cognizance of obtaining economic realities.

Economic Realities

Cultural homogeneity and absence of severe political conflict are important but not sufficient conditions to form a comprehensively defined regional grouping unless the net economic benefit is greater than maintaining

54. Mohammad Ayub Khan, *Friends Not Masters*, p. 156.

55. It is well to note here that "U.S.S.R. and other socialist countries favourably regard the idea of developing countries' setting up their own economic associations", see, G. Seleznyov, *Trade, A Key to Peace and Progress*, p. 55.

56. Mohammad Ayub Khan, *op. cit.*, p. 157.

status quo. This section purports to dwell at some length on the prevalent trading arrangments and problems arising thereby at the time of establishing RCD with a view to assessing the extent to which they bore on the definition of the concept of RCD.

1. *Impact of European Economic Community (EEC)*

With the inception of EEC, the three countries were seriously exposed to the danger of a sizeable export recession. Three types of effects can be distinguished :

(i) Income effect,

(ii) Diversion effect,

and (iii) Terms of trade effect.

Tongue in cheek, the protagonists of EEC maintain that there will be an income effect in the sense that integration will stimulate growth within the community and hence a rise in imports:[57] "The pie to be shared will grow bigger and bigger every year". This argument is highly untenable. Firstly, given that income levels rise, the rise in import capacity is most likely to induce a greater inflow of primary products which are already subject to zero Common External Tariff.Secondly, even these primaries will be imported preferentially from "associated" countries to the detriment of other LDC's. Finally, no matter how large the income effect, its general impact is undesirable insofar as it results into a continuation of the Third World as the "world's village".

Of greater concern to the LDC's is the diversion effect, implying a tendency to domestically produce what was imported in the pre-EEC period. The RCD products seriously prone to this effect include cotton and jute textiles from Pakistan, carpets from Iran and tobacco from Turkey, the later as a consequence of Common Agricultural Policy. In addition to closure of EEC market, these countries also faced discrimination in the associated territories.

It is held that income effect will substantially offset the diversion effect.[58] The facts prove the contrary.

57. Walter Hallstein, *The European Economic Community*, pp. 48-49.

58. Emile Benoit, *Europe at Sixes and Sevens*, p. 175.

According to OECD figures, the growth rate in EEC has fallen from 6 per cent in 1950's to 4.6 per cent in 1970's. The reason lies in the insignificant realised economies of scale and specialization.

The terms of trade of the products that could successfully jump over the tariff barriers would deteriorate because the increased community demand would tend to raise the relative price of exports and lower the price of falling imports. Besides this primary deterioration, the consequent balance of payments pressures would cause a secondary deterioration.[59] The tremendously increased bargaining power after integration also enables to dictate terms of trade.[60]

2. *Implications of an Enlarged EEC.*

Pakistan is doubly threatened by EEC. Her manufactured exports, appreciably rising as the process of development proceeds on, are, on the one hand, subject to EEC Common External Tariff; on the other hand, the possibility of Britain's entry poses a real danger. Pakistan depends for one-third of her exports on the enlarged EEC. The second British application for membership after the unsuccessful Heath negotiations of 1963 has confirmed that the latter marked the beginning, and not the end, of efforts to "return" to Europe. In Britain, the Labour Government has gone back upon its own "five principles",[61] which incorporated guarantees for Commonwealth trade—most important from Pakistan's standpoint. Her role as the "American Trojan Horse in Europe" is on the wane. In EEC the principal hurdle has been removed with the exit of De-Gaulle. Economically, a clear balance of advantage is envisaged for British industry.[62] Kitzinger truly voices the present British sentiment when he states :

59. Isiah Frank, *The European Common Market*, pp. 151-6.

60. V. Cheprakov, *The Common Market Conspiracy*, p. 33. For a detailed account of EEC in a world setting, see, Feld Warner, *The European Common Market and the World*; R.S. Nigam, *A Study of the European Common Market and its Impact on India's Foreign Trade*, ch. 7, pp. 117-138; Ernst Wohlforth, "The European Economic Community and the World Trade", in BIICL, *Expansion of World Trade*, No. 7, pp. 4-9.

61. Robert L. Pfaltzgraff Jr., "Britain and the European Community", *ORBIS*, Spring 1968, pp. 87-120.

62. Chamber of British Industries, *Britain and European : An Industrial Appraisal*, Vol. I, p. 2.

> A stronger Commonwealth looks a poor bet, when British trade with Overseas Sterling Area has been stagnant for eight years while our trade with the Six, in spite of our remaining outside EEC, has more than doubled.[63]

As a consequence of the likely enlargement of EEC, Pakistan will loose Imperial Preferences enjoyed under the Ottawa Agreement of 1932 and face Common External Tariff of 18-32 per cent, import-discouraging internal taxation and reverse preferences.[64]

The economic repercussions of EEC thus clearly suggested the need for some action on the part of Turkey, Iran and Pakistan in economic self-defence.

3. *Asian Common Market (ACM)—An Illusion*

The immediate solution that comes to the mind without thought is to pay the EEC back in its own coin, *i.e.* by uniting into ACM. It is believed that formation of ACM will compensate for the loss in exports to EEC.[65] But the stigma of economic and politico-cultural forces in Asia is that they are centrifugal rather than centripetal. The ECAFE, which pioneered the idea of a regional economic grouping in Asia, has found it hopelessly infeasible.[66] The reasons are not hard to pinpoint. Firstly, Asia is a scene of some of the most irreconcilable political pathos and jealousies which, combined with an unusually dispersed geography and diverse culture, preclude any sense of regional togetherness. Consequently, Asians have failed to accumulate a fund of experience that could adequately furnish the basis for a common economic superstructure. Postwar reconstruction, necessitating cooperation, was an exclusively European phenomenon. Secondly, the sacrifice of sovereignty required by a supranational body like ACM is not possible among

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63. Uwe Kitzinger's Introduction to Anthony Moncrieff (ed), *Britain and Common Market, 1967*, p. 5, see also, Mariam Camps, *Britain and the European Community, 1955-63*; James E. Meade, "U.K , Commonwealth and Common Market: A Reappraisal", in Ralph Harris (ed.), *Freedom or Free-for-all?* pp. 99-155.
64. Mahmud Ahmad, "The Role of Foreign Trade and the Impact of ECM on Pakistan", in Hasan Habib and Guthries. Birkhead (eds.), *Selected Papers on Development Economic and Administration*, pp 15-20; Economic Research Academy, *Pakistan and the ECM*, pp. 7-32.
65. FICCI, *Implications of ECM and EFTA on Trade & Economies of Asian Countries*, p. 36.
66. ECAFE Secretariat, *Regional Market Arrangements with Reference to ECAFERegion.*

the nationlistic and independence-conscious modern states. The logical outcome of nationalism is the persuance of autarkic economic policies—the antithesis of integration.[67] Thirdly, the comparability of levels of development—a very important precondition to integration—is conspicuous by its absence "The big brother takes it all" lesson from East African experiment in integration seems to have been well-learned by smaller countries in Asia. Moreover, a uniformly protected region with widely disproportionate growth is likely to lead to a wasteful allocation of resources.[68] It should be remembered that this disproportionality is in no way a reflection of economic complementarity. Fourthly, the emergence of a long economic block like ACM might induce a series of retaliatory moves the world over, conflicting in this way with the long-run interests of Asians[69] whose extra-regional trade is more important than intra-regional trade. This is in spite of high income elasticity of demand for Asian goods and the tendency to prefer cheaper consumer goods and simpler capital goods.[70] Fifthly, trade-diverting effects will outweigh the trade-creating effects since not only the industrialization is in early stages, but also the natural resources exert a determining influence on productive activity.[71] Finally, freeing of factor movements will become a political "hot potato" as most countries are overpopulated and capital-hungry.

On the whole, conditions in Asia are not ripe for a comprehensive economic grouping, though it is not suggested that it should not be retained as a long-term goal. In the meantime, the need for smaller groupings among geographically contiguous countries, showing greater sense of sub-regional solidarity and with objectives that are not overambitious, can hardly be exaggerated. The grouping suggested for South Asia comprised of Iran, Afghanistan, Pakistan, India, Ceylon and Nepal.[72]

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67. Asian nationalism is different from nationalism of EEC countries in that the one is a sort of political stabilizer in the hands of ruling elite and the other is a consciousness of the personality of a nation.

68. Sir Roy Harrod, "Economic Development and Asian Regional Co-operation", *Pakistan Derelopment Review*, Spring 1962, p. 69.

69. *Ibid.*

70. D. T. Lakdawala, "Trade Cooperation within the ECAFE Region", *Ibid*, Winter 1962, p. 516.

71. Harrod, *op. cit.*

72. Lim Tay Boh, "Regional Trade Cooperation Among Asian Countries", Pakistan Development Review, *op. cit.*, pp. 545-6.

The suggestion went unheeded, and for obvious reasons: the entente that such a grouping pre-requires between the two largest members, Pakistan and India, is indiscernible in the foreseeable future. Any economic arrangement without India will not be of much benefit to Nepal. Afghanistan also falls in the Indian sphere of influence.[73] It was only between Iran and Pakistan that a good community of interests existed. Together with Turkey, they joined under the banner of RCD. Ceylon is also considering to join.[74]

In sum, the immediate impracticability of the ACM idea is an important event in the process of evolution of the concept of RCD.

4. *Turkish Model of Association*

Turkey had negotiated the Agreement of Association with EEC when the idea of RCD was put before her. Before the extent of the bearing of this Agreement on the scope of RCD can be ascertained, it is necessary to throw some light on its contents.

Turkey has to depend on EEC for one-third of her exports.[75] She has been trying to secure her position right from October 31, 1959, when she first applied for association. The Agreement, however, could not be signed before September 12, 1963, entering *de jure* and *de facto* into force on December 1, 1964.[76]

The scope of the association is limited, though an eventual membership through three crucial stages is envisaged.

The first stage was a "Preparatory Period" of five years in which Turkey was required to strengthen her economy and commerce to the extent necessary for entering the "Transitory Period". For this purpose, preferential tariff quotas on dried figs, hazelnuts, raisins and tobacco—constituting 37 per cent of Turkey's exports—

73. Ridiculously enough, Afghanistan was the only country which opposed Pakistan's membership of U.N.O.

74. Reported in the Ceylonese paper the Sun, quoted by *The Pakistan Times.*

75. Tevfik Can, "Economic Relations of Turkey with the Common Market", *Turkish Economic Review,* May-June 1966, pp. 35-37.

76. Turkey, State Planning Organization, *Second Five Year Development Plan* p. 136.

were granted. Again, EIB was to extend a credit of $ 175 million to help raise productivity in consistency with the objectives of association as well as Turkish Planning. In case of failure to achieve the much needed economic maturity, the "Preparatory Period" could be extended for another six years[77].

A customs union was contemplated to be gradually developed over the "Transitory Period" of up to a maximum of twelve years. As a result, Turkey will adopt the EEC Common Customs Tariff and harmonize its policies for transport, competition and labour movements. As the full customs union crystallises with more and more policy coordination and adoption of Common External Tariff, the so-called "Definitive Stage" will be reached whereby she could apply for full membership of EEC.[78]

The great Turkish interest in EEC simply reflects her attempt to stick to economic rationality. While she turned eastwards to seek military allies, her economic advantage clearly lay in the West—a trading partner of considerably more weight than Iran and Pakistan.

Iran safeguarded her interests by entering into a trade agreement with EEC, on October 14, 1963, providing for temporary tariff concessions for carpets (Persian rugs), carpeting and knotted rugs, dried grapes, dried apricots and caviar. Also provided were the nondiscriminatory tariff quotas for raisins. The agreement was renewed in June 1957 after protracted deliberations between the Commission and the Iranian Ministry of Economy.[79]

On the one hand were Turkey's long-term economic interests. On the other, two friendliest nations were applying great pressures for a broad-based regional grouping with no extraregional influences. The *modus vivendi* worked out as a result,fell far short of the expectations of Iran and Pakistan. Turkey succeeded in keeping the arrangement loose and any cooperation under its

77. A. E. Walsh and John Paxton, *The Structure and the Development of the Common Market*, pp. 175-6.

78. *ibid.*, p. 177.

