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The Impact of Trade Unions on Socio-Political and Economic Aspects of Developing Economies, with Special Reference to India, Pakistan and Nigeria.

I. Introduction.

Trade unions are not only protecting the working class but also improving the standard of living as a whole.

Trade unions have been understood to represent a wide variety of organizations with differing objectives, methods, strategies, traditions and structures, which shows that the growth and character of the union is influenced by many factors, such as the composition of its membership, the calibre of its leadership. In addition to this, the behaviour of unions as a social phenomenon is basically conditioned by traditions, socio-political institutions, laws and level of economic activities, all of which often vary from country to country. That is why trade unions differ in their economic, social and political activities.

In our time trade unions can be regarded as a symbol of democracy and of a modern political system. But it is a fact that it is rather difficult to maintain democracy in developing countries without continuous achievement of a satisfactory rate of economic growth and improvement in the standard of living of the wage earners.

In the sphere of industrial relations, the responsibility lies with the government, and the obstacles may be remedied by better labour legislation, more effective implementation of policies and by refashioning the institutions through which labour is represented to make them more efficient and effective.

Trade unions can aid the process of economic development in general and industrial development in particular by removing the hindrance in a mumber of means.

Studies of trade unionism in developing countries so far have been concerned mainly with the legal and political aspects of the subjects and trade unions in developing countries have been largely treated as if they were essentially the same as those in industrially developed countries of the West.

We hold the view that the evolutionary progress of the developing societies in the context of their contemporary social, economic and political situation lies mostly on the basis of enduring understanding between labour, capital and the state. Any future prospect for progress lies in the success of their socio-economic development, which can only emerge if there is a positive and co-operative relationship between all the three, *i.e.*, labour, capital and state.

It should be remembered that these countries are facing serious imbalances in the sphere of industrial relations. Undoubtedly there are to some extent manifestations of a deeper crisis in the economic system, which can probably be remedied by better planning, more careful ordering of priorities and more effective implementation of policies. The initiative rests not only with the government but also with the unions and employers.

Presently in these countries trade union movement is not accidental. One only needs to refer back to its history. In our study an effort has been made to throw some light on the outstanding landmarks of the trade union movement in these countries and to observe the main successive tendencies which played their part in moulding the character of the movement. The structure of present day unionism can be understood only in terms of its historical development, in terms of the aspirations and the fears of ordinary people with their endeavours and their struggles, with their modest success and their setbacks.

In following their slow and limited progress, we may obtain some understanding of human problems in general, and socio-economic problems in particular in these developing countries.

The impact of government labour policy is not uniformly felt on different centres of the trade union movements. The heterogenity of the latter in these countries has been sufficient to diffuse the impact. Moreover, it tends to evoke conflicting responses as different political centres seek to defend or advance their respective interests in the light of the policy.

It is evident that as long as there is uncertainty about probable reactions to each other's behaviour, there is little hope of a constructive relationship on a durable basis between the different interest groups.

These discrepancies between definitions and realities indicate that the rise of the modern society and social welfare state is to be accompanied by changes in the structure and functions of trade unions.

Therefore, there is a growing sense of the need that trade union activities should be channelized in such a disciplined and well organized manner that they could help to improve the working and living conditions such as wages, health, safety of their members and to increase the national standard of living as a whole.

II. Socio-Political Aspects.

During the struggle for independence in India and Nigeria there was a very close coordination and cooperation between the political liberation movement and trade union movement, which enjoyed a considerable degree of autonomy and direct power while working for political freedom from the colonial administration through mass movement, because political leadership was directly or indirectly involved in organizing the trade union movement.

In India soon after independence INTUC, a congress-led labour organization[1] has adopted voluntarily restraints to protect

1. A Conference of trade union leaders and high level leaders of the Indian National Congress was called in early 1947, with the aim to established Indian National Trade Union Congress (INTUC) as an alternative to the left-oriented All India Trade Union Congress (AITUC). The Congress was attended by the prime minister, deputy prime minister and chief ministers from several states which made it clear that the move to establish INTUC was led by the ruling congress government itself. See Walter Galenson, Ed. "Labour and Economic Development", New York, 1959, P. 34.

the economic programme worked out under the Indian development plans in 1951. In opposition to INTUC all the other three labour organizations, namely AITUC, HMS and UTUC associated with opposition political parties, namely the communist Party of India, the Praja Socialist Party of India and a section of Marxist and Radical organizations respectively. It is obvious from this study that union activity of the INTUC while exerting the actual pressure for concessions directed against the Congress Government, yet in a way as not to undermine its prestige (government being the biggest employer). Despite hard criticism from the other central worker federations, the INTUC experiment has shown that it has functioned fairly well within the control of the Indian National Congresss Party and has exercised a very high influence among the political leadership,[1] which formulating labour policies has always asked for advice and consultation.

In the case of Pakistan since independence, trade unions have no direct political representation (although a section of labour was indentified with the then ruling party, Muslim League, which broke the ties soon after, in 1954, when the party lost its control over the government (and split into many Muslim Leagues). Therefore, trade unions had to depend mostly on judiciary, who was supposed to protect the workers rights. Even the present political structure did not provide a general representation to trade unions. This is the one reason why trade union leaders were always anxious to create their own political status, while leaving their duties as workers' representative aside.[2]

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1. Crouch Harold. "Trade Unions and Politics in India", see pp. 127-28.

2. Mahmud M.K.. "Trade Unionism in Pakistan." 'unpublished thesis'. University of Punjab. Lahore, 1958 see pp. 53-54. Also see Sarwar Rizvi, S.A. "Industrial Labour Relation in Pakistan, N.I.S.E.R. Karachi, 1973, p. 34.

The case of Nigeria presents another picture of fragile government structure and underdeveloped political institutions. After proclaiming the 'First Republic of Nigeria' in 1962, despite having agreed constitution and parliament, they had few unanimously accepted techniques for replacing any non-representative administration. Consequently they rested upon coups and counter coups and assassinations of the elected representatives of the federal as well as of the regional government.[1]

Under such a situation any type of agitation for example, unions' protest, was considered to be a challenge and therefore must be contained at once because trade unions are considered as political opposition and a threat to the ruling authority. The present labour legislation in Nigeria places a high degree of restraint on strike and other activities.

It is apparent from the Indian experience that trade unions have made a considerable contribution in the political development by helping to counter communism and the danger of military dictatorship, by balancing the political power in order to build up a political system on democratic values (although not in the sense of Western Democracy) and by managing workers' protest in the interest of national development and political stability.

In contrast to the Indian experience, the case in Nigeria and Pakistan provide an evidence that it is not a remote possibility that the established union centres might become the parties' political rival or they might threaten to replace political leaderhip as it was in case of Pakistan during 1951-54 and 1968-69[2] and in the case of Nigeria

1. Cronje/Suzanne. The World and Nigeria. The Diplomatic History of tha Biafran War, 1967-70, London see pp: 265-66 and also see p.: 272. Damaehi. U.-G., Seibel, H.D. : Social Change and Economic Development in Nigeria, New York, Praeger Publication, 1973, see p. : 132
2. Galenson Walter, ed. "Labour in Developing Economics", op. cit. p. 35

Sarwar Rizvi S.A. "Industrial Labour Relations in Pakistan op. cit., 32.

Wilber D.H." Pakistan" op. cit., see p. 222.

Government of Pakistan, Planning commission, "Socio-Economic Objectives of the Fourth Five Year Plan, 1970-75, Islamabad 1968, pp. 1-2.

Keith Griffen and Azizur R. Khan. "Growth and Inequality in Pakistan", op. cit. p. ix.

during 1964-65,[1] and oonsequently made a military take-over which followed in all three occasions, more imminent.

Pakistan and Nigeria are facing a great need for the exposure of some degree of of political consensus on how to get of organizing their social and political system. Trade unions in this respect, could play an intermediary role, [2]being a netural partner, between the political complex and the working population, because the unions' direct representation of the working masses, while pleading their economic and political interests, as stated by Paul Fisher,[3] constitutes their first participation in the modern organization and intergration in the process of social and national development. It is remarkable to note

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1. Kilby Peter, "Industrialization in an Open Economy: Nigeria" 1945-1966, (Cambridge, 1969) see pp. 273-75. Yesufu, T.M., op. cit., see pp. 55-56.

Ananaba Wogu, "The Trade Union Movement in Nigeria." (London, 1969) see p. 228.

2. It is particularly in the early states of economic development when the resistance of a traditional society has to be overcome, when the necessary institutional changes-for instance, doing away with an archaic land tenure system or an inequitable tax system, or reforming the educational system-spell success or failure of all economic measures, that the union's support of the reform forces appears indispensable/ Where the body politic is in the hands of the vested interests of a minority, the mass (mob) demonstration, an extralegal pressure on society, becomes one of the most powerful means of bringing about a peaceful change,

For this fole, the union is emonently equpped. Its basic attitude is directed to a change for the better, toward progress.

Paul Fisher, "The Role of the Unions in Less Developed Areas" in *Kabour Review Monthly*, September 1961 p. 956.

3. Ibid.

in the case of Nigeria, where since 1945, and especially after independence both equally powerful sections of the trade union movement (Radicals-NTUC and LUF, and Moderates-ULF and NWC) have contributed considerably in the polarization of Nigerian society on the basis of political ideologies leading to political instability and consequently followed a civil war (Biafra 1967-70), partly because of ethnic and tribal differences and partly because of regional economic disparity. The Nigerian experience teaches us that trade unions not mixed with political unionism is possible only in a situation in which the political system is relatively moderate and nonpolarized.

In the case of Pakistan soon after independence and separation from India in 1947, the concept of democratic and egalitarian society based on islamic ideals' became a controversial issue aroused between orthodox and moderate elements who considered Islam not only an ideology which because of inequitable economic system supported by the roling elite through islamic appeal, and those who believe in a combination of islam with socialism. Consequently, after a long ideological difference, and economic suppression of the working population on the one hand and regional economic disparity on the other hand, favoured the newly formed political forces, which become a mass movement and defeated both the traditional forces and the previously dominating political and economic groups in the first ever held General Election in December 1970. This development has brought a regional thinking not only based on economic inequality but also awakening of the political thinking (Socialism and Bengalee Nationalism) which partly led to the separation of the Eastern part of the country, which became an independent State in December 1972.

It is reasonable to believe that if the rights of existence and freedom of union activities would have continued uninterrupted under political control, the trade union movement in both Nigeria and Pakistan would have aquired a sense of belonging and responsibility. A condition that might have lead to a decrease in industrial and political unrest on the one hand,[1] and on the other helped to establish a political system. This would be true, because any social or economic faults would not have been blamed solely on either side, trade unions or the ruling elite. Perhaps it was the consequences that the labour unions have been denied very often their rights of existence and participation in the national decision making process which provoked the labour front each time in the political crisis to find itseld on the side of opposition. Another important point in this respect is to be considered, that trade unions' involvment in the national politics is a reflection which presents that a number of special interest groups competing with each other on the one hand, and on the other with the ruling elite at the moment in power, this type of conflict mostly based on ethnic, tribal, regional and religious basis will not be solved until a workable political and economic system has been adopted, while accepting the principle of plural society,[2] and in the long term the structural cnanges in these societies (Nigeria and Pakistan) must themselves work to towards the consolidation and increasing coherence of different interest groups based on economic interest rather than ethnic, tribal or regional sentiments.

It is obvious from this study, that the trade unions, in case of Nigeria and Pakistan, made a contribution in controlling a small though relatively well organized and articulated segment of the society with a considerable political strength. This was done despite constant efforts to check and limit its freedom and the right of action. It is because of the influence of economic behaviour of

1. The union's contribution to the establishment and maintenance of industrial peace in the workshop has been accepted by many writers,. "There is a tendency for industrial conflict at the early stages of industrialization to consist of short-lived incidents and to involve fights, riots, demonstrations, directed action, violence, and mob action. "Clark Kerr and other, *Industrialism and Industiral Man* Cambridge, 1960, p. 206.

2. Mark van de Vall, Labour Organizations. A Macro-and Sociological Analysis on a Comparative Basis, Cambridge, 1970, p. 43.

of the ruling elite and employers especially into the area of industrial relations and participation as a part of political and economic community.

From the social point of view, any substantial part played by the trade unions in integrating the labour force into the new type of society which they are supposed to help to build the need for education, to combat illiteracy, skill training and a strong need of instruction about the benefits of the organization, including health and social welfare. The exprience shows, that only in Nigeria, the trade union centres have carried on educational and training programmes intensively, partly through their own established labour institutions and partly educational centres established with foreign assistance. (ICFTU, DGB, AFL=CIO ond Fridrich Ebert Stiftung in West Germany),[1] while accepting the reality and importance of the workers education in order to reduce internal conflicts in the society based on communal and regional tradition.

In the case of India, political parties are mostly providing skilled cadre and politically educated leadership to the trade unions associated with them. This is the one reason that India had prominent leadership well conscious about the heterogeneity of the society and India's preparedness to adopt the democratic political structure, and the credit goes to the trade unions which in turn has provided a balance in the power structure, and secure individual freedome by controlling anti-democratic directions of the extreme left or extreme right.[2]

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1. Lynd, G.E. : The Politics of African Trade Unionism, New York, 1968, see pp. 122-23. See also, Cohen, R. Labour and Politics in Nigeria 1945-71, London, Ihadan, 1974. p. 126.
2. Since the post World War I, all politically oriented groups, rightist, leftist and nationalists were represented with their own interest in the trade union centre for political support against the British rule. Since than the leadership of the trade union movement have remained in the hands of some prominant politicians like Mahatma Gandhi, Jawaharlal Nehru, V. Patel, Lala Lajpat Rai, N. M. Joshi, V. V. Giri, G. L. Nanda, K. Desai, J. P. Narain, See Supramanian, K. N. "Labour Management Relations in India, London 1967 page 514-15.

Under the given conditions most of the trade unions in Pakistan are financially too poor and numerically too small and ineffective to afford even a full-time staff-members and other necessary requirements. Consequently their contribution in social integration through education and training programmes, a precondition for the skilled and well-organized labour force is greatly hampered and remains very limited.

A social relation system in which the individual has a democratic relationship to the power of structure of industry and government through participation and consultation might avoid restriction upon individual and reduce tension between employers and workers, and it is thinkable that trade unions could work toward this achievement as it is aparent in most developed countries.[1]

The prevailing concept of government's responsibility for public welfare, political and social thoughts in the case of Nigeria and Pakistan, is not yet well advance enough and this seriously affects the role of trade unions. Power structure with regard to economic and political decision making, which rested chiefly with the landlords and industrialists; and a small ruling elite, which shows a very minor shift that does not allow any third power to check the authority, as precondition for social and welfare reforms achieved in the Western developed societies on the basis of 'plural power structure'.[2]

The case of Nigeria and Pakistan provides an evidence that trade unions position has not been established, rather it is still under a formidable phase, and because of unions' internal weakness and restriction imposed by the political system, in turn reduce their ability to influence the static socio-political relationship determined largely by hereditary wealth and privileged positions. Trade unions future depends on their activities that the successive government will feel to compromise with them rather than seeking means and ways to control and restraint their fredom.

1, ILO Consultation and Cooperation between Employers and Workcrs at the level of Enterprise, Labour-Management Series, No. 13, (Geneva, 1962).

2. Mark Van de Vall, Labour Organization, op. cit. p. 43.

III. Economic Aspects.

Taking all these typical features of the socio-political set-up of these countries under study, we can see the impact of trade unions' policy and their behaviour with regard to income distribution, wage structure, employment and economic growth of the society as a whole.

It is obvious from the study that all three countries have a very small industrial sector including mines and manufacturing consisting on partly private and partly state-ownership, which contributes not more that 15 percent in the Gross domestic product in the case of India and Pakistan, and only 8 percent in the case of Nigeria[1] (since 1970 industrial activities have been increased very rapidly due to oil extraction), and represents a small minority of working population (about 9 to 10 percent in the case of India and Pakistan only about 6 percent in Nigeria). The main activity belonging to the egricultural sector which employed more than 70 percent of the working population, indicates that these three countries are basically agricultural economies. It is beyound doubt to believe that a limited and narrow industrial sector is not likely to secure heavy employment opportunities for the vast unemployed urban masses (about 13 percent in the case of India and betwcen 10 to 15 percent of the total working population in both Nigeria and Pakistan), and the underemployed agricultural working population about which 45 percent living in absolute poverty and under minimum existence conditions necessary to maintain physical existence.

