

PAKISTAN ECONOMY

INITIAL PHASE 1947-1958

In terms of the economic events which were to play a critical role in the first phase for the period from August 1947 till October 1958, the following were perhaps the most important:

- The initial years after independence and the flow of refugees into the country.
- The decision not to devalue the currency in September 1949 following the devaluation of the pound sterling when India and number of other countries followed suit.
- The years from mid 1950 to early 1952 when, as a result of the war in Korea, there was a boom in the world prices of raw materials.
- The decision in 1952 to impose import controls after the collapse of the Korean boom and the balance of payments crises.
- In 1954 the joining of military pacts with the western countries i.e. SEATO and CENTO and the beginning of significant aid flows into the country.
- In 1955 the decision to devalue currency.
- The military coup of October 1958 that marked the end of the first phase of the country's economic history.

PROBLEMS AFTER PARTITION AND INDEPENDENCE:

- Large-scale population movement and heavy influx of refugees, which arrived in Pakistan from different parts of India at the time of partition.
- It is estimated that about 7 million refugees entered West Pakistan as compared to about 5.6 million Hindus and Sikh refugees who had left Pakistan for India.
- Total central government expenditure on refugees by 1958 was almost Rs 491 million
- The immediate problem was that of providing relief to the migrants through the provision of shelter, food, clothing and medical attention.
- In order to help the artisans and craftsmen among the refugees, the government established a Refugee Rehabilitation Finance Corporation to provide credit facilities gave 17 million in loans, invested 3 million in industrial colonies, distributed sewing machines worth 4 million and supplied raw materials worth 12 million to refugees at cheap rates.
- The central government offered both loans and grants-in-aid. The center also imposed special taxes to raise funds, which yielded Rs 119 million till March 1957.

Initial conditions:

- Improvement in living standard of the middle class Pakistanis.
- Low savings and investments
- Domestic saving rates 2% of GDP.
- Shortages of infrastructure.

Years	1949-50	1959-60
Domestic savings	2.0	6.0
Domestic investments	3.0	9.3

External shocks:

- Jinnah's death 1948
- Assassination of Liaquat Ali Khan
- String of Prime Minister's between 1951-58

Condition of Pakistan:

- The overall growth for Pakistan for the period 1949-50 to 1950-60 was 2.5% per annum.
- Per capita income growth was negative in East Pakistan and only moderately positive in West Pakistan.

AGRICULTURE STAGNATION AND POLICIES:

- The biggest policy failure in Pakistan's early years was agriculture failure.
- Policy makers in the years immediately after the partition were preoccupied with stimulating industrial growth, which had lagged behind in areas comprising Pakistan.
- Agriculture was less than population growth.
- Policy makers laid more emphasis on industrial growth.
- The root cause of problems was the severe floods in the Sind and Punjab in 1948.
- Agriculture for the economy as a whole grew by 1.7% annually.
- Floods adversely affected food grain shortages.

- In 1951, the failure of the monsoon, continued drought conditions and locust attacks led to a disastrous wheat crop harvest.
- In order to meet the shortage the government approached the USA, CANADA, and AUSTRALIA, and other countries to provide long-term credits as well as outright gifts to help in the import of food grains.

INDUSTRIAL GROWTH AND DEVELOPMENT:

- The government played an important direct role in the country's industrialization program.
- Government's industrial policy statement issued in April 1948 emphasized particularly manufactured goods based on domestic raw material.
- Manufacture of cotton textiles for the home market presented attractive opportunities.
- There was ranging increase in the production of sugar, cigarettes, vegetable ghee, cement and natural gas.
- In 1947-58 the average annual growth was over 19%.
- Jute industry was set up in East Pakistan in late 50's.
- A large demand for domestic markets was created by imposing import controls and for the early entrants who could charge monopoly prices, profits were very high.
- High profits, high savings, high investments, and high rates of growth were the main features of the industrial development in the earlier years.