79. Imperial Ministry of Foreign Affairs, *Tripartite Summit Conference, Istanbul,* Documents and Communiques on RCD.

auspices could be carried out notwithstanding her association with EEC. As the Istanbul Summit Conference noted :

> This new collaboration should be carried out in a spirit of regional cooperation notwithstanding their activities as members of other organizations of a regional character.

It is on record that :

> One member at least......was unwilling to discuss in any great detail, proposal for a more formal organizational structure......[80]

This is anybody's guess that this country was Turkey. The point that needs emphasis is that Turkey has great stakes in associated and eventual membership of EEC. Anything that becomes incompatible with this objective, in a fundamental sense, in the course of time will not be acceptable to her. The impact of this attitude is reflected in the limited objectives of RCD.

Trade Agreements

During British negotiations for an enlarged EEC in 1963, certain provisions were made to safeguard the trading interests of the countries of "category one", including Pakistan, India and Ceylon. In the first place, a transitional period was allowed till 1966 with a view to (1) staggering the dismantling of Commonwealth preferences and its replacement by Common External Tariff and (2) providing reciprocal tariff reduction on some products. In the second place, a comprehensive, Trade Agreement for the long run was contemplated, covering tariff policy, quantitative restrictions, voluntary limitation agreements, etc. In case the parties failed to reach any agreement till 1966, the transitional period was proposed to be extended untill 1970 when the Treaty of Rome would be operative in its entirety.[81]

Pakistan, on its part, demanded adequate compensation for the expected worsening of balance of payments

80. RCD Secretariat, Monthly Bulletin, Nov. 1965, p. 18.
81. Pakistan, Ministry of Finance, *Pakistan Economic Survey*, 1962-63 and 1963-64, pp. 80-4 and 84-5.

under the GATT rules. Reciprocity in tariff reductions, to quote Gunnar Myrdal, calls in a "false principle of equality among the unequal". Mutual tariff reductions between the EEC and Pakistan would be suicidal for the later's industrial development. Pakistan pressed for a non-reciprocal reduction of tariffs on her manufactures, total abolition of quantitative restrictions and tariffs on products whose importance for Pakistan was substantial and for EEC infinitesimal, and postponement of Common External Tariff until the conclusion of Comprehensive Trade Agreement.

The EEC retorted with the usual tactics by delaying to declare the intents of the comprehensive Trade Agreement. The Commission probably wanted to retain this weapon in its armoury to use as a press button, not only during any subsequent negotiations with Britain, but also when bargaining directly with "category one" countries. In January 1964, Pakistan sent a delegation to Brussels. These discussions with the Commission offered no way out of the uncertainty prevailing about the future trade prospects.

RCD Comes into Being

The discussion thus far has brought to fore the complex of developments that had been taking place before the advent of RCD. The initiative came from Pakistan who had been hard hit by these developments. Iran, though only marginally affected, supported Pakistan in the hope that a larger market might help accelerate her industrial transformation. It was, however, the inadequate flexibility demonstrated by Turkey on "firm economic grounds" that defined the actual scope of RCD. But for the tremendous cordiality in noneconomic relations, Turkey would not have agreed to any such arrangement at all.

The Tripartite Summit Conference, held at Istanbul on 20th and 21st July, 1964, reviewed the Report of the Ministerial Pre-Summit Meeting (Ankara : July 18-19, 1964) on Economic and Cultural collaboration between Pakistan, Iran and Turkey and agreed in principle on these objectives :—

1. Free or freer movement of goods through all practical means such as conclusion of trade agreements ;

2. Establishment of closer collaboration among existing chambers of commerce leading to a joint chamber of commerce ;

3. Improvement of transport and communication links between the three through :

   (i) reduction of postal rates to the level of internal rates ;

   (ii) improvement of air transport services within the region and the eventual establishment of a joint airline ;

   (iii) construction and improvement of rail and road links ;

   (iv) closer cooperation in the field of shipping, including the establishment of a joint maritime line or "conference" arrangements ;

4. Formulation and implementation of joint-purpose projects ;

5. Promotion of tourism within the region and abolition of visa formalities ;

6. Provision of mutual technical assistance in the form of experts and training facilities;

7. Cultural co-operation to create mass consciousness of the common cultural heritage through dissemination of information about the history, civilization and culture of the three peoples.

What is the economic rationale of these objectives ? Could there have been a more comprehensive economic arrangement? Where does RCD stand in the theoretical framework of economic integration? What are the chances of achieving even these limited objectives? These are the questions which form the subject matter of the next section.

III. RATIONALE OF ECONOMIC INTEGRATION

Defining economic integration is a pretty elusive proposition due mainly to the enormity of its degrees and forms. As a point of departure, it is conceivable as a conscious attempt to devise a framework for the rationalization or creation of economic inter-connexion between two or more countries with a view to maximizing economic gains.

A Summary View of Existing Theory

The received theory of economic integration[82] has centred round the proposition that a geographically discriminatory disturbance of existing obstacles to trade affords a second-best arrangement for the improvement of static efficiency. The welfare of the partners in a union will, it is maintained, increase as a result of economies of scale and specialization, greater competition, higher productivity and improved terms of trade. Whether this will actually happen depends upon the relative strength of the opposing forces of trade-creation and trade-diversion, the former being defined as a displacement of an expensive home source of supply by a cheaper source from the partner and the latter as the displacement by an expensive partner of a cheaper foreign source. Formation of a union is said to be beneficial if the trade-creating effect outweighs the trade-diverting effect. Figure 2 helps explain the two effects.

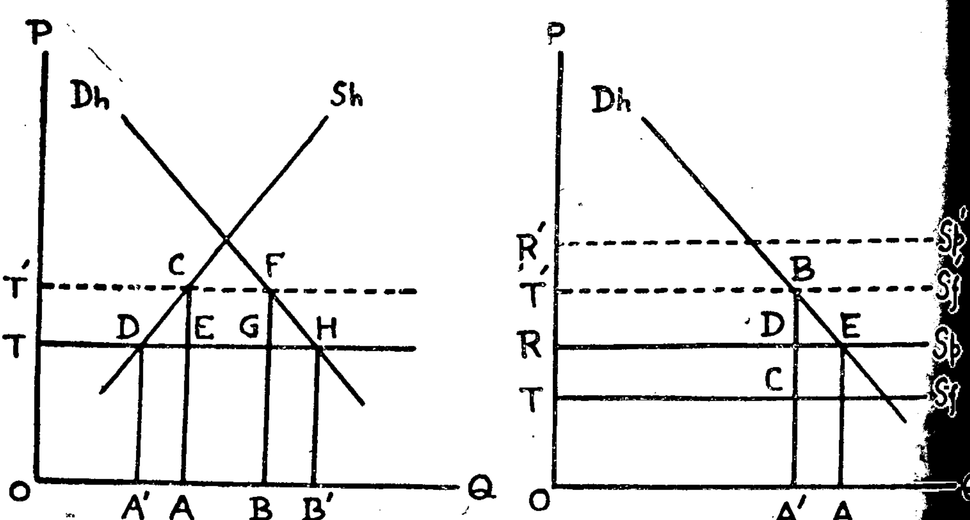

Fig. 2

82. Jacob Viner, *The Customs Union Issue*, Chap. 4, pp. 41-78; J. E. Meade, *The Theory of Customs Union*, pp. 34-41; R. G. Lipsey, "The Theory of Customs Union, A General Survey", *Economic Journal*, September 1960,
(Contd. on page 158)

In the left-hand diagram, Dh and Sh are respectively the home demand and supply curves. Sp is the partner supply curve without tariff and Sp′ is the same curve with tariff. In the pre-union period, the home country demands OB, of which OA is supplied by the home producers and AB is imported. After the abolition of tariff in the post-union period, the home production falls to OA′ and consumption rises to OB′. The total trade creation is given by

$$CDE + FGH = \tfrac{1}{2}\left[(AA' + BB')\,(TT')\right]$$

$$= \tfrac{1}{2}\left[(DE + GH)\,(CE\,/\,FG)\right]$$

Trade diversion effect is shown in the right-hand diagram where Sf is the foreign supply curve. Before union, the home country imports OA′ from the foreign source at a total cost of OA′CT. After union, she imports OA from the partner country. The original consumption of OA′, however, now costs OA′DR. The loss from trade creation is thus given by

$$OA'DR - OA'CT = TC\ DR$$

It is this loss that has to be balanced against trade-creating effect as the criterion of uniting into an integrated economic block.

Besides this inter-country substitution, there could also be an inter-commodity substitution whereby a change in relative prices causes consumers to substitute one commodity for another, at least at the margin.

The Need for a Dynamic Interpretation

Such a theory of economic integration, with its objective function as welfare, fails to offer any satisfactory explanation of the regional groupings among LDC's like the RCD members. The problem in the latter is economic sufficiency, and not economic efficiency in the sense that the emphasis is on creating useful employment opportunities for their ever-multiplying numbers on the basis of whatever capacity can be built up in the sphere of production. What is required in such countries is not economic integration *per se*, but as a means to accelerat-

(Contd. from page 157)

pp. 496-513; Harry G. Johnson, "The Economic Theory of Customs Union", in *Money, Trade and Economic Growth*, chap. III, pp. 46-62.

ing their structural transformation. Economic integration is desirable to the extent it helps achieve this objective. As such, the theory needs to be elaborated to include dynamic considerations of sustained economic growth.

The criteria for judgement in RCD countries, therefore, is not the balance between trade creation and trade diversion, but growth creation and a net expansion of intra-regional trade. Thus if the effect of integration is to substitute a high-cost partner country for a low-cost third country, it will be negotiation-worthy insofar as it means the utilization of idle capacity and a transaction involving no use of scarce foreign exchange. It might even result in some increase in efficiency as the scope for realizing economies of scale becomes greater. Again, this inter-country substitution should be viewed together with inter-commodity substitution: the post-union increase in the consumption of a commodity in a country imported from the partner, making more investment in that commodity as a result of enlarged market, will (1) alter consumption pattern tending towards greater welfare and (2) induce new investment in the production of a commodity in which she is relatively less inefficient. In a static sense, therefore, economic integration among RCD countries fails to bring about a general optimization of prices of domestically and internationally traded goods. But in a more important sense, *i.e.* in a dynamic sense, it is a second-best solution in that intra-regional specialization initiates a tendency towards optimum by altering production patterns and relative prices. It must, however, be remembered that an incompatibility between intra-regional trade expansion and capacity to import capital goods should be carefully guarded against.[83]

The discussion so far boils down to this fundamental hypothesis of the dynamic theory of economic integration: the growth prospects for LDC's joining in an enlarged market are greater than the sum of their separate growth prospects, *cetris paribus*.[84] In other words, it deals with the complex of interacting links between structural flexi-

83. Hiroshi Kitamura, "Economic Theory and Regional Economic Integration of Asia", *Pakistan Development Review*, Winter 1962, p. 496.

84. Bela Balassa, *Theory of Economic Integration*; Tibor Scitovsky, *Economic Theory and Western European Economic Integration*, pp. 132-2.

bility, size and extent of the market and degree of its liberalization and technological possibilities.

The relationship between economic integration and economic growth unfolds itself in a more perceptive manner when viewed with particular reference to the choice of strategy.

Balanced growth strategy, defined as the synchronous development of mutually consistent and organically unified industrial structure, is limited by the deficiencies on supply side. Obviously, the possibilities of making up these deficiencies are likely to be more when the resources of a region are pooled than within the national frontiers. But it is under an unbalanced growth strategy that market limitations play a greater role. The development of a few leading sectors with strong backward and forward linkages and based on the creation of pressures, tensions, incentives and challenges involves an imbalance in supply and demand which could be adequately corrected through integration. Hence, regional groupings, by enlargment of market and greater specialization, are greatly responsible for accelerating the rate of economic growth, whatever the strategy of economic growth.

An interesting case can be made for combining the virtues, and minimizing the ill-effects, of both balanced and unbalanced growth strategies in an integrated market.[85] The essence of such a strategy is to create certain highly dynamic growth points on the basis of the economies of scale and technological possibilities available in a regional market and in accordance with some agreed pattern of specialization. The growth points, and the radiation of growth from them, are brought into balance by coordinated planning. Economic integration thus leads to a mutually supporting and complementary industrial structure.