The empirical data reveals that the trade unions, struggle for economic benefits, for at the early stage of economic development, proved unfavourable to employment structure and economic development. This happened because of their unwillingness to review their demands within the context of the general economic situation, especially the number of industrial disputes and wastage of working days in reference India and Pakistan. (In the case of India the average number of industrial disputes is over 2,256 which caused an average

1. See table one and two at the end in the list of tables.

of working days more than 12 million per year during the whole decade of 1961-71,[1] whereas the number for Pakistan is 309 and more than one million respectively during 1965-74,[2] which in turn caused a tremendous loss of industrial production and national income.

The available tupe of leadership did not present any responsibility either towards the production targets, fixed under development plans, and or acting together with the management on behalf of industrial and national development. It is obvious under the given socio-political system, the significant disputes in industry are basically motivated which presents a trial of power among different interest groups. It reflects the need that the voice of the trade unions should be heard which could help to create industrial peace.

Despite the fact that all three countries have been growing at the rate between 4 and 6 percent per year in real terms, and the industrial sector has shown even a faster growth rate between 8 to 13 percent annally, the annual rate of labour absorption in the non-agricultural sector has not been increasing even at the rate of population growth (2.5 to 3 percent annually). It is for this reason thinkable that all heavy and well-established industries have been shifting from capital-saving to labour-saving methods, partly because of relatively high costs of labour and low productivity, which consequently reduced the possibility to avoid unemployment of the masses.

This study shows that all these three countries face the cyclical and structural unemployment mainly arising out of shortage of capital formation, inadequate productive investment wrong allocation strategies, lack of entrepreneural skill, training and education. It means that the employment problem is mainly tied up with the problem of modernizing and transferring the whole structure of the economy, and as we have tried to show that trade unions are not strong enough to influence the economic and political power structure

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1. See table No. three in the list of tables.
2. See table No. four in the list of tables.

on the one hand, and on the other unions are basically confined to represent the special interest of a small section of industrial organized workers rather than to represent than to represent the whole working population and national economy.

The right of participation in the decision-making at the industrial level as well as at thg national level is in most cases denied with very few exceptions only in the forms of workers' councils, joint management committees, industrial management committees, industrial management councils, and in tri-partite conferences, mostly dealing with minor problems such as working conditions, premiums, over-time, and other day-to-day administrative problems. Workers' representatives are not given the right to decide about the quantity of production, participation in the profits, wage improvements, social welfare and security matters, participation in the management and control of the industry.

It has been found in this study, that trade unions are mostly concerned with the objeetives to maximize the wage bill for their members, taking as main criteria to raise the standard of living, as it is apparent from the statistical evidence that since independence the most militant and defence battle for higher money wages[1] which in turn has resulted in jeopardizing employment opportunities, which consequently has caused a more unfavourable effect partly by reducing investment in the less productive sector as the case may be in the agriculture and export sector, where the average annual growth rate shows a very minor increase in both India and Pakistan with an exception of Nigeria (since 1970 the oil export expansion). This type of Unions' strategy may be explained through their impact on the increasing number of labour disputes and strikes, especially in India and Pakistan on the one hand and the political instability in Nigeria and Pakistan on the other. It becomes obvious that the positive effect on money was achieved partly through exercising

1. See Table No. 6 for Pakistan at the end in the list of tables.
   See Table No. 7 for India.
   See Table No. 8 for Nigeria.

political pressure on the government and partly through governments own desire to maintain industrial peace and not through unions' collective bargaining on the management.

The trend in prices and cost of living shows that there is a little correlation between wages and consumer prices despite simultaneous rising during the last decade 1964-74 (reached the Consumer Price Index Number from 71 to 165, from 76 to 164, and 73 to 141 in India Pakistan and Nigeria respectively), whereas unions' contribution in terms of improvement in real wages as the statistical data show, remains very minor in the case of India and Pakistan as compared to Nigeria.

It is indisputable that these three countries are basically in a need of improvement of the investment potential of the material and human resources for economic growth and national development. It therefore seems more relevant to see the problem in the consideration of structure of employment in different sectors of the economy. In this respect any undue increase in the wage level (in the sense of W.A. Lewis)[1] of the small minority of industrial workers without any improvement in the earnings of the rural agricultural workers and small farmers would lead to a more privileged position of this section, which in turn creates not only economic socio-political tensions between the unorganized rural poor masses and the organized urban industrial workers.

This study shows that trade unions are mainly concentrated only in a few urban centres while leaving agricultural workers to take care of themselves. It is important to note that trade unions could have influenced to help in solving the problem of surplus unskilled rural manpower, while cooperattng in organizing collective farming at large scale, rather than small farming with very low productivity in the countryside. In contrast to this it is remaxkable to note that because of unions struggle for higher wages for their members in urban industrial centres, became a mass attraction and caused a heavy

1. Lewis, W. A. Development Planning. The Essentials of Economic policy, New York, 1966, p. 76. 78.

migration from the rural areas to highly populated urban towns. This in turn, resulted in the employment structure in the countryside and creates slums and infrastructural problems more seriously while creating a wide disparity and economic isolation in urban and rural areas.

It seems more relevant to believe that an increase in agricultural output per head is most important in these three developing countries, which requires modernization of the prevailing social and economic legislation in the countryside, and the unions under their present conditions are comparatively weak to influence the demand for reorganization in an authority structure which could provide a chance to integrate the rural masses in the process of economic development.

It is important to realize that the problem of economic development which needs the mobilization of the productive resources as it is maximum possible in order to increase national production in order to lift up the economy into self-sustained growth. The main sources are their own private investments, government development programme and foreign private investment (in the case of India and Pakistan-long term credits and foreign aid, while in Nigeria direct private foreign investment) Therefore the unions militancy as a special interest group to safeguard economic benefits for their members, while ignoring the national economic interest. It is evident from the facts provided under the trade union behaviour and policy, that they have generally affected less in the favour to provide an opportunity to raise national production, capital accumulation, (in the sense that they could increase labour productivity) and attraction in foreign private investment, while using strikes and agitation politics have undermined the national economic problems.

It is obvious from the data on uneven distribution of income and wealth and the lowest per capita income that the achievement of economic progress is mainly going in the favour of upper income groups under the excuse that the propensity to save and invest in higher there as compared to wage earners or low income groups. But the experience shows (as stated by V.K.R.V. Rao)[1] that the

1. Rao, V.R K.V. : Redistribution of Income and Economic Growth in Underdeveloped Countries, in *Income and Wealth Series*, X London, 1964, p.

most considerable part of money are used mainly for the purpose of luxury consumption, purchase of land or other property, speculation with a quick return, rether than in productive investment in order to promote economic growth.

The view generally accepted is that the process of economic modernization shifts the income distribution in favour of the upper and middle income groups against low income groups (Simon Kuznets[1] and Gunnar Myrdal[2]) at the early stage of development, and in all three cases the validity of this thesis is hardly to be challenged. Another factor that contributes toward an uneven income distribution is the wage differentials mostly because of an acute shortage of those factors of production such as technicians, engineers, skilled workers and educational personal, especially when the rate of growth is accelerating, and partly because of unions pressure.

It is remarkable to point out that the main concentration of trade unions with regard to income distribution has been a demand for nominal increase in remunerations and price reductions on certain goods and services, generally of those within the reach of all sections of the population, for example the subsidies granted by these governments from time to time for the consumptions of imported goods such as food grains and other various types of additional allowances, permiums and money awards. The experience proves that these measures have added a little to change the pattern of income distribution in the favour of the poor masses. It is worth to note that the organized workers are more able to take advantage from these policies rather than the unorganized and the majority of the rural workers whose interests are not represented by unions, which reduces the chances to get a due share in the national income as compared to industrial unskilled workers whose income is two to three time higher in these countries.

In summing up it is apparent from this analysis that unions are less interested in the welfare of all working people and in behalf of society rather to protect special interest, while exercising political

1. Simon Kuznets, "Economic Growth and Income Inequality" in *American Economic Review* March, 1955, pp. 18-20.
2. Gunnar Myrdal, Asian Drama, New York, Pantheon Press 1968, p. 746, Vol. II.

pressure partly because considering themselves as a political force responsible for putting forward their demands and using agitative and militant methods because of lack of economic concepts of unions' policy and lack of economically educated and trained union leadership. This type of union' behaviour is probably a reflection of the socio-politcal and economic systems under which the workers representative are not provided the right of participation in the real sense at the industrial level as well as at higher national levels, and the decision-making authority rests mainly in the hand of a very small ruling elite in the case of Nigeria and Pakistan, whereas in India unions are well established to a political reality with a considerable importance and influencing ability and therefore exercise a high rank in participation among the decision-making apparatus of the government.

IV. Concluding Remarks.

The question whether there are alternative policy prescriptions that can be offered as trade unions function to deal with the problems in these developing countries can be answered in the affirmative. Its ability to function depends on the more suitable and workable economic system and political organization of the society as a pre-condition, under which trade unions have to operate.

At present there are two mostly common economic systems in operation in one or another form, namely 'free market' economic system[1] and 'centrally planned' economic system.[2] The experience proves that the competitive free market system is mostly based on information and skill-intensive endeavour and many well established socio-political institutions and economic organizations, and these developing countries are not able to maintain this system on the one hand and on the other centrally planned economic systems under which all major and minor political decisions are made by the government, and the day to day running of the economy would be

1. Gahlen, B. and others : Volkswirtschaftslehre. Eine problem-orientierte Einfuhrung, Munchen, 1971, See pp. 15-20, 31-34.

2. Ibid., pp. 31-34.

under government direction, could only function properly through the governments' ability to set wages and prices. This type of system would be highly dependent on good means of collecting organizing and transmitting large amounts of economic information, which are not in the capacity of these countries.

No country in this study has either of the two systems in its true seuse, instead all three have a mixed form, partly private enterprise and partly government enterprise with a variation of the degree of control and the expansion of the public sector. In this context of the prevailing system, as the experince of India, Pakistan and Nigeria shows has not been very favourable. It is a most well-known reality that concentration of private property and economic power, in very few hands, and geneaally low income, corruption, favouritism, misallocation of scarce potential resources and economic inefficiency appear to be great. The allocative effects of the economic policies are very serious in the respeet of increasing mass poverty and unemployment. The non-economic effects are as well serious in the sense that creates political power, not only in the short run but also in the long run for any socio-political and economic development of society.

A more flexible economic system in which planning and free market elements are combined, will prove to be a most suitable and functionable alternative in the case of all these developing countries. This kind of economic system is specially valuable and important, if the fundamental socio-political socio-political transformation towards a re-organization of the society (revolutionary ways) is not required, but a system under which despite state intervention will provide a place for the principals of individual choice and individual development (evolutionary way).[1]

1. Gahlen, B.U.A. : "Volkswirtschaftslehre", op. cit., p. 287 for an account of the evolutionary and revolutionary paths of development, of also, E. Tuchtfeldt : Alternative Strategien der Entwicklungspolitik (Alternative Strategies of Degelopment Policy). In : S. Klatt Und M. Willms (Eds.) : Strukturwandel und Makrookonomische Steuerung. Festschrift fur F. Voight (Structural Change and Macro-Economic Control. Publication in honour of F. Voigt) Berlin 1975. p. 205 et seq.

It is important to realize that in the case of these developing countries with their specific economic problems, economic growth requires a continous planning, as all other economic policies made in a given situation and problems, while considering the fact that the starting point of all economic policies is given political, social and economic situation within which development has to proceed.

In planning there is much more involved than simply counting targets and instruments such as that G.N.P. should grow at a given rate of per capita income should be doubled in a certain period of time, etc. If these targets are taken more seriously, as it is the case in most occass ions in these countries, the bitter thoughts among the regions and sections of the population have followed. What is important to realize is that there must be an economic sense of direction and decisions should be made in a manner that allows important social groups (trade unions, employers, unions and governments) the right of participation as suggested by R. Backer. Under this type of planning, each interest group has an opportunity to influence and provide direet information so that informed decisions could be made (ex-ante coordination),[1] but not of the interest groups could dictate or chose any predetermined targets. It is most reasonable to believe that coordination could provide an opportunity to participate in the preparation of planning, and consequently might lead to a transformeration in regional and sectional conflicts.

It is important to realize the fact that the effectiveness of planning depends very much on the precise nature of the economy to which it is applied, particularly by its flexibility, its adaptablility and its productivity. In order to achieve this aim it needs the mobilization and economically effective allocation of as many resources as possible, or as prof. Lewis stated, the main task of the planning for higher productivity lies in a set of policies which induce private persons to invest their time and resources more productively.[2]

1. Roudolf Backer, "Wannded der ordnungspolitischen Vorstellungen in der Bundesrepublik Deutschland", in *Wirtschaftsdienst*, 1977/X, S. 509.

Prof. R. Becker Ist Ordinarius am Institut fur Volks-und Weltwirtschaft - Fachrichtung Weltwirtschaft - der Freien Universitat Berlin.

2. Lewis, W.A. "Development Planning" op. cit, see p. 23.

If economic growth is required, it is essential in this respect that the planners should not make too many decisions uneconomically, and it would be possible that much of the misallocation disappears if locational decisions could be made on the regional needs and on economic grants on the basis of decentralization. In the planning process the virtues of the decision-making appears to be great and ths benefits of the competitions are considerably very important. In this respect it is in the interest of these develcping countries, if they are keen to develop their industrial sector, that is highly dependention international trade, which requires relatively open international trade sectors, while removing unnecessarily created barriers to entry, eliminating special protected positions and generally encouraging competition are few possible steps through which a considerable rate of growth, employment and economic development can be achieved.[1]

It is worth to note that the planning mechanism must be well coordinated with requirements and needs comming from below, from both consumers and producers. Moreover, it is highly desirable that planning authorities must have considerable rights of intervention, and their flexibility must be preserved to enable them to adjust rapidly to the changing repuirements of the economy. According to Karl Schiller,[2] the market and price mechanism has the important function in these developing countries or as an instrument of allocation, of passing on and converting as a transmitting mechanism in the case when the impulses generated by the primary activities of the state.

1. A number of East and Southeast Asian Countries-notably Hong Kong, South Korea, Taiwan, and Singapore, have recently been successful in achieving rapid economic growth, good employment growth, and satisfactory distributions of income. Their successes have been, at least in part, attributable to their comparatively pro-competetive, open, outward-looking economic policies, There is no single good reference to these countries' policies and performances. Among the sources to look at are Ian Little, Tibor Scitovsky and Maurice Scott, *Industry and Trade in Some Developing Countries* ch. 7.

2. Schiller, Karl, "Der Okonom und die Gesellschafe" Stuttgart 1964, s.p. 215.

In order to overcome the increasing problem of open unemployment and wage differentials and sectoral unbalanced positions in the economy, it is highly desirad for the planners to follow income policy as suggested by W.A. Lewis, that must follow the typical priorities such as (1) "raise agricultural productivity as quickly as possible ; (2) "keep unskilled wages about 50 percent above average agricultural income ;" (3) "accelerate the output from secondary schools, training schools and universities, as to diminish the gap between middle class and working class earnings ;" and (4) "in a private enterprise economy, tax profits as heavily as they can bear without reducing gross private investment below 15 per cent of national income".[1]

For regional and national integration, mobilization and economic allocation of resources, it is required more specifically that the priority should be given to the creation of a more productixe flexible economic set up. In this regard the political organization is more important from the point of view of economic growth. It is important to realize that all these societies are pluralist, in the sense that there are various interest groups and there is never any reason to believe that everybody's interest will coincide with each other.[2] In other words, 'Pluralism' has the obvious form of tribal, language and religious division on the one hand, and on the other there are also conflicts among farmers and industrial workers, between producers and importers, workers' unions and employers' unions etc. When societies are very heterogenous and particularly when different intercst groups are of roughly equal strength, it is highly desirable to coordinate each other while recognizing the right of consultation and participation at all levels in order to achieve the best possible socio-economic dcvelopment on a democratic way. And it is a generally accepted view that a dictatorship could not help to solve the problem, whether it is from the proletariat, or of any other group (military).

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1. Lewis, W.A. "Development Planning", op. cit., P. 94-95.
2. Herder-Dorneich, Ph.: Wirtschaftsordnungen. Pluralistische und dynamische Ordnungspolitik, Berlin 1974, see p. 36-41.

Within the imperfect framework of the given socio-political and economic structure of these countries, it will not be possible for trade unions to contribute effectively until the following pre-conditions are fulfilled.

These are : (a) Free and effective trade union work demands a democratic system not only in the society but also in the very organizational set-up of the trade unions.

(b) For a more effective role of the trade unions in the society, it is neccssary to overcoms splintering and internal conflicts and to build up a unified strong organization.

(c) The Trade Unions would have to leave their purely oppositional role, They would have to show their readiness to work in constructive cooperation with the State and the entrepreneure to solve the problems of the count'rs economy.

