

FOREIGN INVESTMENT AND THE INDUSTRIALIZATION

OF PAKISTAN

by

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Foreign Investment and the Industrialization of Pakistan
Thesis directed by Associate Professor Carl McGuire

This Thesis for the M.A. degree, by

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Aftab Ahmad Chowdhry
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Department of
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Chowdhry, Aftab Ahmad (M.A., Economics) include a liberal
Foreign Investment and the Industrialization of Pakistan
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The low income level of the Pakistani people is due to population density and under-utilization of resources. Industrialization will create greater job opportunities for the population and will enable fuller utilization of other kinds of resources. The shift from agricultural production to manufacturing production, in general, promises greater productivity. Moderate industrialization is possible in Pakistan because it possesses an ample volume of agricultural raw materials such as jute, cotton, sugarcane, and tobacco and sizable energy resources and mineral ores, and because the abundant labor supply can be trained with relative ease. Entry into industrialization is hindered by low income levels and a consequent low level of domestic capital formation. Foreign investment must therefore be encouraged.

Examination of the investment atmosphere in Pakistan discloses certain factors that tend to retard the flow of incoming capital such as regulations limiting foreign investment to certain fields, local participation requirements, mineral development laws, certain import restrictions, controls over security issues, and high corporation and personal taxes. On the other hand features encouraging

the entry of foreign investment funds include a liberal policy on profit remittances and capital repatriation, tax relief for investors, government aids to new firms, customs exemptions on selected capital goods and raw materials imports, improved government administration, and a generally favorable attitude toward private enterprise. The conclusion is reached that Pakistan will be successful in employing foreign capital in the development of the country.

This abstract of about 250 words is approved as to form and content. I recommend its publication.

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Carl Mc Guire
Instructor in charge of dissertation

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In the few years since Pakistan came into being it has achieved a respected place among the free nations of the world. Confronted from the very start with a number of seemingly insurmountable obstacles to its continued existence and growth, Pakistan's leaders and its people have, in the opinion of the writer, faced these and subsequent difficulties with determination, an impressive confidence which denied any possibility of failure, and a firm belief in the values of a free-enterprise system.

One of the tasks which received immediate attention as of primary importance was the need to broaden the base of the new nation's economy and raise the standard of living through a limited amount of industrialization. The problems surrounding this task have been many, one being a lack of investment capital within Pakistan. Those who lead Pakistan early recognized that association of private

foreign capital with domestic capital in the country's economic development would be desirable as at least a

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INTRODUCTION

(1) The Problem of the Thesis

While the results, measured by the flow of private capital, The problem of this thesis is to attempt a general analysis of how the productivity, national income and standard of living in Pakistan can be improved by foreign investments which further the development and industrialization of the Pakistani economy. national pride is to be in error, In the few years since Pakistan came into being it has achieved a respected place among the free nations of the world. Confronted from the very start with a number of seemingly insurmountable obstacles to its continued existence

(2) The Plan of Attack
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foreign capital with domestic capital in the country's economic development would be desirable as at least a partial solution to this problem, and they have actively worked to create conditions favorable to private foreign investors. While the results, measured by the flow of private capital, have been disappointing, the conviction remains strong within Pakistan that notwithstanding current difficulties Pakistan offers distinct advantages as an area for investment. To completely write off this conviction as being an enthusiastic symptom of national pride is to be in error, for in spite of certain discouraging features to be found, Pakistan does have much to offer--both real and intangible.

(2) The Plan of Attack

An analysis of the role of investment in the development and the industrialization of a country requires a description and appreciation of the nature of its people, land and government. Therefore, after defining the subject matter in the first chapter of this thesis, the second will present a general picture of Pakistan's geography, labor force and form of government. The third chapter will deal with the adequacy of natural resources of Pakistan. The problem is whether this new nation is endowed with a supply of natural resources sufficient to increase output and raise the

standard of living which is already below a subsistence level due to the great pressure of population on scarce resources. The great differences in living standards of the countries of the world partly is due to unequal distribution of population and natural resources. However, the living standards can be improved through two ways: (i) either by taking people to jobs--that means moving them to areas which are sparsely populated, from the regions which are densely populated and where their productivity is low; or (ii) by taking jobs to the people--that means industrialization and development of those parts and regions which are rich due to their natural resources. The former solution was possible in the ages when feelings of nationalism were not so strong. But the latter is possible provided the people of those regions are gifted with an adequate wealth of capital, machinery and technical knowledge. as either "consumption" or "investment".

Since Pakistan does not have the financial capital required for the adequate utilization of its resources, the Fourth Chapter will discuss the methods and governmental policies designed to encourage foreign investment.

The Fifth Chapter will review briefly the government's tax policy with regard to both foreign and domestic private investment.

In the last chapter a detailed analysis will be made regarding the sources of domestic capital and the attitudes of the government of Pakistan towards the

development of the economy of the country.

(3) Definitions

(a) Investment:

Broadly speaking "investment" is the excess of an economy's current output over its current consumption. For study of the process of economic development, however, this conception is not wholly satisfactory and some further delineation of this concept is necessary. The depression of the 1930's produced a large literature on employment theory and national income analysis that popularized a very loose usage of the term "investment". This usage, while not formally identifying "investment" with productive capital formation, makes it so easy to pass from one to the other than they are often used almost as synonyms. This type of economic analysis tends to classify the output of any period as either "consumption" or "investment".

(b) Industrialization.

Similarly, all expenditures in any period are treated as either for consumption purposes or for nonconsumption purposes. The term "industrialization" means to establish factories and to increase the use of mechanical power in order to induce a series of investment, new employment, in the classical analysis (e.g. Say's Law) it traditionally was contended that nonconsumption outlays were used for additions to productive plant and equipment or inventories, it became common practice to treat all such outlays as investment.

In the context of depression and unemployment problems, however, it was soon realized that while under

"normal" conditions most nonconsumption expenditures were paid out for productive capital goods, their employment-income effect did not, in fact, depend upon their being used for new factories or new machinery. Instead, it was contended that building a new art gallery or a new golf course, or putting unemployed mural painters to work, would do just as well. So long as the focus is upon short-run changes in aggregate incomes and employment, all outlays for nonconsumption purposes are similar in their effects: they raise total employment and thus money incomes and real incomes alike. A stadium and a new steamship are both investments, insofar as their construction creates employment.¹

(4) Basic Reasons for Industrialization of a Country

The term "investment" in this thesis will therefore generally refer to capital formation useful to economical development rather than to the Keynesian usage of the term.

is that industrial production stimulates internal and external economies by making greater use of capital and power to yield greater productivity. The greater the use of capital and power, the greater the opportunities of employment and order to induce a series of investment, new employment, division of labor. The greater the employment, the greater

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¹This usage, as might be expected, has caused no little confusion. It will be seen at once that the term "investment" becomes exceedingly broad and thus includes--from the employment point of view--a whole host of things to which the calculus of costs and returns in the private acquisitive sense is quite inapplicable. In the language of the market place, "investment" has always meant an individual's commitment of funds--owned or borrowed--with the expectation of gaining an income and/or an appreciation in value from the acquisition of an asset.

and increase the use of resources. In the broadest sense of the term, it includes the building of highways and access roads and railways to help in the marketing of farm products; it would include the development of electrical or other resources of power for rural industries and the securing of wood, coal or oil to supplant animal droppings as fuel in some countries; in very many cases it would mean the development of agricultural processing plants to prevent spoilage or to permit more diversified farming. In short, it means the introduction and utilization of organization and production techniques which yield greater product output per unit of factor input, i.e., Schumpeterian "innovations."

Again the establishment of industry does not mean
 (4) Basic Reasons for Industrialization of a Country
 only that the productivity of a particular industry has

been. The basic reason for placing the major emphasis on the industrialization of non-agricultural economic activity is that industrial production stimulates internal and external economies by making greater use of capital and power to yield greater productivity. The greater the use of capital and power, the greater the opportunities of employment and division of labor. The greater the employment, the greater is the demand for trained workers. The greater the demand for trained workers the greater the possibility of strengthening external economies by establishing schools and training centers. It means more employment, more income. Moreover, the industries of an economy are interdependent: each furnishes a market for the others and each

determines the prices of productive factors and raw materials used by the others. In an expending economy, each industry, provided its growth is gauged correctly to the growth of others, should develop economies of production or improve its product; and the benefit of each to the others are augmented by their very interdependence. Even if a plant or industry has already realized all internal economies (perfectly exploiting its overhead or fixed factors), its expansion may induce other related and contributory services or industries to better their products or to realize lower costs, and these improvements in turn lower the costs of the first industry. Again the establishment of industry does not mean only that the productivity of a particular industry has been increased, but it has importance for the social, cultural, economical and political life of the people. For example, practically everyone is aware of the importance of industrialization for the defense of his country. As this industrialization process goes on it not only increases the wealth and income of the nation, but it also provides an incentive to society to improve continually the technology in order to economize the cost of production. In other words, industrialization by reducing costs and increasing profits serves as an incentive for increasing the flow of commodities on the world market for the consumption and benefit of mankind.

Under certain conditions population is a valuable asset of production and under others it is a liability. For example, in the case of sparsely-populated Australia, it is believed that an increase in population will not only increase productivity, but will also increase the real income per worker plus their standard of living. Likewise, it is contended that a similar situation prevailed a few decades ago in the United States of America. For example, it is stated that a key factor in the development of the United States was the immigration from European nations, the immigrants bringing their skill and capital.² But in those countries which are already densely populated, such as India and Pakistan, the migration of refugees tends to decrease the real income per worker so that it hits far below the optimum point. This is because the pressure of population on natural resources is already very heavy. The solution to raise the average income per head is to industrialize the country. It is a debated question that an increase in the living standard of workers will tend to raise the fertility rate amongst the population of the working class. But it is widely believed that the people with high standards of living have lower fertility rates than people with low standards of living. This question is complex and requires a long discussion. At present I do not want to say

²Buchanan and Ellis, Approaches to Economic Development. Section, "Economic Development before 1913." p. 190. New York: The Twentieth Century Fund, 1955.

much on this point, except, that in addition to the economic conditions, the birth and death rates also depend upon the cultural and social life of different countries. Notwithstanding the state of the debate regarding this theoretical problem, Pakistan is undergoing great difficulties with its surplus population due to partition. Although Pakistan is an agricultural country, the distribution of population is uneven. A large percentage of the population has concentrated in big cities, such as Karachi, Lahore, Rawalpindi, and Peshawar, instead of moving into rural areas, not only to utilize land, but to establish suitable industry such as ginning and weaving. Moreover, a large part of Pakistan's fertile territories and districts, which in the past was the pride of the British Empire, is now changing into deserts and oases, as a result of the political partition which allows India to divert the canal waters from Pakistan's green pastures to her own thirsty plateau. The unequal division of the Indian sub-continent is essentially a political problem with which we cannot deal in this thesis. However, under the present situation the only economic course left to Pakistan for raising her standing of living is to follow the doctrine of Western world industrialization.

The determining factor as to whether a country can be industrialized is not the existing conditions of production, but the extent of her potential resources. Pakistan is an agricultural country but she is rich in potential

mineral wealth. A recently conducted geological survey of Pakistan has revealed the existence of many important minerals in fairly large quantities.³ Generally per capita income determines the amount of savings which the people in a country can take out of their income. These amounts of savings will determine the volume of financial capital for investment in that country. Estimates of national income reveal average income in Pakistan during 1949-1950 was about \$6.00 per month⁴ due to the unprecedented migration of refugee population. With such a small income it is difficult to establish an industry with native savings. Moreover, it is also difficult to obtain the required capital by reducing the living standard of the people, because it is already at a minimum. Reduction of living standards was used by Russia during the early nineteen-thirties to industrialize the country, exporting wheat to European markets and importing machines and other capital goods, after starving thousands of men to death. Other means, such as taxes on the surplus value of land, the extension of the public debt, the encouragement of savings, the receipt of overseas remittances, and the requisition of Pakistani foreign deposits, can at most supply half of the need for capital during the first period industry can be established or not depends, of course, on

³Cf. Chapter III, p. 40.

⁴This computation is based on national income estimates published in State Bank of Pakistan Bulletin, March, 1955, pp. 3-4.

of industrialization.⁵ The other half must be obtained in the form of foreign loans.

As the capital is little, therefore worthy of discussion, the question is how capital is to be invested so that its marginal efficiency may be maximized. And foreign loans entail payments of principal and interest. Hence, it is wise to invest borrowed capital in industry with a high productivity and whose product can be exported to get foreign balances to repay the loans and interest. Some industries such as tanning and textile, which require small amounts of capital and less skilled labor, can find a ready market. These can be conducted on a big as well as on a small scale. These can be set up in big cities and in small cities. Such industries are easiest to establish to and have the ability to meet the home demand and to repay the foreign loans. This type of industry is being established in Pakistan using her agricultural product to provide raw material to such industry. And every country should choose first the establishment of those industries in which it can use its own raw material conveniently. Heavier industry, such as iron and steel, aeroplanes, automobile and ship building, must be held over until greater capital and skilled labor are available. Whether such industry can be established or not depends, of course, on the availability of capital and skilled labor. But it no

advantage to enjoy the pleasures of cheap prices. Moreover,

⁵Cf. ante, p. 5.

less depends on the coordination of various branches of industries and adequate measures of tariff protection.

The government of Pakistan has made certain provisions under which foreign investors can take the initiative to invest their capital in order to establish industry in the country. But the management of these should not be limited to foreigners. The plans of joint enterprise will not only protect the interest of the Pakistanees but will also guarantee the interest of the foreigners. The two-sided sharing of interest and risk will be equally beneficial to both sides.

On the first point "industrialization" of Pakistan will not be profitable to the interest of the old industrialized countries, because it will reduce their trade to a certain extent. But it is certain during the first stage of industrialization that Pakistan will need a huge quantity of machinery and capital goods. In this period the importation of such commodities will occupy more than fifty per cent of the total volume of trade from the United Kingdom and United States. Later, after the completion of this project, many imported commodities will be displaced by the completion of the native manufacturers. It will only change the character of imports and exports. It will create a tendency toward specialization in those goods in which that country is efficient. Other countries can have the advantage to enjoy the pleasures of cheap prices. Moreover, an increase in income per head will enable Pakistanees to

spend more on foreign goods. The greater the productivity of a country the greater will be the standard of living of its population. The greater the standard of living of the people the greater will be the volume of international trade. Industrialization of the United Kingdom, France, Germany and the United States did not reduce the volume of trade, but on the contrary it has positively increased international trade. Statistics have proved that the chief customers of industrial countries are not agricultural countries, but industrial countries themselves. So the industrialization of Pakistan will extend trade, not reduce it. create much necessary capital out of waste manpower

Moreover, in the case of purely agricultural countries, production is very much influenced by the composition of soil and changes in weather. So there is a great variation in the production which indirectly influences the income of the people. This uncertainty leads to soil depletion and chaos amongst the people. Hence from the point of view of conservation a purely agricultural country must shoulder a great risk of depletion. It is a natural phenomenon that agriculture is not possible at all times as it is limited by soil, water supply, weather and climate, whereas industry is also not possible in all places. Seasonal and constant unemployment can occur.

Only industry can absorb the unemployed people of agriculture who are left idle, and a corresponding amount of natural resources can also be utilized.

To sum up the same logic of absorbing under-employed labor of agriculture, the case for village and rural industries as the chief carriers of industrialization in the Orient rests on two considerations. The first is the relief from want attending seasonal unemployment in agriculture. In Japan it was estimated in 1938, 54 per cent of the peasants were engaged in supplementary jobs. The International Labor Office has urged that governments consider the possibility of "dovetailing of public works with seasonal variations in the excess supply of agricultural labor."⁶ Highway, irrigation and drainage projects could thus create much necessary capital out of waste manpower and eliminate the misery of seasonal unemployment as well. Another potential gain from establishing industries would be the appeal to local savers and investors who have hoarded their money lacking banking facilities in primitive economies.⁷ The existing cost of production of a certain commodity. There are many scholars who believe that international production should be divided amongst the different countries according to various national comparative costs of production at the present time. They also believe that international division of labor based upon the comparative costs of production in various countries is very reasonable legislation or some exclusive actions in the field of.

⁶International Labor Office, "Action against Unemployment," Geneva, 1950. p. 138.

⁷Morton Solomon, "The Structure of the Market in Undeveloped Economies", QJE, August, 1948. p. 532.

and beneficial to all nations concerned. Some think that industrialization of agricultural countries will hinder international division of labor because the cost of production for certain commodities is higher than in other countries. This belief is based on the following conceptions:

- (i) That the resources of all countries have been utilized to their maximum.
- (ii) That the present cost of production of a certain commodity in a certain country will unchangeably be the future cost of production for the same item.
- (iii) That with free international trade it is possible to raise the living standards of the people in all countries. The various factors of production in different countries can be utilized to their best under free trade. This theory can be argued on at least two points:
 - (i) The existing cost of production of a certain commodity in a certain country may not be the cost of production attained under a purely and completely free competitive system of trade. This cost of production is influenced by many outside factors: e.g., monopoly, cartel, trust, bounty, governmental exchange policy, interest rate policy and international relations, etc. Any governmental legislation or some exclusive actions in the field of finance and economy will directly or indirectly influence the cost of production of a certain commodity in a certain country. So-called free and pure competition is non-

existent in any country or internationally at any one instant. (ii) The cost of production of a certain commodity in a certain country is variable over a period of time. If it is believed that the arguments presented are reasonable, then it is unnecessary for a country to abandon the possibility of production in other fields, if in a certain stage of industrialization the cost of production of those commodities happens to be higher than that in other countries. Of course, it is unwise to encourage native production without considering the possibility of high cost in the long run, as for example to try to plant grapes in the hot houses of Scotland.

Although Pakistan is far from being a theocratic state and there is no sign that it will become one, the creation of Pakistan has given the Muslims of India a country in which they can live according to their own ways and views.

(1) Partition

There are two political points worthy of discussion: (i) Partition and its consequences, and (ii) Pakistan's relations with its sister country India, because these items have exercised an important influence on Pakistanian policies in recent years. Division of the Indian sub-continent, known as the "Golden Sparrow" of the Middle East, into the two new dominions of India and Pakistan has split up a complete economic unit into three parts:

India, West Pakistan and East Pakistan. The disadvantages to Pakistan of being divided into two separate parts,

CHAPTER II

distant from each other by over a thousand miles by land,

and even THE LAND, THE PEOPLE AND THE GOVERNMENT

Partition left Pakistan with the most important

THE LAND

share of the two major cash crops of the sub-continent.

Pakistan, seventh in population size, is the largest Muslim state in the world. The country came into being in August, 1947 in response to the demand of the Muslims of British India for a land in which they could live freely according to their own ideas. The conditions of its creation mean that Islamic ideas exercise a major influence on actions and thoughts. Although Pakistan is far from being a theocratic state and there is no sign that it will become one, the creation of Pakistan has given the Muslims of India a country in which they can live according to their own ways and views.

the sources of hydroelectric power on which undivided Punjab also formerly drew. India depended on Pakistan's leather industry where-

as on There are two political points worthy of discussion:

(i) Partition and its consequences, and (ii) Pakistan's relations with its sister country India, because these items have exercised an important influence on Pakistanian policies in recent years. Division of the Indian sub-continent, known as the "Golden Sparrow" of the Middle East, into the two new dominions of India and Pakistan has split up a complete economic unit into three parts:

India, West Pakistan and East Pakistan. The disadvantages to Pakistan of being divided into two separate parts, distant from each other by over a thousand miles by land, and even farther by sea, need no emphasis. Partition left Pakistan with the most important share of the two major cash crops of the sub-continent. The country had about eighty per cent of the raw jute and a high proportion of the long staple cotton. On the other hand, Pakistan received too few jute mills and cotton mills to handle huge quantities of these two crops. Pakistan with a surplus in food stopped selling her surplus wheat to India when a dispute arose between the two countries over the fact that Pakistan did not devalue her currency with India in 1949. Partition cut across the major irrigation system of the sub-continent, leaving in India many of the headworks of canals of basic importance to the whole of the undivided Punjab, as well as the sources of hydroelectric power on which undivided Punjab also formerly drew. India depended on Pakistan's leather industry whereas on the contrary Pakistan depended on India mostly for coal, steel, mustard oil and other commodities such as textiles. Partition put many barriers to the movements of goods such as cotton seed and fruits from the Punjab and fish and poultry from East Bengal. These barriers included tariff duties on both imports and exports. In the field of communication, as in almost every other, partition cut across the established arrangements. In

East Pakistan the frontier cut across the railway system which had been laid out to carry goods to the big market of Calcutta, leaving East Bengal in some cases without a railway connection between different parts except by passing through India. Conversely the only communication between West Bengal and Assam until the recent construction by India of the new railway link, lay through East Bengal. Moreover in West Pakistan partition struck a heavy blow to the communications of Jammu and Kashmir state. The only railway to that part was through Sialkot, in Pakistan, leaving no connection for the people of Jammu and Kashmir to India. The struggle which started between Pakistan and India about the affairs of the state of Kashmir caused a great loss to the destitute population of Kashmiris. The government of India has constructed a new link through Gurdaspur district connecting Jammu, capital of the state, by road. This was only done to help the Maharaja who gave his choice for accession to India, not considering the will of the population who were mostly Muslim and wanted to join their brother Pakistanis having the same creed and religion.