Gains from Integration Among RCD Countries

The RCD countries embarked on the road to development by pushing up industrialization as the leading sector. By providing internal concessions and external protection, the three have pursued a vigorous and consistent policy of import substitution. Import substitution enjoys the natural protection of distance and transport

85. Paul Streeten, *Economic Integration: Aspects and Problems*, preface.

costs, makes fewer demands on standards of efficiency service and quality. Again, it is facilitated by familiarity with the formerly imported products. Consequently, industrial output (excluding petroleum and minerals) now constitutes 18 per cent of the total in Iran, 15 percent in Turkey, and 11 percent in Pakistan. All the three countries have become more or less self-sufficient in most of the essential consumer goods. Though the rates of industrial growth have been slightly disproportionate, the pattern of industrialization has much in common. Table 1 indicates this fact.

COMPOSITION OF INDUSTRIAL OUTPUT*
(% distribution)

Industry	Iran 1962	Turkey 1962	Pakistan 1963-64
Food	21.9	19.0	8.0
Beverages	2.1	3.5	0.4
Tobacco	12.3	10.0	8.8
Textile	24.6	29.6	37.4
Footwear & Wearing Apparel	3.4	—	1.4
Wood products	1.7	1.2	—
Furniture & Fixtures	0.7	—	0.5
Paper & Paper products	0.7	3.1	2.4
Printing & Publishing, etc.	0.6	1.0	2.4
Leather & Leather products	1.5	—	1.7
Rubber products	0.8	1.2	0.7
Chemicals	4.2	5.1	8.3
Non-metallic minerals	1.8	3.7	5.5
Basic metal industries	0.3	8.6	6.2
Metallic products	7.3	6.7	5.1
Machinery (non-electrical)	0.2	1.7	2.8
Electrical equipment & Machinery	0.7	1.5	3.3
Transport equipment	14.4	2.1	2.3
Miscellaneous manufacturing industries	0.8	2.0	2.8

*Excluding petroleum and coal.

Source : ECAFE Secretariat, "sub-regional Plan Harmonization : A case study of the Regional Cooperation for Development", *Economic Bulletin for Asia and the Far East*, June 1967. p.33.

TABLE 1

It will be seen that 60 to 62 per cent of the industrial output is contributed by food, beverage, tobacco and textile industries. As is typical of most LDC's the greatest advance has been made in market oriented industries like textiles, sugar, edible oils, canned food, beverages, cigarettes and footwear. Not only import substitution of these light manufactures is complete, but Turkish Sugar and Pakistani Textiles are sufficiently competitive exports also. The large extent of import substitution in light manufactures is also varified by the pattern of imports of RCD countries, as shown in Table 2.

PATTERN OF IMPORTS

(% distribution)

Imports	Pakistan 1963	Turkey 1964	Iran 1964
Food	16.9	1.7	13.9
Beverages & tobacco	0.3	—	—
Crude materials	4.0	6.5	5.8
Mineral fuels	7.0	12.5	0.4
Animal & Vegetable oils	4.7	5.1	2.2
Chemicals	8.6	11.2	12.7
Basic manufactures	21.3	18.9	28.3
Machines & Transport equipment	34.6	40.0	33.1
Miscellaneous manufactures	2.5	2.8	3.5

Source : *United Nations Commodity Trade Statistics*, 1963, 1964.

TABLE 2

The pattern of imports clearly shows that imports of light manufactures figure less prominently in the three countries. There is, however, a considerable scope for import substitution in food in Pakistan and Iran. Pakistan will achieve food autarky by 1970 and plans are also afoot in Iran to boost up the production of refined sugar—constituting 8.5% of her imports. More import substitution is required in the production of vegetable oils in all the three countries.

The point of the argument hitherto is that while the ratio of domestic production to total supply of final goods has risen appreciably, the progress in the fields of intermediate and capital goods has not at all been satisfactory. A glance at the table 1 reveals that the latter's contribution to the total manufacturing output is less than 40 per cent in the three countries. The region heavily depends on imports to satisfy its needs of basic metals, fertilizers, chemicals, machinery and transport equipment. Moreover, these input imports are more likely to increase rather than decrease as more is invested for greater output. This has suggested the need to accord highest priority to intermediate and capital goods. Table 3 is indicative of this bias.

PATTERN OF INDUSTRIAL INVESTMENT
(% distribution)

Industry	Pakistan	Turkey
Food, beverages & tobacco	7.2	10.2
Wood & Cork products	1.2	1.0
Textiles	20.6	9.0
Paper & paper products	5.3	5.5
Rubber products	0.4	2.5
Chemicals	12.3	27.1
Non-metallic products (Gas, Petrochemicals and Cement)	16.7	3.0
Basic metal industry	12.9	21.1
Metallic products	3.8	2.3
Machinery (excluding electric machinery)	5.1	10.6
Electric machinery	3.3	2.4
Transport equipment	5.8	4.2
Other industries	6.0	0.9

Source : Turkey, State Planning Organization, *First Five Year Development Plan*, 1963-67.

Pakistan Planning Commission, *The Third Five Year Plan* 1965-70.

TABLE 3

The pattern of industrial investment in Pakistan and Turkey shows a marked bias towards intermediate and capital goods accounting for 60 and 70 per cent respectively of the total in the two countries. The data on the pattern of industrial investment in Iran is not available according to the above descriptions. But it is not hard to discern a major shift of emphasis in planning industrial development. The most significant plank of the industrial development strategy in Iran's Third Plan (September 1962-March 1968) was the "introduction of new products suitable to Iran's needs and resources". For this purpose, 63.9 per cent of the total allocations for industry and mining was earmarked. Table 4 portrays the pattern of investment in these "new industries".

PATTERN OF NEW INDUSTRIAL INVESTMENT

Industry	% allocation
Steel	35.7
Southern Fishery	7.1
Sugar	7.1
Petrochemicals	35.7
Others (Fertilizer, Foundry, etc.)	14.3

Source : Iran, Plan Organization, *Outline of The Third Plan*, 1341-1346.*

TABLE 4

The above table bears out the fact that capital goods and intermediates have been adequately stressed and that Iran is well on the road to sophisticated economic development.

Thus the most important conclusion from the study of patterns of industrial output, imports and investment is that the RCD countries have reached the stage where what are known as "process industries" need to be developed. The slow movement towards this end, though with varying degrees, is explicable in terms of limited national markets. It is at this point that the need for a regional grouping arose. The major arguments in its favour merit separate discussion.

1. Economies of Scale

Economies of scale or mass production arise when efficiency can be increased and unit cost decreased only at a very large output. As Lord Frank put it :

> The plain fact is that world is too big and the industrial nation is too small. Regional groupings are natural occurrence.[86]

With the approaching of the stage of "process industries", the chain of industrial production is lengthened

*According to Iranian chronological system.

86. Quoted by Sidney Dell, *op. cit.*, p. 46; U.N. "A Contribution to Economic Integration Policy in Latin America" (E/CN. 12/728), p. 99 ff.

and the question of an optimum size of the market assumes real significance. Modern productive techniques require a minimum of output before a sophisticated industry can be economically set up. For example, the Latin Americans have estimated that in a regional rather national market, their demand for steel production will be satisfied with a saving of $ 3.7 billion of investment capital and a direct annual reduction in cost more than $ 400 million. Similar capital and cost of savings would accrue in RCD countries as they are attributable to production. A large market also provides outlet for substantial excess capacity that exists even in products characterstic of earlier stages of growth.

So the market has to be large enough to support a number of optimum plants. The "large enough" market is said to exist when an area has a relatively high-income-population of 50 million[87].

Table 5 gives on idea of the size of the RCD market.

THE SIZE OF RCD MARKET*

	Pakistan	Turkey	Iran	RCD
Population (Millions)	98.7	30.3	22.2	151.2
Gross Domestic products ($)	8,297	6,950	4,968	20,215
Per Capita product ($)	84	230	224	179.3

*The figures relate to 1963 to make them comparable.

Source: Same as of Table 1.

TABLE 5

The population of RCD region, it will be seen, though three times that of 50 million limit, can by no means be grouped as "high-income". The size of population is comparable to U.S.A. and U.S.S.R., higher than European Free Trade Association and Central American Common Market, but GDP, is lower than the combined figure for Netherlands and Belgium. The estimates of these magnitudes, however, do not appear to be mean by the LDC's standards: they are considerably higher when com-

87. Bela Balassa, "The Dynamic Effects of Economic Integration with Special Reference to the ECAFE Region", *The Asian Development Bank and Trade Liberalization*; E.A.G. Robinson (ed), *Economic Consequences of the Size of Nations*, p. xviii.

pared to the corresponding estimates for Association of South East Asia (ASA), with a regional product of $ 10,000 million and population of a little above 70 million. And since the purpose is the diversification of economic structures, the sum of the separate abilities of the RCD countries to do so, will be considerably less than the overall regional ability.

2. *Economies of Location and Specialization*

In a regional market, the possibilities of realizing the unrealized economies of specialization increase substantially. The "going it alone" approach to industrialization is fraught with wasteful duplication, which the LDC's with scarce resources can ill-afford to adopt. Specialization here implies that production in each member of a regional grouping is based on a consistency between factor endowments and factor intensities. In the RCD region, there is immense scope for horizontal specialization in the production of steel, petrochemicals, aluminium, paper and cement.

Modern integrated heavy industry unit is a *congerie* of related processes, viz. steel furnaces, cooking plants and chemical works, containing a complex of joint demand and supply relations.

Thus the final producer would purchase the various components, accessories and parts of his product from firms concentrating on their production rather than producing every thing by himself.

3. *Greater Competition*

The process of import substitution in RCD countries has led to monopolistic distortions in their economies. In many cases, the pains of infanticide have been inflicted on the consumers beyond limit. A regional arrangement is believed to provide a competitive spur to the multiplying high cost producers so as to improve their productive efficiency. The competition is necessary to keep the producers on their toes, and stimulate the spirit of initiative. Again, it checks balance of payments pressures that might result from monopoly gains by foreign capital.

It is not clear whether the effect of the economic Darwinism, i.e. elimination of inefficient firms by efficient ones, will not be once and for all. Moreover, the argument applies, if at all it does, only to the already established industries, viz. textiles in RCD region. But the problem in this region is to increase production and employment rather than productivity. The social costs of inefficient production offering same employment are lower than the alternative of no production and no employment. Intensification of competition may as well disturb the investment priorities by inducing additional investment towards the modernization of existihg industries rather than new industries.

One cannot agree to the argument[88] for allowing a marginal competition in case of sophisticated industries requiring a regional rather than national market for optimal investment. These types of industries are the principal motivation for regionalization among LDC's and letting the impersonal competitive forces loose, even on a smaller scale, will hinder, and not help, their optimal development because :

(a) the length of the construction period invalidates the market-oriented decisions ;

(b) the huge capital investment necessary for investment will never be forthcoming except when a planned balance between supply and demand is contemplated ;

(c) the inability of market mechanism to optimally locate the heavy industry.[89]

4. *Reduction in External Vulnerability*

The pattern of exports of any region furnishes a fairly dependable index of the extent to which it is externally vulnerable. Table 6 provides such an index for RCD region.

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88. Jan Tinbergan, "Heavy Industry in the Latin American Common Market", *Economic Bulletin for Latin America*, March 1960 pp. 1-5

89. A.H.M.N. Chowdhury, *Regional Cooperation for Development : Its Nature and Significance*, p. 18

PATTERN OF EXPORTS

(% distribution)

Items	Pakistan 1963	Turkey 1964	Iran 1964
Food & live animals	11.8	37.1	2.7
Beverages & tobacco	1.0	22.0	—
Crude materials	62.1	32.7	5.7
Crude petroleum	—	—	68.0
Petrolum products	—	2.2	20.0
Chemicals	0.3	0.5	0.7
Basic manufactures	22.4	4.2	2.7
Miscellaneous manufactured goods	3.0	0.1	0.1

Source : same as of table 1.

TABLE 6

The table discloses the heavy dependence of RCD countries on primary products. Pakistan and Turkey preponderantly rely on agricultural exports. The fluctuations in the earnings from these exports, render them extremly vulnerable externally. There is a dire need to diversify the structure and direction of exports. Regionalization can provide a framework whereby industrialization to export to less developed partners is made possible. The greater such industrialization, the lower the vulnerability to the vicissitudes characteristic of the current international economic relations.

The situation in case of Iran is different. She too predominantly depends on petroleum exports, but it finds regular export outlets leading to a stable external sector.