(d) The Trade Unions would have to devote their main attention upon policies of the infrastructure. Unions' work would have to consist not only in represeuting the interests of the industrial workers, who are a minority anyway, but mueh more in orgaaizing the 'rural Poor' and agricultural workers.

(e) For this purpose, wcges would have to be the most important instrument of union policy to achieve the elimination of disparities of income in various sectors of the economy.

(f) The entire working population would have to be involved in the process of social and economic development, through education, skill training, and imparting of general enlightening education by the trade unions.

TABLE NO. 1

National Income and Gross Domestic Product

		1960	1963	1967	1968	1968	1970	1971	1972	1973	1974
		(thousand millions of national currency units)									
India	A	......	185,4	305,9	315,9	350,3	381.5	406.7	441,7	......	......
(rupee)	B	141,0	196,6	324,0	335,5	372,1	105,3	432,5	470,2	525,3	......
Pakistan[1]		36,7	44,2	65,3	71,3	47,3	50,3	53,8	66,5	85,7	......
Nigeria	A	2,390	2,912	2,869	2,803	3,682	......	......	......	......	......
	B	2,400	2,946	2,950	2,878	3,792	5,696	7,177	7,682	8,900	......

A = National income in Market Price

B = Gross domestic product in purchaser's values

Source : Statistical year Book 1975, UN, New York

1. Prior to 1969, data for Bangladesh are included with data for Pakistan.

TABLE NO. 2

Wages in Manufacturing

Year	INDIA *Month*	PAKISTAN *Month*	NIGERIA *Day*
	Rupees	Rupees	R.T.
1966	176,0	127,8	...
1967	189,2	117,9	...
1968	204,1	129,6	...
1969	215,9	155,6	...
1970	227,2	152,7	...
1971	235,2	150,6	...
1972	250,7	160,3	1.30
1973	260,3	......	1.42
1974	......	......	1.56
1975	......	......	1.77

Source : Year Book Labour Statistics 1976, I.L.O., Geveva pp. 625.626 and 622 respectively.

TABLE NO. 2

Gross Domestic Product by Kind of Economic Activity

	Year	*Gross Domestic product*	*Agriculture*	*Industrial activity* Total	Manufacturing	*Construction*	*Wholesale*	*Transport*
India	1960	150,2	47	15	13	4	9	5
(1000 mill.	1963	196,6	44	16	14	4	9	5
rupees)	1970	405,3	44	15	13	5	9	5
	1971	432,5	42	15	13	5	9	5
Pakistan	1960	36 717,0	50	10	9	2	11	6
	1963	21 864,0	43	17	16	4	14	6
	1970	50 297,0	32	17	15	4	13	6
	1972	66 514,9	33	16	14	3	13	6
	1973	15 723,9	33	16	14	4	14	7
Nigeria	1960	2 399,8	59	6	5	4	12	4
	1963	2 945,6	57	8	6	4	12	5
	1970	5 696,2	45	17	7	5	12	3
	1972	7 681,9	40	23	7	7	11	3
	1973	8 900,5	35	30	7	7	10	3

Source : Statistical Yearbook 1975 (United Nations, New York, 1976)

continuing on next page

TABLE NO. 3

Industrial disputes in India during 1951-71)[1].

Year	*No. of disputes*	*No. of workers involved*	*No. of man-days lost*
1951	1,071	691,321	3,818,928
1952	963	809,242	3,336,961
1953	772	466,607	3,382,608
1954	840	477,138	3,372,630
1955	1,166	527,676	5,697,848
1956	1,203	715,130	6,992,040
1957	1,630	889,371	6,429,319
1958	1,524	928,566	7,797,585
1959	1,531	693,616	5,633,148
1960	1,583	986,268	6,536,517
1961	1,357	511,860	4,918,755
1962	1,491	705,059	6,129,576
1963	1,471	563,121	3,268,524
1964	n.a.	n.a.	n.a.
1965	1,835	991,159	6,469,992
1966	2,556	1,410,056	13,486,329
1967	2,815	1,490,346	17,147,951
1968	2,776	1,669,294	19,243,679
1969	2,627	1,826,866	19,048,288
1970	2,889	1,827,752	20,563,381
1971	2,752	1,615,140	16,545,636

Bhagoliwal, T.N. op. cit., 155, and Statistical Abstract India 1972, Government of India, op. cit., p. 379.

TABLE NO. 4

Year	*No. of Stoppages*	*No. of workers involved*	*Mondays lost*
1954	107	65,831	283,994
1955	75	42,103	283,994
1956	150	111,131	121,312
1957	150	188,001	374,915
1958	93	89,954	308,321
1959	29	32,954	516,971
1960	42	25,749	50,990
1961	54	26,303	78,765
1962	121	69,482	79,191
1963	215	218,601	387,847
1964	228	243,943	1,823,196
1965	152	105,608	4,195,524
1966	170	177,309	471,338

Goverment of Pakistan, Pakistan Labour Gazette Ministry of Labour Health and Social Welfare, Vol. XXIX, p. 40.

Trade Union Disputes in Nigeria, (1944-71)[1].

Year	*No. of Work Stoppages through strikes.*	*Main-days lost through strikes.*
1944	9	5,541
1945	13	1,800,000
1946	10	132,000
1947	28	132,000
1948	20	N.A.
1949	46	577,000
1950	19	286,351
1951-52	38	20,243
1952-53	26	59,847
1953-54	33	26,874
1954-55	30	12,200
1955-56	43	901,300
1956-57	30	61,297
1957-58	49	63,400
1958-59	53	73,095
1959-60	54	70,862
1960-61	69	160,478
1861-62	58	57,303
1962-63	54	53,033
1963-64	62	94,907
1964	170	1,308,000
1965	125	238,679
1966	59	54,165
1967	66	80,171
1968	32	46,137
1969	53	101,202
1970	50	54,051
1971	143	217,648

1. Cohen, R., Labour and Politics in Nigeria, op., cit., p. 194. Also see Yesufu, T.M., An Introduction to Industrial Relations in Nigeria, op., cit., p. 57, and Tulatz H. A. Die Gewerkschaftsentwicklung (in German) Nigerias, op. cit., p. 127.

TABLE No. 6

(Table 'A')[1]

Real Wages (deflated by the 1954-based cost of living index)
(Rupees per year per worker) on all industrial basis.

Year	*Real Wages*	*Index*
1954	966,2	1000,0
1955	911,5	94,3
1957	909,4	94,1
1958	933,6	96,6
1959-60	936,7	96,9
1962-63	854,4	88,4
1963-64	870,6	90,1

(Table 'B')[2]

Real Wages (Deflated bd the 1961-based consumer price index)
(Rupees per year per worker)

Year	*Real Wages*	*Index*
1962-63	1,261	100,0
1963-64	1,484	117,0
1964-65	1.267	100,4
1965-66	1,277	101,0
1966-67	1,197	95,0
1967-68	1,467	111,0
1968-69	N.A.	N.A.
1969-70	1,748	138,0
1970-71	1,484	117,0
1971-72	1,470	116,0
1972-73	1,394	110,0

1. Griffin K. and Khan A. R., Growth and Inequality in Pakistan, ed. (London, 1972 see p. 235.

2. Sarwar Rizvi S. A Industrial Labour Relations ih Pakistan, op., cit., p. 46.

TABLE No. 7

(Table 'A')[1]

Trends in earning in manufacturing, and Index number of earning of factory workers, real wages (1951-64).

Base year 1951 = 100

Year	*Average annual earnings (Rs.)*	*Index No. of earnings.*	*Index No. Real Wages*
1952	1,112	107,1	109,2
1953	1,111	107,7	112,2
1954	1,111	107,7	112,2
1955	1,173	113,1	123,7
1956	1,187	115,4	115,4
1957	1.234	120,8	114,3
1958	1,251	122,3	107.5
1959	1,310	126,4	105,6
1960	1,375	134,4	110,2
1961	1,408	138,6	111,5
1962	1,465	144,0	116,3
1963	1,479	145,2	113.8
1964	1,538	148,7	102,0

(Table 'B')[2]

Index number of earnings, consumer price and real earnings (1961—1970).

(Base year 1961 = 100)

Year	*Average annual earnings(Rs.)*	*General Index of earning.*	*All India working class consumer price Index.*	*Index of real earning.*
1961	1,540	100	100	100
1962	1,609	106	103	103
1963	1,661	109	106	103
1964	1,745	114	121	94
1965	1,955	128	132	97
1966	2.112	139	146	95
1967	2,271	151	166	91
1968	2,449	160	171	94
1969	2,591	180	178	101
1970	2,729	180	178	101

1. Johri C. K. Unionism in a Developing Economy (London 1967) p. 79, and also Indian Labour Statistics, 1966 (Delhi) Manager of Publications, p. 198.

2. Statistical Abstract India, 1972, Central Statistical Organization, Depy. of Statistics, Govt. of India (New Delhi 1973), New Series, No. 19 pp. 374-75 and India. A Reference Annual 1974, Govt. of India, Ministry of Information (Delhi 1974), p. 311.

Fonseca, S. J. Wage Determination and Organized Labour in India) London, Oxford University Press, 1964) p. 117.

TABLE No. 8

Index of Money and Real Wage Rates for Unskilled Workers in Nigeria 1951-1968. (i) 1951 = 100. (ii) 1953 = 100.

Year	*Consumer Cost of Index.*	*Money Wage Index I.*	*II.*	*Real Wage.*	*Index*	*I.*	*II.*
1952	N. A.	124	N. A.	...	132	...	N. A.
1953	100	129	100	...	133	...	100
1954	105	140	109	...	137	145	104
		(148)					
1955	108	186	137	...	175	...	127
1956	117	186	137	...	160	...	117
1957	119	186	137	...	160	...	115
1958	119	186	137	...	160	...	115
1959	124	201	137	...	166	174	110
		210					
1960	132	233	171	...	182	...	129
1961	139	233	171	...	171	...	123
1962	145	233	171	...	165	...	118
1963	145	233	171	...	165	...	118
1964	148	303	171	221	212	...	139
							150
1965	153	303	221	...	199	...	144
1966	167	303	221	...	186	...	132
1967	162	303	221	...	194	...	137
1968	165	303	221	...	191	...	134
1969	179	N. A.	221	...	N. A.	...	123
1970	196	N. A.	221	...	N A.	...	112

NOTES.—The calculation of real wages and mony wages index based on two different base years, 1951 and 1953, as indicated under I, II shows big discrepancies due to the statistical composijion, and the dual rates indicated in 1954, 1959 and 1964 are due to the retroactive wage awards made in those years.

1. Cohen, R., Labour and Politics in Nigeria, op. cit., see p. 197.

2. Weeks, J. F., Wage Policy and Colonical Legacy-A Comparative study, op. cit., see p. 384 and also Cohen, R. op. cit., p. 192.

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The Determinates of Foreign Exchange Earnings in Pakistan.

INTRODUCTION :

The balance of payment problem faced by the underdeveloped countires is getting more and more serious. The policy makers in these countries intendedly adopt different trade and commercial policies to improve the situation. Typically the trade policies involve the system of tarrifs, subsidies and quotas. In addition to these tools the autonomous variations in exchange rates also have their impaet on the balance of payment.

Typically literature in this area has been mainly concerned with the estimation of the behavioural relationship of various policy variables with the balance of payment deficit. Intuitively it seems to be convincing from the policy adopting point of view that it will be better to estimate such relations not only for both the export earnings and import payments variables but also for more disaggregated variables for example export earnings from different exported commodities.

Theoratically speaking the balance of payment deficit could be improved either through reduction in the payments on the imports of goods and services or through increase in earnings from the exports of goods and services and home remittances from abroad etc.

In an underdeveloped country like Pakistan it is not feasible and even not possible to some extent, at least in the short run, to adopt import substitution policy since the major portion of imports consists of food items and very essential complimentary factors of production which cannot be produced domestically like mechanical tools. A major part of the burden lies on the export promotion

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policy and the trade and commercial policies therefore, need be directed towards enhancement of export earnings. A discussion of export lead-growth theories and the examples of Korean and Taiwanese growth resulting from exports can not over-emphasize the role of that exports have to play in the development process of a country.

Pakistan being a small country with respect to the world market is supposed to face only the supply problem *i.e.* how to make goods profitable for the world market. Changes in the foreign exchange rate is one instrument to direct the domestic goods to foreign markets. Though the official announcement in a fixed exchange rate regime, the effective exchange rate that an exporter faces may change on various other accounts. Government has been trying to follow a number of policies that increase incentives to the exporters by increasing their rewards of the foreign exchenge that they earn.

How for the effective exchange rate has been effective in raising the country's foreign exchange earnings or in other words how far the supply for exports can respond to the iucentives provided in terms of changes in effective exchange rate has not been systematicaly determined.

The purpose of this paper is to see, in the context of Pakistan :—

to what extent our exchange earnings have been responsive to the changes in exchange rate (in effective term) and how far the policy maker can make effective exchange rate in promoting country's exports. This will be done estimating an export sunction for Pakistan.

The paper has been organized in the following manner.

In Section I, the model has been developed to identify the effect of the changes in incentives brought about by changes in effective exchange rate.

In Section II, the data and the variables have been discussed. In Section III, a review of Effective exchange rates have been presented. Section IV gives results obtained from the regression analysis. Finally in Section V, the conclusion are drawn from the analysis.

SECTION - I

Thc Model.

Foreign exchange earnings are derived as a product of the export of goods and services from the country and their international prices. The international prices of our exported goods and services are, like world demand, exogenously given.

The exports, however, depend on the following (a) the demand for our goods and services abroad and (b) the supply of domestic. goods and services for export.

The demand of our goods and services abroad is assumed to be infinitely elastic, under the assumption of Pakistan being a small country. That is, we can sell our goods and services in as much amount as we like at the internationally fixed market price.

The supply of our goods and services for export, however, depends on their profitability abroad relative to the domestic market. This profitability in turn depends on the following :

i) Official Exchange Rate.

ii) Duties/taxes/subsidies.

iii) Controls on imprts or on foreign exchange receipts from export and earnings accruing to the exporter on account of their exchange regulations (export bonus scheme).

iv) Domestic inflation relative to inflation abroad.

This leads to the following system of the determinations of foreign exchange earnings.

$$R = P.X$$

$$X = F\ (D,\ PR)$$

$$PR = F\ (Eo,\ t,\ b,\ \frac{P}{W}$$

Where R = foreign exchange earnings.

X = Real goods and services exported.

P = International prices.

PR = Profitability of our export of goods and services abroad relative to domestic market.

EO = Official exchange rate

t = Average taxes/duties (net of rebates/subsidies)

b = Additional rupee proceeds from exports such as earnings from the sale of bonus vouchers·

w = wholesale price index in the domestic market,

D = World demand.

of these variables, the measurement of D, X and PR needs explaination.

World Demand (D) World imports are assumed to represent the world demand for our exports. An increase in world import reflecting the world demand for imported goods, is assumed to cause an increase in the world demand for Pakistani goods also. World income can also become a variable for world demand on the theory that every country's imports are a function of a country's GNP. Thus if world income increases, then world demand for imports will increase which may create a demand for Pakistani goods abroad. But this will be indirect variable as compared to world imports.

Profitability (PR) Profitability has been measured in the following steps.

First the international official exchange rate has been adjusted for taxes/duties (or subsidies) to be paid (or received) by the export. This is called effective exchange rate.[1] Thus if the average rate of taxes (net of subsidies rebates) paid by exporter per dollar is denoted by t, then.

Effective Exchange rate = Fo (1-t)

where Eo is official exchange rate and t is average rate of taxes and duties net of rebates and subsidies paid by the exporter per dollar of his exports.

Before the devaluation of 1972, the export bonus scheme was in operation. According to this scheme an exporter obtained a bonus voucher which entitled him to draw a certain portion of the proceeds from his exports in foreign exchange. The exporter could either use

1 See Guisinger.

this entitlement himself to import certain goods from abroad and earn a premlum on the imported goods or he could sell this entitlement to somc other importer. This bonus voucher was negotiable with its price being quoted in the exchange market,

Thus before 1972 this source of earnings on exports has to be taken into accouns to calculate effective exchange rate.

The formula for the calculation of effective exchange rate in this situation will be, effective exchange rate = Eo (1 + r.b), where b = price of bonus voucher, r = Rate of bonus voucher entitlement.

The second step in the calculation of profitability is to adjust for the relative inflation. This may be termed as the calculation of profitability index (PR). If the effective exchange rate is deflated by the wholesale price index, and is inflated by our export price index, then this will tell how far the profitabiiity to sell the goods abroad relative to domestic market has been moving over time. This may be denoted as PR.