It might have been hoped that despite the barriers to free movement caused by the existence of two separate states, trade and commerce would flow as freely over the whole sub-continent in the new conditions as had been the case previously. The standstill agreements reached between the representatives of two newly-born countries at partition, provided for the minimum interruption of commercial

exchanges. But unfortunately disputes arose very early over Pakistan's right to a share in the proceeds of jute export duties and over India's action in withholding Pakistan's share of the cash balances of undivided India. It is not necessary to tell the complaints of the two parties against each other, though it would be a mistake to underestimate the bitterness--no doubt common to both sides--arising from events of partition. Moreover, it is hoped that present differences will subside and close economic cooperation to the benefit not only of both parties but of the Commonwealth and the world will occur. It is unhappily added that the immediate prospects are far from bright.⁸

(2) The Geography of Pakistan

(a) The Total Area

West Pakistan is bounded by Afghanistan in the north, India in the South, the Arabian Sea in the West, and a disputed territory of Jammu and Kashmir in the East. It is divided into three provinces--Sind, Punjab and North Western Frontier Province (NWFP). Baluchistan was recently given provincial status as well as a number of other states, the largest of which is Bahawalpur. Sea near Karachi, the country's most important seaport.

⁸United Nations, "Economic Survey of Asia and the Far East, 1954". pp. 159-160. "Economic Survey of Asia, 1952." pp. 104.

East Pakistan is bounded on the northeast and west by India, on the south by the Bay of Bengal and on the east by Burma. It consists of only one province, East Bengal.

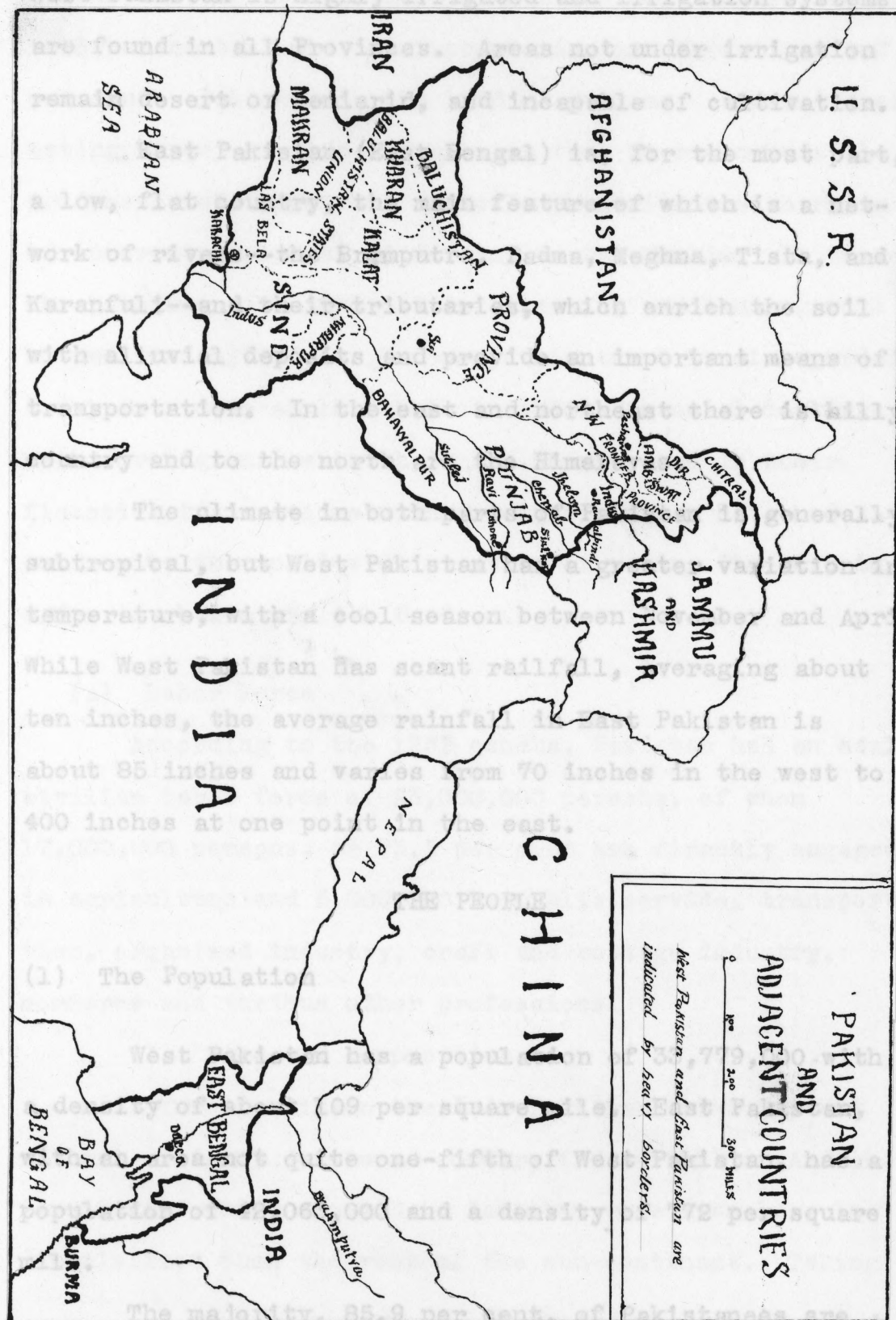
Pakistan, which includes about one-fourth of the Indian sub-continent, has a total area of 364,737 square miles and a population of 75,842,000.⁹ The country consists of two distinct geographical units a thousand miles apart, a factor of economic and political importance. West Pakistan has an area of 310,236 square miles equal to the size of three American states, Utah, Arizona, and Nevada, whereas East Pakistan has an area of 54,501 square miles equal to that of Arkansas.¹⁰

(b) Topography and Precipitation

In West Pakistan most of the Provinces of Punjab and Sind are a continuation of the Rajasthan plains which lead to mountains to the west and north. The North Western Frontier Province and Baluchistan are, in general, hilly; the Punjab is mostly plains country; and Sind consists of a plains region with hills to the west and desert to the east. Five large rivers flow through West Pakistan. The largest of these is the Indus, which enters the Arabian Sea near Karachi, the country's most important seaport.

⁹Loc. cit.

¹⁰United Nations, "Economic Survey of Asia, 1952." pp. 104.



West Pakistan is highly irrigated and irrigation systems are found in all Provinces. Areas not under irrigation remain desert or semiarid, and incapable of cultivation.

East Pakistan (East Bengal) is, for the most part, a low, flat country, the main feature of which is a network of rivers--the Brahmaputra, Padma, Meghna, Tista, and Karanfuli--and their tributaries, which enrich the soil with alluvial deposits and provide an important means of transportation. In the east and northeast there is hilly country and to the north are the Himalayas.

The climate in both parts of Pakistan is generally subtropical, but West Pakistan has a greater variation in temperature, with a cool season between November and April.

While West Pakistan has scant rainfall, averaging about

(a) Labor Force
ten inches, the average rainfall in East Pakistan is about 85 inches and varies from 70 inches in the west to 400 inches at one point in the east.

According to the 1951 census, Pakistan has an adult civilian labor force of 23,000,000 persons, of whom 17,000,000 persons, or 75.5 per cent are directly engaged in agriculture and 6,000,000 in public service, transportation, organized industry, craft and cottage industry, commerce and various other professions.

(1) The Population

West Pakistan has a population of 33,779,000 with a density of about 109 per square mile. East Pakistan, with an area not quite one-fifth of West Pakistan, has a population of 42,063,000 and a density of 772 per square mile.

The majority, 85.9 per cent, of Pakistanees are Muslim and are mainly concentrated in West Pakistan.

Hindus, an important minority in East Pakistan, represent 12.9 per cent of the total population and Christians 0.7 per cent. Pakistan is the land of Muslims, and an interesting aspect of this religion is that it recommends the profession of trade, but strictly prohibits the charging of interest on loans. According to the Muslims all those who take and give interest on borrowing and lending will be punished by God.¹¹ However, this tenet is disregarded today on a wide scale. Both in their financial dealings with coreligionists in their own economy and in their financial transactions with foreigners, they have had to conform to the world-wide practice of paying interest in order to obtain capital funds.

(a) Labor Force

According to the 1951 census, Pakistan has an adult Muslim population of 23,000,000 persons, of whom 17,000,000 persons, or 75.5 per cent are directly engaged in agriculture and 6,000,000 in public service, transportation, organized industry, craft and cottage industry, commerce and various other professions.

(i) Size and Composition

Before partition the Indo-Pakistan sub-continent was not a highly developed country industrially. And the territories which constitute Pakistan were even less industrialized than the rest of the sub-continent. Taking

¹¹ Holy Quran, Second Manuscript, Passage No. 4.

all pre-partition industrial establishments together into account, Pakistan's share in factories was about 9.6 per cent and in employment about 7.3 per cent.¹² Thus Pakistan did not inherit any great industry nor any labor problems of appreciable magnitude that usually follow industrialization. Labor union organization in Pakistan is still taking

shape; (ii) Government Measures to Influence Size and

There is no Communist trade unions. Existing

labor Under the straitened circumstances which partition had created for Pakistan, the government established a department which undertook the task of offering employment assistance to those millions of uprooted persons who had managed to reach Pakistan as refugees, and which on the other hand helped to provide workmen to those industries where work was dislocated due to unexpected exodus of non-Muslim employees to India. The organization during the last seven years has grown into a network of twenty Employment Exchanges and five technical training centers all over the country. The five technical training centers are for functioning at Karachi, Lahore, Sialkot, Peshawar and Decca in East Pakistan, with a total seating capacity of

1,250. These centers provide training in thirty-six different trades in the field of engineering, building and cottage industry. In view of the quicker pace of industrial development in the country, however, there is

¹²United Nations' Review on Asia and Far East, "Main Source Economy of Pakistan." 1951.

an increasing demand for more training centers as well as more trained workers. Every effort is therefore being made to increase as far as possible the training facilities from year to year.

(iii) Extent of Labor Unionism, and Legislation. Labor union organization in Pakistan is still taking shape; industrywide bargaining, for example, is rare. There is no activity of communist trade unions. Existing labor legislation covers hours of work, child labor, workmen's compensation, industrial safety, labor organizations, and industrial disputes. The responsibility for the enactment and enforcement of labor legislation is shared by the Central and Provincial governments. Enforcement has not been vigorous in the past and many regulations seem to be wholly or partially ignored.

It is a general condition that a foreign firm employ Pakistan nationals and train them in all phases of its operations. Various proportions of national employees are specified for mining and petroleum industries and for firms engaged in importing and exporting. It has been indicated, however, that exceptions will be made to these regulations, depending upon individual circumstances.

(b) The Cost of Labor

Pakistan has a large supply of unskilled labor, caused in part by the extensive exchange of populations with India which took place following partition. However,

skilled labor in most fields is very scarce as are technicians and managerial personnel. So far as earnings are concerned, there is no definite scale for the laboring class. It varies from industry to industry, and from area to area. Foreign companies generally are expected to pay higher wages and provide better working conditions than local firms. Moreover, compensation known as the annual "bonus", which is ordinarily paid to the workers in addition to the base wages, and "dearness" allowances is a common practice in most local industry and especially in foreign companies. It is not a grant of any amount the employer wishes to give, nor, is it regulated by established custom, but it is a claim made by labor to a share of the company's profit. The settled amount of this bonus is from one to six months' base salary. Labor productivity in Pakistan is far below the Western standard and regular absenteeism is a problem which tends to reduce the relative cheapness of Pakistan's labor. These problems which, however, are felt by the Pakistan government, are being overcome with a combination of training and the institution of modern administrative techniques. Educational facilities are also being given by the government of Pakistan, and free education up to a high school standard is made compulsory in most Provinces.¹³ and forty thousand primary schools. In addition there are several technical and commercial institutes.

¹³Cf. Post, p. 66.

(c) Geographic Distribution of Labor Force

Urban dwellers represent about ten per cent of the total population, eighteen per cent of the population in West Pakistan and four per cent in East Pakistan. The populations of the largest cities in West and East Pakistan are as follows (in thousands):

West Pakistan: Karachi (Federal capital area), 1,126; Lahore, 849; Hyderabad, 242; Rawalpindi, 237; Multan, 190; Layallpur, 179; Sialkot, 168; Peshawar, 152; Gujarawala, 121; and Quetta, 84.

East Pakistan: Decca, 276; Chittagong, 146; Barisal, 90; and Narayanganj, 73.

Urdu is the language most widely used in West Pakistan, although Pushtu, Punjabi, Sindhi, Baluchi, and Gujrati are also spoken in some Provinces. Bengali is the most important language in East Pakistan. Throughout Pakistan, the accepted language in business and in most government offices is English.

The literacy in Pakistan is estimated at 13.2 per cent, varying from 1.3 in the tribal area of the NWFP to 16.9 per cent in East Bengal and 31.3 per cent in the

Federal capital area of Karachi. There are five universities and more than a hundred affiliated colleges in Pakistan, six thousand secondary schools, and forty thousand primary schools. In addition there are several technical and commercial institutes.

Colin Clark, *The Conditions of Economic Progress*. London: Macmillan and Company, 1940, p. 176.

(2) National Income explained by Clark, is that the

secondary industries in those countries have been under the protection of the government. The total production of a country, which determines the level of national income, can be roughly classified into three categories: primary production, secondary production, and tertiary production. Primary production includes agricultural and pastoral production, fishing, forestry and hunting. Secondary industries include mining, manufacturing, building, construction, public works, gas and electricity supply. Tertiary industries include all those which do not belong to either of the above-mentioned categories, mainly distribution, transportation, public administration, domestic services and other activities producing a non-material output.

The productivity of secondary industry is generally higher than that of primary production. The productivity of tertiary industry is generally higher than that of secondary industry. This theory was first stated by William Petty and is amplified by Colin Clark. Sir William Petty wrote in 1691, "There is much more to be gained by manufacture than husbandry; and by merchandise than manufacture."¹⁴

In general, the productivity of secondary industry is higher than that of primary industry. There are two exceptions: Australia and New Zealand. The reason for

¹⁴ Colin Clark, The Conditions of Economic Progress. London: Macmillan and Company, 1940, p. 176.

these exceptions, as explained by Clark, is that the secondary industries in those countries have been under the protection of the government.

Since different industries would yield different incomes, the percentage of a country's population engaged in different industries would therefore affect the average national income.

As Table I shows, the national income of Pakistan increased from 1,680 crores rupees in 1949-1950, to 1,807 crores in 1952-1953, an increase of approximately fifteen per cent. Despite population growth per capita income grew from 225 to 233 rupees. About sixty per cent of the national income originated in agriculture, 24.5 per cent in services and trade, and only 6.5 per cent in manufacturing and 5.7 per cent in government, indicating already the dependence of Pakistan on primary industry. During the year 1952-1953 total incomes from agricultural activities remained practically constant. Income originating from large manufacturing (other than government-owned) factories increased by over 33 per cent between 1949 and 1953. The author interprets this as an indication of the important potential contribution of manufacturing to the growth of the national product of the country.¹⁵

¹⁵ Government of Pakistan, State Bank of Pakistan Bulletin, March, 1955, pp. 3-4.

Mahammed Ali Jinnah, who was Pakistan's first Governor General. NATIONAL INCOME OF PAKISTAN, 1949-1950*1947, it has declared (in crores of national currency)

Country and Currency Unit	Year	National Income	Per Capita Income
Pakistan (rupees)	1949-1950	Rs. 1,680	Rs. 225
	1950-1951	Rs. 1,708	Rs. 226
	1951-1952	Rs. 1,834	Rs. 239
	1952-1953	Rs. 1,807	Rs. 233

(One crore=10,000,000 rupees; one lakh=100,000 rupees.
The Pakistan rupee=30 U. S. cents at the official rate.)

*Government of Pakistan, State Bank of Pakistan Bulletin, March, 1955, pp. 3-4.

(3) The Government and its Evolution

By the end of World War II, both the Indian National Congress and the All-India Moslem League were demanding independence for what was then the British Dominion of India. They differed at first on whether India should remain a single political unit or be divided into two separate entities on the basis of religion. The Mountbatten Plan of June 1947 for the partition of the sub-continent was, however, accepted by both factions and, on August 15, 1947, Pakistan came into existence as an independent nation within the British Commonwealth of Nations. The founder and architect of the new nation was

Mahammed Ali Jinnah, who became Pakistan's first Governor General. Although Pakistan became a dominion in 1947, it has declared its intention to abandon its dominion status and become a republic, while remaining within the common-wealth framework. While Pakistan was created as an Islamic state, its leaders evidence no intention of making it a theocracy. Islamic tenets, however, exercise a significant influence on the actions and thoughts of the people. The basic principles which are to guide the new state include a pledge of freedom of worship for minorities. Under Pakistan's Provisional Constitution, an adaptation of the Government of India Act of 1935, which serves as a temporary constitutional arrangement until a new constitution is created by the Constituent Assembly, Pakistan's government is based upon federal principles. Both Central and Provincial Government responsibilities are clearly defined in the Government of India Act. The titular head of the state is the Governor General appointed by the Crown, who is responsible for making all appointments in the Government, including those of Provincial governors and high court judges. He also promulgates ordinances having the effect of law and is empowered to prevent any abuse of power by Provincial ministries. The actual running of the government, however, is carried on by the Cabinet, which is responsible to the Constituent Assembly through the Prime Minister, who is appointed by the Governor General. Other

ministers are appointed upon the advise of the Prime Minister. and Amb, in the NWFP. While Junaghad also agreed to accede. The present Parliament of Pakistan has 79 seats, stand. distributed as follows: East Bengal, 44; Punjab, 22; NWFP, three; and States of this Province, one; Sind, five; Bluchistan, one and States of Baluchistan, one; and one each for Khairpur and Bahawalpur. A new distribution of representation is expected, however, when the constitution is finally completed. 1953 and early 1954 the Constituent Assembly. The Federal Court of Pakistan is the highest judicial authority in the country and has original, appellate, and advisory functions. Its judges are appointed by the Governor General. 1955 The law of Pakistan is based upon the various codes enacted by the British in pre-partition India. In cases of personal law, such as inheritance, guardianship, and marriage, the customary law of Moslems or Hindus is applied.

At present there are four Governor's Provinces-- Punjab, Sind, North Western Frontier Province, and East Bengal--but Baluchistan, now governed by an agent to the Governor General, is soon to be raised to the status of a Governor's Province. While autonomy has been granted to the former princely states which have acceded to Pakistan, the responsibility for defense and foreign relations rests with the Central Government. Former princely states which have acceded to Pakistan include Bahawalpur, Kalat, Mekran, Kharan, and Las Bela, which in 1952 formed the Bluchistan

States Union; Khairpur, in upper Sind; and Chitral, Dir, Swat and Amb, in the NWFP. While Junaghud also agreed to accede, its status is in dispute between India and Pakistan.

The Frontier Regions or Tribal Areas, under the control of the Central Government, consist of 25,699 square miles of territory lying between the Pakistan-Afghanistan boundary and the North Western Frontier Province's settled Districts and States.

During late 1953 and early 1954 the Constituent Assembly, after considerable debate, reached agreement on a number of difficult constitutional problems. It was hoped that the work of framing a new constitution would be completed in 1955.

The principal Karif crops are rice, cotton, bajra, jawar, maize, sugarcane and jute; and the Rabi crops are wheat, gram, rape, mustard and barley.

Approximately less than one-third of the nation's land is used for agriculture--of the total area of 165.5 million acres only 55.6 million acres are under cultivation.¹⁶

A net increase of 5 million acres has been made during recent years by introducing new implements, methods and a great use of fertilizer.

¹⁶United Nations Economic Survey of Asia and the Far East, 1954, pp. 159-160 as quoted in Government of Pakistan Directorate of Agricultural Statistics, Ministry of Food and Agriculture, p. 5.

According to the United Nations' 1954 Economic Survey of Asia, the areas in Pakistan under cultivation during the year 1953-1954 were as follows:

CHAPTER III

THE ECONOMY OF PAKISTAN

(1) The Resource Base for Industrialization

(a) Agricultural resources.

Agriculture is the largest industry of Pakistan.

More than 75 per cent of the population depends on it.

Different primitive methods of cultivation are still used in the various provinces, and their crops naturally differ according to soil and climate. Throughout the country there are two main growing seasons, namely, Karif (Fall) and Rabi (Spring). The principal Karif crops are rice, cotton, bajra, jawar, maize, sugarcane and jute; and the Rabi crops are wheat, gram, rape, mustard and barley. Approximately less than one-third of the nation's land is used for agriculture--of the total area of 165.5 million acres only 55.6 million acres are under cultivation.¹⁶ A net increase of 5 million acres has been made during recent years by introducing new implements, methods and a great use of fertilizer.