5. *Enhanced Bargaining Power*

J.E. Meade has stated :

> The larger the trading area which is negotiating as a single unit, the better the commercial policy treatment which it can hope to extract in its bargains from other countries, and the better, therefore,its terms of trade with the rest of the world are likely to be.[90]

90. Custom's Union op. cit., p. 96.

In a world where every thing has to be manoeuvred, the trading interests cannot be safeguarded unless tremendous bargaining power could be moblized in an organized manner. This is all the more necessary for LDC's who have to bargain with strong economic blocks like EEC. On the import side, economic block may be able to reap the usual advantages of bulk buying. On the export side, it is possible to exploit exclusive position as supplier.

Certain quarters are skeptical about the terms of trade benefits as a result of regional grouping among LDC's.[91] The argument particularly applies to RCD region. As seller the RCD offers no advantage at all. There is no product for which Turkey, Iran and Pakistan could together throw into balance their position as a single supplier. Pakistan's duoply in jute and Turkey's virtual monoply in hazelnuts is, in spite of RCD, not because of it. In the capacity of a compound demander, the major imports of the region include food, intermediate and capital goods. A significant portion of these imports comes under tied aid. Furthermore, highly favourable commercial policy treatment is meted out to the input imports The imports potential is no doubt likely to increase as economic development proceeds on, but its size will be an infinitesimal portion of DC's total exports, ruling thereby out any gain in bargaining power. On the whole, the present disparties in bargaining power are connected in a significant way with the general problem of disproportionate growth in the world economy; in as much as this tendency persists, the bargaining power of LDC's will continue to be weak.

To sum up, the intensification of competition and improved bargaining power are altogether irrelevant to the RCD region. The principal ingredients of a dynamic case for integration are the economies of scale and reduced external vulnerability and, to some extent, the economies of location and specialization.

Some Likely Impediments

Economic integration among RCD countries is likely to face difficulties and impediments than the similar

91. C.A. Cooper and B.F. Massell, *Toward a General Theory of Customs Union for Developing Countries*, p. 2.

efforts among DC's. Some of them are real, others are imaginary and their identification becomes imperative in view of the limitations put by them on the concept of RCD.

I. Balance of Payments Difficulties

Turkey and Pakistan suffer from chronic balance of payment difficulties. Any attempt at trade liberalization is unlikely to be well received unless it strictly ensures the equalization of accounts. Although Iran maintains a regular and sizeable surplus, due mainly to oil exports, it is not available to correct any regional dis-equilibrium.

RCD TRADE WITH REST OF THE WORLD

(% of total)

Year	Exports to R.W.	Imports from R.W.
1958	99.02	98.75
1959	98.32	97.95
1960	98.44	97.65
1961	98.77	98.05
1962	97.65	97.57

Source: A.H.M.N. Chowdhary, *Regional Cooperation for Development : Its Nature and Significance.*

TABLE 7

The figures in Table 7 show that RCD region as a whole has enjoyed consistent balance of payments surpluses *vis-a-vis* rest of the world. This of course mystifies the fact that Pakistan and Turkey, generally run deficits.

2. Low Intra-regional Trade

Benefits of economic integration are said to be greater, the higher the proportion of intra-regional to total trade, in competitive goods as the potentialities of creating complementarities would be greater.

INTRA - RCD TRADE
(% of total)

Country	Exports					Imports				
	1958	1959	1960	1961	1962	1958	1959	1960	1961	1962
Pakistan	1·04	0·57	0·49	0·25	1·13	2·75	6·35	5 19	3·96	3 52
Iran	1·24	2·71	1·87	1 46	3·60	0·75	0·34	0·99	1 01	0·96
Turkey	—	—	1·13	1 47	—	0·03	0 68	0 09	1 52	2 24

Source : Same as of table 7.

TABLE 8

Table 8 shows the relative insignificance of intraregoinal trade in RCD region. The average comes out to be less than 2 per cent of the total.[92] This low flow is the result of the colonial pattern of international division of labour whereby trade flourished only between the centre and peripheries and not between the peripheries. Capital goods are imported from DC's and there is little surplus of primary industry. Nothing, however would be more illogical than taking low intraregional trade as an argument against integration. For one thing, the wide differences between intra-trade of DC's and LDC's is merely a reflection of the differences in their economic development levels.[93] For another, the alternative to greater intra-regional trade is pangs of infanticide and not low extra-regional trade. Moreover, the region could be made potentially complementary, even if it is not competitive presently, through a rational regional investment policy.

3. *Equitable Distribution of Benefits*

Comparability of the levels of development of integration countries is an essential prerequisite for liberalization of trade. Otherwise, the benefits of integration will accrue mostly to the advanced partner where return on capital is highest due to the existence of infrastructure, social, economic and financial. Not only does it

92. For a detailed analysis of low intra-regional trade, see Nurul Islam, "Pakistan and Free Trade Area among Baghdad Pact Countries", *Pakistan Economic Journal*, September 1958.

93. R. F. Mikesell, "The Theory of Common Markets as Applied to Regional Arrangements among Developing Countries" in Roy Harrod (ed)., *International Trade Theory in a Developing World* p. 212.

attract scarce factors, but it gets additional tax revenue from the increased production.

The integration experiment in East Africa failed because development concentrated in Kenya, the most developed partner. Fortunately, the RCD countries are in a more or less similar stage of economic development.

SECTORAL COMPOSITION OF GDP*

(% of total)

	Pakistan	Turkey	Iran
1. Agriculture	49	38	25
2. Industry	12	17	30
of which manufacturing	11	15	18
3. Services	39	45	45

*Figures relate to 1963.

Source : Same as of table 1.

TABLE 9

Notice that whereas agriculture's contribution to GDP indicates wide variations, they are less important in case of services, From the point of view of stage of development, the relevant factor is the contribution in the three countries. It can be seen that the differences are not significantly varying. Again, the pattern of growth have been quite comparable.[94]

The real problem in the context of RCD region is that similarity of levels of development will not necessarily lead to equitably diffused benefits of integration. The fear of potentially lop-sided growth cannot be entirely ruled out. As a result, the partners will seek a balance of industrialization and a visible quid pro quo before any scheme of economic integration is politically negotiable.

4. *Higher Proportion of Customs Revenue*

Customs duties generally represent a substantial portion of state revenue in LDC's owing to the administrative and political complications involved in alternative sources. Trade liberalization means customs disarmament which

94. The average growth rates in recent years have been in the vicinity of 6 percent in the RCD region.

explains the commonly experienced reluctance of Finance Minister in regard to integration proposals.

In RCD region, the role of customs revenue has been exaggerated. The tariff structures in Turkey, Iran and Pakistan are designed to protect the local industries against the competition from DC's. In most cases, the impact of tariffs among themselves is nil as they do not even produce the goods involved. The question that deserves attention is to devise a mutually acceptable mechanism of distributing the revenue from common external tariff.

5. *Prevalence of Underemployment*

All the RCD countries have a sizeable backdrop of the underemployed population. Anything that might worsen the problem by increasing unemployment without providing for necessary adjustments will naturally be resisted.

6. *Fear of Domination by Foreign Capital*

A large protected area, with immense scope for realizing economies of scale and specialization, might become "the signal of huge take-over bids from the developed countries" since they are better equipped than the local enterprises to exploit the new investment opportunities. The experience of many LDC's shows that legislation is not enough to check the widespread tax evasions and unmeticulous exploitation by foreign enterprises. Moreover, the decision-taking in international corporations is on the basis of their own worldwide interests and not necessarily with the interests of the host countries.

Economic integration among RCD countries, therefore, will have to ensure that the ultimate aim of promoting local initiative is adequately attended to and that only that foreign capital which helps achieve this objective by providing technical know-how is welcome.

7. *Rules of International Economic Game*

GATT rules were formulated by the DC's for themselves, with almost no regard for the special requirements of LDC's. In the first place, the unconditional most-favoured-nation clause can be escaped under article xxiv, only if the degree of preference is 100 per cent, as in case of a customs union, free trade area or an interim agreement which includes "a plan or schedule for the formation of such a customs union or free trade area within a reasonable length of time." For the third countries, the restrictions "shall not on the whole be higher or more restrictive than the general incidence" in the preintegration period. Practically, an "all-or-nothing" rationale is provided in regard to the degree of discrimination in international trade The common external tariff is generally taken as the arithmetic average of the separate pre-existing tariffs.

The operation of the principle of "equality of treatment is equitable only among equals" like DC's. In LDC's like RCD members, a total abolition of intraregional trade barriers may be an economic superfluity as well as a political inexpediency. Lacking a tradition of significant economic cooperation, a partial or sectoral integration is likely to be a more realistic way of breeding regional infants. Again, the incidence of the arithmetically averaged common external tariff is insufficient to insulate regional infants.

The existing tariffs on capital and intermediate imports are very low and their production to exploit regional economies of scale and specialization needs protection, which should be high enough, since imports from DC's may still be more attractive due to better transport facilities, generous export credits, preferential treatment and tied-aid arrangements. The argument that the average could be maintained by some major tariff realignment is not entertained as it would cripple the so hardly established base of light manufactures.

In the second place, the principle of nondiscriminatory application of quantitative restrictions (article xiii) can be waived temporarily for balance of payments reasons or developmental requirements. But this is not permitted under article xxiv, implying that in, say, on RCD customs union, Turkey, Iran and Pakistan will continue to maintain quantitative restrictions against each other.

Methods and Forms of Integration

Heretofore, an attempt has been made to clearly outline the theoretical underpinnings, possible benefits and the difficulties that an economic integration proposal is likely to come by in the RCD region. The problem to be discussed now is the actual form that economic integration can assume as a result of balancing these forces and, more importantly, the choice of the methods for its concretisation.

It has been suggested many a time to form an RCD common market.[95] Towards the end of July, 1967, the Ramsar Summit Meeting, emphasized the need to strengthen RCD. What is known as Ramsar Working Group of Planners was set up with a view to find ways and means for economic collaboration on a wider basis. During his state visit to Turkey in December 1967, former President Ayub of Pakistan hoped that RCD would grow into a common market, leading eventually to a Muslim Common Market. A near-crisis developed when in early 1968, Mr. Khosrowshahi, President of Tehran Chamber and the then Chairman of RCD Chamber of Commerce and Industry, held Pakistan's participation in Commonwealth Preferences and Turkish association with EEC responsible for the low intra-trade among the three countries.

Pakistan on its part, criticized Iran for her failure to promise compensation out of her huge payments surpluses for dislocations resulting from a major realignment of trading relations in the region, since Pakistan and Turkey —depending heavily on foreign exchange and customs revenue—would be unable to survive them all by themselves.[96] The crisis was hushed up at the Eighth Session of the RCD Council of Ministers (April 14-15, 1968) which recommended a meeting of RCD Commerce Ministers;

> to discuss and make recommendations for removing as far as possible barriers to intraregional trade.[97]

The said meeting (Tehran, September 1968), however, failed to resolve the issue of a more comprehensive trading arrangement. Trade promotion measures like the

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95. Speech of Indian representative, Sir N. Raglvan Pillai, at ninth session of GATT, November 9, 1954, quoted in *ibid.*, p. 244.

96. RCD Ministerial Council, *Joint Communique* of *Eighth Session*, (Tehran; April 14-15, 1968), para 19.

97. Economist Intelligence Unit, *Quarterly Economic Review of Iran*, No. 1, 1968, p. 2.

conclusion of tripartite agreement on transit trade, greater utilization of RCD shipping service, greater cooperation between Trading Corporation of Pakistan and Foreign Transaction Company of Iran, intensified measures for the expeditions completion of joint-purpose enterprises, illegal trade checks and bilateral and multilateral agreements. Any decision regarding RCD Common Market was held in abeyance till the preparation of study by UNCTAD for identifying all barriers impeding the expansion of intraregional trade, to be considered by the representatives of member-govts., who in turn will make their recommendations to the Commerce Ministers.[98] In the meantime, RCD Chamber of Commerce and Industry was asked to make concrete recommendations for expansion of intraregional trade and removal of difficulties in respect of specific items. The Chamber (meeting at Karachi in December 1968), though agreed in principle with the common market idea, concentrated largely on ordinary export promotion devices like setting up of an export marketing board to eliminate "harmful" competition.