Thus PR is calculated as below:

$$PR = EER. \frac{P}{W}$$

where EER = effective exchange rate and this is calculated as below :

$$EER = Eo\ (1\text{-}t + b.r)$$

Real Exports.

Earnings from merchandise exports will be deflated by the export price indices. These deflated earnings reflect the real goods exported. Earnings from services are mainly from the home remittances of exported manpower. It is very difficult rather almost impossible to get a real value of exported manpower. As a aproxy it is suggested that the home remittances should be deflated by the consumer price index.

With the above definition the model to be estimated is as under :

Foreign exchange earnings (R) = International price of exported goods and services in US Dollar (P) multiplied by the exported goods and services (X). *i.e.*

$$R = (P)\ (x) \qquad (1)$$

but

$$X = F\ (D,\ PR) \qquad (2)$$

but

$$PR = EER.\ \frac{P}{W} \qquad (3)$$

and thus $X = F\ (D.\ \dfrac{EER\ \ \therefore\ P}{w}$ (4)

Since (P) is exogenous variable on the assumption of small country, it is only (X) that can be determined from the policy variables. Therefore in order to identify the determinants of foreign exchange earnings, we need to identify the determinants of exported goods and services only. *i.e.* the equation (4),' This equation will be estimated in linear form.

The Model will be estimated for aggregate foreign exchange earnings as well as for the following components of our exchange earnings :

a) Total marchandise exports earnings

b) Home remittances

c) Raw cotton export earnings

d) Rice export earnings

e) Cotton yarn expart earnings

f) Cotton cloth export earnings.

SECTION II.

VARIABLES AND DATA

Exports of Goods and services

Main sources of foreign exchange earnings in Pakistan are merchandise exports and foreign remittances.

Pakistan earned foreign exchange more from marchandise exports and a small amount from home remittances uptil 1790. After 1970 the earnings from Home remittances have accelerated at a higher rate and now have reached a level equal to that of marchandise exports. The fluctuation in the value of marchandise export and home remittances are shown in Table 1.

The computed growth rate of marchandise exports from 1961-70 is 12. 89% and from 1970-78 is 18.46%. The increase during 1970-78 is attributed partly due to the develuation of currency and diversion of rice export from East Pakistan markets to World markets and partly due to world inflation.

The computed growth rates of Home remittances during the two periods 1961-70 and 1970-78 is 36.85% and 35'68% respectively. High growth rate during 1961-70 as compared to 1970-78 is due to low base figure in 1961.

There has been decrease in the compound growth rate of yarn in 1970-78 as compared to 1961-70 from (16.34% to 9.09%). Same is the case in the cloth export where the growth rate decreased from 24.84% to 15.87% during the above mentioned periods. This may partly be the outcome of the abolition of bonus vourcher scheme and partly due to depressed international prices during the later par of seventies.

Manufactured goods of cotton were exported due to the bonus voucher incentive. After the withdrawal of this scheme it was more beneficial for the industralists to export raw cotton, so the export of yarn and cloth declined and that of cotton export increased from 5.84% in 1961-70 to 11.73% in 1970-78.

TABLE I.

FOREIGN EXCHANGE EARNINGS

(Million $)

	Merchandise Export.	*Home Remittances*	*Yarn Export*	*Cotton Export*	*Cloth Export*	*Rice Export*
60-61	113.49	6.34	13.66	26.44	8.50	10.30
61-62	114.05	7.46	2.10	25.34	6.50	18.20
62-63	209.68	2.75	3.24	55.00	10.75	36.30
63-64	225.84	23.21	8.57	36.93	9.28	22.20
64-65	239.41	27.14	26.70	60.61	25.90	24.87
65-66	252.86	44.96	21.47	58.21	31.10	27.83
66-67	272.54	42.67	24.29	60.55	34.50	36.95
67-68	345.55	61.99	44.37	92.25	40.75	31.38
68-69	357.12	105.50	43.63	75.01	47.50	32.60
69-70	337.84	106.74	53.36	44.05	54.12	19.73
70-71	419.83	68.88	75.00	56.82	65.36	36.34
71-72	602.03	96.30	108.14	170.48	69.20	48.85
72-73	814.40	146.30	188.02	144.14	118.80	108.20
73-74	1026.38	151.80	188.19	37.08	143.10	211.92
74-75	1039.02	229.90	91.79	155.95	132.60	232.70
75-76	1136.66	335.40	147.65	99.65	285.60	250.41
76-77	1140.80	590.8	122.74	29.50	163.00	250.30
77-78	1311.15	1226.2	107.02	107.02	175.90	243.28

TABLE II$_8$

COMPOUND GROWTH RATE FOR FOREIGN EXCHANGE EARNINGS (Percent)

	1961-70	1970-78	1961-78
Merchandise Exports	12.89	18.46	15.48
Home Remittances	36.85	35.68	36.30
Cotton Export	5.84	11.73	8.57
Yarn Export	16.34	9.09	12.87
Cloth Export	22.83	15.87	19.51
Rice Export	7.49	36.89	20.44

TABLE III.

COMPOUND GROWTH RATE FOR FOREIGN EXCHANGE EARNINGS (Percent)

	1961-65	1965-69	1969-74	1974-78
Merchandise Exports	20.52	10.51	22.87	9.99
Home Remittances	43.84	40.41	8.52	52.99
Cotton Export	23.05	5.68	10.10	—0.75
Yarn Export	18.24	13.06	44.08	—10.65
Cloth Export	32.12	12.65	27.75	8.17
Rice Export	24.65	7.00	34.97	17.59

The compound growth rates of these commodities in 1971-78 and during 2nd and 3rd plan period are given in Table-III.

In order to obtain the real values of these foreign exchange earnings, the following deflators have been used.

Real Total Foreign Exchange Earning =

$$\frac{\text{Home Remittances}}{\text{Consumer price index}} + \frac{\text{Earnings from merchandise exports}}{\text{Export price indices}}$$

Real foreign exchange earnings from export of particular commodities

= Nominal Earnings from Export of particular

Commodity deflated by the Export price indices

of that particular commodity.

The data on World Income/Imports has been obtained from the UN Statistical Year Book and from UN Trade Year Book. In order to get tho real values of world imports. The import price indices have been used as deflator.

The variable PR for profitability obtained from the calculations of Effective Exchange Rates is explained in detail in the next section.

SECTION - III

THE REVIEW OF EFFECTIVE EXCHANGE RATES

Profitability of exports which counts in the determination of foreign exchange earnings, depends on the effective exchange rate. Effective exchange rate is defined as the official exchange rate adjusted for the taxes and subsidies. If (Eo) is the official exchange rate and (t) is average rate of taxes and duties (net of Rebates and subsidies) paid by the exporter per dollar of his exports then the effective exchange rate (EER) is defined as

$$EER = Eo\ (1\text{-}t)$$

Now to convert this nominal effective exchange rate into a measure of profitability, we have deflated the nominal effective exchange rate by the ratio of whole sale price index to the export price index.

Thus the profitability (PR) = EER

$$\left(\frac{\text{Whole Sale price index}}{\text{import price index}}\right)$$

For each of the items of export different series of whole sale price index and export price index number were used. *e.g.* for the export of cotton the whole sale price index of cotton and import price index of cotton is used for the calculation of profitability index of cotton from nominal effective exchange rate. The same procedure applies for the calculation of PR for other commodities.

Table V give nominal effective axchange rates. From the point of view of an exporter, we can see that our currency has been continually depreciating during the period 1961-78 in effective terms.

Table VI shows the movements in the real value of currency whcich indicates the movements in the profitability for exporters.

There has been negative growth rate in real effective exchange in the case of cotton cloth. The compound growth rates of nominal and real effective exchange rates are shown in Table VII & VIII.

There have been some limitations in the calculation of the above effective exchange rate and the profitability which are given below. These limitations should be kept in mind while interpreting these figures.

1) Devaluation/Revaluation in the foreign currencies during the period have not been taken into account.

2) While calculating the profitability, seller's prices rather than producers prices have been considered. This may not be very justified in case agricultural commodities which are traded by the Government. In other words government's losses and profits on trading of these goods should also be considered.

TABLE - V

NOMINAL EFFECTIVE EXCHANGE RATES

Year	Rate for Total Earnings.	Rate for Merchandise Export	Cloth Export.	Cotton Export.	Yarn Export	Rice Export
1960-61	5.25	5.27	5.94	4.76	4.76	4.76
1961-62	3.30	5.34	5.85	4.76	4.76	4.76
1962-63	5.15	5.16	6.25	4.76	5 49	4.76
1963-64	5.48	5.33	6.22	4.76	5.90	4.76
1964-65	5.65	5.51	6.20	4.76	6 21	4.76
1965-66	5.15	5.48	6.18	4.76	6.17	5.12
1966-67	5.53	5.62	6.27	4.76	6.27	5.14
1967-68	5.83	5.98	7.20	4.76	7.20	4.16
1968-69	6.16	6.50	7.33	4.76	7.33	4.76
1969-70	6.06	6.38	8.24	5.63	7.80	5.63
1970-71	6.96	7.27	8.31	5.66	7.89	5.66
1971-72	7.30	7.14	9.82	6.23	8.72	6.66
1972-73	9.39	9.19	10.50	6.25	9.28	9.32
1973-74	8.38	8.16	8.05	5.08	6.43	7.71
1974-75	9.09	8.92	9.86	6.47	9.57	8.47
1975-76	9.40	9.25	9.9	6.09	9,90	8.82
1976-77	9.84	9.81	9.9	9.88	9.90	9.12
1977-78	9.83	9.75	9.9	7.78	9.9	9.90

TABLE VI.
REAL EXCHANGE RATES

	Total Earnings.	*Marchandise Export.*	*Cotton Export*	*Cotton Yarn Export.*	*Cotton Cloth Export.*	*Rice Export*
1960-61	5.92	5.95	4.53	5.06	5.97	4.53
8961-62	6.08	6.14	4.72	0.51	5.83	4.12
1962-63	6.03	6.04	4.64	6.02	5.61	4.64
1963-64	6.04	5.87	4.48	6.09	6.07	4.48
1964-65	5.91	5.76	4.01	6.17	5.97	4.01
1965-66	,5.85	6.23	4.15	6.10	6.69	4.38
1966-67	5.53	5.62	4.29	5.72	6.56	4.27
1967-68	5.81	5.96	3.89	5.45	6.99	3.89
1968-69	6.14	6.48	4.36	4.45	7.19	4.36
1969-70	6.06	6.38	4.92	4.70	8.09	4.71
1970-71	7.01	7.32	4.09	4.67	7.56	4.34
1971-72	8.48	8.20	5.17	5.63	9.33	5.78
1972-73	19.89	19.47	3.47	4.82	11.38	3.47
1973-74	21.53	20.97	3.72	5.01	11.54	3.72
1974-75	17.63	17.30	4.10	5.76	9.29	4.10
1975-76	16.83	17.30	3.51	5.83	12.43	3.51
1976-77	18.83	16.56	7.67	5.68	6.93	7.67

TABLE - VII (a)

COMPOUND GROWTH RATE FOR NOMINAL EFFECTIVE EXCHANGE RATE

	1961-70	1970-78	1961-78
Effective Exchange Rate for Total Earnings.	1.61	6.23	3.76
Effective Exchange Rate for Merchandise Exports	2.15	5.44	3.68
Effective Exchange Rate for Cotton Export.	1.88	4.12	2.93
Effective Exchange Rate for Cotton Yarn Export.	5.64	2.88	4.40
Effective Exchange Rate for Cotton Cloth Export	3.70	2.32	3.05
Effective Exchange Rate for Rice.	1.88	7.31	4.40

TABLE - VII (b)

COMPOUND GROWTH RATE FOR NOMINAL EFFECTIVE EXCHANGE RATE

	1961-65	1965-69	1969-74	1974-78
Effective Exchange Rate for Total Earnings.	1.85	2.18	11.11	0.92
Effective Exchange Rate for Merchandise Export.	1.12	4.22	9.04	1.19
Effective Exchange Rate for Cotton Export.	0.00	0.00	8.18	3.59
Effective Exchange Rate for Cotton Yarn Export.	6.88	4.23	6.07	1.30
Effective Exchange Rate for Cotton Cloth Export	1.08	4.27	9.40	—1.16
Effective Exchange Rate for Rice.	0.00	0.00	18.29	1.21

TABLE - VIII (a)

COMPOUND GROWTH RATE FOR REAL EFFECTIVE EXCHANGE RATE

	1961-70	1970-78	1961-78
Real Effective Exchange Rate for Total Earnings	.26	17.58	7.50
Real Effective Exchange Rate for Merchandise Export.	.78	16.67	7.44
Real Effective Exchange Rate for Cotton Export.	.92	6.55	3.35
Real Effective Exchange Rate for Cotton Yarn Export.	.82	2.72	0.72
Real Effective Exchange Rate for Cotton Cloth Export.	3.43	—2.19	0.94
Real Effective Exchange Rate for Rice.	.43	7.21	3.25

TABLE - VIII (b)

COMPOUND GROWTH RATE FOR REAL EFFECTIVE EXCHANGE RATE

	1961-65	1965-69	1969-74	1974-78
Real Effective Exchange Rate for Total Earnings.	—.04	.06	34.07	—1.36
Real Effective Exchange Rate for Merchandise Export.	—.81	2.99	31.66	—0.91
Real Effective Exchange Rate for Cotton Export	—3.00	1 24	—5.55	21.93
Real Effective Exchange Rate for Cotton Yarn Export.	5.08	—7.84	2.02	4.19
Real Effective Exchange Rate for Cotton Cloth Export.	0.00	4.76	12.16	—11.66
Real Effective Exchange Rate for Rice.	—3,00	.02	—5.55	21.93

SECTION IV

The Results of Estimation

The functional relationship as derived in methodology has been estimated in linear form using OLS technique. The results of estimation are discussed below. The values in paranthesis under the estimated co-efficients are computed 't' values. Any statistic ('t' or 'f') marked with an estaric (*) or double estaric (**) shows that the computed value is significant at the loss of 5% or 10% level or significance respectively. The estimated equation for the volume of total earnings from exports of goods and foreign remittances is given by

$$xt = 1.93 + 0.08\ PRt + 0\ 002\ Wm$$

(—2.6)* (3.95)* (7.6)* (1)

$R_2 = 0.80$, $F = 29.61^*$, $DW = 2.331$

This shows that the real effective exchange rate and world imports have highly significant positive effect on the volume of exports. The same hold for the volume of merchandise exports as shown by the following equation ;

$$Xm = —.24 + 0.5\ PRm + .0012\ Wm$$

(—2.6)* (2.59)* (3.01)* (2)

$R2 = 9.87$ $F = 24.57^*$, $DW = 2.06$

The estimated equations for individual items of exports are listed below :—

Raw Cotton

$$Xc = 4.51 + 1.912\ PRc = 8.88\ Wmc$$

(3.26)* (2.29)* (2.52)* (3)

$R2 = .67$, $F = 1.56$, $DW = 1.53$

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xj = Real Foreign Exchange Earning for jth item.

PRj = Real Effective Exchange Rate for jth Item

Wmj = Real World Import for jth item

Where $J = t, m, c, h, y, r$, and

t = Toral
m = Merchandise
c = Raw Cotton
h = Cotton Cloth
y = Cotton Yarn
r = Rice

Cotton Yarn

$$Xy = 1.419 = 9.128 \ \ PRy = 1.42 \ wmy \quad (4)$$
$$(3.109)^* \quad (7.09)^* \quad (1.98)^{**}$$
$$R^2 = .56 \quad F = 11.61^* \quad DW \quad 2.306$$

Cotton Cloth

$$xh = 1.016 + 30.816 \ PRh + 26.488 \ wmh \quad (5)$$
$$(3.109)^* \quad (1.81) \quad (2.275)^*$$
$$R^2 = .52 \quad F = 9.131^* \quad DW = 1.81$$

Rice

$$xr = 1.3806 + 3.87 \ Phr + .077 \ wmr \quad (6)$$
$$(7.68) \quad (3.19)^* \quad (2.99)^*$$
$$R2 = .89 \quad F = 38.36^* \quad DW = 1.349$$

PR hås been significant on ali cases. This would suggest that the export bonus scheme, devaluation and other export expansion policies have been playing important role in the determination of Pakistan's exports since these policy variables are implicit in our definition of PR. Morevoer since PR also includes a ratio of the unit value index of export of particular index to domestic whole sale price index the positive effect of the PR on the volume.