¹⁶United Nations Economic Survey of Asia and the Far East, 1954, pp. 159-160 as quoted in Government of Pakistan Directorate of Agricultural Statistics, Ministry of Food and Agriculture, p. 5.

they are launching a number of important drainage schemes.

According to the United Nations' 1954 Economic Survey of Asia, the areas in Pakistan under cultivation during the year 1953-1954 were as follows:

Rice.....	23,692,000	acres
Cotton.....	3,094,000	"
Bajra.....	2,422,000	"
Jawar.....	1,504,000	"
Maize.....	1,064,000	"
Sugarcane.....	962,000	"
Jute.....	760,000	"
Wheat.....	10,065,000	"
Gram.....	2,458,000	"
Rape and mustard.....	1,525,000	"
Barley.....	551,000	"

Note: The area not reported is another 45 million hectares. It should be noted that land classified as "available for cultivation" is not necessarily cultivable. This terminology which is also used in other countries such as Burma and India denotes a residual category arrived at by subtracting from the total area the land accounted for by other categories. The extent of land actually cultivable can be determined only by special survey, which is difficult for every country.

West Pakistan is situated in the arid zone of the world having scanty rainfall during the year, whereas East Pakistan has a tropical climate with heavy rainfall during seven months of the year. In other words, the main obstacle in the way of expansion of cultivation in West Pakistan is the shortage of water, while in East Pakistan the chief bottleneck is the absence of proper drainage which leads to heavy floods during the monsoon season. To overcome these difficulties the government has undertaken the construction of new canals and is also tapping underground water resources in West Pakistan, while in East Pakistan they are launching a number of important drainage schemes.

Sind, Since agriculture is the largest industry in Pakistan, its development has become a major responsibility to the government. Industrialization alone cannot raise the standard of living in Pakistan if agriculture does not play its important role of providing raw materials. As stated by Jacob Viner:

The ratio of non-agricultural to total population tends to be highly correlated positively with per capita income, the degree of industrialization may be and often is a consequence rather than a cause of the level of prosperity, and that where agriculture is prosperous not only do tertiary or service industries tend spontaneously to grow, but there is a widespread tendency to use disposable surplus income derived from agricultural prosperity to subsidize uneconomic urban industry, with the consequence that the overall level of per capita income, while still comparatively high, is lower than it would be if urban industry were not artificially stimulated.¹⁷

Therefore, the government of any country, which was originally agricultural, should first adopt advanced methods of cultivation by bringing about certain projects to facilitate irrigation. Under the consideration of these principles the Pakistan government has undertaken certain schemes, such as the Lower Sind Barrage, the Thal Project and the Punjab Tubewell Project in West Pakistan, and the Kurran Garhi and the Nari Bolan projects in East Pakistan. Three other projects are in their initial stages. These are the Taunsa Barrage in Punjab, the Guddu Barrage in

¹⁷Jacob Viner, International Trade and Economic Development. London: Oxford at the Clarendon Press, 1953, p. 97. United Nations "Economic Survey of Asia and the Far East, 1951, pp. 89-90.

Sind, and multipurpose project for the Brahmaputra-Ganges delta in East Pakistan. The result of these attempts to increase Pakistan agriculture is shown in Table I, particularly in foodgrains.

The cash crops of Pakistan are cotton, jute and tea. Cotton plays an important role in the economy of Pakistan, and is the most important cash crop after jute, contributing about forty per cent¹⁸ to the earning of foreign exchange of the country. Pakistan grows about two-thirds of the world's jute, including most of the better varieties, and is the free world's fifth largest producer of raw cotton. In the calendar year 1953 agricultural exports accounted for over 98 per cent of Pakistan's total exports. Tea, which is another important cash crop of Pakistan, is cultivated on the lower slopes of the Himalayas in northern East Bengal. It also contributes a big share of foreign exchange, especially sterling. Pakistan wool, considered in the world market as particularly good for making carpets, is grown in West Pakistan. The largest consumers of this wool are the United Kingdom and the United States. Hides and skins are also important products, and sugarcane and tobacco, the cash crops, have shown a steady increase during the last few years.

*Government of Pakistan, Statistical Bulletin, Vol. I, No. 18, August, 1954, and Vol. II, No. 3, February, 1955.

¹⁸United Nations "Economic Survey of Asia and the Far East, 1951, pp. 89-90. However, the discrepancies are minor and do not distort the overall production pattern.

(b) Mineral Resources TABLE I

PRINCIPAL CROPS: AREA AND PRODUCTION*

1949-50 THROUGH 1953-54

Crop	1949-50	1950-51	1951-52	1952-53	1953-54
Area (thousands of acres)					
Rice.....	21,499	21,836	22,400	22,482	23,016
Wheat.....	10,686	10,432	10,893	10,240	9,507
Bajra.....	2,331	2,369	2,407	2,019	2,227
Jowar (Grain)	1,185	1,365	1,275	1,090	1,250
Gram (chickpea)	3,003	2,600	2,957	2,311	2,232
Maize.....	952	1,002	948	979	970
Barley.....	658	584	512	516	521
Rape & mustard	1,512	1,385	1,626	1,867	1,544
Sugarcane....	708	770	696	704	870
Jute.....	1,877	1,561	1,250	1,779	1,907
Cotton.....	2,654	2,799	3,072	3,375	3,467
Tea.....	73	74	75	82	83
Linseed.....	74	80	67	69	71
Sesamum.....	172	180	204	207	206
Tobacco.....	164	169	179	184	174
Production (thousands of long tons)					
Rice.....	8,408	8,171	8,195	7,757	8,147
Wheat.....	3,993	3,885	3,950	2,972	2,438
Bajra(millet)	394	371	385	266	270
Jowar (corn).	242	269	243	204	208
Gram (chickpea)	804	653	791	475	370
Maize.....	376	404	384	378	375
Barley.....	191	162	144	116	112
Rape & M.seed	267	229	284	305	228
(Cane sugar).	1,027	1,065	872	866	1,077
Jute.....	978	595	795	1,131	1,218
Cotton (lint)	172	219	247	248	314
Tea.....	15	17	17	24	24
Linseed.....	12	13	11	13	12
Seasum.....	29	25	35	35	36
Tobacco.....	63	67	74	80	73

*Government of Pakistan, Statistical Bulletin, Vol. I, No. 18, August, 1954, and Vol. II, No. 2, February, 1955.

Note: These data are not strictly comparable with those achieved by the United Nations; however, the discrepancies are minor and do not distort the overall production pattern.

(b) Mineral Resources. Under this project gas will be Pakistan is rich in potential mineral wealth but its resources have hardly been tapped as yet. A geological survey of Pakistan recently revealed that important minerals in the country are present in fairly large quantities. The principal minerals in Pakistan are petroleum, coal, chromite, gypsum, silica, sand, limestone, fireclay, celestite and ochres. The production from which had declined, in their Petroleum and Natural Gas: Punjab. This discovery gave a new Petroleum, which is known to exist in the Punjab, of Sind, Baluchistan and parts of East Bengal, is being worked in commercial quantities in Jhelum and Rawalpindi in Punjab. The Sui area in Baluchistan, a big deposit of natural gas, is the center of interest. According to the report of an American gas expert, whose services were commissioned by the Pakistan government, the gas pool found in this area is extensive enough to meet the fuel requirements of the stationary boilers in this region for the next sixty years. There A limited company known as the "Sui Gas Transmission Company", has been created with an authorized capital of Rs.150 million and issued capital of Rs. 37.8 million. The issued capital has been taken up in almost equal proportion by the Pakistan Industrial Development Corporation (PIDC), the Pakistan public, the Commonwealth Development Finance Company of the United Kingdom and the Burma Oil Company. A loan of £ 5 million has been granted by the World Bank to the Sui Gas Transmission Company for the

construction of the pipeline.¹⁹ Under this project gas will be piped from Sui to Karachi, a distance of about 350 miles, and, thus by mid-1955, this indigenous fuel will be made available to the electric power, cement and other industrial plants throughout the area. Messrs. Pakistan Oilfields were also successful in 1952 in discovering a new oil horizon while deepening one of their wells, the production from which had declined, in their Dhulian Oilfields in the Punjab. This discovery gave a new filip to the oil industry, which led to deepening of a number of other wells in the neighbourhood with almost equal success. Pakistan. Moreover it is estimated that Production of crude oil during the year 1953 was 1,541,284 barrels as compared to 1,384,671 produced in 1952, an increase of 11.31 per cent.²⁰

Chromite: Chromite is found in the hills bordering the Zhob Valley and upper reaches of the Pishin valley in Baluchistan. There are also possibilities of finding chromite in Wari-ristan and Kalat States. The quality of the Baluchistan ore is such that it can compete very favorably with other sources of the mineral. Some new deposits of this mineral have also been discovered in the Kharan State by the

¹⁹United Nations (IBRD), Loan No. 62 PAK. June 13, 1952.

²⁰Government of Pakistan, Office of the Coal Commissioner, Ministry of Industries, Statistical Bulletin, p. 39.

geological survey of Pakistan. A British firm enjoyed a monopoly in the production of this mineral until the end of 1949, when a few Pakistani firms also applied for mining concessions. The total production of this item during the year 1953-54 amounted to 23,442 tons as against 17,419 tons in the preceding year.

Coal: Coal is found in abundance in Sind, Baluchistan, Punjab. The known deposits of coal in Pakistan are in Baluchistan, the Punjab, Sind and the North Western Frontier Province. Recently large deposits have been located in South Sylhet, east Mymensingh and northern districts of Tippera in East Pakistan. Moreover it is estimated that more than a hundred million tons of lignite deposits exist in the Harashpura regions. Schemes are being made to exploit these deposits as soon as possible. Mining concessions are being granted to the miners. The production of coal during the year 1954 was 583,727 as against 600,026 tons in the year 1952-53. The decrease is due to limited demands for coal of this quality. To meet annual consumption requirements of about 2,000,000 long tons, domestic output has been augmented by imports coming mostly from India, the United States and the Union of South Africa. Pakistan needs improved mining techniques to utilize her resources. Although Pakistan coal is of poor quality, it can be used for domestic purposes such as small scale foundry works.

tons as Gypsum: 431 tons in 1952.

Gypsum is found in Punjab, Baluchistan and Sind. The production of this mineral was limited to demand in the years 1953-54, amounting to 27,727 tons as against 29,194 in 1952.

Limestone: Limestone is found in abundance in Sind, Baluchistan, Punjab and North Western Frontier Province. The production of this mineral during the year 1953 was 878,722 tons, an increase of 25 per cent over 702,478 tons produced in 1952.²¹

Silica sand:

Silica sand occurs in appreciable quantities in Jungshahi and in the Dadu district of Sind. Moreover a huge quantity is also found in Punjab and North Western Frontier Province. Production of it during the year 1954 was 7,717 tons, an increase of about 67 per cent over 4,615 tons produced in 1953.

Fireclay:

Fireclay is found in the salt ranges of Punjab and in the Dadu district of Sind. During the year 1953 the production of this was 5,051 tons.

Celestite.

Deposits have been found in the Dadu district of Sind. Total production during the years 1953-54 was 821

²¹ Government of Pakistan, Department of Mineral Commissioner, Ministry of Industries, Statistical Bulletin, p. 37.

tons as against 431 tons in 1952.

Other minerals such as iron ore are also found in huge quantity, but are still untapped due to the shortage of capital. The Government of Pakistan has taken the initiative in exploiting the rich deposits of iron ore for home consumption in order to produce a high quality of arms for the defense of the country.

TABLE II

MINERAL PRODUCTION, PAKISTAN, SELECTED YEARS*

	1951-52	1952-53	1953-54
Coal.....	506,000	599,000	583,000
Chromite.....	17,500	17,230	23,390
Gypsum.....	22,780	28,830	27,180
Limestone.....	344,000	672,400	878,700
Silica sand.....	3,709	4,615	7,717
Fireclay.....	3,966	6,302	5,051
Celestite.....	136	431	821
Petroleum (thousand of imperial gallons).....	47,194	55,430	61,671

*Government of Pakistan, Ministry of Eco Affairs, Economy of Pakistan, 1951, p. 94.

²²Government of Pakistan, Yearbook of Labor Statistics, 1954, p. 199.

was (c) Human Resources shortage of skilled workers when the Hindus Before partition, the Indo-Pakistan sub-continent was not a very highly developed country industrially, and the territories which now constitute Pakistan were even less industrialized than the rest of the sub-continent. Taking all pre-Partition industrial establishments together into account, Pakistan's share in factories was about 9.6 per cent and in employment about 7.3 per cent.²² Thus, Pakistan did not inherit any great industries, nor any labor problems of appreciable magnitude such as usually follow industrialization. With the policy and programme of progressive industrialization now in hand, labor problems are increasing in Pakistan. The interdependence of these two aspects--economic and social--is an established fact in every progressive democratic state, and Pakistan is fully conscious that all efforts for the development of a country are likely to be unproductive if the social problems relating to the living and working conditions of labor in a growing industrial economy are neglected. Kinds of labor with cost: There is a general shortage of skilled labor of all types in Pakistan. While it is generally accepted that there is a comparatively low degree of labor efficiency, it should be recalled that Pakistan has had to create virtually an entire class of industrial workers. Pakistan

²²Government of Pakistan, Yearbook of Labor Statistics, 1954, p. 199.

was left with a great shortage of skilled workers when the Hindus and the Sikhs, who represented the largest part of the area's trained industrial labor prior to partition, fled to India. However, there are now some indications of improvement, and it is hoped that labor efficiency in Pakistan will be improved to the levels that prevail in the western industrialized countries.

Cost:

The pay scale varies from area to area with the type of operation. In general, however, foreign enterprises are expected to pay higher wages and provide more benefits to their employees. While the government has not as yet adopted any minimum wage laws, such a bill is under consideration. In addition to the payment of base salaries, it is the usual practice for firms to give "dearness allowances" and annual bonuses on profits, which may range from three to six months of base salary. Other benefits in excess of these such as housing, medical care and retirement funds are also provided. In addition, new enterprises are often expected to provide housing facilities for their labor force. While no comprehensive survey has been made of existing labor scales, the itemization below, together with Table V, give an indication of wages paid for various occupations in several industries.

A survey taken by the West Pakistan Employers Association showed that the daily wages paid by eighteen

reporting members averaged as follows:

AVERAGE MINIMUM AND MAXIMUM MONTHLY WAGES
TABLE III
DAILY WAGES, AS REPORTED BY EIGHTEEN EMPLOYEES,
PAKISTEN, 1950

	Minimum	Maximum
Accountant.....	120.00	210.00
Research assistant.....	120.00	210.00
Boiler attendant.....	1.35	1.18
Office assistant.....	105.00	180.00
Licensed electrician...	1.29	1.13
Secretary.....	80.00	150.00
Carpenter.....	1.29	1.11
Stenographer or typist.....	84.00	150.00
Motor mechanic.....	1.28	1.01
Telephone operator.....	75.00	120.00
Coppersmith.....	1.22	1.01
Chauffeur.....	33.00	45.00
Power plant attendant..	1.22	.99
Office boy.....	22.50	37.50
Welder.....	1.20	.94
Watchman.....	22.50	37.50
Turner.....	1.20	.92
Blacksmith.....	1.19	.90
		Unskilled, manual..... .77

The average work-week for the reporting members was 48 hours. The average work-week for unskilled, manual labor was 40 hours. The average work-week for skilled labor was 48 hours. The average work-week for semi-skilled labor was 48 hours. The average work-week for clerical help was 48 hours. The average work-week for domestic help was 48 hours. The average work-week for foreign firms was 48 hours. The average work-week for concentrated in Karachi and the Lahore areas, these wages are probably higher than those paid generally. Most of the reporting firms worked an eight-hour day and a 48-hour week.

Since the reporting members were mainly large domestic and foreign firms, concentrated in Karachi and the Lahore areas, these wages are probably higher than those paid generally. Most of the reporting firms worked an eight-hour day and a 48-hour week. The following table shows the average minimum and maximum monthly wages, including "dearness allowances", paid for clerical help in Karachi.

TABLE IV
AVERAGE MINIMUM AND MAXIMUM MONTHLY WAGES
IN KARACHI 1954

	<u>Minimum</u>	<u>Maximum</u>
Accountant.....	\$120.00	\$240.00
Research assistant.....	120.00	210.00
Office assistant.....	105.00	180.00
Secretary.....	60.00	150.00
Stenographer or typist.....	84.00	150.00
Telephone operator.....	75.00	120.00
Chauffeur.....	33.00	45.00
Office boy.....	22.50	37.50
Watchman.....	22.50	37.50
Fitter.....	22.20	23.20
Blacksmith.....	22.20	23.20
Press compositor.....	29.40	45.60
Welder.....	29.40	45.60
Electrician.....	29.40	45.60
Mechanic.....	29.40	45.60
Latherman.....	22.20	45.60
Clerical and Supervisory: Supervisors.....	65.10	261.00

The average work-week for clerical personnel varies between 36 and 38 hours. Privilege leave of 2 to 3 weeks and ten days casual leave and fifteen days sick leave are normally provided. Bonuses are not included in the figures given above. In addition to the wages paid, the bonuses were: ten per cent of earned wages in 1952; fifteen per cent in 1953-54. The "provident fund" is accumulated by the company out of worker earnings at the ratio of 6.25 per cent of annual earnings of the employee.

TABLE V
MONTHLY WAGES, BATA SHOE COMPANY (PAKISTAN), LTD.,*
LAHORE, 1952-53 AND 1954

Occupation	1952-53		1954	
	Minimum	Maximum	Minimum	Maximum
Unskilled:				
Watchman.....	\$ 13.20	\$ 15.60	\$ 16.50	\$ 21.00
Sweeper.....	10.20	15.40	12.20	17.70
Cooly.....	10.20	15.60	12.20	17.70
Water carrier.....	10.20	15.60	12.20	17.70
Semiskilled:				
Office boy.....	16.50	21.00	17.70	21.00
Fireman.....	16.50	21.00	17.70	21.00
Oilman.....	16.50	21.00	17.70	21.00
Helper mechanic....	16.50	21.00	17.70	21.00
Semiskilled:				
Machine workman....	16.50	32.70	17.70	32.70
Skilled and specialist:				
Fitter.....	22.20	28.20	22.20	28.20
Carpenter.....	16.50	21.00	16.50	21.00
Blacksmith.....	22.20	28.20	22.20	28.20
Press compositor...	29.40	45.60	29.40	45.60
Welder.....	29.40	45.60	29.40	45.60
Electrician.....	29.40	45.60	29.40	29.40
Mason.....	16.50	21.00	16.50	21.00
Mechanic.....	29.40	45.60	29.40	45.60
Millingman.....	29.40	45.60	29.40	45.60
Latheman.....	22.20	45.60	22.20	45.60
Clerical and Supervisory:				
Clerks.....	21.00	104.40	21.00	104.40
Supervisors.....	65.10	261.00	65.10	261.00

*Note: All tables are taken from the same source: Yearbook of Labor Statistics, 1954, p. 199. The above shows conversion to dollars made at the rate of one rupee equals U. S. \$0.30.

Government of Pakistan, Ministry of Law and Labor, Bulletin, 1954, p. 20.

to pre Productivity: control in any way.²⁴ Moreover, there are so In order to increase the productivity in the textile and other industries, the question of procuring technical assistance from the International Labor Office had been under consideration for some time past. As a result, the International Labor Office has recently been approached for the services of two experts for a period of one year. They will undertake a pilot-project in selected textile mills with a view to increasing productivity and earnings. Their work will initially be confined to the textile industry in the Federal Capital Area, but later on they may extend their activities to other areas or even other industries. The team of these two experts is expected to start working from the first of May, 1955.²³ and their wives Fertility rate: A laborer when he comes home from work The rates of birth and death amongst the laboring class is dependent mostly upon the social and cultural life of a country. But in Pakistan, which is a newly-born country, it also depends upon their religion. Pakistan is one of the biggest Muslim states of the world. The nation has just started to develop its economy. Most of its population is religious minded and the people are traditionally Muslims. According to their religion they are not supposed rates which approximate each other, with the result that

²³ Government of Pakistan, Ministry of Law and Labor, Bulletin, 1954, p. 20. "Review of Religions", Monthly, June, 1945, p. 18. In some other Muslim countries the interpretation of the religion may differ on this point.

to practice birth control in any way.²⁴ Moreover, there are so many other factors which account for the high fertility rate in Pakistan. First, there is a lack of educational opportunities so that population does not have an understanding of birth control. Second, their life is not as social as the life of the western people is. The poor laborer of Pakistan has such a small income that he cannot afford to attend clubs and take part in other activities. Moreover, instead of taking care of himself alone, he has to support a big family due to the joint family system and cannot afford to attend clubs and other activities. Most of the people of Pakistan do not have even a small radio which costs only five or six dollars in the United States. Their houses are their clubs and their wives are their games. A laborer when he comes home from work has nothing to do except to stay home and either fight with a poor dependent wife or indulge in love. In short, taking into consideration the above, we can proceed, following C. P. Blacker, who has distinguished five pre-1940 population-growth types: high stationary, early expanding, late expanding, low stationary, and diminishing. According to him Pakistan is in the category of high stationary population, and that is marked by high birth and death rates which approximate each other, with the result that

²⁴M. Ali Ajmari, "Review of Religions", Monthly, June, 1945, p. 18. In some other Muslim countries the interpretation of the religion may differ on this point.

the total numbers are virtually stationary.²⁵ Finally, the Pakistanees are traditionally agricultural. They prefer to live in big families, where parents and children live together. Higher wages will not necessarily induce more laborers to leave their farms and work in the cities. They dislike permanent residence in the cities because of the high cost of living for families which depend on income-earning individuals.