(To be Concluded)

98. *Joint Communique of the RCD Commerce and Economy Ministers meeting* (Tehran : September 2-3, 1968)

Cost-Benefit Analysis in Shoe Industry

ASAD ELAHI*

In a developing country owing to the paucity of financial resources efficient resource allocation pacens the cycle of economic growth. There are invariably more projects proposed by local interests or the functional agencies than for which funds can actually be made available. In such a situation Govt. must determine which of the several projects suggested, keeping in view the available resources, be undertaken. Inorder to do so rationally the planning agencies must have certain criterion to evaluate and compare the economic effect of investment in individual sectors or projects. Cost-benefit ratio of projects properly worked out enable us not only to assess the economic feasibility of individual projects but also to determine which of the several projects would result to the largest benefits for a given unit of cost.

The benefit-cost ratio can be written as follows :—

$$\frac{S_1}{1+r}+\frac{S_2}{(1+r)^2}+\text{------}+\frac{S_n}{(1+r)^n} : C$$

whereas C is the fixed capital

$S=V-O=$ net benefits

$V=$ benefits in a certain year

$O=$ operating cost

$r=$ interest rate

This method separates cost under two sub-heads 1) Fixed cost or capital cost; 2) Operating costs. The capital cost will include the following :—

(*i*) The cost of land inclusive of all expenditures required for the development of land on which the project will be constructed ;

(*ii*) The cost of building, furnitures and fixtures;

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(*iii*) The cost of equipment and machinery, cost of transportation, taxes, duties and insurance charges paid;

(*iv*) Expenditures incurred in advance for the preparation of the project and the technical fee.

The operating cost will include all expenditures on :—

(*i*) Labour and raw materials;

(*ii*) Fuel ;

(*iii*) Supervision and administration ;

(*iv*) Contingencies including commissions, insurance, taxes (excluding income-tax), advertisement, business promotion expenses, interest on working capital borrowed ;

(*v*) Maintenance, repairs and replacement of present equipment;

(*vi*) Income-tax to be deducted after securing net profit.

The benefits shall comprise of the total production of the project. The value of exported products shall include the L/C value plus the bonus premium evaluated at the present market rate.

After enumerating the net benefits for every year ($S=V-O$) we shall discount it with the prevailing interest (assumed to be 8% per annum). Then after adding up the enumerated values we shall obtain the total benefit and this can be compared with the total capital cost of the project.

The purpose of the present paper is to bring out benefits of an industry which manufactures leathershoes, rubber shoes and Tarpulene. This industry is of great significance in promoting the national cause of boosting up our exports and this can be noted from the fact that the present project during the 10th year of production exports about 45% of its production. There is one point which ought to be clarified and that pertains to the underutilisation of full-capacity.This may lower the actual benefits of investment in this industry but it must be noted that the market conditions for such products are highly competitive.Particularly for leather shoes and canvas shoes there is cut-throat competition from cottage industries which can afford to sell their products at a lower rate because of the absence of any overhead costs. Furthermore, the wholesale market runs entirely on one month credit and a manufacturer has to keep a considerably large sum of money in the hands of the wholesalers. The only way to avoid these wholesalers is to open ones own shops all over the country and for that a large investment is needed on fixed assets which cannot be made by a new industrial concern. It is for this what we cannot have full-utilisation of the said project.

The key assumptions underlying the below-mentioned research are :—

(1) The project will last for 15 years.

(2) The import policy of the govt. remains the same.

(3) The export bonus scheme continues in its present shape.

(4) The rate of bonus premium remains at 180%.

(5) The rate of interest continues at 8%.

(6) The level of wages remain the same.

(7) Price of raw-materials remain the same.

(8) Income-tax holiday for first three years.

(9) The firm is a private limited concern.

Life of the Project	Production Capacity	Production Actual	Sale Abroad	Sale at Home	Stocked Value
1st year	21000000	8103632	2483327	4185140	1445165
2nd year	,,	8913995	2720660	5163654	1089681
3rd year	,,	9805394	3004826	5514019	1298649
4th year	,,	10785933	3305394	6365421	1128514
5th year	,,	11879261	3635933	7001963	1241365
6th year	,,	14237430	5032411	8004018	1201001
7th year	,,	15661173	5535652	8804420	1321101
8th year	,,	17207300	6069227	9984862	1153211
9th year	,,	18950519	8060200	9881292	1009027
10th year	,,	19050227	8070200	9980000	1000027
11th year	,,	20956250	8877220	10978000	1100030
12th year	,,	20960350	8882220	10978130	1100000
13th year	,,	20950250	8873220	10977030	1100000
14th year	,,	20960300	8880220	10978000	1100950
15th year	,,	20959220	8880230	10978040	1100950

Now having calculated the production schedule along with the demand we shall move on to enumerate the costs and the benefits achieved over 15 years.

The Capital Cost (in Rupees)

Land & buildings	14,44,309
Transport Equipment	14,1,744
Cost of machinery & plant plus custom duty & sales tax	30,50,750
Other fixed assets	19,8,563
Total	48,44,366

Now let us proceed to evaluate $S_1, S_2, \text{- - - - -} S_n$ which shall be derived by drawing the difference between the revenue and operating costs.

1st Year

Operating Costs

Raw Material	39,70,181
Fuels	83,247
Labour	9,16,285
Contingencies	7,55,868
Maintenance of Machinery	5,000
	57,30,581

Revenue

Sale at Home	41,85,140
Sale Abroad	24,83,327
Stocks	14,45,165
	81,13,632

$S_1^{\prime} = V - O$

$S_1^{\prime} = 81,13{,}632 - 57{,}30{,}581 = 23{,}83{,}051$

$S_1 = S_1^{\prime} - \text{income-tax}$

$= 23{,}83{,}051 - 0 = 23{,}83{,}051$ (No tax during the first year)

2nd Year

Operating Costs

Raw Material	43,67,19,900
Fuels	83,247
Labour	10,07,913
Contingencies	8,31,454
Maintenance of Machinery	7,200
	62,97,013

Revenue

Sale at Home	51,03,654
Sale Abroad	27,20,660
Stocks	10,89,681
	89,24,995

S_2^1 = 89,24,995 − 60,97,013 = 26,27,982
S_2 = 26,27,982 − 0 = 26,27,982

3rd Year

Operating Costs

Raw Material	48,03,918
Fuels	1,27,000
Labour	11,08,704
Contingencies	9,14,599
Maintenance of Machinery	14,132
	69,68,354

Revenue

Sales at Home	55,14,019
Sales Abroad	30,04,826
Stocks	12,98,649
	98,05,394

S_3^1 = 98,05,394 − 69,68,344 = 28,37,040
S_3 = 28,37,040 − 0 = 28,37,004

4th Year

Operating Costs

Raw Materials	53,84,309
Fuels	1,40,000
Labour	12,19,574
Contingencies	9,90.680
Maintenance of Machinery	13,330
	77,47,893

Revenue

Sale at Home	63,65,421
Sale Aboard	33,05,394
Stocks	11,28,514
	1,07,99,329

S_4^1 = 1,07,99,329 − 77,47,893 = 30,51,436
S_4 = 30,51,436 − 15,25,718 = 15,25,718

5th Year

Operating Costs

Raw Materials	60,29,850
Fuels	1,40,000
Labour	13,01,000
Contingencies	10,01,540
Maintenance of Machinery	1,20,000
	85,85,390

Revenue

Sale at Home	70,01,963
Sale Abroad	36,35,933
Stock	12,41,365
	1,18,79,261

S_5^1 = 1,18,79,261 − 85,85,390 = 32,93,871
S_5 = 32,93,871 − 16,46,935 = 16,46,935

6th Year

Operating Costs

Raw Material	72,22,960
Fuels	1,51,000
Labour	15,05,000
Contingencies	12,10,240
Maintenance of Machinery	85,000
	1,01,74,200

Revenue

Sale at Home	80,04,018
Sale Abroad	50,32,411
Stocks	12,21,101
	1,43,57,530

$$S'_6 = 1,43,57,530 - 1,01,74,200 = 41,83,330$$
$$S_6 = 41,83,330 - 20,91,665 = 20,91,665$$

7th Year

Operating Costs

Raw Material	79,45,256
Fuels	1,51,000
Labour	15,35,000
Contingencies	13,31,250
Maintenance of Machinery	65,000
	1,10,27,512

Revenue

Sale at Home	88,04,420
Sale Aboard	55,35,652
Stocks	13,21,101
	1,56, 61,173

$$S'_7 = 1,56,61,173 - 1,10,27,512 = 46,33,661$$
$$S_7 = 46,33,661 - 23,16,830 = 23,16,831$$

8th Year

Operating Costs

Raw Material	87,32,130
Fuels	1,51,000
Labour	15,42,000
Contingencies	14,70,850
Maintenance of Machinery	45,000
	1,19,40,980

Revenue

Sale at Home	99,84,862
Sale Abroad	60,69,227
Stocks	11,53,211
	1,72,07,300

$S'_8 = 1{,}72{,}07{,}300 - 1{,}19{,}40{,}980 = 52{,}66{,}320$

$S_8 = 52{,}66{,}320 - 26{,}33{,}160 = 26{,}33{,}160$

9th Year

Operating Costs

Raw Material	98,13,243
Fuels	1,63,000
Labour	17,02,000
Contingencies	16,17,947
Maintenance of Machinery	2,35,000
	1,35,31,190

Revenue

Sale at Home	98,81,292
Sale Abroad	80,60,200
Stocks	10,09,027
	1,89,50,519

$S'_9 = 1{,}89{,}50{,}519 - 1{,}35{,}31{,}190 = 54{,}19{,}329$

$S_9 = 54{,}19{,}329 - 27{,}09{,}665 = 27{,}09{,}665$

10th Year

Operating Costs

Raw Material	98,63,243
Fuels	1,85,000
Labour	17,03,000
Contingencies	17,79,742
Maintenance of Machinery	85,000
	1,36,15,985

Revenue

Sale at Home	99,80,000
Sale Abroad	80,70,200
Stocks	10,00,027
	1,90,50,227

S'_{10}	=	1,90,50,227	−	1,36,15,985	=	54,34,242
S_{10}	=	54,34,242	−	27,17,121	=	27,17,121

11th Year

Operating Costs

Raw Material	1,17,62,949
Fuels	1,85,000
Labour	17,14,000
Contingencies	19,57,716
Maintenance of Machinery	1,45,000
	1,57,64,665

Revenue

Sale at Home	1,09,78,000
Sale Abroad	88,77,220
Stock	11,00,030
	2,09,60,350

S'_{11}	=	2,09,60,350	−	1,57,64,665	=	51,95,685
S_{11}	=	51,95,685	−	25,97,842	=	25,97,842

12th Year

Operating Costs

Raw Material	1,17,63,949
Fuels	1,85,000
Labour	17,14,000
Contingencies	19,57,716
Maintenance of Machinery	45,000
	1,56,65,665

Revenue

Sale at Home	1,09,78,830
Sale Abroad	88,82,220
Stocks	11,00,000
	2,09,60,350

$S'_{12} = 2,09,60,350 - 1,56,65,665 = 52,94,685$

$S_{12} = 52,94,685 - 26,47,342 = 26,47,343$

13th Year

Operating Costs

Raw Material	1,17,54,949
Fuels	1,85,000
Labour	17,13,500
Contingencies	19,56,716
Maintenance of Machinery	85,000
	1,56,95,155

Revenue

Sale at Home	1,09,77,030
Sale Abroad	88,73,220
Stocks	11,00,000
	2,09,50,250

$S'_{13} = 2,09,50,250 - 1,56,95,155 = 52,55,095$

$S_{13} = 52,55,095 - 26,27,547 = 26,27,548$

14th Year

Operating Costs

Raw Material	1,17,59,949
Fuels	1,85,000
Labour	17,13,500
Contingencies	19,56,716
Maintenance of Machinery	85,000
	1,57,00,155

Revenue

Sale at Home	1,09,78,000
Sale Abroad	88,80,220
Stocks	11,00,950
	2,09,60,300

S'_{14} = 2,09,60,300 − 1,57,00,155 = 52,60,144
S_{14} = 52,60,144 − 26,30,072 = 26,30,072

15th Year

Operating Costs

Raw Material	1,17,59,949
Fuels	1,85,000
Labour	17,13,500
Contingencies	19,54,710
Maintenance of Machinery	93,000
	1,57,02,159

Revenue

Sale at Home	1,09,78,040
Sale Abroad	88,80,230
Stocks	11,00,950
	2,09,59,220

S'_{15} = 2,09,59,220 − 1,57,02,159 = 52,57,061
S_{15} = 52,57,061 − 26,28,530 = 26,28,531

Now Putting in the value of S_1 , S_2 , ...S_{15} into the formula :

Year	Multiplier of interest rates at 7%		Discounted Value
1st	0·93	23,83,051	22,16,237
2nd	0 87	26,27,982	25,07,344
3rd	0·82	28,37,040	23,26,373
4th	0·76	15,25,718	11,59,546
5th	0·71	16,46,936	11,69,324
6th	9·67	20,91,665	14,01,415
7th	0·62	23,16,831	14,36,435
8th	0 58	26,33,160	15,27,232
9th	0·54	27,09,665	15,03,219
1 th	0·51	27,17,121	13,85,731
11th	0·48	26,97,843	12,46,965
12th	0·46	26,47,343	12,23,778
13th	0·44	25,27,548	13,56,121
14th	0·42	26,30,072	11,04,630
15th	0·41	26,28,531	10,77,699
			2,09,93,284

Cost Benefit Ratio = Discounted Value : Cost
2,09,93,284 : 48,44,366

1 : 4·3 is the cost benefit ratio.