While considering the export function for cotton, we should consider the effective exchange rates of yarn & cloth also in its equation as cotton will cease to be exported if the PR for yarn or cloth increase more than that of cotton. The same will be live for yarn or cloth. For example the exports of cotton cloth will also be determined by the real EER of cotton cloth in relation to the real EER of raw cotton and cotton yarn. To cover this reasoning, in equation (3^1) variables $\frac{PRC}{PRY}, \frac{PRC}{PRH}$ are estimated which are relativ real effective exchange rate of cotton with respect to yarn and cloth. In equation (4)' variables $\frac{PRY}{PRC}$ and $\frac{PRY}{PRh}$ are estimated which are relative real effective exchange rates of yarn with respect to cloth and cotton. In equation (5)' estimated variables are

$\frac{PRh}{PRC}$ and $\frac{PRC}{PRY}$ which are the relative effective exchange rates of cloth with respect to yarn, cotton.

$$Xc = 1.514 + 5.619 \frac{PRc}{PRY} + 1.056 \frac{PRC}{PRh} + 1.047\ Wmc$$

$$(1.789) \quad (2.73)^{*} \quad (2.499)^{*} \quad (2.879)^{*} \qquad (3)'$$

$$R2 = .701 \quad F = 17,838 \quad DW = 1.709$$

$$xy = 104.47 + 11.50 \frac{PRy}{PRc} + 42.48 \frac{PRy}{PRh} + 7\ 88\ Wmy \quad R2 = .67$$

$$(4\ 9)^{*} \quad (3.25)^{*} \quad (2.48)^{**} \quad (2.58)^{*} \quad F = 14.92 \quad (4)'$$

$$DW = 2.308$$

$$xh = 72.93 + 37 \frac{PRh}{PRc} + 12.29 \frac{PRh}{PRy} + 15.15\ wmh \quad R2 = .68$$

$$F = 11.7$$

$$(5.19)^{*} \quad (2.68)^{*} \quad (5.88)^{*} \quad (2.94)^{*} \qquad (5)'$$

$$DW = 1.88$$

Now all the variables are highly significant in the determination of the exports individual items. The relative real EER of any export have been significiant in determining the exports of the item. Secondly the exports are pointively affected with the worlds totoal imports of the commodity. For the policy implication point of view the significance of worlds imports is not important, the variable being out of the policy. From equations (3)', (4)' and (5)' it is clear that if the real EERs of substitutes like raw cotton, cotton yarn and cotton cloth are increased by the same ratio, the exports will not grow. It is therefore important for the policy makers to make the policy decisions on the whole structure of exchange rates rather than the individual effective exchange rates.

SECTION V:

SUMMARY & CONCLUSION

The analysis leads to the conclusion that profitability for exporters abroad plays an important role in the promotion of our exports. The fact that the nominal effective exchange rate (*i.e.* including the effect of relative inflation abroad) did not have any significant effect on the foreign exchange earnigs (see appendix A) leads to the conclusion that changes in the duties and taxes or providing bonus will not affect our export performance if these taxes/ incentives are not provided in a way that more than offsets the adverse movements in the relative inflation abroad. For an cffective export promotion policy the package of taxes and incentives need to be continuously sensitive with respect to the movements in prices at home and abroad.

Another important conclusion emerges from the analysis in case of commodities like cotton and cotton textiles. For example the significance of $\frac{PRC}{PRC}$ and $\frac{PRC}{PRH}$ in eq. (3)' ,shows that it is the profitability of raw cotton relative to the profitability of cotton yarn and cotton cloth which detérmines the profitability of exporting raw cotton. In other words if the price of cotton yarn or the price of cotton cloth increases this will reduce the relative profitability of raw cotton, thereby reducing the foreign exchange earnings from raw cotton. Similar conolusion apply for other cotton commodities which are interdependent on each other for their exports. A policy recommendation in this case is that one should try to export more of those commodities which have higher value added instead of raw commodities or less value added commodities. For this the profitability of such commodities should be monitored in a way that the relative profitability of the commodities do not move against the high value added commodities.

APPENDIX (A)

The regression of the foreign exchange earnings at current prices are also régressed and the results of the equations are as follows :—

Total foreign exchange earnings

XT = .0247—61 ET + .0020 WM
(.79) (—.989) (6.57)*

R^2 = .94 F = 124.32

WD = 1.79

Total Merchandise Exports

XM = —.50 + .0116 EM + .0056 WM
(—10.7) (.08) (3.96)*

R^2 = .98 F = 322.85 DW = 2.1

Raw Cotton

XC = 75.55—8.83 EC + .019 WMC
(1.374) (—.87) (1.958**

R^2 = .85 F = 16.51 DW = 2.204

Cotton Yarn

XY = 87.28—4.58ET + .013 WMY
(1,46) (—.37) (1.952)**

R^2 = .81 F = 21.38 DW = 1.629

Cotton Cloth

XH = —.444— .840 EH + .042 WMH
(-.002) (-.049) (2 3)*

R^2 = .69 F = 14.35 DW = 2 603

Rice

XR = —116.6 — .989ER + .146 WMR
(—4.76) (—.301)

R^2 = .914 F = 74.35 DW = 1.045

(The co-efficients of nominal exchange rate are insignificants and these have negative sign for the individual commodities).

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Protectionism : Theory and Policy with special reference to Pakistan.

Pakistan like many other developing countries has used commercial policy in order to achieve certain specific objectives. They include fuller utilization of industrial capacity ; promotion of exports: progressive substitution of imports by local products ; improving supplies through commercial channels of such goods of industrial and consumer interest as are not produced in the country or are in short supply ; stabilization of prices at reasonable levels ; and to obtain necessary goods for economic development. [1] The instruments employed for the attainment of these objectives have been a combination of foreign exchange controls, import licensing restrictions, tariffs and export promotion policies. The exchange control policy has been used to restrict the demand for foreign exchange to its supply from various sources (trade, aid etc.) as well as to allocate the available exchange between public and private uses. Import licensing since 1952, has been the basic procedure for rationing limited supplies of foreign exchange. In the earlier years after Independence, import controls were largely applied as an instrument of conservation of foreign exchange, rather than as a means of 'resource allocation' as understood in the terminology of economic development. Later on, however, import controls have come to be regarded as tools of economic planning and of resource allocation for achieving the set objectives defined in the development plans. Tariff policy, besides its effects on resource allocation, has been a major source of government revenue. Finally, specific measures have been formulated to stimulae exports in the context of an over-valued exchange rate.

In order to put the Pakistan's commercial policy in proper perspective, we start by examining the various arguments put forth for protection in developing countries.

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(1) Pakistan Economic Survey (1969-70), p. 113, and
Pakistan Economic Survey (1974-75), p. 119.

1. Free Trade Vs Protection.

The gains from free trade have been much discussed by economists on the grounds of the law of comparative costs. In the context of a two country, two-commodity model, whenever the relative domestic costs of production of the two goods in one country differ from the relative domestic costs of production in the other country there is some potential economic gain if both the countries specialise in the production of the commodity in which they have a comparative advantage, and trade it with the other country. Extended to the multi-commodity, multi-country case, this means that free trade greatly enhances the potential real national products of all nations and makes possible higher standards of living all over the globe. The classical case for free trade, which dominated economic thought in Britain for the whole of the 19th century, was developed simultaneously with the case for Laissez-faire. Gradually, more and more evidence has accumulated supporting the view that Laissez-faire may not lead to an optimum for a country. Perfect competition does not necessarily rule, there may not be full employment, the income distribution that is yielded by the Laissez-faire situation may not be a desirable or just one, necessary structural changes may not take place and so on. Therefore, many qualifications to the case for Laissez-faire have been made, and many reasons for the government to intervene in the economy have been put forward—to maintain full employment, to bring about a desirable distribution of income, to adjust resource allocation and consumption patterns in the light of external economies and diseconomies and so on.

The law of comparative costs pre-supposes that the price of resources truly reflects their real scarcity in the economy. There are no divergences between private and social costs and there are no externalities. If these assumptions do not hold, then some sort of intervention is called for. The proponents ot free trade advocate that in the presence of domestic distortions, the best way to deal with them may be to intervene in some direct way at the source of the distortion, and at the same time to allow the trade to flow freely. Hagen (1958), Bhagwati and Ramaswami (1963), Johnson (1965) and

Bhagwati (1971) among others, have argued that optimal intervention involves intervention at the source of distortion. If the market wage rates exceed the shadow wage rates, then the optimal policy is to subsidise the use of labour. If the production of manufactured goods falls short of the optimal level because of the existence of non-reversible economies, then the optimal policy is to subsidise production. It may be noted here that an analysis of optimal intervention assumes that the taxes to finance the subsidies can be raised in a non-distorting way, and that the collection of taxes and the disbursement of the subsidies is costless. These assumptions are not very realistic, however. In a developing country like Pakistan, the taxable capacity is extremely limited and in its initial stages of development tariffs were the only way of increasing tax revenues.

Protectionist history, on the other hand, spreads over many centuries and numerous arguments have been put forward to justify protection. These arguments for protection against the competition of foreign imports have taken different forms-both economic and non-economic. Non-economic arguments stress that economic welfare is not the sole goal of life. It may be necessary to become partially self-sufficient in certain lines of activity, even at a great cost, because of fear of future disruptions in their supplies, especially during a war. Considerations of national defence may make it desirable to protect certain industries, say the steel industry, even if a country does not possess a comparative advantage in that industry. Apart from the non-economic arguments, a large number of economic arguments have been advanced to justify the case for protection. We shall briefly discuss some of those arguments, which are related to growth.

1.1 **The infant-industry argument.**

The infant-industry argument is one of the most widely accepted arguments for protection in less-developed countries. Its origin is usually associated with Alexander Hamilton (1791) and Friedrich List (1841), and is said to have been approved by orthodox economists like John Stuart Mill, Alfred Marshall and Frank Taussig, among others.

The infant-industry argument is essentially an argument for temporary protection. It is based on the assertion that because of various reasons, such as lack of experience on the part of the workers and entrepreneurs, it is difficult to establish a new industry in the face of competition from an established industry abroad. The costs of production in the new industry in its earlier stages of establishment exceed costs of imports. Therefore, the domestic producers cannot compete with the foreign producers and require protection for a transitional period till they becomc competitive in the world market after both labour and entrepreneurs have acquired the necessary know-how. This formulation of the argument assumes that the superiority of one country over another in a branch of production arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. The average costs of a firm are assumed to fall, the longer its output has continued; it learns from experience. This is to be distinguished not only from costs falling with the scale of output in a static sense, but also from costs falling over time for exogenous reasons. Sometimes these dynamic economies are called "irreversible economies", since experience of production in one year causes costs to fall once and for all for later years. When factors of production are engaged in producing output in a particular year two products really result, visible current output, saleable currently on the market, and the invisible accumulation of experience and knowledge. Insofar as the invisible human capital does not depreciate, the effects of learning are indeed irreversible.

The infant-industry argument is usually based on dynamic internal and external economies. Dynamic internal economies spring from the existence of imperfections in private information or imperfections of the capital market, while dynamic external economies are the result of the training of labour, knowledge diffusion or atmosphere creation. Private enterprise, owing to a lack of information or excessive caution may not be able to look so far ahead as to see the fruits of investment in learning capital. The state, in the form of its civil servants or planners, has a longer view and sees a more favourable learning curve than the firm's owners or managers do. As a result, investment in an infant industry will not be forthcoming in the absence of protection.

Secondly, due to imperfections of the capital market there may be under-investment or failure to invest at all, in the creation of long-term learning capital if the infant industry is not protected. The possible reasons for that are :-

(*i*) Investment in human capital is not embodied in physical goods and hence is more difficult to finance; the capital market is biased against "invisible" investment.

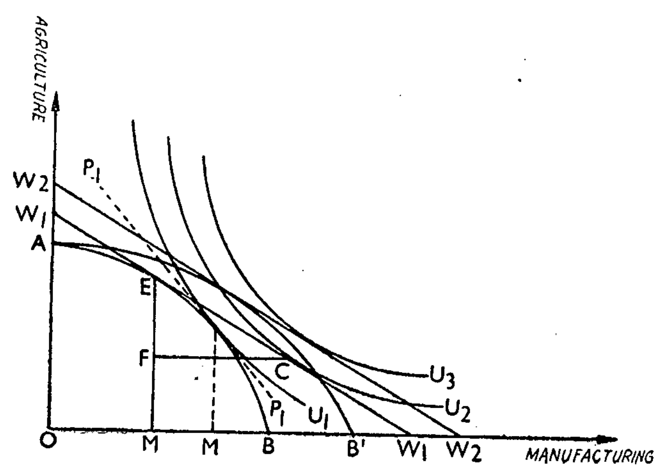
(*ii*) While existing enterprises have no trouble in obtaining funds, new enterprises find it difficult; there is a bias against infant firms.

(*iii*) Private investors, especially when using their own funds, may not be prepared to undertake long-term investment in human capital and wait for the years of any infancy to end. The minimum time-period required for any significant learning to result may be high. The initial losses, which could be subtantial, may not be overcome without assistance for infant industries.

When the process of production by a certain firm creates an invisible capital asset, the benefits of which go in later years to other firms, and other firms are not charged for it, there are dynamic external economies. The training of labour or the accumulation of human skills through 'on-the-job' training is one of the most commonly cited examples of external economies. If the firm trains labour specially for use only in that firm, no external benefits will accrue to other firms. But in the case of more general training, whether in technical skills appropriate to an industry or perhaps in the habits of working regularly in a factory environment, a skill required for all the manufacturing industry, the benefits cannot be restricted to the firms which provide training ; some of them are bound to spill-over. A certain firm trains labour, and this experienced or trained labour may then go off to other firms. The general atmosphere, that is conducive to factory work or to the development of mechanical or scientific interests which has been created by one firm, may affect the quality of workers in other firms. The new attitudes and knowledge will go from worker to worker, and the gains will then spill over to other firms. Moreover, knowledge may spread from firm to firm. To some extent firms can keep new knowledge and ideas secret or patent them, but there is an inevitable diffusion process. In all these cases there is an externality, because new firms will be creating assets from which other firms benefit even though the other firms do not pay for them. Hence, there may be a case for providing protection to those firms which generate externalities, because this 'learning by someone else's doing' generates social benefits which exceed the private benefits.

The 'infant-sndustry' argument in developing countries is usually associated with manufacturing. This may be because historically many developing countries have deliberately sought to shift the output pattern from agriculture to manufacturing. The 'infant-industry' argument postulates that there is more scope for learning economies in manu!acturing as its output expands and more time passes, perhaps because manufacturing is more difficult and requires a higher stage of technique and knowledge. The argument may bc explained with the help of diagram No. 1, adopted from Haberler (1950, p. 239).

Diagram No. 1 :—Short-run vs. Long-run Effects of Protection on Welfare.



In diagram No. 1 Agriculture and Manufacturing (in some compositite units) are measured along vertical and horizontal axes respectively. U_1, U_2 and U_3 are the community indifference curves and W_1 W_1 and W_2 W_2 are the free trade terms of trade curves. AB and AB' are the production possibility curves, concave to the origin, implying that the extra amount of manufactured goods which can be produced by decreasing a given amount of agricultural goods is steadily decreasing as we move downward along the production possibility curve, *i.e.* the opportunity cost of manufactured goods in terms of agricultural goods steadily increases as the production of manufactured goods is increased and the production of agricultural goods is decreased.

AB is the production possibilities curve given by the production factors at time zero. The country is relatively inefficient (in the static sense) in the production of manufactured goods and therefore, in the free trade situation only OM of the manufactured goods are produced. The country exports EF of agricultural goods in exchange for FC of manufactured goods and enjoys consumption at point C. Protection changes the relative prices in such a way that the domestic terms of trade are moved in favour of the manufactured goods and more resources are allocated to the production of the manufactured goods. In the protected, situation, OM' of the manufactured goods are produced compared to OM in the free trade situation. Protection in this situation leads to a decline in the level of welfare in the short run, which can be seen in the diagram by a shift from U_1 to U_2. The reason might be that in the earlier stages of their establishment, the manufacturing industries are relatively inefficient and therefore the gross national product may be lower than otherwise, or the changes in the relative price interfere with the choice of the consumer. If the country has a dynamic comparative advantage, the static welfare loss may be more than compensated by the gains at a later stage. After the necessary skills are acquired by the labourers and the entrepreneurs, the production possibilities curve shifts outwords to A B'. With the new higher production possibilities curve, even when the protection is removed, the consumption of the country would be at a higher level, i.e. at U_3. TheAB curve shifts to AB' over time in the absence of any growth in the production factors and is due to the establishment of the industries in the base period which have generated learning economies.