	Area (Sq. Miles)	Person/ Sq. Miles	Population	Refugees
Pakistan	364,757	208	75,842	7,227
Bluchistan	134,002	8.8	1,174	28
East Bengal	54,501	777	42,063	699
Federal Capital				
Karachi	812	1,387	1,126	617
N.W.F.P.	39,259	150	5,900	51
Punjab	79,716	259	20,651	5,281
Sind	56,447	87	4,928	550

*Census of Pakistan, 1951.

²⁵On the classification schemes and related materials presented in this section, see C. P. Blacker, "Stages in Population Growth," Eugenic Review, XXXIX, 1947, pp. 88-102; W. S. Thompson, Plenty of People (New York: Ronald Press, 1948); F. W. Notestein, "The Population of the World in the Year 2000", Journal of American Statistical Association, XLV, 1950; also P. K. Hatt, World Table VII is taken from "The Past and Future Growth of World Population--A Long Range Review," Population Bulletin, issued by United Nations, No. I, 1951, pp. 1-2; Table VIII is derived from the Demographic Yearbook, issued annually by the United Nations. And other material is also a help from these sources.

TABLE VI

DENSITY OF POPULATION BY PROVINCES IN PAKISTAN*

	Area (Sq. Miles)	Average Person/ Sq.Mile	Population (000)	Muhajirs (Refugees) (000)
Total, Pakistan	364,737	208	75,842	7,227
Provinces, Bluchistan	134,002	8.8	1,174	28
East Bengal	54,501	777	42,063	699
Federal Capital Karachi	812	1,387	1,126	617
N.W.F.P.	39,259	150	5,900	51
Punjab	79,716	259	20,651	5,281
Sind	56,447	87	4,928	550

*Census of Pakistan, 1951.

TABLE VII*
WORLD POPULATION, GROWTH RATES, BIRTH RATES AND DEATH RATES

Area	1950 Pop. in Millions (1)	Annual Increase 1920-50 per Thousand (2)	Annual Rates 1946-48 per Thousand		Annual Rates 1936-38 per Thousand		Natural Increase (8)
			Birth (3)	Death (4)	Birth (6)	Death (7)	
World	2406	9	35-37	22-25	34-38	24-27	8-13
(Type I)	486	9					5
Low-Growth Potential							
N. W. Cent							
Europe	215	6	19	12	17	13	4
N. America	166	13	25	10	7	11	6
South Europe	92	9	23	12	23	16	7
Oceania	13	14	28	12	20	11	9
(Type II)	1387	8					77-13
High-Growth Potential							
Far East	670	5	40-45	30-38	40-45	30-35	7-13
So. Cent							
Asia	442	11	40-45	25-30	40-45	30-35	7-13
Africa	199	13	30-35	25-30	40-45	30-35	7-13
Near-East	75	10	40-45	30-35	40-45	30-35	7-13
(Type III)							
Transitional							
Soviet-Union & East	287	7	28	18	330-34	17-21	11-15
Europe			40	17	40-45	20-25	17-23
Latin America	162	19	31	15	28	17	11
Japan	84	14					
*United Nations.							

(d) Other Resources TABLE VIII

INDICATING WORLD POPULATION, AGE COMPOSITION,

AND DENSITY

1949

Area	Popu- lation in Mill. (1)	Age Distribution of Population (in percentages)			Persons per Sq. km. (5)
		Under 15 yrs (2)	15-59 years (3)	60 and Over (4)	
World	2378	36	57	7	18
Low-Growth Potential (Type I)					
N.W. Cent. Europe.....	214	24	62	14	78
U.S. & Canada.....	163	25	64	11	8
S. Europe.....	91	30	59	11	88
Oceania.....	12	28	62	10	1
High-Growth Potential (Type II)					
Far East*.....	661	40	55	5	41
S. Central Asia....	436	40	56	4	100
Africa.....	198	40	55	5	7
Near East.....	74	40	54	6	12
Transitional (Type III)					
Soviet Union and E. Europe.....	288	34	59	7	12
Latin America.....	158	40	55	5	8
Japan.....	83	37	55	8	223

*United Nations.

the total area of Pakistan. West Pakistan is inadequate with respect to forest supply as compared to East Pakistan. Apart from the valuable influence of forests on physical and climatic conditions and their services in retaining water and preventing soil erosion, and as a supply of fodder, fuel, and building and industrial timber, they

(d). Other Resources
 Fisheries:

The Government of Pakistan has made extensive plans to develop the country's fisheries more fully as a potentially important source of both additional food and foreign exchange. At present, fishing is done close to shore with relatively primitive equipment. West Pakistan accounts for seventy per cent of the annual marine-fish catch, which amounts to about 65,000 tons. On the other hand, East Pakistan accounts for more than eighty per cent of the total 115,000 tons annual catch of fresh water fish. It has been estimated that the annual consumption of fish amounts to only 5.7 pounds per capita for all of Pakistan, but is somewhat higher in East Pakistan.

Forestry:

In East Bengal 10,000 acres of private forest have been taken over by the government for scientific management, because as a result of the disposition of the forest-rich state of Kashmir, Pakistan was almost totally deprived of this natural resource. The total forest area is now estimated at 5.5 millions acres, about five per cent of the total area of Pakistan. West Pakistan is inadequate with respect to forest supply as compared to East Pakistan.

Apart from the valuable influence of forests on physical and climatic conditions and their services in retaining water and preventing soil erosion, and as a supply of fodder, fuel, and building and industrial timber, they

provide products such as lac, tanning material, essential oils, turpentine and resin. An extensive plan for reforestation has been drawn up and a special survey is being conducted to increase and improve this wealth.

(2) The Necessity of Foreign Investment

During 1951 Pakistan had an export excess of \$155.9 million in its balance of payments due to the increased demand and resultant higher prices paid for Pakistan commodities following the outbreak of the hostilities in Korea. The nation had no need at that time to invite the foreign investor. Its leaders should have realized that instead of importing so much luxury goods, more stress should have been placed on importing capital goods and machinery in order to industrialize. Now the situation has taken a sharp turn, with the international income of the country reduced and the formation of capital slowed. India, a big importer of Pakistan products, has stopped this trade due to the decision of Pakistan not to devalue its currency.²⁶ Moreover, the great influx of refugees has created an intensive problem. The leaders of the country must seek to give the refugees a living by inviting foreign capital to industrialize Pakistan, at least to the extent of meeting the home demand.

²⁶U. S. Department of Commerce, Foreign Investment of the United States, 1953, p. 44.

²⁶Bank of England, United Kingdom Overseas Investment, 1950 and 1951, 1952, p. 4.

(a) Present private foreign investment

There is no accurate survey of foreign investment in Pakistan. However, it is estimated that in 1951 investment in Pakistan by United Kingdom investors amounted to £9,000,000 (based upon the book value of securities quoted on or known to the London Stock Exchange,²⁷ while United States direct investment in 1950 totaled \$7,800,000 of which \$4,900,000 was invested in exporting and importing companies.²⁸ In 1952 American investment amounted to \$9,000,000, of which \$3,300,000 was invested in trading concerns. Indian direct investment in Pakistan in 1948 has been estimated at 400,000 Indian rupees.²⁹ New foreign investment in business and industrial enterprises in Pakistan since partition totaled \$10,110,000 which represents only funds brought from abroad excluding rein-

(b) Other foreign aid and loans
The foreign exchange earnings in 1951-52, were more or less supplemented by economic (capital) assistance offered by the United States and commonwealth countries. This total had risen to \$13,110,000.

American firms currently operating in Pakistan include several insurance companies, Caltex and Standard. In addition to a special wheat gift during 1953-54 the United States allocated to Pakistan \$44.25 million for the implementation of Pakistan's industrial development program.

²⁷Bank of England, United Kingdom Overseas Investment, 1950 and 1951, 1952, p. 4.

²⁸U. S. Department of Commerce, Foreign Investment of the United States, 1953, p. 44.

²⁹Reserve Bank of India, Census of India's Foreign Liabilities and Assets, 1950, pp. 106-107.

Vacuum Oil Company, a branch office of the American express company, and, most recently, a General Motors truck and bus assembly plant and a Coca-Cola plant at Karachi.³⁰ Also, a joint Pakistan-American capitalized firm has begun a new quick freezing industry for fisheries products. Industries in which foreign capital is invested include petroleum, motor-vehicle assembly, food, pharmaceuticals, woolen textiles, weaving, dyeing, and finishing plants and a carpet factory. Pakistan capital is invested in mining and quarrying, iron and steel, soap, cosmetics, tanning, industrial gases, truck body building, jute milling and baling, wool and cotton textiles, paper, glass, timber and plywood, printing and publishing, film production, sugar manufacture, and fruit preservation. World Bank amounting

(b) Other foreign aid and loans

The foreign exchange earnings in 1951-52, were more or less supplemented by economic (capital) assistance offered by the United States and commonwealth countries for the implementation of Pakistan's industrial development program. In addition to a special wheat gift during 1953-54 the United States allocated to Pakistan \$44.25 million for the purchase of equipment and services. The International Bank has been approached for further loans and loan agreements are expected to be made during

³⁰ A detailed list of American companies having business in Pakistan may be asked from Bureau of Foreign Commerce, U. S. Department of Commerce, Washington 25, D. C.

³² (IBRD) Loan No. 60 PAK dated March 27, 1952.

required for 35 projects in different sectors of the national economy. Canada provided \$28.57 million in the three years ending 1951-54; Australia £ 5.7 million; and New Zealand £ 0.75 million in the same period. Canada and Australia also made gifts of wheat in addition to economic aid. Further foreign aid worth Rs. 157.8 million is expected from the Commonwealth, Canada, Australia, New Zealand and the United States during 1955. A credit of £ 10 million has also been arranged from the United Kingdom in order to develop industry and food production schemes. Arrangements are also being made for the import of machinery on deferred payment terms from Japan, the United Kingdom and other countries.³¹

Loans were obtained from the World Bank amounting to \$27.2 million during the fiscal year 1951-52 for the Railway Rehabilitation Programme, \$3.25 million during 1952-53 for the Punjab Agricultural Machinery Project and

(a) Six-Year Plan
\$14 million for Sui Gas Transmission Project³² during 1954-55. A loan of \$15 million was negotiated during 1952-53 with the Export-Import Bank of the United States to finance purchase of machinery from the United States. The International Bank has been approached for further loans and loan agreements are expected to be made during increase of \$240 million in the foreign exchange earnings,

³¹United Nations, Survey of Asia and the Far East, Jan., 1954, p. 93.
³²(IBRD) Loan No. 60 PAK dated March 27, 1952.

1955 for the extension of the Karanfuli Paper Mill, Karachi Electric Supply Corporation and some other projects. In short, the United States is taking a keen interest in the development of the economies of backward countries, especially Pakistan. (See Diagrams 1, 2 and 3).

(3) Development Programmes and Estimated Capital Requirements³³

Prior to partition various development projects had been drawn up as a postwar reconstruction program for undivided India. As soon as possible after partition, the Government of Pakistan requested the Central and Provincial Governments to examine these plans so they could be granted priority according to their urgency. The Pakistan Development Board was constituted by the Central Government early in 1948 to do this work of coordinating and assigning priorities.

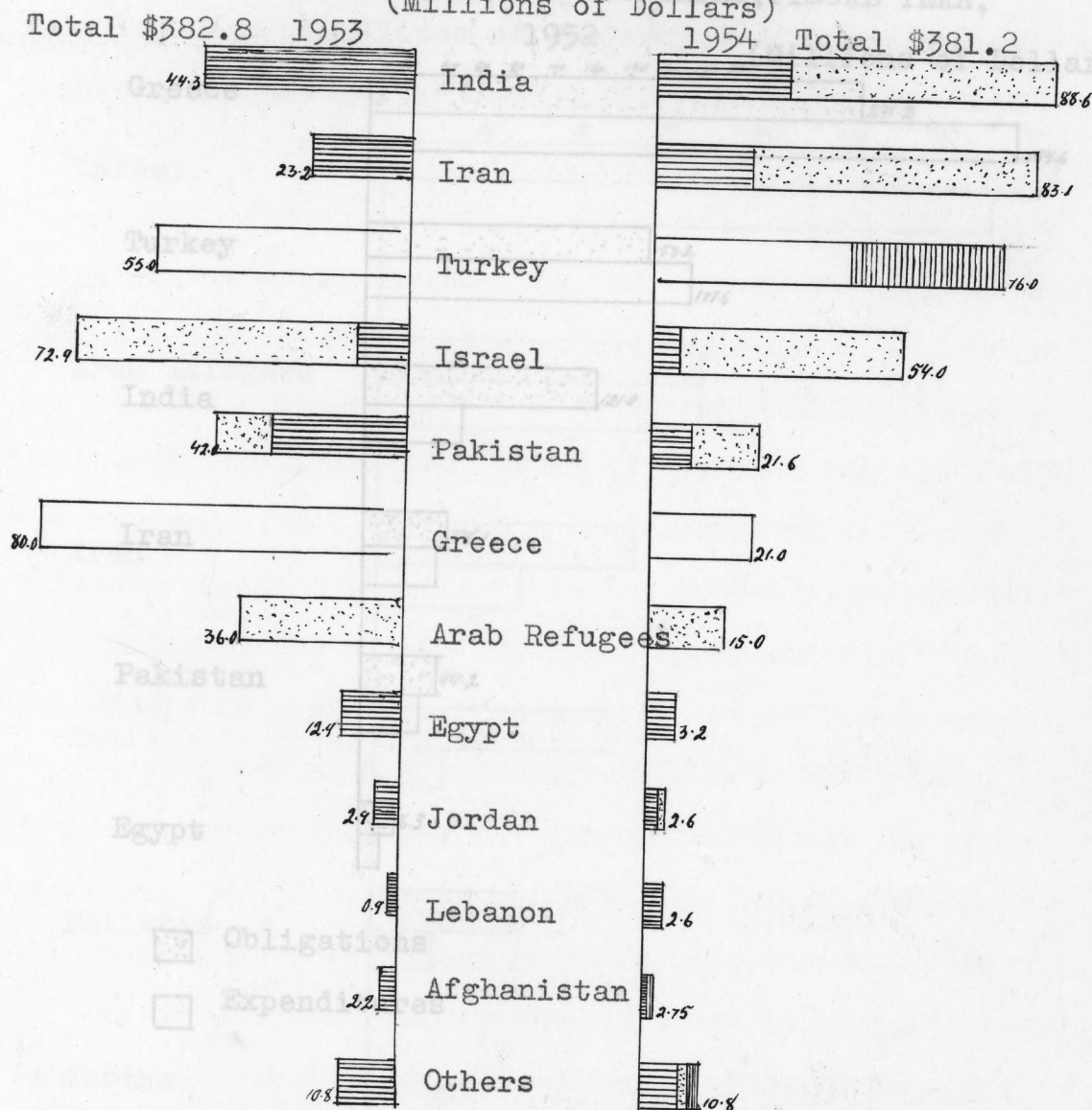
(a) Six-Year Plan

The Development Board examined and approved various projects in such fields as agriculture, industry, power and communication from 1948 through 1950. From 1951 to 1957 Pakistan Government prepared a national development programme. The basic objectives of this plan were a net increase of \$240 million in the foreign exchange earnings,

³³Government of Pakistan, Five Years of Pakistan, 1952, pp. 30-35. All development material is from this source.

DIAGRAM 1
UNITED STATES AID ALLOCATIONS
TO MIDDLE EASTERN COUNTRIES FOR THE
FISCAL YEARS 1953 AND 1954

(Millions of Dollars)

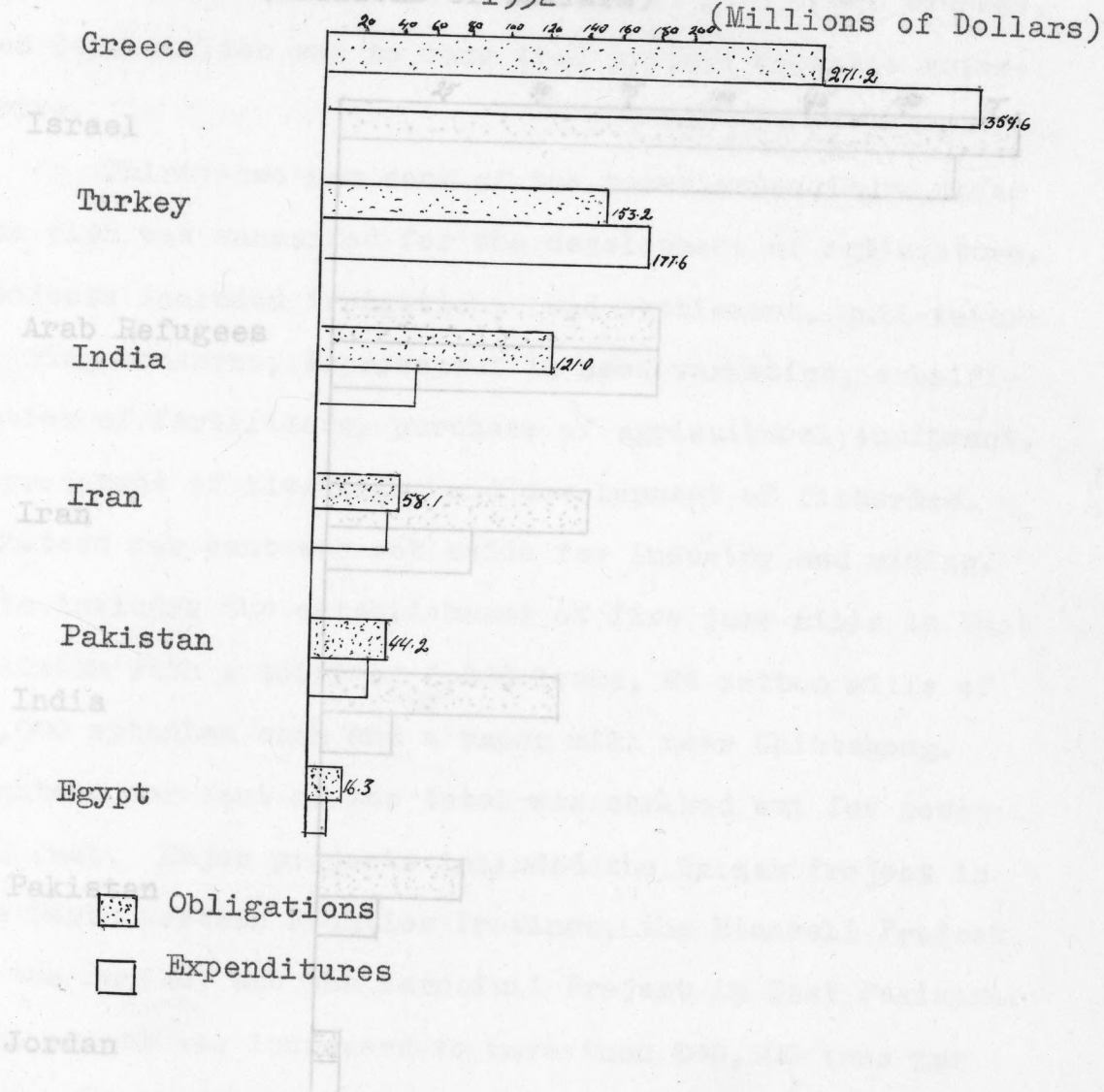


□ Defence Support ▨ Technical Co-operation
▩ Forces Support ▤ Development Assistance

Monthly Operation Report, June 30, 1954. p.82

United States Foreign Operations Administration, Monthly
Operation Report, June 30, 1954. p.83

DIAGRAM 2
 UNITED STATES DEFENCE SUPPORT AND TECHNICAL CO-OPERATION
 TO MIDDLE EASTERN COUNTRIES, FISCAL YEAR,
 1952 (Millions of Dollars)