Statutory Agricultural Credit Agencies in Pakistan*

A. S. KHALID**

In order to supplement the supply of institutional credit to the agriculturists, governments in many countries have from time to time played an active role in establishing semi-public or public agricultural credit institutions functioning under varying degrees of public control. They have, in many cases supplied a part or whole of the finance. Ceylon was the first country in Asia to establish two such institutions—The Ceylon State Mortgage Bank in 1931 and Agricultural and Industrial Corporation in 1943. Similarly in order to facilitate the flow of credit to agriculture and allied industries the idea of establishing a specialized credit agency was conceived by the Government of Pakistan in 1951. It was realised that the co-operatives, not only because of the short term nature of their liabilities were unable to provide the long term credit necessary for development of agriculture, but also had till then, failed to meet even the short term needs of the agriculturists. An institution called 'The Agricultural Development Finance Corporation' was, therefore, established in 1952, "to expand financial facilities and promote the development and modernisation of agriculture". The Corporation did not make much impact, as in the first four years of its existence it sanctioned loans amounting to Rs 71 lakhs, and disbursed only Rs. 40 lakhs. Another institution—Agricultural Bank of Pakistan—with larger capital, and with a wider scope of activities, was established in 1957 to accelerate the process of credit extension, and provide all types of finance. The Credit Enquiry Commission (1959) recommended that in view of their over-lapping and duplication of functions in many respects, they should be merged into one institution. This

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was done in 1961 when on 18th February, the Agricultural Development Finance Corporation and the Agricultural Bank were amalgamated, to constitute the Agricultural Development Bank of Pakistan. However, to show the progress of this bank it would not be amiss to discuss briefly the working of its two predecessors.

I. AGRICULTURAL DEVELOPMENT FINANCE CORPORATION (1952-61)

The authorised capital of the Corporation was Rs. 5 Crores, which was subscribed by the Central Govt. from time to time, and by the time of its merger into A.D.B.P., in 1961, the entire amount had been paid up. It was also authorized to sell debentures and issue bonds for augmenting its financial resources, and could also accept deposits. But it did not issue any debentures. It could also borrow from the Central Government as well as from the State Bank of Pakistan. At the time of its merger its borrowings from these two amounted to Rs. 1 Crore and Rs. 27 lakhs respectively.

The Corporation was managed by a Board of seven Directors, nominated by the Government. Though the general policy and guiding lines were laid down by the Government, the Corporation was an autonomous body so far as its operations were concerned.

Objects of Loans

The Corporation could advance loans[1] 1 to any person, company, or co-operative society, for agriculture, development of agriculture or agricultural products or the marketing of agricultural products. The loans could thus be advanced for provision of mechanical equipment, tractor stations, land improvement, purchase and distribution of seeds, chemical and other fertilizers, agricultural implements, establishment of seed and other stores, etc. Loans were to be given generally in kind, though cash loans could also be advanced at the discretion of the Corporation, but in that case it was always given in instalments, subsequent instalments being issued

1. The loans up to Rs. 500 were given on the bond of the borrower, with one surety, but all loans in excess of it were given on a pledge mortgage, hypothecation or assignment of moveable or immoveable property of the borrower or his surety. However in case of a guarantee by the Central or Provincial Governments for a loan, no specific security was acquired.

only when the Corporation was satisfied that the previous instalment had been used for the purpose for which it was advanced.

The loans were recoverable in a period of up to 20 years. The maximum amount which could be advanced to an individual was fixed at Rs. 1 lakh and to a corporate body at Rs. 5 lakhs, though these limits could be relaxed up to Rs. 5 lakhs and Rs. 20 lakhs, by the Government. In the initial years different rates were fixed for individual borrowers and Co-operative Societies, but later on a uniform rate of 5% p.a. was fixed.

Loan Operations

The following table indicates how its loan operations progressed :—

LOAN OPERATIONS OF A.D F.C.

(Amount in Lakh Rs.)

Year	Amount Sanctioned	Amount Disbursed	Amount Outstanding	Profit or Loss
1952-3	1.46	.80	.80	– 3.62
1953-4	27.80	8.07	8.87	– 3.76
1954-5	22.46	15.01	23.09	– 4.08
1955-6	19.49	16.72	36.72	– 3.64
1956-7	52.93	32 12	62.45	– 3.94
1657-8	144.76	74.63	126.45	– 6.84
1958-9	192.52	125.44	218.39	– 3.24
1959-60	357.58	244.45	422.75	– 2.36
1960-1 (upto 17th Feb, 61)	286.43	217.35	536.2	+ 0.83
	1105.49	734 59	1435.74	– 30.65*

*Due to waiving of by the Govt. the interest charges on its capital from the the date of its inception in 1959, the Net Loss was reduced to Rs. 13.65 lakhs.

Source : S. B. Pakistan : *Agricultural Credit in Pakistan* (Karachi, 1962).

TABLE 1

Thus in the nine years of its life it had sanctioned over Rs. 11 Crores, and disbursed over Rs. 7 Crores, of this it had redeemed Rs. 2·8 Crores, leaving an outstanding amount of Rs. 5·4 Crores. The progress had been very slow in the initial years. Its working was termed unsatisfactory by the Credit Enquiry Commission (1959), as till then, "it had hardly sanctioned 25% of the amounts applied for, and had actually paid 54% of the amounts sanctioned". However, we should not ignore the handicaps under which the Corporation had to work. It was a pioneer in a new field. There were no precedents to guide its operations and problems had to be solved as they arose. There was an acute shortage of trained personnel in the field of rural credit, "which required special knowledge of the economics and techniques of agriculture, the law and practice of banking as also familiarity with the land revenue and tenure systems and laws affecting agriculturists generally."[2] Then there were a large number of legal barriers. Debt legislation placed restrictions on the sale, mortgage and transfer of agricultural property. Exemption had to be obtained for the Corporation from these laws, which took time to come in. The refugees, who were alloted properties, had not got permanent rights on them, and therefore could not mortgage them. It was in 1957, that the Central Government passed legislation authorising the Custodian to permit the right of mortgage of these lands. In East Pakistan failure of borrowers to produce mutated receipts in respects of property offered as security, lack of settlement records in the province[3] and the risks involved in advancing loans to the persons holding area in excess of fixed ceiling under the Tenancy Act, referred to in the foot note, due to the fear of their not electing to retain the area mortgaged with the Corporation. All these factors impeded the operations and the disbursement of funds. To start with the Corporation had to adopt a procedure which though cumbersome, would mean safety of its loans. It was only after experience that procedures could be simplified. This was done in 1956-7 and this resulted in considerable increases in its loans. The amount sanctioned increased from Rs. 52·9 lakhs in 1956-7 to Rs. 144·76 lakhs in 1957-8 and still more to Rs. 357·6 lakhs in 1959-60. The proportion of amounts disbursed to the amount sanctioned also improved. In

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2. *Credit Enquiry Commission Report*, (Karachi 1959), p. 64.
3. Because of the Permanent Settlement of Land Revenue in the Province. Though it was abolished in 1951, by the East Bengal State Acquisition and Tenancy Act, yet settlement records could be prepared only after a considerable time.

1953-4, only 30% of the amounts sanctioned were paid but in 1959-60, as much as 60% of the amounts sanctioned were disbursed.

The character of loans also underwent a change. During the period 1953-4 to 1957-8, of the total loans sanctioned amounting to Rs. 442·32 lakhs, 53% were long term loans (over 5 years). After 1956-7 however medium term loans ($1\frac{1}{2}$ years to 5 years) predominated,[4] but this was more due to the reclassification of loans—some short term loans were reclassified as medium term owing to delay in recoveries. 60% of the loans advanced during 1956-7 were for four purposes—namely—purchase of bullocks, machinery and equipment, and tube wells and other wells, and for dairy farming.

The dues of Corporation were recoverable as arrears of land revenue. According to the Credit Enquiry Commission, on the basis of an average monthly percentage of recovery during 1958-9 the ratio of recovery for the whole country was 72·5%, although it was below average in East Pakistan, being 67%.[5] The lower ratio, there was, owing to the fact that the Corporation like other creditors had to go through the procedure under the Public Demands Recovery Act, for the recoveries of its dues and this resulted in delaying its recoveries. In West Pakistan on the other hand, the District Executives were empowered to recover the dues of the Corporation directly from he defaulters. The Credit Enquiry Commission recommended the adoption of this procedure in the Eastern wing as well.

The Corporation till 1959-60 had been incurring losses, and the cumulative losses till 1961, amounted to Rs. 30·6 lakhs. The main reason for this state of affairs was that it started with an initial disadvantage of having to pay interest on Government's capital right, without earning any profits.

The error of imposing this charge was later realised and in 1959 the Government waived interest charge retrospectively. If these charges are deducted from the aggregate losses, the net loss would come to Rs. 13·6

4. Akhter S.M., Economics of Pakistan, (Vol. 1), 7th Ed: (Lahore, 1964) p. 240.

5. Report *op. cit.*, p. 6.

lakhs. It should not be ignored that certain overheads weigh heavily in the initial years—and these were quite high. Being a new venture it had to err and learn. Lack of properly trained staff, and the difficulties in realising recoveries owing to certain legal impediments were the other factors of its going into the red. The nature of agriculture in the country, and the weak socio-economic conditions of the peasantry also affected its income.

The losses in later years show a decline, and it earned a nominal profit of Rs. 83,000 in its last year. This shows that the initial difficulties had been overcome and ground had been prepared which enabled the A.D.B.P. to make a sound start. It would not have been possiable for the new bank to achieve the result it had done without the pioneering work of the Corporation, and the of Ariculutural Bank.

AGRICULTURE BANK OF PAKISTAN[6] 1917-61

The Bank was established in 1957, with the object of providing short,medium and long term loans to those engaged in agriculture and activities allied to agriculture. Thus in its functions it was more or less similar to the Corporation, but its charter intended it to function essentially as a bank. The Bank also carried on its normal banking functions for taking necessary action to achieve its objective. It was, moreover required to give preference to the credit needs of small agriculturists.

In order to enable it to perform its activities on a large scale its authorised capital was fixed at a higher level—Rs. 20 Crores, which could be subscribed by the Central and Provincial Governments and the co-operative institutions. To start with shares, worth Rs. 3·25 crores were issued and subscribed by the Central Government (Rs. 2 Crores), the two Provincial Governments (Rs. 50 lakhs each) and co-operative societies (the balance equally subscribed in East and West Pakistan). It was authorised to open branches but in order to avoid competition with the Finance Corporation, its jurisdiction was to be in different areas. By 1961 it had opened six-

6. The Bank was established as a result of the recommendations of Mr. Muhammed Chafie-el-Lehban, President of the Agricultural Co-operative Bank of Egypt.

teen branches. The conditions of loans were more or less like those of the Corporation. The rates of interest, which to start with were different for different categories of borrowers, were replaced by a uniform rate of 5% later.

The affairs of the Bank were managed by a Board of Directors consisting of a Managing Director, five Directors nominated by the Central Government, an official of the State Bank, four persons representing the Provincial Governments and two representing Co-operative Societies. The Chairman of the Board was appointed by the Government from among the Directors, and so was the Managing Director who was the Chief Executive Officer of the Bank.

Table 2 indicates the progress of the Bank in its lending operations.