It has been argued by Johnson (1964),- Cordon (1974) among others, that the mere existence of non-reversible externalities is not sufficient to warrant the grant of protection. It is argued that if the capital markets are perfect and the entrepreneurs correctly perceive the reductions in costs, an entrepreneur would not be hesitant to finance the initial losses. However, the producers would not invest in the new business ventures even if the capital markets are perfect and the entrepreneurs correctly perceive the cost reductions, because of the possibility of a failure to internalize the externalities, *i.e.* the cost reductions do not necessarily lead to higher profits because if the other producers also benefit from the cost reductions, the prices will be forced to come down. Therefore, the infant-industry argument requires :-

(*a*) the existence of non-reversible economies,

(*b*) the economies are external to the firm, and

(*c*) the economies are internal to the industry.

It may be pointed out that the first-best policy to remove the divergence in social and private benefits arising out of non-reversible economies is the tax-cum-subsidy and the tariffs are the second best.

It is also notable that most of these arguments for protection may equally apply to agriculture in less developed countries. Private agriculture usually finds capital harder to obtain and more costly than industry, and surely a lack of information or foresight is a greater weakness of farmers than of urban industrialists. Furthermore, the scope for learning and innovation in agriculture is often immense. New methods of irrigation, new seeds, fertilizers and even machines have a large part to play in agricultural progress. It becomes an open question as to whether the infant-industry argument does not apply as strongly in agriculture as elsewhere.

The infant-industry argument is usually applied to import-competing industries, bnt it can also apply to export industries.

There is no strong reason why import-competing industries should have higher learning rates, and more specifically, why they should havc more difficulty in foreseeing or financing internal dynamic economies or generate more external economies than the export industries. There is a special learning problem in breaking for the first time into foreign markets, so that there could be an infant marketing argument additional to the usual infant industry argument conerned with production.

Learning can potentially take place in many activites. The policy of special encouragement must not apply to all sectors, or it ceases to be effective at all. This is because one cannot give special favours to everyone, therefore, one must protect the industries where learning is relatively higher. In a general equilibrium framework all externalities and arguments for protection should be seen in relative terms.

1.2 **Arguments arising from imperfections in the wage structure.**

Free trade argument assumes that the relative costs of production of two goods correctly reflect the real values of the resources used in making them. It is quite widely believed that the costs of manufactured goads in developing countries exaggerate the sacrifices of output required in other sectors, particularly in agriculture. The market wage rates in the manufacturing sector exceed the shadow wage rates, therefor, indusrry needs some protection. Two main groups of arguments are used to explain the phenomenon, viz,

(1) the surplus labour model, and

(2) the wage-differential model.

The surplus or disguised unemployment model is generally associated with the names af Nurkse (1953), and Lewis (1954). (2) The starting point of the argument is the assumption that in the rural sector of the less developed countries, there is a vast surplus of labourers whose marginal product in agriculture is zero. They are maintained by their relatives at a subsistence level approximately equal to the average product of labour in agriculture, because the principle of income sharing operates in the rural sector. In the

(2) See also Ranis and Fei (1964).

manufacturing 'Advanced' sector, the profit maximization principle rules and labonr is paid the value of its marginal product. The surplus rural labour cannot, however, be attracted to industry at the subsistence wage, although this already exceeds its marginal product in agriculture which is zero. A considerable premium would have to be added to this subsistence wage before the surplus rural labour would become available to the urban industrial sector. Thus the private transfer wage of rural surplus labour to industrial employment far exceeds its true social opportunity cost which is determined by its marginal product in agriculure which is equal to zero. The conclusion is that labour is systematically over-valued for the urban industrial sector and this should be corrected by protecting manufacturing industry. First best policy is then to subsidize the use of labour in the urban industrial sector, possibly financing the subsidy by taxing the subsistence sector, if that is practical. Second best policy is to subsidize the labour-intensive industries and the use of tariff being perhaps third or fourth-best.

The simple exposition of the surplus labour model contains some grains of truth, otherwise it would not have had so powerful an intellectual hold for several years, but has some limitations too.

(*i*) If labour moves out of peasant agriculture, the total product is likely to fall. Many people may by unemployed for a large part of the year, but at sowing and harvest times all hands are needed. Thus the marginal product is not zero. Little et al (1970, p. 146) do not believe that it is often close to zero and suggest that a shadow wage-rate of less than half the actual wage is rârely easy to justify.

(*ii*) The simple version of the model assumes that peasants place zero marginal value on leisure, at least over the relevant ranges of their utility functions. This is implied in the assumption that when some of them leave the secıor, the remainder will work appropriately longer hours so as to maintain the same total output. With this assumption, the opoortunity cost of the labour which moves to the industrial sector is zero. In practice the benefits of leisure cannot be ignored.

(*iii*) If there is a significant number of hired agricultural labourers, ([3]) then the model ceases to be appropriate. Such labourers are likely to be paid their marginal products. As long as hired labourers are available in the subsistence sector, who are free to move into the industrial sector, employers in the latter need only pay a wage equal to the marginal product in the subsistence sector.

The second version of the argument is based upon the observed differential between wages in the 'subsistence' agricultural sector and the 'advanced' industrial sector, which may or may not be due to the rural over-population. Insofar as this gap is explained in terms of rural surplus population, this is not really diflerent from the first version, and the policy implications are almost identical to those produced by the preceding model. But the observed wage differential may have been caused by other factors such as trade union organisations or miuimum wage legislation for industry. Hagen (1958) ([4]) has advanced a dynamic explanation of the wage differential and built on it a case for protection. He argues that in any economy in which per capita income is rising secularly and there is the process of growth, the size of the manufacturing sector grows secularly relative to agriculture. This is because of high income elasticities of demand for manufactures relative to agricultural products. It is continually necessary to transfer labour from agriculture to manufacturing. To induce the transfer of the necessary labour, the manufacturing wage will have to be continually above the agricultural wage. As a result of this wage disparity, manufacturing industry having a real comparative advantage will be under-sold by imports when foreign exchanges are in equilibrium. Protection which permits such an industry to exist will increase real income in the economy. ([5])

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(3) In many LDCs there is a significant proportion of hired agricultural labour. Cordon (1974, p.128) put this proportion in India as 25 per cent of the total labour force in agriculture.

(4) See also Magee (1973).

(5) Hagen (1958, pp.497-8).

One can certainly observe in many LDC's that the wage obtainable in the 'advanced' manufacturing sector is far above incomes earned in peasant agriculture. The question is whether this differential represents a genuine marginal divergence. The answer may be that every apparent wage differential may not be a true marginal divergence requiring correction by tariffs or subsidies.

First, it is not realistic to speak of the two types of labour in the two sectors as though they were a homogeneous factor. Before an agricultural worker from the traditional rural society can become even an unskilled worker in an urban industrial sector, complex changes in the way of life, attitudes etc. have to take place. Labour in the manufacturing sector may really be a package of subsistence labour plus human capital. The higher real wage in the manufacturing sector may thus be a return on investment in training and experience, and in the costs of movement from one sector to another.

Seeond, the higher wage in the mannfacturing sector may be a necessary payment to obtain a permanent, stable labour force, living with family near the place of work, rather than the casual type of labour generally available in the traditional sector.

Third, the monetary wage payments may not give a correct indication of the true wages if one takes into account the availability of non-market food supplies in the rural subsistence sector, the higher cost of living in the city, and the possible disutility of uprooting oneself to go into the city.

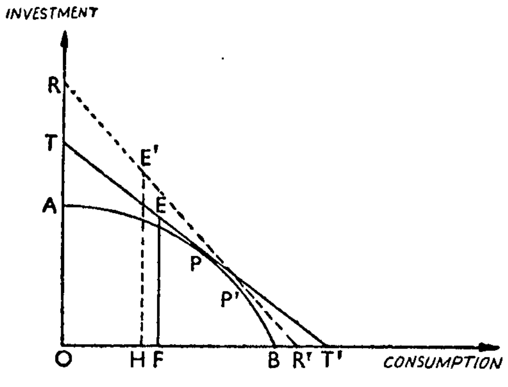
It is probable that after all these allowances have been made, a genuine wage differential still remains, although precise measurement is likely to be very difficult, if not impossible. In order to correct the divergence, the first-best policy is to correct it at the source of divergence, perhaps by subsidizing the use of labour in the manufacturing sector. Tariffs might rank third or fourth-best policy.

1.3 **Protection and economic growth.**

Protection can affect the rate of economic growth through its effects on savings and on relative prices between capital goods and consumption goods. Savings are not only a function of level of income, but also of income distribution if the marginal propensity to save differs between different sections of the community. It is often claimed that in less developed covntries the marginal propensity to save out of profits is higher than that out of other incomes, especially wages. Hence any redistribution towards profits will raise savings, hence investment and the rate of growth. Protection of manufacturing industry is likely to redistribute income in favour of capitalists and raise profits out of which a large proportion is saved. Consequently the total savings increase. This argument assumes that the savings generated by a free trade pattern of real incomes are below the social optimum and that the pattern of expenditure diverges from the socially desirable pattern. There is a domestic expenditure divergence. Society values the savings higher than an individual does. The first-best policy would be to raise taxes in a minimum distortion way through an expenditure tax, and use the revenue to supplement savings. However, in an under-developed country with negligible manufacturing capacify and considerable difficulties in the levying and collection of taxes on agriculture, the expenditure taxes may in fact imply tariffs. Tariffs raise revenues which the government can use to finance investment if the quantity of investment is sub-optimal. Strictly speaking, an expenditure tax should not discriminate between the domestic production and the imports, and as such, tariffs should be accompained by excise taxes on the domestic production. However, since in addition to generating higher savings, tariffs are also used for protecting manufacturing industries, excise taxes are not in general imposed at the rate equalling the rate of tariffs. If the tariffs are just sufficient to off-set the cost disadvantages, the protection may not increase significantly savings via the redistribution of income, and if the tariffs are in excess of the cost disadvantages protection may increase profits and hence savings. Here two qualifications may be noted : First, while high profits increase savings, they also may raise the consumption of the rich and add to their wealth, both of which may have undesirable social and political consequences. Second, it is not uncommon for high protection to lead as much to inefficiency as to high profits, in which case the gains from high savings are doubtful.

So far we have assumed that protection may affect the rate of growth by raising savings and investment through its effects on the redistribution of income. Protection may affect the rate of growth through its effects on relative prices. It may reduce the prices of capital goods ruling within a country in relation to the prices of consumption goods. Many counties deliberately discriminiate in their tariff or import control systems in favour of imports of capital goods, They impose high tariffs or severe restrictions on imports of manufactured consumer goods, and low tariffs on imports of capital goods, or make import licences for capital goods readily available. The net result is that the domestic prices of capital goods become lower relative to the prices of consumption goods. When the relative price of capital goods falls, the ratio of investment to consumption may rise. This may lead to an increase in the total amount of investment in real terms. The increase in capital accumulation may increase the rate of growth. We can show the effect of change in relative prices on investment in a very simple two-goods model with the help of diagram No. 2, adapted from Corden (1971, p. 129).

Diagram No. 2 :- Effects of changes in relative prices on Investment and Consumption.



Investment goods are measured along the vertical axis and the consumption goods along the horizontal axis. AB is the production possiblities curve which, in the absence of trade shows real income of the country that is equal to consumption plus investment. The free trade price ratio is given by the slope of TT', in which case the country produces at P, and the absorption point is E. At this point investment is equal to EF. Free trade income in terms of consumption is OT' and the propensity to save is FT'/OT'. If, after the tariffs, (or other trade restrictions which can be expressed as tariff equivalents) the price ratio (terms of trade) is given by the slope of RR', the production would shift from p to p'. Income in terms of consumption falls to OR. If the proportion of expenditure between consumption and investment is to stay constant, the new absorption point E' must lie to the left of E, so that the propensity to save HR'/OR'=FT'/OT'. It follows that after the change in the price ratio, consumption falls, and investment increases—a sort of substitution effect. We can see from the diagram that if point E' lies exactly above E, investment would increase even though the expenditure on consumption in absolute terms is unchanged. The extra amount of investment would be financed out of improved terms of trade between capital goods and consumption goods. The investment is likely to rise in rerl terms, even if the consumption does not fall and the expenditure on capital goods decreases somewhat, depending upon the changes in the domestic price structure.

The question is: will more capital-goods be purchased at the expense of consumption-goods just because their relative domestic prices have changed? One possibility is that the demand for consumption goods is completely inelastic. When prices of consumption-goods rise, consumers reduce their savings sufficiently for purchases of consumption goods to stay constant, and thus the funds available for investment will be reduced, but the lower prices of capital goods compensate for this. On balance, the purchase of capital goods will remain unchanged. Nothing will have changed; real savings and investment will be the same as before. This is just the limiting case. People may reduce their savings somewhat when prices of consumption goods rise, but not so much as to maintain constant consumption levels. Hence consumption will fall and investment will rise. The implications of such a policy making the imported capital goods artificially cheap have been brought out by economists such as Mckinnon (1971).

Firstly, cheap capital leads to the use of capital-intensive techniques and the over-encouragement of capital-intensive industries. These methods may be suitable for the factor proportions of developed countries, but are not at all appropriate for less developed countries with large supplies of labour, where labour-intensive techniques are needed. Moreover, as fixed capital is cheap, this leads to waste of fixed capital in the form of excess capacity.

Secondly, as imported fixed capital is mainly used in the advanced sector, the investment in the advanced sector is subsidized, while in the subsistence sector it is not. The influential industrialists sitting in the cities know the techniques of extracting import licences from the bureaucracy. The result is that the nation's scarce savings are diverted away from the subsistence sector towards the advanced sector. The subsistence sector becomes excessively labour-intensive and remains undeveloped.

Thirdly, high tariffs and import restrictions on consumption goods provide high levels of protection to consumer-goods industries, while capital goods industries remain almost unprotected. This leads to the discouragement of domestic production of capital goods compared to the production of eonsumer goods. That is one of the reasons why some of the less-developed countries have been slow to move into the production of capital goods.

1.4 Some other arguments.

There are many other arguments which have been put forth for protecting manufaeturing industries in the developing conntries. These include among others, the diversification of industries, improving the balance of payments and self-sufficiency. Self-sufficiency, as discussed above, is a non-economic argument, although in practice it plays a major role in determining the structure of protection.

The argument for diversification of production springs from the instability of foreign trade and uncertainty about the future. Most of the developing countries rely upon the production and export of one or a few primary commodities, the world demand for which is unstable. The resultant fluctuations in prices of these commodities may have serious economic effects for the country, which can be avoided by diversifying the production and by re-allocating the resources in favour of the production of commodities with less fluctuations in prices. Moreover, the popularly held view, that long-term movements of the commodity terms of trade have been and are expected to go against the less.developed countries, also calls for re-allocation of resources out of primary products exports and into the production of import-competing products. It is argued that in order to induce this re-allocation, protection is necessary. This argument for intervention assumes that private decision-makers lack foresight, otherwise they themselves would adjust appropriately. The government or their planning authorities are better informed, and possess greater foresight than private individuals, and there is a domestic divergence leading to the misallocation of resources. First-best policy appears to be to spread better information ; changing present prices through taxes and subsidies would be second-best, and through tariffs perhaps third-best.

The desire for an improvement in the balance of payments has led many developing countries to pursue the policy of protection. If a country is running a balance of payments deficit, this means that foreign exchange is wrongly-priced and there is a trade divergence. It may be argued that a first-best policy would be to raise the price of foreign exchange appropriately, *i.e.* to devalue the domestic currency. Since the divergence is in the price of foreign exchange, the use of tariffs will not be first-best. A tariff will only act on the import side, but will fail to stimulate exports. However, many developing countries are reluctant to devalue their currencies, The reasons for this reluctance are many, including the extreme pessimism about export expansion, the fear of adding to the inflationary pressures or the devaluation being interpretted as the failure of the past economic policies and so a loss of prestige, and so on.

We have summarised above some of the arguments put forward for protecting manufacturing industry in developing countries. Pakistan, like many other developing countries, has used tariffs and other import restrictions (sometimes coupled with export promotion policies) for protecting the domestic industry. The ground on which protection was granted to domestic industry is not at all clear from the reports of different committees set up by the Government from time to time. The concern about a deficit in the balance of payments, however, seems to have played an important role in this connection, because tariffs and especially quota restrictions, have been widely used in order to achieve a balance between foreign exchange availability and the demand for it.

We turn now to the actual developments in Pakistan's commercial policy since Independence, and to an analysis of various instruments of the policies employed for protecting domestic industry.