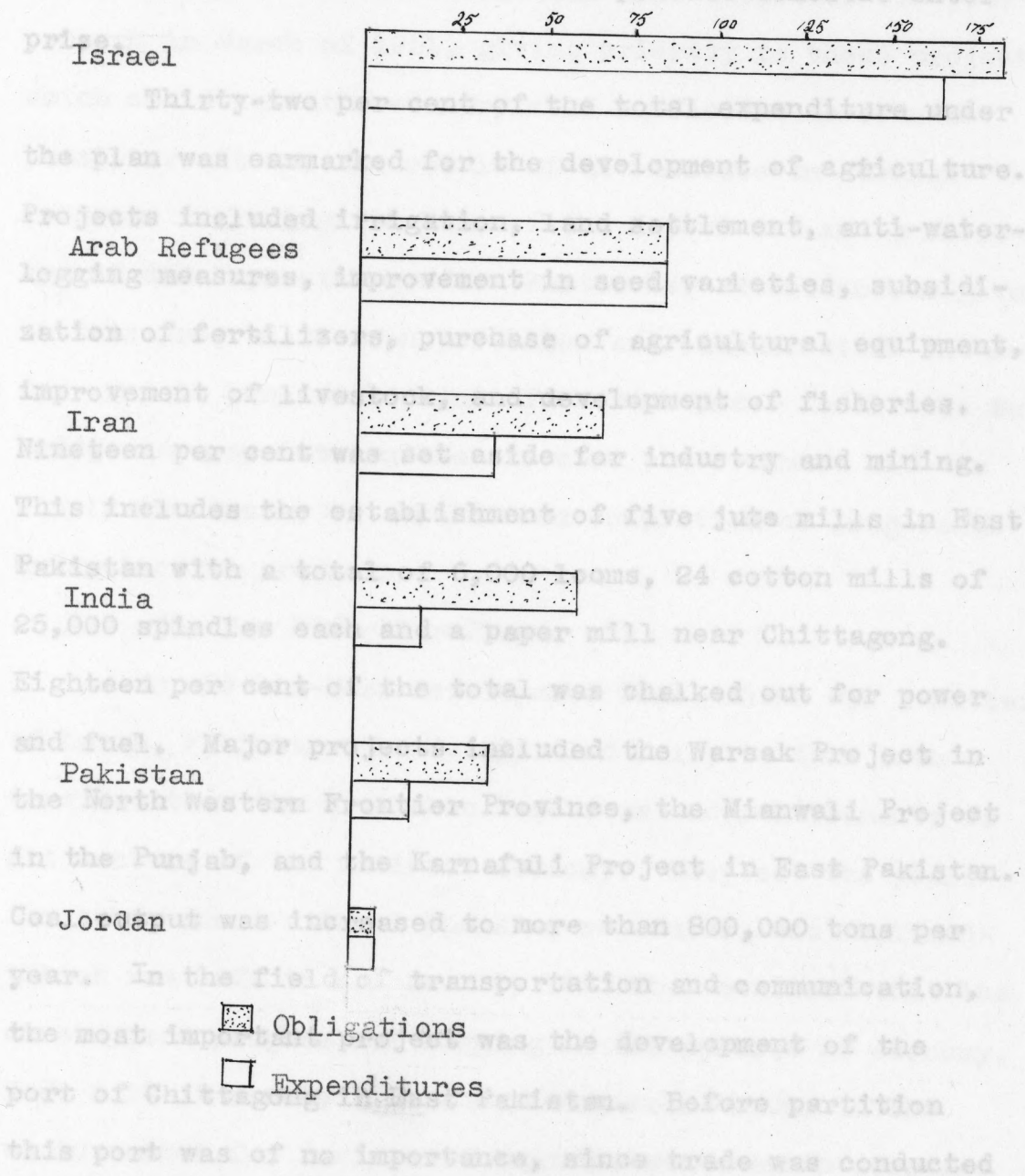


United States Foreign Operations Administration,
Monthly Operation Report, June 30, 1954. p.82

United States Foreign Operations Administration,
Monthly Operation Report, June 30, 1954. p. 83

an increase of \$30 million in Government revenues,
 and thirty per cent of the total expenditure of \$780 million, of which \$120 million was to come from private domestic enter-
 prise.

DIAGRAM 3
 UNITED STATES DEVELOPMENT ASSISTANCE
 TO SELECTED COUNTRIES, FISCAL YEAR
 1952
 (Millions of Dollars)



an increase of \$30 million per year in Government revenues, and thirty per cent rise in the standard of living. This plan was estimated to involve an expenditure of \$780 million, of which \$120 million was to come from government sources, and \$420 million was to come from private domestic enterprise. in March of 1951, giving priority to those projects which Thirty-two per cent of the total expenditure under the plan was earmarked for the development of agriculture. Projects included irrigation, land settlement, anti-water-logging measures, improvement in seed varieties, subsidization of fertilizers, purchase of agricultural equipment, improvement of livestock, and development of fisheries. Nineteen per cent was set aside for industry and mining. This includes the establishment of five jute mills in East Pakistan with a total of 6,000 looms, 24 cotton mills of 25,000 spindles each and a paper mill near Chittagong. Eighteen per cent of the total was chalked out for power and fuel. Major projects included the Warsak Project in the North Western Frontier Province, the Mianwali Project in the Punjab, and the Karnafuli Project in East Pakistan. Coal output was increased to more than 800,000 tons per year. In the field of transportation and communication, the most important project was the development of the port of Chittagong in East Pakistan. Before partition this port was of no importance, since trade was conducted through Calcutta. The handling capacity of Chittagong at partition was 600,000 tons which has been increased to

1,800,000 tons per year. Eleven per cent was provided for supplementary measures such as education and medical facilities, housing and public welfare. Board was Mr. Zahid

(b) Two-Year Priority Program Bank of Pakistan.

The Government of Pakistan drew a special two-year program in March of 1951, giving priority to those projects which would make the country self-sufficient as soon as possible. It was the result of an increase in foreign reserves following the boom of the Korean War and a shortage of developmental goods. Particular attention was given in this program to transportation and communication industry, and to the development of thermal power facilities to bridge the gap between the expected power demand and the supply eventually to result from completion of long-range hydroelectric projects.

(c) The New Five-Year Plan

In the Six-Year Development Plan, which was a matter of haste, Pakistani leaders failed fully to take into consideration the available resources and requirements of all sectors of the national economy. They set the goals for achievement without chalking schedules, and implementation was left to chance. By 1953 they realized that the development program was lagging in all spheres of economy. They felt it at the time when there was a slump in the world market for Pakistan's exports, and a sharp decrease in the country's foreign reserves due to a decline in trade. In April 1953, the Prime Minister of Pakistan made

a decision to abandon the Six-Year Development Plan and to form a new full-time Planning Board. This Board consisted of three men. Head of this Board was Mr. Zahid Hussain, the Governor of the State Bank of Pakistan. They were given authority to form a New Five-Year Development Plan based on Pakistan's potentialities and requirements. They also realized that although they would rely mostly upon internal capital sources, they must also make efforts to attract private foreign investment.

The functions of the new Planning Board were as follows:

1. To review the developments that had taken place since independence.
2. To prepare a national plan of development, based on the possible utilization of the country's resources which would be a step toward the attainment of the economic and social objectives of Governmental policy.
3. To make proposals regarding administrative machinery to assure the successful implementation of the plan.

(4) The Need for Industrialization

4. To assess the resources--human and material--which could be made available for the development of the economy of the country during the next five years.

5. To make other recommendations, which in the opinion of the board, would contribute toward the success of the plan.

Although the foreign exchange shortage has forced a cut in expenditures, all those projects which were already under way are being implemented on small scale. Some new projects are being fitted, and some are being dropped, assigning lower or higher priorities according to the needs of the nation and the resources of the economy. A great set-back which has complicated the new Five-Year Plan to develop the economy of the country was the severe shortage of food due to a failure in crops during 1952-53. It has forced the Government to focus its attention upon the problem of increasing the food supply. So top priority in the campaign to Grow-More-Food has therefore been given to rapid expansion in the use of fertilizers, pest-control measures and the improvement of seeds and cultivation methods. In short, all those projects which require long-term capital outlays are a part of the New Five-Year Plan. Under this new plan a top priority is also being given to widening the industry of the country, in order to meet the demands of the population.

(4) The Need for Industrialization

A retrospective study of the progress of development in Pakistan during the last seven years reveals that there has been a gradual process of transition from a predominantly agricultural to a partly industrial economy. There are varied reasons, political and economic, which are incentives to the industrialization of Pakistan. The most

important appear to be as follows:

(a) Population pressure Even before the partition of the sub-continent of India, the people of this part of the globe hardly achieved a subsistence level. Why? There are many reasons, but the main one is the population pressure upon the available resources. This is the fundamental cause of poverty, notwithstanding the religious, cultural and social customs which also interfere with progress and the raising of living standards.

India has a high birth rate and the part of India which now forms Pakistan is in the same category. In addition to the high birth rate, six million people after partition migrated to Pakistan in order to make their home in this limited area in response to the demand of the Indian Muslims for a land in which they could live freely according to their own ideas. This addition to the population of Pakistan, which was already living on a subsistence level, aggravated the problem.

As Zimmerman states: "(The) Earth is not made of rubber: it cannot be stretched. As the number of human being increases, the relative amount of productive earth decreases by that amount."³⁴

It appears, therefore, that the only way to feed the increasing population of a country or region, is to

³⁴Reader's Digest, January, 1949, pp. 141-142 (last paragraph).

establish industry and use advanced technological methods which reduce the production costs by increasing productivity. About seventy per cent of the immigrants in Pakistan are agriculturists, and the rest of them are craftsmen who know only handicraft work on a small scale at home. They know only the work of domestic industry like carpet making, toys and woollen blankets. In order to absorb the seventy per cent of farm and unskilled labor for whom there is no land to cultivate, Pakistan must establish industry on a large scale.

The second reason in this connection which forced Pakistan to industrialize the country is the increasing demand for consumer goods in the home market. Also the talent which a few industrialists have brought along with their capital, from the richest state of India, Hyderabad, Decca energizes industrialization.

With the export of its raw materials and services Pakistan can earn only enough to import finished goods for the number of people who previously lived in this area. She does not have enough foreign balances to pay for the import of consumer goods for the additional masses of the refugee influx. Demand has increased, but the supply of goods is limited, resulting in a shortage of exchange and in high prices. Having no other alternative the Pakistan Government felt great necessity to establish its own industry in order to meet the needs of home consumption. Moreover, a few industrialists who have brought their

capital, known as "flight capital," think it right to use it in the "land of peace" for the benefit of their brother Muslims. In somewhat the same way, industrialization was brought to America a few decades ago by those immigrants who brought their capital along with their experience due to the political disturbances in Europe in those days.

Natural resources are the fundamental factor to the industrialization of a country in the sense that without them capital and experience can do nothing.³⁵ These factors are interconnected and interrelated. Pakistan is less potentially rich due to her natural resources and when lead-experienced people have come with capital, they have turned to the establishment of industry. order to avoid the flu The third argument in support of industrialization is the threatening unemployment in the country. The surplus agricultural population can only be absorbed in industry where unskilled labor can be trained to handle machinery in elementary stages. The textile and wool industry need not accomodate only highly talented and experienced labor. Little training and understanding is required to deal with the preliminary stages of this industry. In addition the leather industry and the cement industry are also of this type. Unemployment also may be interpreted as a sign of the inefficiency of the Government

³⁵Singer, American Economic Review, May, 1950, p. 541.

listment of certain heavy industries, Pakistan has placed emphasis on the agricultural raw materials such as jute, cotton, and hides

and here is a great political problem. In short, a growing population, an increased demand for consumer goods, and threatening unemployment have forced the Government to attempt to industrialize the country, and to utilize its resources to its best advantage.

(b) Agricultural character of economy

As stated previously, the economy of Pakistan is basically agricultural. Although cottage-level industries produce many of the simpler needs of the population, they play a small part in the total economy, accounting for less than one per cent of the national income. Pakistan's leaders feel strongly that the base of their country's economy must be broadened and industrialized in order to avoid the fluctuations characteristic of an agricultural nation. The need is particularly great in East Pakistan, where the amount of cultivable land cannot be increased appreciably.

There is, however, no thought that industry will replace agriculture as the main field of economic activity in Pakistan. It will remain the main occupation of a majority of Pakistanees and provide the basic raw materials for local industries, while the export of agricultural products will finance purchases of goods and equipment from abroad which cannot be produced locally.

Although encouragement has been given to the establishment of certain heavy industries, Pakistan has placed emphasis on the development of industries able to utilize agricultural raw materials such as jute, cotton, and hides

and skins. This attitude has been supported by a recent study by the well-known Australian economist, Colin Clark, which advised the Government that "the textile, clothing and leather trades stand in a class by themselves in the modesty of their capital requirements," while "any proposal to establish heavy metal or chemical industry in Pakistan will prove far more costly than the available resources can afford." Nevertheless, investigations are being made by a German technician for the establishment of iron and steel industry.³⁶

(5) Sources of domestic capital supply³⁷

In order to provide full employment for the annual increase in the labor force alone, it has been estimated that an additional capital accumulation of a billion rupees (\$300 million) is required. Thus, an increase of six to seven per cent of the national income, is necessary. This is in addition to the present rate of saving per year which is rupees 430 million (\$129 million), or two to three per cent of the national income. Thus, an aggregate annual

rate of capital formation amounting to about Rs. 1.5 billion (\$450 million) is necessary to maintain the standard of living.

³⁶ Government of Pakistan, Survey of Pakistan, Annual Operation, 1953, p. 42.

³⁷ Cf. Chapter VI.

In addition to foreign investment, the possible sources of domestic capital supply in Pakistan are through business saving, Government, individual saving, private commercial banks and the use of under-employed labor.

(a) Business saving

The growing volume of private investment in industrial undertakings has been a welcome feature of the country's economy. Such investment has been estimated at about Rs. 100 million in various industries, such as the jute, paper and textile industries. This is not a huge amount to fill the gap of industrial establishments in Pakistan, but in the early stages of industrial development the country needs to start with the limited amounts which can be saved by business concerns. Savings of business depend largely upon the character of the market in and outside the country. If there is a great demand for the products of a particular business concern in the world market, then there is a reasonable possibility to save money for further investment.

(b) Government provision of capital

Soon after partition, in 1949, a corporation was established to provide credit facilities to industries. The total accommodation granted by the Corporation to industrial concerns, up to the 5th of January, 1954, amounted to Rs. 38.1 million. In 1952 an act regarding this Corporation was amended, enabling it to grant loans and other facilities, financially, to all industrial concerns,

whether incorporated or unincorporated. The law as originally enacted authorized the corporation to grant loans only to the public limited companies or registered cooperative societies. After this it sanctioned loans amounting to about Rs. 3.3 million to individuals and Rs. 10.3 million to private limited companies as against Rs. 4.3 million for public limited companies. sponsored by the

Pakistan In order to increase the production of food and raw materials for the newly established industry of Pakistan, the Government is trying to help the farmers financially by establishing cooperative societies in rural areas and thus fill the gap created by the departure of Hindu bankers. of the Loans are sanctioned up to a limit of Rs. 100,000 in the case of individuals and Rs. $\frac{1}{2}$ millions in the case of cooperative societies. These limits are relaxed by the government up to Rs. 200,000 and Rs. 2 millions respectively for special reasons. Rate of interest has been reduced this year from 6.25 per cent to 5 per cent per annum in the case of individuals, and four per cent in the case of a cooperative society. ed banks in Pakistan one of the most

The organization of these societies is along the provincial cooperative banks. They provide financial assistance to the farmer on low interest rates, officers and supervisors are sent in the villages for timely inspection of seed and fertilizers. In addition to this work these societies help the farmers obtain quality seeds and fertilizers on nominal charges. ness. In 1952, 65

The Central Government of Pakistan, in addition to giving loans to Provincial Governments for development projects, is participating through the Pakistan Industrial Development Corporation, in establishing industries such as jute, paper, heavy engineering (including iron and steel), ship-building, fertilizer, cement, sugar and textiles. The total cost of the projects sponsored by the Pakistan Industrial Development Corporation so far is estimated at Rs. 550 million by 1953-54, of which the sum of Rs. 155 million was invested by the Central Government.

(c) Individual saving With a view to mobilizing and directing the savings of the people into productive channels, the Government of Pakistan is running a savings scheme through the post offices of the country. This scheme operates through the sale of Savings Certificates which carry handsome bonuses free of income tax. The post offices also provide savings bank facilities.

(d) Private commercial banks Of the 23 other scheduled banks in Pakistan one of the most important is the Habib Banks, Ltd. After partition, Habib transferred its head office from Bombay to Karachi. It now operates more than thirty offices in Pakistan and handles a substantial part of the total commercial banking business. Nonscheduled banks, although fairly numerous, are typically small and conduct only a relatively small volume of business. In 1952, 65

nonscheduled banks, of which 51 were in East Pakistan and fourteen in West Pakistan, submitted returns under the Banking Companies (Control) Act.

(e) The possibility of the use of under-employed labor as a source of capital

Taking into consideration the high percentage of the Pakistan labor force engaged in agriculture, we can conclude that the country has a large volume of under-employed labor. The only way to provide work for this kind of labor is to industrialize the country. Industrialization means absorption of under-employed labor and an increase in its income. The greater is the income, the greater is the saving. The greater is the saving the greater is the potentiality of investment. The ultimate result is a greater possibility of financing further development.

In other words the densely populated country of Pakistan in which some labor might be drawn from agriculture without reducing output is usually said to have "disguised unemployment" or "overemployment" in agriculture. The importation of capital from abroad into Pakistan will benefit both, the creditor and the debtor country. From the creditor country's point of view the exportation of capital is beneficial for she can get a clear addition to the real national income. But what can they produce without capital? Very little. They why not set them to work on producing real capital? Hence we get a first glimpse of what "disguised unemployment" can mean as a source of capital supply. According to Nurkse

with the application of this phenomenon "even if the export-direct marginal yield of labor is zero, the indirect yield of labor when applied to roundabout methods of production--that is, to the accumulation of capital--activity is likely to be very high in countries where capital is scarce".³⁸

Conclusion

The foregoing discussion reveals that Pakistan remains in the stage of an agricultural society. She has only a small amount of capital both in agricultural production and manufacturing industries. Suppose the need for capital in the first stage of industrialization was about one billion dollars. It is impossible for the Pakistanees to accumulate such a large amount of capital themselves. Therefore the conclusion is inevitably reached that Pakistan must borrow a large sum of capital for the development of its industries during its first stage of industrialization.

The importation of capital from abroad into Pakistan will benefit both, the creditor and the debtor country. From the creditor country's point of view the exportation of capital is beneficial for she can get a higher reward from the capital loaned or invested abroad

³⁸R. Nurkse, Problems of Capital Formation in Underdeveloped Countries. London: Oxford, Basil Blackwell, 1953 p. 36.

than in the domestic market, and it will encourage exportation and hence employment. From the borrower's point of view the importation of capital makes it possible to carry on industrialization and hence increase productivity and national income.

(1) Economic Factors Affecting Investment

History shows that the most backward countries were usually industrialized by foreign loan or investments. The United States, Canada, and Australia were countries that accepted foreign loans and investment in the past. After their industries had been well developed, the credit was bought back in part by the debtor's purchase of securities held by the creditors abroad.

The large number of responsible leaders of Pakistan realize the inadequacy of the present rate of domestic capital formation. Pakistan has ambitious plans for the future, many of which have been reluctantly set aside for lack of capital.⁴⁰ Seen in this light responsible foreign investors should find an increasing appreciation on the part of Pakistan officials of the value of their contribution to Pakistan's development. Optimism has been expressed that further exploration will overcome deficiencies in Pakistan's natural resources; a survey of which is now being made in

³⁹ Most parts of this chapter are based on the numerous interviews which the writer had with American businessmen in Pakistan during the year 1952-53.

⁴⁰ Cf. Ante, for detail in Chapter III, Survey of Capital Supply.

cooperation with the Government of Canada. In addition, there is present in Pakistan a generally favorable attitude toward private enterprise.

CHAPTER IV

THE INVESTMENT ATMOSPHERE IN PAKISTAN³⁹

(1) Economic Factors Affecting Investment

Although Pakistan has a far from satisfactory financial situation, marked by such negative factors as a serious decline in the country's foreign exchange reserves; a strong sentiment on the part of Pakistanees to participate in new enterprises; and high taxes upon corporations and individuals, there are certain other factors which favor foreign investment. The inclination to invest it in unfamiliar industries. The large number of responsible leaders of Pakistan realize the inadequacy of the present rate of domestic capital formation. Pakistan has ambitious plans for the future, many of which have been reluctantly set aside for lack of capital.⁴⁰ Seen in this light responsible foreign investors should find an increasing appreciation on the part of Pakistan officials of the value of their contribution to Pakistan's development. Optimism has been expressed that further exploration will overcome deficiencies in Pakistan's natural resources; a survey of which is now being made in

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cooperation with the Government of Canada. In addition, there is present in Pakistan a generally favorable attitude toward private enterprise.

The large pool of unskilled labor is frequently considered a favorable factor, especially in view of their ability to become skilled laborers after a little training. The population of about 75 million people provides a potential market of great size. Further, most Pakistani businessmen prefer to invest in a foreign owned and managed enterprise rather than in a locally owned and managed company, no matter how solid a reputation the latter may have. Those businessmen who have capital and the inclination to invest it in unfamiliar industrial undertakings do not want the Government to participate in their business. (An additional factor which bears upon the whole problem of investment in Pakistan is the injunction against taking interest which is found in the tenets of Islam. This has probably had some effect in diverting capital into real estate or commercial and trading ventures, which return profit rather than interest, although it does not appear to be a major difficulty.)