LENDING OPERATIONS OF AGRICULTURE BANK OF PAKISTAN

(Amounts in Lakh Rs.)

Year	Loans Sanctioned	Loans Disbursed	Loans Outstanding	Profit or Loss
1957-8	—	—	—	– 2.6
1958-9	38.58	29 21	28.93	– 6.7
1959-60	193.25	184.45	182.17	– 4.6
1960-1 (Upto 7.2.61)	167.11	156.09	347.29	– 1.7
	398.94	369.75	558 39	–15.6

Source : Same as Table 1.

TABLE 2

The Bank in its four years of independent existence, sanctioned loans amounting to Rs. 4 Crores, of this it had disbursed over 92%, i.e. Rs. 3·69 Crores. Thus its performance in the payment of loans was better than that of the Corporation. This must have been due to the removal of difficulties which Corporation felt and sought to remove, and because of its banking accument. The Bank gave top priority to the employment of trained personnel. It established its own training centre and in the meantime recruited its management staff from the State Bank of Pakistan's Training Scheme.

The Bank faced the same difficulties as faced by the Finance Corporation, namely the restrictive land and debt legislation, and the time taken in registration of deeds, lack of landed property with the borrower to offer as security, and the hitches in timely recoveries. It had not come out of the red, till its merger into A.D.B.P., though the loss in 1960-1 was small as compared to 1958-9.

The Bank started working late—sometime in April, 1959—in West Pakistan due to the delay in the issue of an Ordinance granting exemption to the Bank from laws restricting the mortgage and sale of landed property. Thus its loans disbursed in West Pakistan till 1959, amounted to Rs. 4·7 lakhs as against Rs. 24·7 lakhs in East Pakistan.[7]

The bulk of the loans obtained in East Pakistan were seasonal, while in West Pakistan the loans were largely for development purposes. This was also the experience of the Finance Corporation. The predominance of seasonal loans in East Pakistan could be explained to small units of holding and lower income level of the cultivators. The large development borrowing in West Pakistan was due to greater demand for developing lands in newly colonised areas.

The two credit instutitions were severely criticised before the Credit Enquiry Commission (1959). The main theme of criticism was that their procedures and requirments were such that the majority of credit worthy borrowers were either deterred or excluded from their perview and caused severe delays in the sanction and payment of loans. Moreover it was pointed out that due to the "conditions" on which loans were advanced, their benefit was mostly confined to the propertied class. The rate of interest—5%—was also considered by many witnesses as "high" in view of the "Free of Interest Capital" advanced to these institutions and as the cost of borrowing was further increased, due to expenses of travel involved and the charges of petty officials. The terri-

7. *Ibid* p. 62.

torial distribution of the two agencies was held by others as creating confusion and inefficiency in their operations.

The Commission however considered that much of the criticism flowed from "insufficient appreciation of the formidable handicaps under which these institutions have been required to operate."[8] They rightly pointed out that unless recoveries of loans were ensured, it would be difficult to relax procedures. They, therefore, recommended that greater attention should be paid to recoveries. In this connection mention has already been made of the suggestion that in East Pakistan the district officers should be authorised to recover the dues of the Credit Agencies directly from the defaulters. Similarly the due institutions of rewards for the local revenue officers and the staff of the Corporation for maintaining recoveries above certain levels could also improve recovery. We have indicated that the bane of co-operative institutions (especially at lower levels) has been their disregard for the timely recoveries. The large overdues have weakened them. It is very essential that this should not be allowed to happen in case of statutory credit agencies.

The Commission also suggested measures to reduce the dependency of the borrowers on local official in meeting the applicants requirements, raising the limit of loan on personal security from Rs. 500 to Rs. 1000 etc.

The most important recommendation however was regarding the desirability of merging the two institutions and their replacement by one, not only for economising on the costs of two parallel institutions but also "to correct the draw backs of territorial division of responsibility".[9]

THE AGRICULTURAL DEVELOPMENT BANK OF PAKISTAN

The Government accepted the recommendations of the Credit Enquiry Commission and the merger took place when a new institution 'Agricultural Development Bank of Pakistan' was established to replace them, under 'The Agricultural Development Ordinance' 1961, to "make

8. *Ibid* p. 63.
9. *Ibid* p. 69.

a better provision for affording credit facilities to agriculturists and to persons engaged in cottage industries in the rural areas and for matters connected therewith".[10]

The authorised capital of the Bank is Rs. 20 crores, of which at least 51% is to be subscribed by the Central Government, and the remaining shares, if any are to be offered to Provincial Governments, Co-operative Societies and members of the public in such proportion and on such terms and conditions as the Central Government may determine from time to time of such issue. The Bank started with the paid up capital of Rs. 8·25 Crores (the aggregate paid up capital of the merged agencies). The Central Government later on subscribed another Rs. 1·75 Crores, so that the initial capital went up to Rs. 10 Crores, and it has remained so uptil now.

The Bank is managed by a Board of Directors—consisting of a Chairman, two Central Government officers, two Provincial Government Officers (one each from East and West Pakistan), two non-officials, one each from the two wings, nominated by the Central Government with the consultation of respective Provincial Governments, to represent Co-operative Societies or members of the public holding shares of the Bank.

The Bank has been listed as scheduled bank from the date of its inception and under the Statute is required to follow the directions of the State Bank of Pakistan on questions of monetary and credit policy.

Business and Functions of the Bank

According to the 'Agricultural Development Bank Ordinance' (1961) the Bank is authorised to transact the following kinds of business :

(*i*) Accepting money on Deposits.

(*ii*) Borrowing money for the purpose of the Bank's business against assets or otherwise.

(*iii*) Issuing and selling of Bonds and Debentures.

(*iv*) For the purpose of securing its loans and advances, accepting pledges, mortgages, hypo-

10. *The Agricultural Development Bank of Pakistan* Ordinance 1961 (No. IV of 1961) Lahore P.A.

thecation[11] or assignment of any kind of moveable or immoveable property or unconditional bank guarantee of Scheduled Bank, or drawing, accepting, discounting, buying and selling or rediscounting bills of exchange and promissory notes bearing two or more good signatures, one of them being that of a Scheduled Bank or a Co-operative Bank, or other negotiable instruments. It is provided however where a loan not exceeding Rs. 1000 is made to an individual agriculturists, it may be secured by a bond with one or more sureties as the Bank may deem necessary, if such an agriculturists makes an agreement with the Bank creating a charge on any of his specified properties as security.

(*v*) Buying, stocking and supplying on credit seeds, agricultural machinery, implements and equipment, fertilizers and other material used in agriculture and acting as agent for any organisation for the sale of such goods.

(*vi*) Subscribing to the debentures (repayable within ten years) of any corporate body concerned with agriculture or financing of cottage industries in rural areas.

(*vii*) Having custody of valuables, like gold ornaments jewellery securities etc., or collecting of interest and principal on such securities, administration of estates as executor or trustee, etc., remittance of money and securities, acquiring moveable or immovable properties, taking over of business of other banks or financial corporations, acting as agent of other banks or financial corporations, investing funds in Government securities, selling all properties and doing all such acts and things as may be conducive to the attainment of the objectives of the Bank.

However loans guaranteed by the Central or Provincial Governments could be made without any specific security.

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11. It can advance loans up to 80% of the market value or the face value of Government Securities, whichever is lower, 75% of the appraised value of a tea crop, 50% of the appraised value of land and other moveables offered as security.

The functions of the Bank as listed above are similar to those of its two predecessors, though the scope has been considerably widened. A higher loan limit on personal security has been fixed to bring in the small borrowers. It is required to give preference to the credit needs of the small borrowers in its loan operations. It can recall the loans immediately if it finds that the amount lent is not being used for the purposes obtained by the borrowers.[12] In order to ensure the recovery of loans, the dues of the Bank are to be treated as arrears of land revenue, and realized in the same manner.

The Bank charges interest at 7% p.a. on loans up to 5 years, and 6% on loans for longer periods. A penalty rate of ½% is charged from the defaulters in repayment on default from the date of default.

Loan Operations

The Bank took over the assets and liabilities of its two predecessors. Since its inception (1961) the position of its loaning has been as shown in Table 3.

The Bank's lending operations have been spectacular, when compared to those of its predecessors. In four year (1961-5) it sanctioned loans to three times more applicants, and advanced 220% more in loans, than the previous institutions did in eight years. There has also been an improvement in its disbursement of loans as well. The proportion of amounts disbursed to the amounts sanctioned has improved from 72% and 80% to 90% and 24% in case of West Pakistan respectively.

The increase in its lending and improvement in disbursement has been due to the increase in its working capital, removed of various legislative restrictions which impeded the working of its predecessors—particularly that of A.D.F.C. and the increase in the number of branches.

12. It is a Statutory obligation of the Bank to ensure that loans are utilized for which they are obtained.

LOANING POSITION OF A.D.B.P.

Year	East Pakistan Applications sanctioned (in 000)	East Pakistan Amount sanctioned (Rs. Crores)	East Pakistan Amount disbursed (Rs. Crores)	West Pakistan Applications sanctioned (in 000)	West Pakistan Amount sanctioned (Rs. Crores)	West Pakistan Amount disbursed (Rs. Crores)	All Pakistan Applications sanctioned (in 000)	All Pakistan Amount sanctioned (Rs Crores)	All Pakistan Amount disbursed (Rs.Crores
(A)									
1952-61	180 1	9.0	7 4	37 0	9.5	6 9	217.1	18.5	14 3
1961-62	116 4	4.4	4.0	25 0	5.0	4.7	141.4	9.4	8.7
1962-3	90 5	3.8	3 7	15.3	4.2	4 1	105.8	8.0	7.8
1963-4	92 1	4.0	3.8	12.4	5.5	4 7	104.5	9.5	8.5
1964-5	76.1	4 3	3.6	12 0	4 7	4 0	88.1	9.0	7.6
Total	555.2	25.5	22.5	101.7	28 9	24.4	656.9	54 4	46.9

(A) A.D F.C. & Agricultural Bank.

Sources : (1) State Bank of Pakistan : *'Agricnltural Credit'*

(2) A.D.B. Pakistan : *Annual Report & Statement of Accounts.*

TABLE 3

Its working capital has gone up, as a result of an additional subscription of Rs. 1·25 Crores in its Share Capital by the Central Government—thus raising it to Rs. 10 Crores, larger credits made available by the State Bank, and increase in its deposits, particularly during the past two years. The short term credit by the State Bank, which amounted to Rs. 2·5 Crores in 1959-60, has been growing from year to year, and in 1964-5, it amounted to Rs. 17·6 Crores.

The Bank under its Statute can augment its resources by issuing debenture, though it has not resorted to this practice so far. It is also allowed to accept deposits. Till 1963, it confined itself to accepting fixed deposits only and therefore the amount of deposits remained very meagre—only Rs. 28 lakhs. However due to the introduction of "Call Deposits" the Bank's deposits in 1965, amount to over Rs. 1 Crore. To accelerate its loaning for development items, particularly those required for machanization of agriculture, the Bank has obtained a loan of $27 million from the International Development Association. The International Development Association lends the money to the Government of Pakistan to be re-lent to the Bank at 4% p.a. Of this amount $10 million is to be utilised for loans for tubewells and the balance for farm machinery.

Types of Loans and Security

The Bank advances all types of loans—short, medium and long term. A short term loan is advanced for a period not exceeding eighteen months to finance the raising and marketing of crops. The medium term loan ranging for a period between $1\frac{1}{2}$ years to 5 years, is given for purchasing agricultural implements, cattle etc., while the long term loans for periods over five years to twenty years are provided for development purposes—purchase of tractors, pumping sets, sinking of well etc. In a subsistence type of economy the demand for short term seasonal loans is greater than for the development purposes. This is borne out from the experience in East Pakistan, where the short and medium term loans account for over 90%. Table 4 indicates the "Period Wise" classification of loans disbursed in the past two years by the Bank.