0.2. Evolution of Pakistan's Commercial Policy.

The history of Pakistan's commercial policy can be divided, broadly speaking, into three periods, namely (1) the period up to 1959, (2) from 1959 to 1972, and (3) from 1972 onwards, although distinct sub-periods within these phases are distinguishable on account of changes in policies or changes in emphasis on policy measures.

The period up to 1959 was, generally, characterised by direct controls and a bias against exports. Not only imports were subject to severe controls, but also investment, and the prices of some manufactured products were directly controlled. During the period too much emphasis seems to have been placed on achieving a reduction of imports and too little effort seems to have been made to increase export earnings.

From 1959 to 1972, concerted efforts were made to alleviate the bias against exports, which was created by the over-valuation of the currency. Exports were actively encouraged through a number of export promotion schemes like the Export Bonus Sehcme, the Export Performance Licensing Scheme, the Pay-As-You-Earn Scheme, tax rebates and tax exemptions etc. In May, 1972, the Pakistani Rupee, which had remained over-valued for a long time, was devalued.

Following the devaluation, the licensing procedures were significantly simplified and export duties were levied on a number of commodities in order to mop-up the windfall profits.

The partition of the sub-continent and Pakistan's emergence as an independent State in 1947 suddenly interrupted the long-standing channels of domestic trade, which instead became trade between two unfriendly countries. In the undivided India, manufactured consumer goods flowed into the areas that became Pakistan in exchange for agricultural raw materials and food grains. The precise magnitude and composition of flows of goods between Pakistan and India before Partition is not known. However, Rahman (1963, p. 101) has estimated that in 1948-49 trade with India accounted for more than 50 per cent of the total foreign trade of West Pakistan (the present Pakistan), on private account, which may give a fair indication of the pre-Partition inter-regional economic relations between Pakistan and India because of the liberal trade that existed between them until September 1949. The composition of trade between them may be seen from Table 1.

TABLE 1

The compsition of Indo-Pakistan Trade in 1949.

(value in Million Rs.)

COMMODITY GROUP	India to Pakistan		Pakistan to India	
	Value	Percentage Shares.	Value	Percentage Share.
1. Food, Drink & Tobacco	157.46	28.54	94.43	15.53
2. Raw materials ...	47.67	8.64	466.71	76.74
3. Manufacturers ...	346.62	62.82	47.01	7.73
Total ...	551.75	100.00	608.15	100.00

NOTE :—These figures are for All-Pakistan (former West Pakistan plus former East Pakistan).

SOURCE :—Rahman, M.A ; "Partition, Integration, Economic Growth and Inter-regional Trade: A Study of Inter-wing Trade in Pakistan 1948-1959". Karachi, 1963, p. 102.

The data in Table 1 show that about 63 percent of imports from India into Pakistan were those of manufactures, while more than 76 per cent of exports from Pakistan to India consisted of raw materials. The trade continued to flow between the two countries with relative ease until the last quarter of 1949. During this period, Pakistan had adopted a relatively liberal import policy in order to re-build stocks of essential consumer goods which had been depleted due to the disruptions of the partition and en-masse departure of non-Muslim traders.

On September 17th, 1949 the U.K. devalued her currency by 30.5 per cent. India and other sterling area countries except Pakistan, followed suit and India devalued her Rupee to the same extent. Pakistan was the only sterling area country which decided not to devalue her rupee and maintain the par value of thc Pakistani Rupee, vis-a-vis the U.S. dollar and other non-devalued currencies. Three distinct but inter-related reasons seemed to have been at the back of Pakistan's decision not to devalue her currency. (6)

1. It was felt that in view of the inelastic supply of exports from Pakistan and relatively inelastic demand for imports into Pakistan, the balance of payments was not likely to improve as a result of devaluation ; and further.

2. that the basic balauce of payments position did not give any cause for concern, and that if paynents' pressure did emerge, it could be met to a reasonable extent by drawing upon the foreign exchange reserves which in September 1949 were quite large ; and finally.

3. It was expected that the non-devaluation decision would have a favourable impact on the internal price level and that lower import costs in domestic currency of machinery and other capital goods would provide an incentive for the much desired industrial growth.

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(6) Hasan : (1961, pp. 19-20).

The immediate, and perhaps unexpected result of Pakistan's non-devaluation decision, was virtually complete trade dead-lock with India for about eight months until April 1950, due to the latter's flat refusal to accept the new parity between the Indian and Pakistani Rupee. Pakistan was forced to divert trade to countries other than India-an erstwhile major trade partner. However, the adverse effects of this trade dead-lock were mitigated to some extent by the later events like the outbreak of the Korean war in 1950. The period from mid-1950 to mid-1952 witnessed a tremendous upsurge in world-wide demand for Pakistan's raw material exports. The scramble for raw materials raised the prices of exports and resulted in a notable improvement in Pakistan's terms of trade. Export earning nearly doubled in 1950-51 compared to 1949-50, and were well maintained during 1951-52, although somewhat lower than in the previous year. (7) The import policy which had remained rather cautious after October, 1949 was liberalised in June, 1950. A large number of items were placed on the Open General Licence (O.G.L): these could be imported without any licensing restrictions. The import policy was further liberalised during 1951-52, and almost 85 per cent of total private import by value was permitted without licence in that year. (8) However, this policy of import liberalization did not last long. After the hostilities of the Korean war diminished, export prices began to recede and export earnings to diminish. With diminishing export earnings and a rising value of imports, the foreign exchange reserves began to drop. The drain on reserves had become so severe by July 1952 that the existing O.G.L. was sharply restricted in August and completely abolished in November, 1952. By September, 1952, deficits in the balance of payments had reduced gold, dollar and sterling reserves to the lowest level since Partition. Their further running-down, in view of the highly volatile nature of Pakistan's foreign exchange earnings, was considered extremely undesirable. The Government realized that a foreign exchange crisis was imminent, and they chose to meet the crisis by using direct

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(7) Hasan: (1961) op. cit. p. 24.

(8) Andrus and Mohammad: (1958). p. 264.

controls on imports. The import control system which was adopted in 1952 remained the sole basis of import licensing decisions until 1959, and with certain modifications until 1972, when the whole procedure of import licensing was rationalized. The basic strategy of the import policy adopted after the devaluation of the Pakistani Rupee in 1972 was to minimise the administrative controls, to free the economy from procedural bottlenecks, and to allow market forces to operate freely to determine investment and the level of imports. (9) Now we shall discuss briefly the mechanics and institutional arrangements of Pakistan's exchange control system and import licensing policy. (10)

2. 1 **Foreign Exchange Budget.**

The exchange-cantrol system of Pakistan regulates both the inflow and the outflow. of foreign exchange. According to the Foreign Exchange Regulations Act, 1947, exporters are required to surrender their entire foreign-exchange earnings to the State Bank of Pakistan at the official exchange rate. (11) Foreign exchange expenditure is regulated by a high-level Foreign Exchange Cmmittee, which is charged with preparing the annual Foreign Exchange Budget and keeping an eye on the foreign exchange position of the country throughout the year. The Foreign Exchange Budget, a secret document, includes a review of the past and an estimate for the future on both the receipts, as well as the expenditure sides. The

(9) Pakistan Economic Survey (1971-72) p. 16.

(10) The descriptive and analytical work on the working of import control system in Pakistan has been done by many, among whom are :

1. Naqvi, S.N.H: "Import Licensing in Pakistan" PDR, Spring 1964.
2. Thomas, P.S: "Import Licensing and Import Liberalization in Pakistan" PDR, Winter 1966.
3. Child, F.C: "Liberalization of the Foreign Exchange Market" PDR, Summer 1968.

(11) Govt. of Pakistan, Office of the CCI & E: "Manual of Imports and Exports Control". Rawalpindi, 1964, p, 55.

Budget allocates foreign exchange expenditures among competing uses and users in accordance with national priorities, and the limited availability of foreign exchange resources. Foreign exchange expenditure is limited by the expected accruals of foreign exchange during the year, plus the extent, decided by the Foreign Exchange Committee, to which the foreign exchange reserves are allowed to run down.

In constructing the expenditure side of the Budget, the Committee, allowing for the priority clamis like debt servicing etc., divides the remaining sum between the public and the private sectors. The allocation to the public sector is based on estimates of its import requirements, presented to the Foreign Exchange Committee by various ministries and the semi-public corporations. The committee distributes this allocation among the various ministries and further specifies how much each ministry can spend on developmental and non-developmental imports. The estimates of private-sector import requirements are presented to the committee by the Ministry of Commerce, and form the basis of the allocation of foreign exchange to the private-sector. In the case of the private sector the Committee does not specify how much of this allocation is to be spent on developmental and non-developmental imports. This is left to the discretion of the Chief Controller of Imports and Exports (CCI & E) in the Ministry of Commerce. The Foreign Exchange Budget is approved by the Cabinet, after which the budgeted foreign exchange expenditure cannot be exceeded without its prior approval. The actual disbursement of foreign exchange is done through the Exchahge Control Department of the State Bank of Pakistan. Foreign-aid funds, however, are excluded from this budgetary process. They fall under the jurisdiction of the Economic Affairs Division in the President's Secretariat, which also must divide these resources between Public and Private uses.

2.2. Import Licensing.

As Thomas (1966) has pointed out, there are basically three systems of exchange control in Pakistan. *viz.* Government imports, imports of capital goods in the private sector and imports of consumer goods, raw materials and spare parts for industries in the private sector. The Government imports are determined as a part of the budgetary process, as noted above. The imports of capital goods for industrial expansion in the private sector are determined as part of the broader industrial policy of the country, and are controlled by the investment sanctioning procedures. Whereas in the case of Government imports and the imports of capital goods in the private sector the licensing procedures have not changed significantly over time, there have been significant changes in the licensing procedures for the imports of consumer goods, industrial raw materials and spare parts in the private sector.

Almost every import in the private sector requires a licence issued by the Chief Controller of Imports and Exports (CCI & E), in the Ministry of Commerce. Broadly speaking, prior to the devaluation of the Pakistani Rupee in 1972, there were two types of licences, *viz.* 'Commercial licences' and 'Industrial licences'. The commercial licences were issued to the importers, who acting as middlemen, generally re-sold the imported commodities without further processing in the domestic market, while industrial licences were issued to the manufacturers for the import of spare parts and raw materials exclusively for their own use. In both cases, one licensing decision by the CCI & E determined simultaneously which commodities were to be imported, in what quantities, by whom, and sometimes also from which source. The task of issuing the commercial licences to the 'eligible importers' from a large number of potential importers was carried out by the adoption of a 'rule of thumb'. Those importers who had an import performance to their credit during the period of July 1950 to November 1952, when there was essentially free-importing under the O.G.L. system, were made 'eligible' importers and were known as 'category holders'. A category was, in essence, a unit of account, and was based on the average value of imports of a particular commodity by an importer during the five shipping periods of 1950-52. One importer, however, could have more than one category if he had imported more than one commodity during that base-period. The actual value of each licence was expressed as a percentage of the category, which reflected the 'essentiality' of the commodity and liberal or stringent nature of the Import Policy subject to the amount of foreign exchange earmarked in the Foreign Exchange Budget for the private sector.

The 'Industrial licences' for importing raw materials and spare parts were not issued to all firms. They were issued only to 'recognised' industrial units, which had been set up under proper sanction of the Government. The CCI & E relied on the Provincial Directorates of Industries for deciding upon the eligible industrial importers and for determining what industrial good in what quantities were to be imported. The Directorates assigned a quota or entitlement based on the installed capacity of the manufacturing enterprise, signifying that the 'quota-holder' was an eligible importer. In addition, the Directorates issued an 'assessment certificate' indicating the 'requirements' of raw materials and spare parts of an industrial unit on a single-shift basis. These certificates were based on the survey of Industrial Units undertaken regularly by the Directorates, and were expressed as a percentage of the industrial importer's quota/entitlement. The CCI & E then issued industrial licences called 'regular industrial licences' largely on the basis of these assessment certificates. It may be noted here that, unlike categories which had not been increased, the creation of quotas/entitlements was a continuing process. New quotas/entitlements were created on the basis of the Survey of Industrial Units and the installation of properly sanctioned new industrial capacity. The creation of new capacity and the balancing and modernization of the existing industries was sanctioned by the Central Permissions Committee (since 1964 replaced by the Central Investment Promotion and Co-ordinating Committee) in the Ministry of Industries. Once approved by the investment sanctioning authorities, the industrial licences for importing machinery for new industrial capacity or balancing and modernization were automatically issued by the CCI & E. Similarly, a loan from the Pakistan Industrial Credit and Investment Corporation (PICIC) or from Industrial Development Bank of Pakistan (IDBP) for establishing a new industry, or adding to an existing one, resulted in the automatic issuance of a licence by the CCI & E.

The relaxation of the strict rigidites of import control system and a move towards 'import liberaliza:ion' began in 1959 with the introduction of the Export Bonus Scheme. Further moves towards 'liberalization' were made in the coming years with the adoption of a new Open General Licence (New O.G L.) system, and the introduction of Repeat/Automatic Licensing, Export Performance Licensing and the Free List. These measures are discussed briefly below :—

(i) **Imports under Bonus and Cash-cum-Bonus.**

The Export Bonus Scheme, introduced in January, 1959 for promoting exports, allowed some imports into the country without the cover of a licence. The exporters of specified commodities were given the bonus vouchers equivalent to a certain percentage of the export proceeds. As import licences (from a specified list of imports) were automatically issued against these vouchers, they allowed more imports of consumer goods, spare parts and raw materials permitted in the list.

A cash-cum-bonus procedure, established in 1967, was a compromise between a bonus voucher system and an ordinary licensing scheme. Under this arrangement, the importers could obtain licences only when their applications were accompanied by bonus vouchers covering 50 per cent of their exchange requirements. Both bonus and cash-cum-bonus imports, however, introduced an element of market mechanism into import trade.

(ii) **Open General Licence (O.G.L.)**

The O.G.L. system, suspended in 1952, was re-introduced in 1961. The purpose of the new O.G.L. was to allow the newcomers (*i.e.*, those who had not been importers during the 1950-52 period) into the import trade, and especially to encourage new importers from regions of the country where there were no (or few) importers during the 1950-52 base-period. The new O G.L, however, was much more restricted than the old O.G.L., as no 'category holder' with categories in excess of a certain amount or 'entitlement holder' could apply for the licence, no importer located in Karachi or

Lahore could apply for the licence and the eligible importers under the new O.G.L. had to comply with several formalities.[12] It was hoped that the new system would bring the domestic prices of imported goods down by breaking the monoply of the 'category holders' and by promoting greater competition and efficiency in the import trade.

Since the amount of foreign exchange allocated for imports remained more or less the same, and the licences issued to the new firms did not exceed ten per-cent of the value of imports covered by Commercial licences,[16] the domestic prices of imported goods did not fall. It appears, as Naqvi (1964) has pointed out, that the re-introduction of the O G.L. probably reduced the profits of the established importers, shared them more widely, and achieved a wider regional distribution of import licences.

(iii) **Repeat/Automatic Licensing System.**

The Repeat/Automatic Licensing System was introduced in 1961 for certain commodities importable under either commercial or industrial licences. Any importer, who had utilized his first licence for the shipping period before the end of that period, could make a request for the repeat licence. A new licence equalling the value of the original licence was automatically issued to him if he had provided the evidence that he had utilized the first licence, and if the foreign exchange was available for the reminder of the shipping period.

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12. The importer under the new O.G.L. had to get himself registered with the appropriate Licensing Authority before the issue of licence. He had to apply for registration on a prescribed from by a certain deadline and had to satisfy the Authority that :

(*i*) he was a resident national of Pakistan,
(*ii*) he was a dealer in the commodity,
(*iii*) he had a proper and independent place of business,
(*iv*) he was registered with the Income-Tax Authorities,
(*v*) he was not a proprietor or partner/shareholder of any other firm getting any licence, and
(*vi*) If he was an importer, the aggregate of his categories did not exceed the specified limit.

'Manual of Imports & Exports Control' (1964, pp. 24-25).

(16) Naqvi : (1964), op. cit. p. 61.

In 1962, 'request' licencing was introduced in order to encourage certain industries with an export performance or an export potential. Certain specified industries were allowed to import raw materials and spare parts to be used by the industries themselves, over and above their entitlements under normal licensing. The actual value of the imports permissible depended upon the industries' export permormance.