Most of foreign investors report that they get along well with Pakistani businessmen, and like them because of their honesty. This aspect of their business transactions is very much appreciated and Pakistan, similar to Turkey, is developing a Western atmosphere of living and foreigners

are welcomed as friends.⁴¹

Perhaps the most important asset possessed by the Pakistanees is their indomitable spirit of determination. This quality, once it is appreciated, leads to the belief that, come what may, Pakistan will somehow manage to overcome its difficulties and take its place among the great nations of the earth. For those who see a relationship between challenge and opportunity, Pakistan has much to offer.

(2) Government Attitudes and Policies Affecting Investment⁴²

The Government of Pakistan has reiterated a firm belief in private enterprise and has attempted to aid private industry through the development of resources, improvement of transportation and communication facilities, the provision of financial assistance, granting of tax concessions, and where possible the adoption of favorable trade and tariff policies. The Government has felt compelled, nevertheless, to participate in the development of certain important industries in order to hasten industrialization

⁴¹Based upon an interview by the writer with the managers of American Life Insurance Company and American Express.

⁴²All figures are abstracted from one source which is mentioned at the end of this Chapter.

and has passed legislation requiring local participation in incoming business enterprises. It has created the Industrial Development Corporation charged with development of selected key industries. The corporation is operating through the establishment of companies for which the Corporation underwrites the stock, takes up any part of it left unsubscribed by private interests, and acts as the managing agent. In consonance with announced policy, it is also understood that the Corporation stands ready to sell its shares to the public. Moreover it helps those enterpreneurs who are short of capital, by granting them loans from time to time.

(a) The 1948 Basic Statement of Foreign Investment

The basic statement of industrial policy issued by the Government of Pakistan on April 22, 1948 included a general invitation to foreign capital to participate in the industrialization of Pakistan. The conditions specified in the statement include requirements for the participation of Pakistan nationals in the administrative and technical services of an industry, the provision of training facilities, and the registration in Pakistan of subsidiaries of foreign firms. Moreover the statement provided that "nationals of Pakistan should ordinarily be given the option to subscribe at least 51 per cent of all classes of share capital and other debentures" in thirteen specified industries and thirty per cent in other industries. The

statement added, however, that "if in either case, Government is satisfied that the requisite amount of indigenous capital is not forthcoming, the balance might, with their prior approval, be subscribed by foreign investors."⁴³ The thirteen specified industries are: cement, coal, cotton spinning and weaving mills, fish canning and fish oils, electric power generation (other than hydroelectric), glass and ceramics, heavy chemicals and dyestuffs, minerals, preserved and prepared foods, power alcohol, ship-building, sugar, and tanning of leather.

Apart from these conditions which are necessary for the safety and for the political and economic well being of the country, the statement concluded, "industries financed and controlled by nationals of other countries are assured of fair and just treatment. The Government will allow facilities for the remittance of a reasonable proportion of profits to countries from which capital is drawn."

(b) Fields for Investment

Foreign capital is not equally welcomed in all fields in Pakistan. It is discouraged in many ways from entering such fields as commerce, which local firms can handle easily, and for which the Government has no priority in the development plans. There are also restrictions about

⁴³ Government of Pakistan, Ministry of Industries, Industrial Policy of the Government of Pakistan, April, 1948, p. 5.

⁴⁴ Cf. Chapter VI.

administrative and the technical services of foreign enterprises has been restrictively expanded by administrative orders of 1952 and 1953. According to these orders, fifty per cent of the employees in superior classes must be Pakistan nationals and seventy per cent of the laboring force must be Pakistan nationals. The pay and other allowances must be equal to that of the foreign staff doing the same kind of work.

(d) Aid Policy to Private Industry

As an indication of the Government policy toward financial assistance is the establishment of an Industrial Finance Corporation to make loans to private industry. Also the government has declared that it will buy the products of Pakistan industry in preference to others. Moreover, developmental goods and industrial raw materials are exempt from import duties.

(f) With regard to taxation, special depreciation allowances on new industrial enterprises and on plant and machinery have been granted, and some locally produced items have also been exempt from sales taxes and excise duties. Transportation, power and telecommunication facilities are provided by both Central and Provincial Governments at cheap rates. The Government has also engaged in limited trading operations. However, in spite of a general

(e) Policy on Nationalization

Although Pakistan leaders are in favor of a free enterprise economy, due to the shortage of private capital

welcoming foreign capital into banking operations. The State Bank of Pakistan has adopted a policy allowing foreign banks to open offices only in port towns, where there is a possibility of trade with foreign countries.⁴⁴ Foreign capital is generally welcomed in manufacturing enterprises, particularly those requiring technical assistance, capital equipment, and licensing rights in addition to financial capital.

(c) Participation of Local Capital and Enterpreneus

Pakistan's requirements with regard to the participation of local capital in new foreign enterprise have been applied rather flexibly. For example, of the 34 foreign companies which the Government permitted to issue capital between 1947 and 1949, twenty were permitted a hundred per cent foreign ownership. Of the remainder, only eleven were associated with Pakistan capital, amongst which only three had a majority of Pakistani shares.

The policy regarding local participation creates a little difficulty in the beginning, because the sources of local capital are comparatively limited. But in the long run this attitude is very beneficial to the foreign investor, because the risk of losses is shared with domestic capital.

The general provision that the participation of Pakistan nationals should be ensured both in the

⁴⁴Cf. Chapter VI.

investment the Government is nationalizing certain important industries. Key public utilities were marked out for nationalization in the Government's Industrial Policy Statement of April 22, 1948.

There is general agreement that monopolies and public utilities are peculiarly suitable for nationalization. Mention may be made of such industries as communication services, like posts, telegraphs, telephones, wireless and broadcasting, and Transport services, like railways, all of which are already State-owned and State-managed. As regards the three remaining forms of transport--Road, River and Air--Government has already announced their policy with regard to Civil Aviation. Insofar as road transport is concerned, many Provincial Governments have nationalized sections of such transport and propose nationalizing the rest in due course. As regards the river services, the Government purposes to leave them to private enterprise for the present, the question of their nationalization being examined in the course of time. With regard to other industries, the Pakistan Government proposes that for the present the following should be owned and operated by the States: (i) Arms and munitions of war; (ii) manufacture of railway wagons, telephones, telegraph and wireless apparatus; and (iii) generation of hydroelectric power.⁴⁵

(f) Government Participation in Industry

The Government has already undertaken to establish certain industries under the direction of various ministries. Forty million rupees were appropriated in the budget of 1949-50, for the development of industries such as fertilizer, steel, paper, and jute, and other plans are under consideration. The Government has also engaged in limited trading operations. However, in spite of a general

policy of state trading the Government has not sought to displace private traders, but to fill the void where private enterprise is unwilling or unable to develop any particular industry in accordance with the requirements of overall economic development.⁴⁶

In order to administer its growing number of industrial undertakings, the Government of Pakistan by an Act of April 1950 established the Industrial Development Corporation. The three-man Board of Directors was not appointed until January 12, 1952. Most of the planned industrial projects are under the control of this Corporation, but it is anticipated that power projects and other public utilities will remain under a separate organization.⁴⁷

(g) Industrial Rules and Regulations (Other than Commercial Policies and Exchange Controls)

Most of Pakistan's industrial rules and regulations are similar to those which were in effect in the United Kingdom prior to World War II. Certain changes which were made recently are as follows:

The major regulative measure is the Companies Act, which governs the organization and operation of corporations. In addition to that there are certain others such

⁴⁶Government of Pakistan, Proceeding of the Council of Industries, 3rd Session, 1952.

⁴⁷Gazette of Pakistan, April 7, 1950.

as The Capital Issue Act which requires governmental approval for the issuance of securities; The Development of Industries Act which gives the Government power to plan and regulate the establishment of any new enterprise or the development of new or existing industries in 27 fields; The Regulation of Mines and Oil Fields; and the Mineral Development Act which regulates the exploration and exploitation and development of Pakistan's mineral resources.

The Companies Act of 1947.

A business in Pakistan may be organized as a sole proprietorship, a partnership, or as an incorporated or unincorporated association. Foreign investors ordinarily establish their businesses in the form of corporations or "companies."

An act known as the Indian Companies Act of 1913, which was based on British corporate law, was adopted by the Government of Pakistan along with other Indian legislation at the time of partition. This is now known as the Companies Act of 1947 in Pakistan. It contains the basic legislation on the establishment and operation of companies. Regarding foreign investors it enables them to organize a Pakistan company or participate in a Pakistan company already formed, subject to the same regulations which are applicable to home investors. They may also establish a branch of foreign company in Pakistan by the registration of the branch. If a foreign company wants to establish a firm in the Provinces of Pakistan, it is

required to file three copies of a detailed balance sheet and the name of Province with the location on which the company proposes to operate. The information required in this balance sheet includes: (1) the authorized share capital and issue share capital, (2) the nature of company securities, (3) the profit and loss account, (4) the fixed assets with sufficient particulars, and (5) expenses and loans made to employees or officers of the firm.

The Capital Issue Act of 1947 should be period, such a period All issues of shares, stocks and bonds, and other instruments creating a charge on the assets of a company are regulated by the Capital Issue Act of 1947. To make an issue of capital in Pakistan or to postpone the date of maturity or repayment of any security maturing in Pakistan, all companies must obtain the consent of the Central Government of Pakistan. Although the Capital Issue Act of 1947 was scheduled to expire on April 1, 1950, it has twice been extended and is currently valid until April 1, 1956. The main purpose of its promulgation was to check inflation, and the extension was thought necessary in order "to ensure as far as possible in the case of private industry or enterprise, a balanced investment of capital in industry, agriculture, social services, and financial institutions and the like, consistent with the industrial policy of the Government."⁴⁸ Many complaints were voiced as a

⁴⁸"Statement of Objects and Reasons," The Gazette of Pakistan, Part V, Nov. 23, 1951.

result of the administration of the act, of which the important concern was a recently imposed condition that "a high percentage of the capital of a company had to be locked up in Pakistan Government securities when it is normally needed as working capital." The statement declared that "foreign promoters of industrial concerns recommend that the Government option to take up such portion of their capital offered to local investors but remaining unsubscribed should be exercised within a reasonable period, such a period to be stipulated in the letter of consent issued by the Controller of Capital Issues."⁴⁹

The Development of Industries Act

This Act was signed on March 21st, 1949. It authorized the Central Government to plan and regulate the establishment of any new enterprise or the development of any new undertaking in scheduled industries. Resources

The list of scheduled industries follows:

1. Arms and munitions of War.
2. Cement and cement products.
3. Edible oil, hydrogenated or otherwise.
4. Electrical communications and broadcasting equipment.
5. Electricity, including hydroelectric power.
6. Electrical equipment, appliances and goods.
7. Glass and ceramics.
8. Heavy chemicals.
9. Iron and Steel.
10. Machine tools, precision-tools, gauges and workshop tools.
11. Manufacturing of heavy engineering industry.
12. Minerals including salt and coal.

⁴⁹The Pakistan Economist, Vol. IV, No. 21, November 21, 1952, pp. 5-6.

13. Nonferrous metals and alloy manufactures.
14. Paper, cardboard and pulp.
15. Petroleum and mineral oils.
16. Pharmaceuticals, drugs and light chemicals.
17. Power and industrial alcohol.
18. Preserved and prepared foods.
19. Product of carbonization of industry.
20. Rubber manufactures.
21. Scientific and mathematical instruments.
22. Sea fish and its products.
23. Ships, barges, river-boats and lighters.
24. Sugar.
25. Tanned leather and leather goods.
26. Textiles--cotton, woolen, jute, silk and rayon.
27. Tobacco.

The rules governing these industries were put into effect with the signing of the Development of Industries Rules Act on February 19, 1951. According to this, the purpose of the Government is to aid planning through gathering statistics, and to help industry by preventing overproduction and making the best use of available materials.

The regulation of Mines and Oil Fields and Mineral Development, which governs the exploitation and development of Pakistan's mineral resources, applies not only to the Provinces and Capital area of Pakistan but also to every attached State and tribal area. All minerals in Pakistan do not belong to the individual owners of land, as it is in the United States, but to the Central, Provincial and State Governments.

⁵⁰Gazette of Pakistan, 1948.

According to this act the Central Government is authorized to make rules concerning:

- (1) To whom and on what conditions mineral exploration or licenses or mining concessions may be granted
 - (2) The refinement of ores and mineral oils
 - (3) The fixing of prices and control of production, storage, and distribution of minerals and mineral oils
 - (4) Any incidental matters.
- It also authorized the Government to fix punishments for the violation of such rules up to a maximum of three years imprisonment or a fine, or both. The Government can exempt any mineral from the application of the act.

Other Regulations and Controls

Protection of an invention in Pakistan can be obtained under the provisions of the Patents and Designs Act, 1911, which was adopted by Pakistan after partition. The initial duration of protection is sixteen years, during which time the patentee may sell and assign the patent, outright, or grant licenses to others. Trade marks may be registered with the Trade Marks Registry in Karachi, West Pakistan, or Chittagong; East Pakistan under the provision of the Trade Marks Act of 1940; and the Trade Marks Rules of 1942, as adopted by the Pakistan Government.

Copyrights in Pakistan are governed by the Indian Copyright Act of 1914, an adaptation of the British Imperial

Copyright Act of 1911.

In addition to all these regulations the Government of Pakistan has enforced many other controls, which are based upon the Essential Supplies Act of 1946, adopted by Pakistan, under which the Central Government is empowered to control the production, supply and distribution and trade and commerce of essential commodities. The essentials are defined as foodstuffs, cotton and wool textiles, paper, petroleum products, vehicle spare parts, coal, iron and steel, and mica. There are some other Acts such as the Fruit Products Control Order of 1951, and the Railways (Transport of Goods) Act of 1947, under which sanitary measures are specified for fruit factories, and permission to carry certain goods on the railways can be refused when it is considered to be in the public interest.

(3) Commercial Policies

The objectives of the commercial policies adopted by the Pakistan Government are to obtain the most favorable terms of trade, to aid the development of industries, to utilize foreign exchange earnings to the best advantage, to diversify the source and destination of the country's trade, to obtain sufficient customs revenue for facilitating development projects in Pakistan, and to prevent monopoly.

(a) Import and Export Control

Under the Import and Export Act of 1950, the objectives of the government are to safeguard the external

financial position of the country and aid in its economic development by a careful allocation of foreign exchange, consistent with current reserves. So, according to this Act, import licenses are required for all imports into Pakistan. These are of two types: (1) Open general import licenses, and (2) specific import licenses. The open general license has taken the form of an announcement by the Government of Pakistan, granting permission to all persons to import specified commodities into Pakistan from specified currency areas. The specific licenses specify the importer, the value and the quantity of the designated commodity, and the import source. Licenses for the dollar area and also for all other countries of the world are issued, and exchange is allocated in accordance with the licenses granted. Moreover, licenses for any country with which Pakistan has a trade agreement are also issued by the Chief Controller of Import and Export. Regarding export control, with the exception of certain items such as aircraft and parts, arms and ammunition, machinery belting, specified drugs and chemicals and certain instruments, of which Pakistan has a short supply, others are exported under the general and specific types of licenses mentioned above. These licenses are subject to changes from time to time according to the situation in the country.

(b) Bilateral Trade Agreements⁵¹

Owing to some political and economic ill feelings with her sister country, India, Pakistan has made bilateral trade agreements with a number of countries in addition to India. The most important countries are: Egypt, Switzerland, Japan, Germany, Austria, Hungary, France, Spain, Iraq, Norway, Ceylon, Australia, Italy, Czechoslovakia, Poland, Indonesia, and the United States of America. Generally these agreements are for one year's duration, subject to renewal, each country agreeing to permit the export of specified goods to the other and to grant import licenses for other specified goods in return.

In April 1953, Pakistan made a trade agreement with Japan, under which Pakistan importers were permitted to pay for Japanese capital goods on an installment basis within five years. A similar type of agreement was also made with certain United Kingdom industrialists. In September 1954, the Government of Pakistan announced that the Pakistan Industrial Finance Corporation had been authorized to extend bank guarantees to importers wishing to place orders on a deferred payment basis. Some agreements have also provided for the supply of technological information and assistance to Pakistan. Because of the present short supply of foodgrain, Pakistan has signed a barter

⁵¹United Nations, Economic Survey of Asia and the Far East, Chapter XI, pp. 284-285.

agreement with the U.S.S.R., involving the exchange of jute and cotton for wheat.

In February 1953, in order to dispose of her old cotton stock, Pakistan's Government announced that it would permit certain private barter trade transactions. These transactions have involved the export of old cotton crop against the import of cotton yarn. There are a few complaints received by the Commerce Department of Pakistan from the importers, that items imported under bilateral trade agreements cost more than do similar products furnished by other nations of the world on an openly competitive basis.

(c) Tariffs

In the early stage of industrialization the protective tariff is not only important but it is necessary to safeguard domestic producers and to encourage home production. At present tariffs in Pakistan are devices to collect revenue for the development of industries. Moreover, protection should be given within a reasonable length of time, during which the cost to the Government or to the consumer should not be excessive. The Chairman of the Tariff Commission, Dr. Nazir Ahmad, while opening the first public hearing on tariffs, declared that "it was hoped that as a result of the examination carried out requirements of the new nation. In the year 1950 the Pakistan Government established a Tariff Commission, in order to study the question of extending tariff protection

and the recommendations made by this Commission, a more favorable atmosphere will be created for investment in and development of industries in Pakistan."53

(d) International Tariff Agreements

Pakistan is one of the members of the General Agreement on Tariff and Trade (GATT) drawn up at Geneva in October 1947. According to this she grants all sort of facilities and trade concessions to the member countries. The purpose of the member countries is to make the movement of trade free, so far it can be possible for them. Pakistan was also represented at the United Nations Conference on Trade and Employment held at Havana in 1947.

(e) Other Measures to Encourage Industry

In order to encourage the establishment and expansion of domestic industry, the Government of Pakistan has exempt the import of capital goods from customs duties and sales taxes. Other Government actions have included the exemption, in whole or in part, of some basic raw materials required for home industry from import duty, an increase in the import duty on certain items available also through local production, and exemptions from excise duties and sales taxes of some domestic manufactures.

(4) Exchange Controls

Soon after partition, the Pakistan Government put restricted due to a shortage in foreign exchange. Per-

⁵³ Pakistan Trade, Vol. I, No. 4, September, 1950, pp. 36-37.

and other related forms of assistance to various industries in Pakistan.

Most of Pakistan's duties are levied on an ad valorem basis. Out of 490 dutiable things, 328 are subject to ad valorem duties, 75 to specific duties, 12 to compound, and 75 to alternate. The average standard ad valorem duty is about thirty per cent, with the highest being a hundred per cent and the lowest three per cent.

The Central Government, on the recommendation of the Tariff Commission has authority to impose protective duties under the Protective Duties Act of 1950. "... These duties can be imposed on any goods, produced or manufactured in any country outside of Pakistan and imported into Pakistan at any time, any amount it thinks fit."⁵² The Tariff Commission of Pakistan is instructed by the Central Government that, when they recommend any forms of protection in the country, they should take regard for the encouragement of industries particularly. Moreover, protection should be given within a reasonable length of time, during which the cost to the Government or to the consumer should not be excessive. The Chairman of the Tariff Commission, Dr. Nazir Ahmad, while opening the first public hearing on tariffs, declared that "it was hoped that as a result of the examination carried out

⁵² The Gazette of Pakistan, January 24, 1950.

⁵³ Pakistan Trade, Vol. I, No. 4, September, 1950, pp. 36-7.

controls on exchange under the Foreign Exchange Regulation Act of 1947. This was done in order to improve the balance of payments and bring in capital resources in order to develop the country. After some time such controls were eliminated upon becoming a member of the International Monetary Fund and General Agreement on Tariff and Trade. The Pakistan Government has wide power to control transactions in foreign exchange and securities, as well as the import and export of bullion and currency. The State Bank of Pakistan is charged with the administration of exchange control.

(a) Investment and Repatriation of Foreign Capital

In most cases investment and repatriation of foreign capital require the prior approval of the Government of Pakistan. According to the financial agreement of 1951, between the United Kingdom and Pakistan, repatriation of investment capital to the United Kingdom is not restricted. Remittance of profits is altogether free to all countries, but free repatriation of investment capital is reserved only for the United Kingdom.

(b) Remittance of Profits and Other Income

During 1951-52 there was no restriction on the remittance of profits to countries from which capital was drawn. But in the year 1953-54 these facilities were restricted due to a shortage in foreign exchange. Permission of the Government of Pakistan was required for the

remittance of profits earned by foreign firms which were required to submit applications duly supported with:

are pro Audited Balance Sheets, Trading and Profit and Loss Accounts covering the business operations in Pakistan only for the last two financial years; later documentary evidence of payment of Pakistan income and other taxes, or an Auditor's Certificate that sufficient funds have been set aside to meet such liabilities; a banker's statement showing monthly the extent to which company or branch has resorted to bank borrowing during the twelve months preceding the application and the extent (if any) to which the date proposed remittance will require bank finance.⁵⁴ six

months Moreover the remittance of commissions, wages of agents, insurance premiums, royalties, patent fees, service charges, expenses for the maintenance of families in case they are in a foreign country, and educational expenses of the children are permitted monthly. The scale of remittance for sterling area is £ 100, and \$403 for United States. Non-sterling area nationals, residing in Pakistan, and who are returning to their own countries, are permitted to transfer their accumulated savings for capital investment within the limit of £ 5,000.