PERIOD-WISE CLASSIFICATION OF LOANS

(Amount in Rs. Crores)

	East Pakistan				*West Pakistan*				*All Pakistan*			
	1963-64		1964-65		1963-64		1964-65		1963-64		1964-65	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Short Term	2.21	57.6	2.02	55.6	.45	9.7	.51	12.6	2.66	31.3	2.54	33.
Medium Term	1.51	39.4	1.38	36.7	1.58	33.8	1.61	39.9	3.09	36.3	2.95	38 4
Long Term	.11	3 0	.28	7.7	2.63	56.5	1.92	47.5	2.75	32.4	2.20	28.6
Total	3.83	100.0	3.68	100.0	4.66	100.0	4.04	100.0	8.50	100.0	7.69	100.0

Source : A.D.B. Pakistan : *Annual Reports & Statements of Accounts.*

TABLE 4

The predominance of short and medium term loans in East Pakistan is due to small holdings. The income of Owners/Cultivators of such holdings is small, and they have very little surplus to meet the seasonal cropping needs. This is why the demand for such loans is greater. In the medium term loans as much as 85-90% had been obtained for the purchase of cattle in East Pakistan. This is due to the higher mortality of cattle in that wing, and the poor quality which necessitates a larger number of working animals. Owing to the predominance of seasonal loans, the average size of loan in East Pakistan in 1964, was Rs. 493.[13] On the other hand in West Pakistan, the loans for development purposes have been nearly half of the total loans advanced in that wing. This is partly due to comparatively larger farm holdings[14] and partly because of larger virgin areas being brought under cultivation through the construction of irrigation works. The average size of loan in that wing has been larger—in 1964, it amounted to Rs. 3098.[15]

Loans Against Hypothecation of Crops

The Bank has been allowed to advance loans against the hypothecation of crops. Due to simple procedure and convenience with which these are advanced, such loans have been popular with borrowers. They have not to mortgage the property and except in case of landless agriculturists, even sureties are not required. The borrower has to execute a hypothecation agreement with the Bank to sell the crop to the Government or a particular mill or factory. The Bank then arranges with them to deduct the dues of the Bank from the sale proceeds and remit the same to the Bank. Loans under this system have of course been limited to few and mostly cash crops—such as tea, sugar cane and paddy crops in East Pakistan, and sugar cane and cotton in West Pakistan. Table 5 shows the amount of such loans disbursed and recovered by the Bank since 1960.

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13. Government of Pakistan ; *Economic Survey* 1963-4 (Rawalpindi 1964), p. 164.

14. Farmers having large farms (over 25 acres) account for 8% of the total but command 43% of the farm area in this wing, while in East Pakistan farmers having large farms (over 12·5 acres) account for 4% of the total and command only 19% of the total area. (*Report : Census of Agriculture : Vol. III* op. cit) p. 64.

15. Economic Survey, *Ibid.*

HYPOTHECATION LOANS

(Amount in lakh Rs.)

	Paddy Loans (E. Pakistan) Amount disbursed	*Paddy Loans (E. Pakistan)* P.c. of recovery of the Amount full due	*Tea Crop (E. Pakistan)* Amount disbursed	*Tea Crop (E. Pakistan)* P.c. of recovery	*Sugar Cane (East & West)* Amount disbursed	*Sugar Cane (East & West)* P.c. of recovery	*Cotton (W. Pakistan)* Amount disbursed	*Cotton (W. Pakistan)* P.c. of recovery
1960	4.0	91.2	11.3	100	8.6	90.3	10.1	82.5
1961	26.4	79.4	15.6	100	30.3	93.6	17.3	93.6
1962	18.4	69.7	28.9	100	68.7	72.4	10.6	87.4
1963	4.3	66.2	32.7	99.7	34.7	81.2	6.8	37.4
1964	.7	32.7	43.7	100	57.1	47.6		
Aggregate:	53.8	75.4	132.2	——	199.4	71.7	44.8	81.0

Source : Same as Table 3

TABLE 5

The recovery of hypothecation loans depends on the success of the crop. In a year when owing to natural factors such as floods, cyclones,rainstorms, etc., the crop is damaged, the recovery is affected seriously. This is why the recovery percentage shows wide variations.

In addition, the Bank has undertaken the provision of specific loans which are financed by appropriations from various funds. A sum of Rs. 5 millions has been made available by the Tea Development Commission for financing loans to tea estates. Rs. 20 millions have been provided out of allocations of "Crash programmes" for making loans in these areas, where these Programmes are under way. Similarly special funds have been allocated for the development of fisheries, and for repairs of cyclone damages.

Since 1962-3 the Bank has initiated the advancing of loans for jute and tobacco marketing to enable the farmers to hold on to their stocks, and sell them when prices are more favourab'e. Till the crop of 1954, Rs. 3·4 lakhs had been advanced for the marketing of jute, and 71% of the amount due had been recovered. In the case of special advances for "Crash Programme"[16] in East Pakistan and "Model Scheme" in West Pakistan the total amount advanced till June, 1965, amounted to Rs. 329 lakhs for the former and Rs. 93 lakhs for the latter. Till June, 1965, 76·2% and 83% of the amounts fallen due had been recovered. The Bank is not merely a lending agency for agriculture alone, but for animal husbandry, fishery, rural industry, rural trade and other activities of the country side. As has been pointed out bv Menon[17] "The provision of Agricultural Credit alone will not solve the problems of the rural economy, unless credit is provided for all the activities of the rural economy which lanquish for lack of finance". The establishment of A.D.B.P. with wide scope for lending is an attempt to meet the demand of credit for all types of rural activities.

16. These programmes have been launched on the recommendations in the Second Five Year Plan and aim at increasing per acre yield through the introduction of improved methods.

17. Menon C.R.B., *A rural Credit Scheme for India* (Bombay, 1956).

An Assessment of its Working

The establishment of the Bank in place of two parallel statutory credit agencies has eliminated the duplication and the disadvantages of territorial localisation, and provided the centralised control in one agency, as recommended by The Credit Enquiry Commission. The Bank has been able to provide twice as much credit in four years as its predecessors provided in eight years. The most significant point in this connection is that over 85% of its borrowers are small farmers, who account for over 65% of the total advances, so that the fear which is generally expressed in case of agricultural banks, that they serve as financing agencies for big and more credit worthy land owners has been nullified. The Bank, as mentioned in its objectives, provides credit in kind, and whenever cash loans are advanced, are given in instalments—subsequent instalments following the successful application of the previous ones. This has increased the utility of its loans, and improved the chances of recovery. Even the Rural Credit Survey Committee in India, which did not favour the adoption of such an institution in India, considered the provision of credit in kind "certainly desirable".[18]

The introduction of a specialised loan system—for the development of certain food and cash crops—against the hypothecation of crops, has provided the small farmers with an opportunity to make use of the Bank's services. In order to increase the usefulness of the Scheme, it would be appropriate if it is extended to other crops—particularly wheat and rice in West Pakistan. This would also enable the Government to procure larger quantities of food grains under he "Grain Procurement Scheme", as farmers who hypothecate their crops to the Bank will be obliged to sell it to the Government Agency or the Co-operative Marketing Agency.

It is no doubt true that "seasonal loans" are not developmental in character, yet in a country where large majority of farmers have marginal savings, specialized loans not only save the farmers from falling a prey to the exacting private money lenders but also ensure the use of credit for productive purposes.

18. *All INDIA Rural Credit Survey, Report,* Vol. II (Bombay 1956) p. 361.

The need for long term development loans can hardly be exaggerated. The land mortgage banks which could provide long term loans are virtually extinct in the country. A.D.F.C., as the name suggests, was primarily meant to advance loans for the promotion and development of agriculture. The Bank is also a development bank. Development loans, however, as the purpose-wise classification shows, have mainly been confined to West Pakistan This has been due to the comparatively large unit of holding in that wing and the opening up of new areas due to irrigation works. Most of these loans must have gone to big land owners. The Bank can encourage development borrowing in East Pakistan by making available low cost mechanical appliances, smaller pumping sets, and other implements, which can be used economically on small cultivating holdings. It would be worth considering to raise the loan limit on personal security in that wing so that a large number of medium sized farm owners and cultivators—who account for 45% of the total farms—are induced to obtain funds for improving their lands.

According to the National Sample Survey[19] hardly 1% of the cultivators in both wings of the country were able to get credit from Agricultural Banks (A.D.F C. & Agricultural Bank) but as many as 35·2% in East Pakistan and 42% in West Pakistan indicated them as their first preference for future borrowing. This reflects the growing popularity of this type of institution with the cultivators. The A.D B.P. has the advantage of capitalizing on the "good will" created by its predecessors and can by making available the right type of loans, at right time, not only help the farmers, but the rural economy as a whole.

Lending commitments of the Bank have increased at a rate which may not be maintainable unless new sources of capital are available to the Bank. The paid up capital of the Bank is Rs. 10 Crores and the Bank sanctioned loans amounting to Rs. 12·30 Crores during 1964-5. As a considerable proportion of its loans are seasonal, they are revolved each year, so that recoveries are used for new lending. In addition as already pointed

19. C.S O: *National Sample Survey* (Second & third Rounds; Karachi, 1962) p. 50.

out, some of the special lending has been financed by appropriations from various funds. Commitments are expected to increase from year to year for the Bank's normal operation. State Bank makes available funds for seasonal requirements, and it has considerably increased its advances to the Bank and Co-operatives, particularly after 1960. But the A.D.B.P. must find funds for its medium and long term lending,[20] if it is to play an important role in the development of agriculture. The Bank has been authorised to raise funds through the issue of debentures, but it has not resorted to this practice so far. This might have been due to the larger allocations by State Bank every year, or due to the smaller demand for long term loans. With the extension of its branches, and the emphasis on developing agriculture by the Government, the demand for such loans is likely to increase (and as suggested by us the Bank should adopt positive measures to bring this increase). The Bank should therefore tap various avenues for having more long term funds at its disposal. It should strive every nerve to increase its deposits. Similarly it should consider the feasibility of floating debentures at the appropriate time in consultation with the State Bank. The Bank has been able to get its first loan in foreign currency to import the requisite machines etc. Supplementary lending in Pakistan currency for longer period will also be needed for the allied things, and the Bank should have sufficient funds in home currency to meet the demand.

The recovery position has so far been satisfactory. Till June, 1965, 79·5% of the loan fallen due since the start of the Bank's operations had been recovered (77.4% in East Pakistan and 82·2% in West Pakistan). Two years before,—in 1963—78·3% of the loans fallen due since the start of the Bank's operation had been recovered. It shows slight improvement in the recovery position. It is very important to strive to keep up the recovery proportion at a higher level, for with the increase in commitments the danger of an accumulation of over dues, and turning into bad debts always looms large.

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20. Since the formation of "Rural Credit Fund" in 1961, the State Bank is also making available medium and long term advances, but these are limited to the amount in the fund, which in 1964, amounted to Rs. 3·5 Crores.

In a short span of a decade, the Bank (and its predecessors) has been able to advance more than Rs. 45 Crores to over half a million farmers in both wings of the country. This is a no mean achievement in view of the manifold difficulties which clogged the working of the pioneer institutions. However this hardly meets the fringe of the problem. The total farm debt as revealed by the Census of Agriculture (1960) was over Rs. 200 Crores. The Credit Enquiry Commission estimated the annual short and medium term credit needs to be Rs. 300 Crores. The long term requirements being in addition to this immense amount. All this has to be met. The Bank is not intended to compete with or to replace the Co-operative Credit Societies. In fact it would be to the advantage of rural economy, if some sort of co-ordination were worked out between the two. A special Committee,[21] appointed by Government, recommended that the Statutory Agency—now A.D.B.P.—should stop making short term loans in areas where a Co-operative Society is organized, and confine itself to long term loans. But so far this recommendation has not been implemented due to the inadequate net work of Co-operatives, and their inability to meet the needs of all the credit worthy inhabitants of the area. And secondly, and more important, this would largely put an end to the operations of A.D.B.P.

We have already indicated that nearly two thirds of A.D. B.P. loans—and 90 to 95 in East Pakistan—are for short and medium term purposes, and the beneficiaries are mostly the small farmers. After many years of halting efforts, credit has started flowing into the rural areas at a rate that promises to make some impact, and it would be suicidal to put a stop to the working of the A.D.B.P. in the hope that Co-operatives at some distant date would be more appropriate. At present the Bank is not allowed to lend through Co-operatives. It would be good proposition if the Bank was allowed to lend through Co-operatives, at least in respect of their members. This would on the one hand reduce its expenses, and at the same time rehabilitate the Co-operatives, who would be assured of more funds. The Bank, however can continue to lend to non-members and for development purposes directly.

21. See F.A.O. *Report of Government of Pakistan on the "Agricultural Bank of Pakistan"* (prepared by George G.M.) Report No. 1321 (Rome, 1961).