(iv) **Free List.**

The 'Free List', introduced in January 1964, permitted the import of some essential raw materials like iron and steel from the U.S. under aid agreements without cover of a licence and with minimum administrative controls. This was a major step forward towards 'import liberalization'. In the import policy of January to June 1964, four items of iron and steel were placed on the Free List; fifty more items were allowed on this list in the following six months, and in January 1965 another four items were added to the list. However, this trend could not be maintained, particularly after the war with India in September 1965, following which 'aid' to Pakistan was suspended. The number of item on the Free List was reduced and various restrictions on some items of imports were imposed. Child (1968) remarked that the free list was free in name only. In 1968, of the fourteen items on the list, two were importable by the public sector only, five by industrial users only, and commercial imports were subject to various restrictions such as the minimum and maximum size of individual orders of goods of each type, the country of orign and the destination within Pakistan. Although the free list was much less free in the second half of the sixties than in 1964 and 1965, it has remained a part of the import control system of Pakistan.

In spite of the efforts for import liberalization briefly described above, the import control system of Pakistan had become very comprehensive, complex and discriminatory over the years. The bonus-voucher segment of foreign exchange had been expanded gradually, which had created a system of multiple exchange rates. The existence of several import procedures, coupled with administrative controls, was creating distortions of the allocation of resources and growth of the industry. Above all, the separation of East Pakistan from the western wing in 1971 brought about serious disruptions in the pattern of trade of West Pakistan. To overcome these problems, Pakistan devalued her Rupee by about 56.7 per cent in May, 1972, and the Export Bonus Scheme was liquidated. Following the devaluation, the import control system revised. The basic strategy of the new system was to minimise the administrative controls. Since then, the system of categories and entitlements has been abolished ; the distinction between commercial and industrial importers, and between recognised and non-recognised units has been discarded. An import licence would be issued freely to any Pakistani on registration. There are only two lists, i.e., free list and tied list—the free list for cash foreign exchange, and the tied list for tied credits and barter. There is, of course, a "banned list", the commodities of which cannot be imported into Pakistan. The procedures for the import of permitted commodities have been simplified, and many other restrictions have been removed. For example, the machinery for balancing and modernization within specified limits and for new capacity creation up to a certain value can be imported freely. These measures have changed the nature of the whole import licensing system in Pakistan.

2.3. **Tariff policy.**

The policy on tariffs (*i.e.* import duties plus sales taxes) is another tool of commercial policy used to provide protection to the import-competing industries. In Pakistan, tariffs have been used to help control import composition and to encourage the domestic production of specified import substitutes. The import duties are usually ad valorem, whereas sales tax is levied at a flat-rate on the landed cost of imports (C.I.F. import price plus import duties). The Economic Appraisal Committee (1953) favoured protection to the manufacturing industries through the cascaded tariff structure which involves lower tariffs on intermediate and capital goods, and higher tariff duties on consumption goods. Although the Committee preferred protection through tariffs under normal circumstances, yet in view of the then foreign exchange situation, it recommended the use of quantitative restrictions. The quantitative restrictions, which were imposed in 1952 after the short-fall in export earnings, existed even before the Committee's report, and the Committee in fact endorsed them. It may be noted, however, that in the presence of excess demand for foreign exchange and severe quantitative restrictions on imports, the tariffs (unless they are raised to sufficient level to take over the rationing of imports from licensing) become superfluous as far as their protective effects are concerned. Thus the tariffs were only used to divert a part of the importer's profits to the government revenue. The general pattern of tariffs and the changes in them over time, may be seen from Table 2.

Table 2 shows that the lowest tariffs were levied on the import of machinery and equipment ; they were higher on raw materials and the highest on consumer goods, particularly on luxuries and semi-luxuries. The trend in tariff rates has been that of increasing over time, and the differentiation has also increased over time.

3. **The Structure of Protection.**

The manufacturing sector in Pakistan has enjoyed a continued high level of protection for more than two decades. The cascaded tariff structure and the system of import licensing, discussed in the previous sections, have provided protection to the manufacturing sector since 1952. The tariffs and quantitative restictions on imports were imposed in 1952 in view of the foreign exchange difficulties, and not to protect the industries as such,([17]) but since then they have afforded a powerful impetus to the domestic industry. There are many ways of analysing the structure of protection in a country. The average level of tariffs is one apparent measure of protection. In the absence of monopoly and other restrictions on the free movement of goods, the domestic prices of import-competing goods would be equal to the prices of imports. The tariffs would raise the domestic prices of imports and would provide protection to the import-competing industries. However, if there are domestic indirect taxes on production, they will offset the tariff protection to

(17) Andrus & Mohammed (1958), p. 169.

TABLE 2.
Average Rate of Import Duty by Types of Commodity (1955/56—1965/66)

Description	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66
Consumption Goods.											
(*a*) Essentials	35	35	35	35	35	55	55	55	56	56	70
(*b*) Semi-luxuries.	54	54	54	54	54	111	111	111	116	118	148
(*c*) Luxuries.	99	99	99	99	99	140	140	140	142	144	180
Raw Materials for Cons. Goods.											
(*a*) Unprocessed.	26	26	26	26	26	27	27	27	30	31	39
(*b*) Processed.	43	43	43	43	43	50	50	48	51	65	95
Raw Materials for Capital goods.											
(*a*) Unprocessed.	23	23	23	23	23	28	28	28	31	32	40
(*b*) Processed.	38	38	38	38	38	40	40	39	42	55	69
Capital Goods.											
(*a*) Consumer durables.	71	71	71	71	81	85	85	85	89	91	114
(*b*) Machinery and equipment.	14	14	14	14	14	17	17	17	17	22	34

Note : The rates given in the table are simple averages of tariff rates only (*i.e.*, they exclude sales taxes on imports.)

SOURCE : Radhu : "The Rate Structure of Indirect Taxes in Pakistan" P.D.R. Autumn 1964.
Thomas : "Import Licensing and Import Liberalization in Pakistan" P.D.R. Winter 1966.

that extent. If we deduct the domestic indirect taxes from the tariff rate, we can arrive at a measure of 'nominal tariff protection'. The 'nominal tariff protection' may be defined as the percentage excess of domestic prices over the world market prices of a commodity, resulting from the imposition of tariffs. The 'nominal tariff protection' my differ from 'effective tariff protection'. The latter is protection to the value added in an industry which takes into account both the tariffs on the inputs into the good, and the tariffs on the good itself, and may be defined as the percentage excess of value added at domestic prices over the value added at world prices of an activity or process resulting from the different tariffs on both the output and the inputs. The reasons for using effective rather than nominal protection generally are (1) it takes account of tariffs on inputs which may offset or accentuate the nominal protection, and (2) the low nominal protection may still result in high effective protection in industries with extremely low value added. Lewis (1969) calculated all three measures of protection afforded by tariffs for 1954-55 and 1963-64. These are given in Table 3.

The rates of average tariff and 'nominal protection' given in Table 3 indicate that the average level of protection afforded by tariffs increased over time and that there was an increase in the differential protection between the intermediate and consumption goods as well over the period considered. If we ignore the investment and related goods, the figures for effective protection attribute more than two-thirds of value added. on average, of consumption and intermediate goods to tariff protection. Averages, however, hide a considerable part of the inter and intra-industry variations in the level of protection which were found in both the periods considered. Nevertheless, these figures are suggestive and are indicative of the high levels of protection which the tariff structure provided for manufacturing industries in Pakistan.

Tariffs would measure the level of protection only if they were the main determinant of the level of imports and of the domestic prices of imports. In Pakistan, as discussed in the section on import licensing, the quantitative restrictions rather than the tariffs

TABLE 3.

Average level of Tariff Protection on Major Groups of Manufacturing Industries

(1954-55 and 1963-64)

Industries Producing Primarily	**Average Tariff**		**Average Nominal Tariff Protection**		**Average Effective Tariff Protection (*a*)**	
	1954-55	1963-63	1954-55	1963-64	1954-55	1963-64
Consumption goods.	65	88	53	66	76	76
Intermediate goods.	40	54	32	33	71	60
Investment and Related goods.	39	44	33	35	49	81 (b)

Notes : (*a*) The expression used for effective protection is to be interpreted as :— 'the percentage of value added in the indurstry that is due to tariff protection'.

(*b*) The very high average rate for investment and related goods industries in 1963-64 in due primarily to extreme values for transport equipment and metal products which were 256 and 247 respectively.

SOURCE : Lewis (1969, Table 15, p. 74).

were the binding constraints on imports in most of the cases. In that situation, although tariffs did play some role, they were not the main determinant of domestic prices of imports, which were primarily influenced by the quantitative restrictions of the import licensing system. Pal (1964, 1965) and Alamgir (1968) have made comparisons of domestic wholesale prices and landed costs (CIF price plus tariffs duty plus sales tax plus minor charges such as clearing charge, licence fee, wharfage charge etc.) of imported commodities for the periods June –August 1964, October 1964—January 1965 and November 1966—February 1967. They estimated the scarcity premia—the excess of domestic wholesale prices over the landed costs of imports—which are given in Table 4.

The average mark-ups shown in Table 4 give an approximate idea of the extent to which the licensing system affected the domestic prices of imports. The average mark-up for all the imports studied was 43 per cent. and 40.8 per cent. in 1964-65 and 1966-67 respectively, which means that the domestic prices of those commodities exceeded their full duty-paid value at the official exchange rate by approximately 40 per cent in the mid-sixties. In such a case, the use of an average tariff as a measures of protection would underestimate the extent of protection. Moreover, the average mark-up, which in 1964-65 was about 48 per cent. for consumption goods, 38 per cent. for intermediate goods and 40 per cent for investment and related goods, decreased to about 31 per cent. in the case of consumption goods but increased to about 50 and 44 per cent. for intermedite and investment and related goods respectively in 1966-67. From this, it appears that the relatively low protection implied by the tariff structure for intermediate and capital goods was offset to some extent by the licensing system. On the basis of data in Table 4, it can be said that the licensing system created protection to the import competing activities in addition to the one suggested by tariffs alone, and improved greatly the competitive position of intermediate and capital goods. Whatever measure of protection is

TABLE 4

Average Percentage Mark-ups (a) on imported commodities in Pakistan.

	Dec. 1964—Feb. 1965	Nov. 1966—Feb. 1967
A. Consumption Goods.	**48.1**	**30.8**
1. Licensed items.	58.0	36.2
2. Free List items.	21.4	17.5
3. Bonus List items.	7.2	10.1
B Intermediate Goods.	**38.0**	**49.9**
1. Licensed items.	52.8	55.7
2. Free List items.	34.0	49.6
3. Bonus List items.	—	17.6
C. Capital Goods.	**40.1**	**44.2**
1. Licensed items.	62.1	84.9
2. Free List items.	27.4	33.7
3. Bonus List items.	—	18.9
D. Total.	**43.0**	**40.8**

Notes : *(a)* Mark-up or Scarcity premium calculated as

$$= \frac{\text{Domestic Price—Land Cost}}{\text{Landed Cost.}}$$

(1) Price of bonus voucher Rs. 100 worth of foreign exchange assumed to equal **Rs.** 150.

SOURCE : Based on Alimgir (1968), Table I, p. 44.

considered, the conclusion is that the manufactnring sector in Pakistan was afforded a high level of protection which favoured investment in the production of import-competing goods.

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BOOK REVIEWS

1.- The Rise and Fall of Economic Growth

A Study of Contemporary Thought

by : H. W. Arndt,

Publishers: Longman Cheshire, Australia-(1978)

Fears of depression in the post-war days compelled the western policy makers to take appropriate measures to avoid its occurance. Gradually this concern with a static objective changed into a dynamic pursuit of economic growth. Economic growth thus became a top policy objective for them. However, within a span of two decades, 'the 'exalted position' of economic growth among the policy objectives was being seriously questioned,————' Thus goes an account of "The Rise and Fall of Economic Growth : A Study in Contemporary Thought" by Prof. Arndt.

The first part of the book narrates the increasing influence of economic growth philosophy on the policy makers of the west in the post-war years. Peculiar circumstances of the western countries in 1950's are believed to have influenced their economic policies in that era. The zeal for growth increased and in few cases become compulsive, 'even to the extent of being absurd.'

This gave birth to a group of more rational policy makers and economists who evaluated the effects of "Expansion Economics" philosophy dominating the western world and its allies in the third world, in 1950's and 1960's. In Prof. Galbraith's well known words, this had caused 'private abundance amidst public squalar'. Effects of economic growth on the environment and the ways of life prompted wide criticism that could be grouped into three types : social critics, radical critics and environmental critics. While their opinions differ on this issue, they do share a concern about the social implications of growth philosophy. For the believers of reforms within the existing social order (Galbraith, Mishan, Schu-macher and others) the issue of undesirable effects of economic growth is essensially a choice between quality and quantity. Prof. Galbraith points out that 'the attainment of affluence has lift many needs unsatisfied and also failed too eliminate proverty'. The criticism at least underscored the significance of adopting the distinct objective of 'development'.........inclusive of qualitative changes...... against 'growth' by all nations.

"The "New Left" (Paul Baran, G. Frank and the others), on the other hand, represent a refreshing change in outlook *on the fundamental problem of starvation,* want and disease in the LDCs. This analysis identifies the causes of waste and irrationality in the capitalistic system, resulting in under-investment. Similar apprehensions about the future of the world have been expressed by the 'environmentalists' like Dennis Meadows. They are, however, more concerned about the serious consequences of the end of exhaustible resources following the material progress embodied in the concept of growth.

Prof. Arndt's narrative has two distinct features : an implict belief in the efficacy of free market economy and conscious effort to by pass value judgments on critical issues. It is a matter of empirical evidence that market forces fail to guarantee a reasonable balance between forces of supply and demand. Nor do they necessarily ensure social welfare along with individual's material well being : thus a case for State intervention. Efforts to avoid State's remedial measures often result in maldistribution of resources, national as well as international. The oil crisis of 1970's and the following events show the limited success of market forces in ensuring the essential balance.

As for the stakes of D.C's and LDCs in economic growth—as a goal—are concerned, there can hardly be two opinions. Prof. Arndt rightly points out the essential differences in costs involved in abondoning the economic growth objectives by the two groups of countries. LDCs can't discard growth entirely as some opponents of growth philosophy wish us to do by posing this question : 'Have not we enough' ? The poor countries obviously do not have enough. What they aim at is qualitative change in their living which cannot be imagined without economic progress.

The LDCs and DCs have another important problem to sort out in regard to economic growth : what kind of economic growth they should aim at in future? This is a difficult matter to settle as opinions differ on as to what makes the best kind of growth. The issue is compounded by including intangible qualitative aspects of life into the debate and also by realizing that the qualitative and quantitative objectives may be incompatible.

Finally, Prof. Arndt raises a fundamental question for the policy makers to ponder : how to pursuade people to forego material objectives in return for non-material goals ? He rightly points out the limited possibilities of achieving this objective, except in some societies with the help of ideological fervour. Hopefully, the achievements of such societies could be a guide for those who hold human good dear in the true sense.

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II.-DEVELOPMENT ECONOMICS AND PLANNING

Manzoor Mirza
Ilmi Kitab Khana, Lahore
Price : Rs. 35/-

The book " Development Economics and Planning ", is a new addition of Economic Development in theory and practice. The original book has been revised to such an extent that it can be called a new book.

The author has used mathematics in explaning various concepts and growth models. The problem of inequality has been explained with the help of Lorenz curves and Ginni co-efficient. Following Thirlwal he has employed " Production function approach " in explaning factors of growth.

The author has tried to cover all contemporary and modern contributions to the theory of development but has been able to provide only a summary of various theories to the reader. If the book is meant for the students of M.A. Economics, as is visualized, then the same should have been written in some what more details. Theories of underdevelopment like :—

(i) Dependecia Model.

(ii) Henry Bruton's Model and,

(iii) Sociological dualism have been just touched.

They should have been given in greater details.

These book can be divided into five major parts. The first part deals with the definition and measurement of the concept of growth and characteristics of less developed countries as well as obstacles to development.

The second part consists of various growth models. The author has covered almost all the contributions of Classical and modern economists-starting from Adam Smith to Joan Robinson.

Part three deals with factors responsible for economic growth. The author has traced out the role of Capital, technology, Foreign Aid, International Trade, Population, Education, including Social, Cultural and religous factors. This parts is quite comprehensive and new.

Part four deals with the theories of underdevelopment. This part is lacking in comprehensiveness. The main emphasis is on DUALISTIC character of these socities, while other theories lack detailed disscussion.

Part five is about Economic planning. This part consists of only 25 pages. The author has ignored various aspects of planning. This part should have included a general framework of a plan, methodology, planning procedure, Planning strategy, among other things.

The book is full of composition and printing mistakes. Apart from spelling mistakes, Pages 179 and 180 are distorted. One of the diagrams has gone upside down.

A good point of the book is the index and the list of references. Very few books published in Pakistan have an index. The book can be made a good treatise on the theory of development economics and planning, if the 'gaps' are filled up by adding 100 pages.

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