(c) Control of Remittances on Transactions

Remittances against import are only permitted at that time when all documents regarding shipping and other necessary papers pass through the medium of an authorized dealer, with the condition that payment is not made in advance. However, for the importation of some capital

⁵⁴Statement of April 2, 1948 on "Industrial Policy of the Government of Pakistan," p. 8.

goods approval is granted up to 33-1/3 per cent of the estimated value of the goods if satisfactory documents are produced. Letters of credit covering goods subject to specific license should provide for shipment not later

than the last date specified on the license. Letters of credit covering goods on an open general license (if any) must provide for shipment not later than the expiration date of that open general license and not later than six months from the date on which the letter of credit is established.

The current tax system in Pakistan is based on income tax laws originally instituted by the English in 1860 for the British Empire, including British India. With the outbreak of World War I, the rates became both substantial and progressive and a further marked increase in the rates was made during World War II. These taxes are levied on the incomes of individuals, partnerships, corporations and firms. As currently constituted income taxes levied by the Central government they are of three broad types: normal tax, a supertax, and a business profits tax. In addition to these income taxes which now account for the major portion of the total revenues of the state, the government imposes import and export duties, sale taxes, and sundry other miscellaneous personal and business taxes.

(a) Income Subject to Taxation

The income which is subject to taxation can be divided into four categories: salaries, interest on securities, profits and gains of business, and income

⁵⁵Pakistan Government (Ministry of Revenue (Interior), Department of Taxation, Vol. 3, pp. 16-17. All figures shown in this Chapter are from the same source.

from other sources, such as building rents. *Categories of business Salaries earned in Pakistan other sources.* Only *interest* The term salaries as used for tax purposes in *expenses* Pakistan includes any kind of wages or salaries, commissions, fees, profits, pensions, gratuity, and certain payments in kind. Moreover, accrued salaries and those paid in advance are both taxable. Traveling allowances paid to employees as part of their vacation pay also are taxable, because it is treated as remuneration for services rendered by the employee in the past. Some payments in kind, such as free meals and medical aid are not taxable. Likewise, expenses which are made in the performance of duties are also excluded from assessment. On the other hand, residential quarters given by the *excess* government to its employees are taxed at the ratio of ten per cent of their salaries if the quarters are unfurnished, and thirteen per cent if furnished. There are taxes on car maintenance, but those cars which are utilized for the purpose of official governmental duties are exempt from the tax. In short under the heading of taxable salaries, Pakistan includes any income derived from personal exertion. *expenses which are made for promoting the business* Interest on securities *employees are deductible, provided* Interest on bonds or debentures issued by corporations or by the Central and Provincial Governments and to local authorities is subject to taxation. Interest on loans to individuals, partnerships, and other associations,

from other sources, such as building rents.

Salaries earned in Pakistan

CHAPTER V

The term salaries as used for tax purposes in

Pakistan includes **THE TAX SYSTEM**⁵⁵ for salaries, com-

missions, fees, profits, pensions, gratuity, and certain payments in kind. Moreover, accrued salaries and those income tax laws originally instituted by the English in 1860 for the British Empire, including British India. Traveling allowances paid to employees as part of their vacation pay also are taxable. With the outbreak of World War I, the rates became both substantial and progressive and a further marked increase in the rates was made during World War II. These taxes are levied on the incomes of individuals, partnerships, corporations and firms. As currently constituted income taxes levied by the Central government they are of three broad types: normal tax, a supertax, and a business profits tax. In addition to these income taxes which now account for the major portion of the total revenues of the state, the government imposes import and export duties, car maintenance, but those cars which are utilized for sale taxes, and sundry other miscellaneous personal and business taxes.

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⁵⁵ Pakistan Government (Ministry of Revenue (Interior), Department of Taxation, Vol. 3, pp. 16-17. All figures shown in this Chapter are from the same source.

loans to individuals, partnerships, and other associations,

although taxable, is included under the categories of business income and "income from other sources." Only interest net of expenses is taxable. Permissible expenses include any interest payable on money borrowed for the purpose of purchasing securities, except in the case of Government tax-free securities, and any commission paid to a banker to realize interest on behalf of the assessee.

of the Profits and gains subject to taxation

Profits and gains from business, whether professional or vocational, are considered taxable income. Business here means any trade, commerce, or manufacture or any kind of adventure concerning trade and manufacture. Expenses incurred in conducting business are deductible from gross profits before taxation. If expenses exceed gross profits, the resultant losses, to the extent that they cannot be offset against income of the assessee from other sources, may be carried forward for a period of not more than six years and offset against the profits of the particular business in the succeeding years.

Major types of deductible expenses fall under these headings:

- (1) All expenses which are made for promoting the business or the health of employees are deductible, provided they are not of a capital nature and are made within a limit of three years. If the income is insufficient to permit full deduction of all expenditures of this type, the allowance may be carried forward indefinitely until

fully utilized. depreciation allowances are allowed on the

(2) Interest on all capital borrowed in financing business is fully deductible. as activities.

(3) Capital losses ensuing from the condemnation or sale of buildings, plants and machinery are deductible for tax purposes to an amount equal to that by which the value received is less than the actual value at the time of the disposition of the capital asset. falling under

(4) Maintenance expenses on all capital goods used in research for furthering the purpose of the business are deductible. Moreover, rent is deductible even if it is

(b) Taxes on Corporate Income
Under the income tax, the Pakistan government has divided the rates into two categories. One applies to property is not owned by the firm. In the case of houses provided to employees rent-free, the rent is also deductible as a part of wage payments. incorporated companies, and, other to individuals, partnerships and other associations of persons. As a "Company"

(5) Insurance payments made on insurance covering risk of damage or destruction to capital goods used for the business are deductible. is different from other forms of business in Pakistan. it is necessary to define its meaning for tax purposes.

(6) Bonuses and commissions made to employees are deductible, provided they are not made to them in an attempt to avoid taxes due on profits. The Income Tax Act of 1860, adopted by the government of Pakistan defines a "Company" as

(1) Any organization incorporated in Pakistan as a company under the Companies Act.

(2) Any foreign association, whether incorporated or not, which is declared to be a company for the purpose of the income tax act by the Central Board of Revenue.

(3) Any organization formed in pursuance of an act of Parliament or of an act of the legislature of a British possession or of a law of an acceding or non-acceding state.

(8) Other expenses such as payments for advertising or breakage fees are deductible, provided they are not of the nature of capital expenditure.

(9) Depreciation allowances are allowed on the capital goods such as buildings, machinery, plant, or furniture used for the business activities. Pakistan are entitled to other taxable income of supertaxes only if they are public. This income includes ground rent on nonagricultural land, rents or royalties from the lease of mining, fisheries, forests and other similar properties, and commissions and fees of various types. Income falling under to this category gets the benefit of deductions similar to those under the three categories already mentioned. (are controlled by less than six persons.)

(b) Taxes on Corporate Income

Subsidiaries are treated as independent entities. Under the income tax, the Pakistan government has divided the rates into two categories. One applies to or business profits taxes under the subsidiary arrangement as compared with the branch arrangement. Dividend Incorporated Companies, and, other to individuals, partnerships and other associations of persons. As a "Company" recipients are given credit for the normal income taxes is different from other forms of business in Pakistan, it is levied on the profits out of which dividends have been is necessary to define its meaning for tax purposes. paid.

The Income Tax Act of 1860, adopted by the government of Pakistan defines a "Company" as Under Pakistan tax regulations the subsidiary arrangement has a disadvantage of slightly higher taxes due to the supertaxes. On the other hand, it has the advantages of freeing the affairs of the parent company, if it is a foreign corporation, from Pakistan tax jurisdiction. This arrangement permits a foreign parent company to accumulate the profits of its subsidiary in Pakistan without paying taxes on such profits until such a time as the profits actually are remitted to the possession or of a law of an acceding or non-acceding state.

(1) Any organization incorporated in Pakistan as a company under the Companies Act.

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(3) Any organization formed in pursuance of an act of Parliament or of an act of the legislature of a British possession or of a law of an acceding or non-acceding state.

foreign parent corporation.

Partial exemption of income. Income contributed to charitable purposes under the approval of the government of Pakistan is exempt from the normal income tax up to one-twentieth of the total income of the company or to Rs. 100,000 (\$30,000), whichever is less.

All new industries which employ more than fifty persons and were established between August 15, 1947 and March 31, 1955, and which use electrical energy, are exempt, from the normal income tax and supertax on profits not exceeding five per cent per annum of the capital employed during their first five assessment years.

These industries include enterprises engaged in manufacturing or processing of goods, ship-building and navigation, generating and transmitting electric and hydraulic power, mining and oil production. Exemption is also given from normal income tax to a company on the dividends it receives from other companies whose income has already been subject to the income tax. In the determination of the recipient's supertax liabilities, however, such dividends are grossed up to include the normal income taxes (but not the supertaxes) levied on and deducted from the profits out of which the dividends are paid. Moreover, profits of new industrial undertakings also are wholly exempt from the business profits tax of the Business Profits Tax Act of 1947.

Rates of taxation determined in the same manner as they are. Taxes were increased during World War II. Companies were forced to pay high taxes. Supertaxes were increased three times and profits tax were doubled. Soon after the end of the war in 1945, all these taxes were reduced to nominal charges.

The rate of normal income tax for the year ending March 31, 1955 is equivalent to 31.25 per cent of a company's total taxable income. It means five annas per rupee. (1 rupee is equal to 16 annas).

The rate of supertax for the year ending March 31, 1955 is 25 per cent of the total taxable income of a company. Its charges are four annas per rupee. Beside the regular supertax, public companies declaring dividends in excess of thirty per cent of their total income are subject to additional supertax at graduated rates, which are as follows:

Annas 3 per rupee for dividends amounting to between 30 to 40 per cent of total company income.

Annas 5 per rupee for dividends amounting to between 40 to 50 per cent of total company income.

Annas 7 per rupee for dividends amounting to between 50 to 100 per cent of total company income.

The business profits tax rate is $16\frac{2}{3}$ per cent on assessable profits. An exemption is granted for an amount equal to six per cent of the capital of the company or 100,000 rupees, whichever is greater. Assessable

foreign Pakistan's tax laws also give somewhat different treatment to private and public companies. Companies which do not distribute their dividends in Pakistan are entitled to a partial rebate of supertaxes only if they are public companies or subsidiaries of public companies. (For such rebate, however, a company is deemed to be a public company only if it is neither a private company under the Companies Act--one which restricts the right to transfer shares and limits the numbers to fifty--nor a company in which fifty per cent of the voting shares are controlled by less than six persons.)¹ supertax on profits not Subsidiaries are treated as independent entities. This treatment does not result in any higher normal taxes or business profits taxes under the subsidiary arrangement as compared with the branch arrangement. Dividend recipients are given credit for the normal income taxes levied on the profits out of which dividends have been paid. from normal income tax to a company on the dividends Under Pakistan tax regulations the subsidiary arrangement has a disadvantage of slightly higher taxes due to the supertaxes. On the other hand, it has the advantages of freeing the affairs of the parent company, if it is a foreign corporation, from Pakistan tax jurisdiction. This arrangement permits a foreign parent company to accumulate the profits of its subsidiary in Pakistan without paying taxes on such profits until such a time as the profits actually are remitted to the

profits are generally determined in the same manner as they are for normal tax purposes. The only difference is this that depreciation allowances, however, may not be carried over from one year to another for the purpose of determining profits subject to the business profits tax. that he invest in government securities or post office

savings certificates up to a maximum of twenty per cent

(c) Taxes on Personal Income

Personal income rates are applied to the income of individuals and to the income of partnerships or other associations of persons. The tax is levied only on

net income after the deduction of allowable expenses as previously indicated in the definition of taxable income. In addition, parts of income are exempt from normal income taxes, and in some cases from supertaxes, by reason of source or disposition.

Partially exempt income

Income less than Rs. 4,200 (\$1,260) is totally exempt from any kind of taxes. Income contributed to recognized charitable institutions up to one-tenth of the total income is also exempt from normal income tax. Any income contributed to recognized unemployment or old age funds is exempt from normal income taxes up to one-fifth of the total income.

Income from Government tax-free securities is exempt from normal income tax.

Income invested for the development of industry in Pakistan up to Rs. 100,000 is exempt from normal income tax and supertax.

An assessee with an income of less than Rs. 25,000 (\$7,500) is exempt from normal income tax on the condition that he invest in government securities or post office savings certificates up to a maximum of twenty per cent of his total income. Moreover, anybody may claim exemption on those incomes which are earned from personal exertion, such as fees, salaries, commissions, and profits.

Rates of taxes

The incomes of individuals and partnerships or other associations of persons are subject to normal income taxes and supertaxes, like the income of corporations and companies. Moreover the rates are progressive, and the lowest level of income subject to either taxes is considerably above the income of majority of the population. The rates of both taxes for the assessment years 1954-55 are shown in the following table.

In conclusion it is said that the rates of income tax of the Central Government are quite high for both individuals and corporations when compared with the rates prevailing before partition. However, certain concessions which have been given recently are mitigating

Segment of Income	Rate of Normal Inc. Tax (in annas per rupee)	Rate of Supertax (in annas per rupee)	Total Cumulated inc. Segments (in dollars)	Effective Tax Rate on Total Cumulated Inc. Segments in %
On 1st 1,500	nil	nil	450	nil
On next 3,500	0.75	nil	1,500	3.28
5,000	1.50	nil	3,000	6.33
5,000	3.00	nil	4,500	10.47
5,000	4.50	nil	6,000	14.88
5,000	5.00	nil	7,500	18.16
5,000	5.00	2.25	9,000	22.68
5,000	5.00	2.50	10,500	26.14
10,000	5.00	3.00	13,500	31.44
10,000	5.00	3.50	16,500	35.38
15,000	5.00	4.00	21,000	39.85
15,000	5.00	4.50	25,500	43.30
15,000	5.00	5.00	30,000	46.18
50,000	5.00	6.00	45,000	53.70
100,000	5.00	6.50	75,000	60.97
Above 100,000	5.00	7.50	up to 3 million	78.00

cent on \$75,000. Tax credit is given to a dividend recipient against income tax liabilities on dividend income for normal income taxes, but not for supertaxes paid by the corporation.

The concessions given by the Government to encourage investment in industry include:

- (1) An exemption for five years from the normal income tax and the supertax on profits of new industrial enterprises equivalent to five per cent of the capital invested.

In conclusion it may be said that the rates of income tax of the Central Government are quite high for both individuals and corporations when compared with the rates prevailing before partition. However, certain concessions which have been given recently are mitigating factors. Nonresident individuals and companies are taxed only on that income which is accumulated in Pakistan. Capital gains are not taxed and no excess tax on profits is charged. Pakistan does not have a double-taxation agreement with the United States. The tax rate applied to corporate income is from 44 to fifty per cent, which includes the normal and supertax both. Another percentage which ranges from approximately 19 to 44 per cent of the supertax is levied on the income paid out as dividends by a public company in excess of thirty per cent of its total income. Individual income tax rates are progressive, and determined at approximately the rate of three per cent on incomes of \$1,500; 25 per cent on \$10,000 and sixty per cent on \$75,000. Tax credit is given to a dividend recipient against income tax liabilities on dividend income for normal income taxes, but not for supertaxes paid by the corporation.

The concessions given by the Government to encourage investment in industry include:

- (1) An exemption for five years from the normal income tax and the supertax on profits of new industrial enterprises equivalent to five per cent of the capital invested.

(2) Total exemption of profits of new industrial enterprises from the business profits tax.

CHAPTER VI
(3) Special rapid depreciation allowances on new construction, plant, and machinery.

(4) Exemption from taxation of a portion of capital invested in approved industrial undertakings; and exemption from estate duty of investment in approved

industries. Domestic Investment
Investment is a welcome feature of the country's economy. Such investment has been estimated at about Rs. 170 million during 1954-55. In addition, the Pakistan Industrial Development Corporation has invested about Rs. 100 million in various industries, bringing the total investment in industry during the year to Rs. 270 million. Most of this sum is invested in the establishment of a number of vital industries such as jute, paper, textile, and wool.

(a) Capital Facilities

In order to facilitate the issuance of capital securities and to maintain necessary contacts with investing countries, a security market, known as Karachi Stock Exchange, was established in 1948. Another market of this kind is being established in East Pakistan. It is estimated that the monthly volume of business in Karachi Exchange was about 10 million rupees in 1950. In addition to Central and Provincial Government securities, which were traded in that period, trading includes

the shares of about thirty Pakistan financial and industrial corporations. Although the operations of this market are gradually expanding, it remains a rather informal arrangement involving trading businessmen.

CHAPTER VI

SOURCES OF CAPITAL

The capital market in Pakistan is also restricted.

(1) Domestic Investment

A growing volume of private investment in industrial undertakings is a welcome feature of the country's economy. Such investment has been estimated at about Rs. 170 million during 1954-55. In addition, the Pakistan Industrial Development Corporation has invested about Rs. 100 million in various industries, bringing the total investment in industry during the year to Rs. 270 million. Most of this sum is invested in the establishment of a number of vital industries such as jute, paper, textile, and wool.

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the shares of about thirty Pakistan financial and industrial corporations. Although the operations of this market are gradually expanding, it remains a rather informal arrangement between a few leading businessmen.

The capital market in Pakistan is also restricted by the absence of issue houses or other investment intermediaries and by the limited number of persons or institutions purchasing securities. Individual investors typically prefer to invest in enterprises of their own--primarily commercial ventures--or, where more security is desired, in real estate or Government securities.

The Pakistan Government has established different financial corporations, such as the Refugees Rehabilitation Finance Corporation, the Pakistan Industrial Finance Corporation, the Agricultural Development Finance Corporation, and the House Building Finance Corporation, in order to provide capital facilities in every field of its economy. The most important of these are the Pakistan Industrial Finance Corporation and the Agricultural Development Finance Corporation. The Pakistan Industrial Finance Corporation was established in 1949 to provide medium and long-term credit facilities to industries. The total loans granted by this corporation to industries up to January 1955 amounted to 38.1 million rupees. Under the Pakistan Industrial Finance Corporation Act of 1952 the power to grant loans and other financial assistance was enlarged to include all industrial concerns,

whether incorporated or not. After this loans were sanctioned amounting to about Rs. 3.3 million to individuals, Rs. 10.3 million to private limited companies, and

Rs. 4.3 million to public limited companies. Again in August 1953 the corporation was empowered to extend bank-guarantees to Pakistan importers for the purchase of

selected capital goods on a deferred-payment basis from Japan and the United Kingdom. Similarly the Agricultural

Finance Corporation is providing credit facilities to agriculturists for the development of agriculture and agricultural products. Loans are given mostly in kind

but cash loans can also be granted to genuinely needy cases. In its very first year the corporation granted

loans of Rs. 2.5 million to 530 agricultural concerns.

Printing	1,850	...	...	1,850	...
Woolen textile	500	...	1,350	1,850	...
textile	...	...	500	500	...
Electricity	700	500	3,300	...	4,500
prepared food	1,075	400	240	435	2,200
Chemicals	...	300	...	500	900
Pharmaceuticals	...	150	150	...	300
Engineering	...	...	2,400	450	2,850
Light engineering	...	...	...	500	500
Cement products	...	...	...	350	350
Jute processing	...	...	500	400	900
Fruit preserving	...	...	...	275	275
Wood processing	...	...	...	40	40
Edible oils	...	...	...	200	200
Sport goods	...	...	...	150	150
Surgical cotton	...	...	...	100	100
Cotton ginning	...	...	...	100	100
Coal mines	...	...	...	180	180
Sugar	...	3,000	...	...	3,000

TOTAL	5,700	6,850	7,715	15,360	35,645
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Number of concerns receiving loans	9	9	8	40	66
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*Pakistan Industrial Development Corporation, Fourth Annual Report, June, 1953, p. 38.

(b) Credit Conditions TABLE X

A fairly well developed banking system existed in
LOANS OF THE INDUSTRIAL FINANCE CORPORATION,British India prior to partition, but the sections which
BY INDUSTRY*now constitute Pakistan were less adequately served than
1950-1953
such areas as Bombay and Calcutta. As Muslims are pre-

Type of Industry	1950	1951	1952	1953	Total
(Amount sanctioned in thousand of Rs.)					
Tanned leather and					
Leather goods	450	...	125	640	1,215
Printing	1,850	...	...	...	1,850
Cotton textile	1,500	2,000	1,000	8,000	13,160
Woolen textile	...	500	...	1,350	1,850
Silk and rayon textile	...	...	...	500	500
Hosiery	...	...	...	100	100
Electricity	700	500	3,300	...	4,500
Preserved and prepared food	1,075	400	240	485	2,200
Glass works	125	...	...	300	425
Chemicals	...	300	...	600	900
Pharmaceuticals	...	150	150	...	300
Engineering	...	...	2,400	450	2,850
Light engineering	...	...	...	500	500
Cement products	...	...	...	350	350
Jute processing	...	...	500	400	900
Fruit preserving	...	...	...	275	275
Wood processing	...	...	...	40	40
Edible oils	...	...	...	200	200
Sport goods	...	...	...	150	150
Surgical cotton	...	...	...	100	100
Cotton ginning	...	...	...	100	100
Coal mines	...	...	...	180	180
Sugar	...	3,000	...	...	3,000
TOTAL	5,700	6,850	7,715	15,380	35,645

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*Pakistan Industrial Development Corporation, Fourth Annual Report, June, 1953, p. 38.