FINANCING OF DEVELOPMENT:

- Non-devaluation decision of September 1949.
- The main motivation behind the non-devaluation decision was to be able to sell raw jute to Indian industry at higher prices.
- As a result of this India suspended trade by not accepting the value of the Pakistani currency and a trade deadlock ensued.
- Decision not to devalue the currency led to selective import control on the economy.
- These import controls became a powerful lever in the hands of government to affect and influence resource allocation in the domestic market.
- Decision not to devalue the currency led to price control.
- The government also controlled prices with major of bringing down the prices of consumer goods so as to lower the cost-of-living index.
- Controls were exercised on the prices of cloth and yarn together with articles like drugs and medicines, paper, chemical dyes, cigarettes, vehicles, and construction material.
- In many cases they resulted in the hoarding or black markets of products.
- Korean war (1950-53) response to Korean boom and collapse raw material boom, high exports earnings for Pakistan.
- Pakistan had a strong balance of payments surplus. Its export of raw material came under heavy demand.
- India had to rescind its earlier decision and trade was once again opened between the two countries.

Tax efforts:

- The ratio of central bank govt tax revenue to GDP at 5.2% in 1955-58 was only moderately higher than in 1949-50.
- Total central government revenues showed improvement because of improved earnings from commercial departments.

Defence of the Country:

- After independence the major tension with neighboring India was on Kashmir conflict.
- This led to a firm commitment on the part of the government to give high priority to strengthening the country's defense capability.
- This was done by setting aside major portion of the country's revenue for building up the defense forces.
- Huge amount is spent on defence of the country.
- In 1954 Pakistan signed a Mutual Defense Agreement with the United States under which the US government started providing military assistance.

Deficit financing:

- Throughout the 1950's there were reliance on deficit financing as an instrument of government policy.
- Credit creation in the public sector at Rs 679 million record in 1957-8.
- Though the proportion of government budget deficits financed from money creation came down to less than 40% during 1955 from nearly 90% during 1951-5.

DOMESTIC CAPITAL FORMATION:

- The statistic for domestic capital formation in 1950's shows some discrepancies among various resources.
- The rate of growth for both private and public investment was high during 1950-5.
- Some investments were made in large irrigation projects such as Taunsa barrage, Lower Sind barrage.
- Significant investments were made in infrastructure development especially in transport and communication sector.

- There was also substantial private sector investment in housing, which was mainly undertaken by higher income groups.
- Investments in social sectors, i-e education and health were minimal and these sectors had very low priority in the total development expenditure.
- The increase in public investment in 1950's was truly dramatic.
- After 1955, the rate of growth of real private investment showed down in west Pakistan because of the sharp increase in the price of investment goods triggered by the 1955 devaluation.

Fixed Investments As Percentage Of Gdp

	1949-50	1954-5	1959-60
Pakistan			
Public	1.5	2.6	5.8
Private	1.3	2.1	3.4
Overall	2.8	4.7	9.3
West Pakistan			
Public	1.6	3.8	7.3
Private	2.5	3.2	4.2
Overall	4.1	7.1	11.5
East Pakistan			
Public	0.6	1.2	3.7
Private	0.9	1.0	2.3
Overall	1.5	2.2	6.0

Institutional growth:

- Institutional growth was very rapid and impressive.
- Establishment of PIFCO (Pakistan Industrial Finance Corporation) in 1949 later changed to IDBP (Industrial Development Bank of Pakistan).
- ADFC in 1949 later changed to ADBP.
- NATIONAL BANK OF PAKISTAN in 1949.
- PIDC (Pakistan Industrial Development Corporation) in 1952; The major objective of PIDC was to help establish industries which were handed over to private sector when they were completed
- PIA in 1956
- WAPDA in 1958.

DEVALUATION DECISION IN 1955:

- The devaluation of Pakistani rupee in July 1955 by 30% in relation to the pound sterling.
- The impact of devaluation on the balance of payments situation was mixed.
- There were some improvements in exports but imports, which were earlier also being curtailed by government control, saw no fall.
- In 1955-56 the balance of trade showed a surplus and government took this to mean the success of the devaluation decision.
- Due to devaluation domestic prices rose, especially for food items, and this reflected itself in a rising cost-of-living index.
- Another adverse effect of devaluation was that the government had to pay more for the food grain and, though the government tried to reduce the effect on retail prices by providing subsidies, there was increase in retail prices.

Introduction of Medium term planning:

- Colombo plans 1951-57 as a six-year development plan overtaken by Korean War.
- First five year plan, which was to cover the period 1955 to 60.
- Although a very impressive document, was never seriously implemented.
- It was officially published in late 1957 and was never given formal approval by legislation.
- Martial law October 1958