Pakistan Industrial Development Corporation, Fifth Annual Report, August, 1954, p. 68.

(b) Credit Conditions

A fairly well developed banking system existed in British India prior to partition, but the sections which now constitute Pakistan were less adequately served than such areas as Bombay and Calcutta. As Muslims are prohibited by the Quran from taking interest, the facilities which existed in Pakistan were primarily banks operated by Hindus and branches of foreign banks. Pakistan's banking advances vary considerably from bank to bank. The availability of credit fluctuates seasonally, the period of greatest stringency ordinarily being from November through March. The credit system of Pakistan is relatively inflexible and a tightness in the credit market is ordinarily reflected not only in a rise in interest rates but

Following this decline, banking facilities improved to an even greater extent in the increased difficulty of obtaining credit. Foreign banks in Pakistan are less likely to be affected by a tightness in credit conditions are still largely concentrated in the major cities, nearly half of them being found in Karachi, Lahore, Chittagong, and Decca.⁵⁶

A list of the 32 scheduled banks in operation in 1953 follows:

Allahabad Bank, Ltd.	Imperial Bank of India
American Express Co.	Lloyds Bank, Ltd.
Australasia Bank, Ltd.	Mercantile Bank of India, Ltd.
Bank of Bahawalpur, Ltd.	Metropolitan Bank, Ltd.
Bank of China	Muslim Commercial Bank, Ltd.
Bank of India, Ltd.	National Bank of India, Ltd.
Bank of Tokyo, Ltd.	National Bank of Pakistan

⁵⁶Pakistan Industrial Development Corporation, Fifth Annual Report, August, 1954, p. 68.

Bharat Bank, Ltd.	Netherlands Trading Society
Canara Bank, Ltd.	Oriental Bank of Commerce, Ltd.
Central Bank of India, Ltd.	Prabhat Bank, Ltd.
Chartered Bank of India,	Punjab National Bank, Ltd.
Australia and China	Punjab and Sind Bank, Ltd.
Eastern Bank, Ltd.	Southern Bank, Ltd.
Grindlays Bank, Ltd.	United Bank of India, Ltd.
Habib Bank, Ltd.	United Commercial Bank, Ltd.
Hind Bank, Ltd.	United Industrial Bank, Ltd.
Hindustan Commercial Bank, Ltd.	

There does not exist an integrated money market in Pakistan; the terms and rates of interest on loans and advances vary considerably from bank to bank. The availability of credit fluctuates seasonally, the period of greatest stringency ordinarily being from November through March. The credit system of Pakistan is relatively inflexible and a tightness in the credit market is ordinarily reflected not only in a rise in interest rates but to an even greater extent in the increased difficulty of obtaining credit. Foreign banks in Pakistan are less likely to be affected by a tightness in credit conditions because of their ability to borrow abroad.

Tables XI, XII and XIII present data bearing on credit conditions in recent years. Table XIV shows the advances of scheduled banks as of December 31, 1952, according to type of borrower.

Owing to the inadequacy of Pakistan's credit facilities, the State Bank prescribed in 1951 that credit may not be granted to business houses which are controlled either directly or indirectly by persons resident outside Pakistan except with the permission of the State Bank.

It is understood, however, that banks have been authorized by the State Bank to give normal credit service to export houses in regard to exports.

Loans are usually in the form of overdraft or cash credit accounts, with the borrower paying interest only on the credit he uses from day to day above a certain minimum. Such loans are based on demand promissory notes which permit the bank to control or withdraw the credit at any time. It is not uncommon for foreign firms with good credit standing to finance trade operations with funds borrowed in this manner.

Banks in Pakistan generally follow a conservative lending policy. A second signature is usually required even for secured loans. Banks are cautious as to the kind of security against which they are willing to lend and usually require that a margin of thirty per cent or more be maintained.

Table XI shows that there was a remarkable increase in "advances" during the years 1950 and 1951. In the following years 1952 and 1953 a slow decrease is noted due to the decline in trade soon after the end of war in Korea. Moreover, the credit supply has fluctuated seasonally, thus showing that Pakistan does not have sound and well-established money market.

Table XII shows an increase in time and demand liabilities for the year 1953 as compared to the previous years 1951 and 1952 which evidently indicates an

*As of end of month.

improvement in Pakistan, but the number of advances and the bills discounted indicates that the credit system is relatively inflexible. 1950-1953*

Table XIII reveals the narrowness of the credit market as reflected in the variability of call money rates and the increased difficulty of obtaining credits in the period of greatest stringency from November through March.

Table XIV expresses the division by type of economic activity of the advances to Pakistan firms by Pakistani banks and foreign banks. Foreign banks have invested a major portion of their contributions in transport and communications, whereas domestic banks are investing mostly in agriculture which is the backbone of the country.

TABLE XI

TOTAL ADVANCES AND BILLS DISCOUNTED IN PAKISTAN
BY SCHEDULED BANKS, 1950-1953*
(in millions of rupees)

Month#	1950	1951	1952	1953
January.....	489	855	978	796
February.....	512	863	907	779
March.....	556	829	896	752
April.....	554	790	884	719
May.....	509	651	829	662
June.....	490	550	780	656
July.....	481	512	782	656
August.....	509	532	743	653
September.....	574	564	757	640
October.....	622	622	780	681
November.....	703	780	764	712
December.....	770	919	792	781

*State Bank of Pakistan Bulletin, March, 1954, p. 8.

#As of end of month.

TABLE XII
 CONSOLIDATED POSITION OF SCHEDULED BANKS
 1950-1953*

Month	Item	1949	1950	Dec.29 1950	Dec.28 1951	Dec.26 1952	Dec.24 1953
January	1/4	3/4					
(In millions of rupees)							
	Total demand and time liabilities in Pakistan			1,180	1,499	1,400	1,592
	Demand liabilities			948	1,212	1,129	1,239
	Time liabilities			232	287	271	353
	Cash in Pakistan			51	72	61	40
	Balance with the State Bank of Pakistan			93	139	90	98
	Total advances and bills discounted in Pakistan			770	919	792	781
	Advances			792	837	677	660
	Bill discounted			48	82	115	121
	Required deposits at State Bank of Pakistan ⁺			52	66	62	69
	Excess of balance at the State Bank over legal minimum			41	72	28	29
	Number of banks reporting			33	31	31	32

*State Bank of Pakistan Bulletin, March 1954.

+Legal minimum is five per cent of demand liabilities and two per cent of time liabilities.

TABLE XIII

KARACHI INTERBANK CALL MONEY RATES (PER CENT)

1949-1953*1952*

(Amounts in millions of rupees)

Month	1949	1950	1951	1952	1953
January	1/4	3/4	2	2-1/2.2-3/4	2-3/8.
February	1/4	1	2	1-1/2.2	2-1/2
March	1/4	1 17.8	1-7/8.2	69.6	24.1
April	1/4	1	1-1/2.1-5/8	8	21.2
May	1/2	1/2 24.3	1/2	59.2	27.0
June	1/2	1/4 11.1	1/4	1-3/4 6.6	1/4
July	1/2	1	1/4	2-2-1/4	1/4
August	1/2	1	1/4	2	1/4
September	1/2	1	1/4	2	1/4
October	3/4	1-1/2.1-3/4	1/4	2-1/4.2-1/2	1/4
November	1/2	1-1/2.2	3/4	2-2-1/2.5	32.1
December	1/2	1-1/2	2	2-1/2.8	25.1

*State Bank of Pakistan Bulletin, October, 1953, p. 19.

*State Bank of Pakistan Bulletin, November, 1953, p. 14.

(c) State Bank of Pakistan and Its Functions

ADVANCES OF THIRTY SCHEDULED BANKS BY PURPOSE

DECEMBER 31, 1952*

(Amounts in millions of rupees)

Economic Group	Amount	% of Total Pakistan Banks		Advance by Foreign Banks	
		Amount	%	Amount	%
Agriculture	112.4	17.8	78.3	34.1	30.4
Mining	1.2	.2	2.8	1.2	97.2
Manufacturing	90.6	14.3	59.2	37.0	40.8
Construction	7.0	1.1	6.2	6.6	93.8
Electricity, Gas, etc.	.8	.1	19.6	.6	80.4
Commerce	301.7	47.7	23.3	231.3	76.7
Transport and Communications	16.2	2.6	1.9	15.9	98.1
Services	55.9	8.8	7.9	51.5	92.1
Other	46.2	7.3	74.5	11.8	25.5
TOTAL	632.1	100.0	242.0	38.3	61.7

*State Bank of Pakistan Bulletin, November, 1953, p. 14.

the money market. It initiated training schemes to provide personnel for banking institutions. It encouraged all sound banks to expand their operations, by reopening closed offices and establishing new ones. The efforts have borne fruit, and in 1955 the number of scheduled banks is 32 with 213 branches.

(c) State Bank of Pakistan and Its Functions

recently In order to mobilize domestic as well as foreign financial resources the Government of Pakistan has paid particular attention to the growth and development of banking and other credit facilities in the country. Soon after partition Pakistan had no central banking and monetary authority of its own, because the banking functions were previously exercised by the Reserve Bank of India. The State Bank of Pakistan which is responsible for the handling the money market of the country was set up in July, 1948. In the beginning the Bank was confronted with the problems which most other central banks have to face. In addition Muslims are prohibited from accepting interest and therefore the credit system of the country suffered greatly when Hindu bankers and moneylenders went to India, at the time of partition. About 250 branches of different banks were closed down, and qualified personnel were flown to India. The State Bank, therefore, to accomplish the task of rehabilitating the bank structure, undertook the responsibility of handling the money market. It initiated training schemes to provide personnel for banking institutions. It encouraged all sound banks to expand their operations, by reopening closed offices and establishing new ones. The efforts have borne fruit, and in 1955 the number of scheduled banks is 32 with 213 branches. per cent of gold, silver, sterling securities and foreign exchange, includes rupee

The bank has seven offices including one which recently opened at Khulna in East Pakistan. The opening of this branch of the State Bank has facilitated economic progress in that area.

The State Bank of Pakistan carries on the following functions: (1) It floats central and provincial government loans and Treasury bills; (2) it performs open market operations by buying and selling securities; (3) it controls credit and adjusts the quantitative volume of the money supply; (4) it provides exchange and remittance facilities to businessmen; and (5) it has also introduced a bill discounting scheme with a view to building up the bill market in the country.

In addition to the above mentioned functions, the State Bank of Pakistan is an issuer of currency and a banker's bank.

Issuer of currency

The State Bank of Pakistan is the sole issuer of currency in Pakistan. The importance of this is based on the fact that owing to the relatively infrequent use of checks in Pakistan, currency rather than deposits make up the bulk of Pakistan's monetary supply. The issue department is required to maintain thirty per cent of its assets in the form of gold, silver, sterling securities and foreign exchange. The reserve of the issue department, other than the required thirty per cent of gold, silver, sterling securities and foreign exchange, includes rupee

coin, Government securities, bills of exchange and other commercial paper. The liabilities of the issue department consist of notes in circulation. The bank is authorized to increase or decrease the currency issued, by transferring government securities.

A banker's bank

Like the Federal Reserve Bank of the United States, the State Bank of Pakistan provides financial assistance to the various local banks and supervises them while regulating monetary policies in the country. The scheduled banks are required to maintain a minimum deposit of two per cent of their time liabilities and five per cent of their demand liabilities with the State Bank. Moreover, they are required to maintain within Pakistan total assets equal to 85 per cent of their total demand and time liabilities in Pakistan. They are also required to submit various periodic reports to the State Bank.

The State Bank is empowered to inspect the scheduled banks at any time in order to prohibit them from entering into transactions and making undue advances. Under the Restriction of Branches Act of 1948 scheduled banks cannot open new offices or change the location of any existing offices without getting prior permission from the State Bank of Pakistan.

One of the important functions performed by the State Bank of Pakistan is that it acts as a fiscal agent of the Central and Provincial Governments, managing their

receipts, expenditures and debts. It makes ninety days unsecured advances to both governments and assists them in floating new loans and in other financial matters. In short it performs all financial functions on behalf of the government. It also administers exchange control, advises the government on applications for the issue of capital under the Capital Issue Act, and participates in the ownership and management of the Pakistan Industrial Finance Corporation. respectively.

(c) Government Loans and Grants

The revenue receipts of the Central Government, particularly under the Central Excise and Sale Tax, are an index of the improvement brought about in the country's economy as a result of Governmental policy of encouraging internal production. The government has reduced its dependence on Customs Revenue which is a valuable, but unreliable, source of income. On the other hand, the government has placed reliance mostly on income tax, the sale tax, and the central excise duties, which will continue to grow with the development of the country's economy.⁵⁷

The country urgently needs development in the fields of agriculture, industry, power, communication, and so forth. It is only by speeding up production that

⁵⁷For the percentage of revenue collection, Cf. Chapter V, Section 1.

the supply of consumer goods can be increased, the volume of employment stepped up and the standard of living of the common man raised. With these ends in view larger sums are being provided in the capital budget every year for direct development expenditure by the Central Government and through development loans and grants to Provinces.

Tables XV and XVI show the grants-in-aid and development loans respectively.

As a result, amounts are being spent in addition to the revenue budget of the Central Government for developing the economy of the country. It is the policy of the government that the economic development of the country should not be allowed to be circumscribed by the ordinary revenue resources which are in themselves an index to an underdeveloped economy. The volume of development and other capital expenditure is nearly as much as the total revenue expenditure of the Central Government including the expenditure on defense.

Tables XV and XVI show an increasing volume of aid given and loans granted to the provincial governments in important fields, especially in social uplift, in order to develop the country.

TABLE XV
AMOUNTS OF GRANTS-IN-AID GIVEN TO PROVINCES,
1947 TO 1955*

Province, State or Area	Refugee Rehabilitation	Agricultural Development	Road Development	Border Police	Civil Defense	Universities and Colleges	Social Uplift	Special	Total
E. Bengal	16.0	13.0	4.7	23.2	1.5	1.2	55.0	6.0	120.6
Punjab	62.1	7.9	7.4	17.7	4.5	1.2	50.0	20.0	170.8
Sind	13.3	5.2	2.0	4.3	1.2	1.1	20.0	-	47.1
N.W.F.P.†	1.6	4.7	2.7	-	-	6.4	15.0	-	112.9
Bahawalpur	2.5	0.2	0.5	-	-	-	3.5	-	6.7
Other Area	44.6	2.9	4.5	-	2.8	5.5	36.5	-	96.8
TOTAL	140.1	33.9	21.8	45.2	10.0	15.4	180.0	26.0	554.9

*Revenue Bulletin of Pakistan, 1953, p. 45.

†N.W.F.P. had 82.5 given to Subvention in addition to those listed above.

TABLE XVI

DEVELOPMENT LOANS*
(in millions of rupees)

Province	1948-1949		1949-1950		1950-1951		1951-1952		1952-1953		1953-1954		Total	
	Amt.	Sanc Drn.	Amt.	Sanc Drn.	Amt.	Sanc Drn.	Amt.	Sanc Drn.	Amt.	Sanc Drn.	Amt.	Prov in R.E.	1954-1955	B.E. Amt. Sanc Prov.
E. Bengal	40.0	-	42.1	-	20.0	33.0	33.0	29.0	29.0	82.0	138.5	-	302.6	-
The Punjab	50.0	50.0	52.5	52.5	40.0	45.0	45.0	29.0	29.0	226.5	121.3	-	347.8	-
Sind	17.5	-	-	-	17.6	3.5	15.0	-	2.5	2.5	6.0	-	258.9	52.6
The NWFP	5.2	5.2	9.0	4.0	7.5	15.0	15.0	13.5	13.5	45.2	16.3	-	66.5	-
Bahawalpur	-	-	-	-	-	-	-	-	-	-	38.5	-	38.5	-
Others	-	-	-	-	-	-	-	-	-	-	1.0	-	1.0	-
	112.7	55.2	103.6	56.5	85.1	71.0	108.0	93.0	84.0	359.7	315.6	258.9	809.0	308.7

*Pakistan 1953-1954, Ministry of Economic Affairs, p. 29.

(2) Foreign Capital Investment

Although there is no accurate survey of foreign investment in Pakistan, it is evident from the figures that the United Kingdom and the United States have provided most of the capital for the establishment of industry in the country.⁵⁸ American firms currently operating in Pakistan include several insurance companies, Caltex and Standard Oil Companies, American Express Company and General Motors. The United Kingdom, which is close to Pakistan, is taking a very keen interest in exploring the minerals of Pakistan, by providing capital goods and sending trained personnel from abroad. Moreover, she has made certain other agreements to help Pakistan which is a member of Sterling Area.

(a) U. K. Releases of Sterling

As a member of the Sterling Area, Pakistan has close ties with the United Kingdom. Since 1947, when Pakistan came into existence, the country has concluded six agreements for the release of its share of the sterling balances accumulated by undivided India during World War II. The latest of these covers the period 1951 to 1957, during which most of Pakistan's sterling balances are being unblocked. It is agreed that £ 24 million will be transferred from Pakistan's No. 2 blocked account to Pakistan's No. 1 current account; that £ 20 million will be released to

⁵⁸Cf. Chapter III for Present Foreign Investment.

equal annual installments of 4 million pounds to help under the Colombo plan; and that an additional £ 4 million in gold will be available to Pakistan to supplement the reserves of the State Bank. It is also agreed that the United Kingdom will not restrict the availability of sterling standing to the credit of the No. 1 account for the purpose of any payment to residents of the Scheduled Territories (Sterling Area).⁵⁹

(b) Investment by Other Countries

In addition to the United Kingdom and the United States, India, a sister country, has also invested a small portion of its capital in Pakistan with the hope of keeping friendly relations between the countries. The amount which she has invested is estimated at 400,000 Indian rupees.⁶⁰ It is mostly invested in the cottage industry of Sind in such industries as sweet making and cotton baling. In addition to this there are a few other countries--Canada, Germany, Australia, and New Zealand--whose investment in Pakistan is limited to hiring some trained personnel for the establishment of important industries such as arms and munitions, sugar and wool.

⁵⁹ Government of Pakistan, Gazette of Pakistan, April 14, 1951, p. 25.

⁶⁰ Reserve Bank of India, Census of Indian's Foreign Liabilities and Assets, pp. 106-107, 1950.

materials for local industries, while exports of agricultural products will finance purchases of goods and equipment from abroad which cannot be produced locally.

CHAPTER VII

SUMMARY

(2) The Possibility of Industrialization

(1) Need for industrialization. of natural resources, it is possible. In this thesis the writer has come to the conclusion that the base of the economy of Pakistan must be broadened and industrialization encouraged in order to provide balance to an economy now subject to the fluctuations characteristic of an agricultural nation. Only thereby can the standard of living of the people be raised or even maintained. The need is particularly great in East Pakistan where the amount of cultivable land is very limited. When such work is done, the economy of Pakistan today is basically agricultural; agriculture employs a majority of the people and agricultural products make up the bulk of the country's exports. Although cottage-level industries produce many of the simpler needs of the population, industry, while gradually increasing in importance, plays but a small part in the economy, accounting for less than one per cent of the national income. industries able to utilize agriculture. There is, however, no thought that industry will replace agriculture as the main field of economic activity in Pakistan. Agriculture will remain the occupation of a majority of Pakistan's people and provide the basic raw

materials for local industries, while exports of agricultural products will finance purchases of goods and equipment from abroad which cannot be produced locally.

been estimated in round figures that in order to provide
 (2) The Possibility of Industrialization

According to our analysis of natural resources, it alone, an additional yearly capital accumulation of is possible for Pakistan to build up a large-scale industry relative to its agricultural products in the future. billion rupees (\$300 million), or six to seven per cent of the national income, is necessary. This is in addition to the present annual rate of savings estimated at the Warsak Project in the North Western Frontier Province, only Rs. 430 million (\$129 million), or two to three per cent of the national income. Thus, an aggregate annual rate of capital formation amounting to about Rs. 1.5 billion (\$450 million), may be necessary to maintain the Sui gas deposits in Baluchistan would help to establish industries in Karachi. When such work is done, the agricultural population would be transferred to secondary industries and this would lessen the pressure of population on the land and increase the national income very significantly. Moreover the large pool of unskilled labor is a favorable factor.

Although encouragement has been given to the establishment of certain heavy industries, Pakistan has placed emphasis on the development of industries able to utilize agricultural raw materials such as jute, cotton, sugarcane, wool, and tobacco, which are in a large quantity in the country.

As the most important of the negative factors affecting investment in Pakistan is the currently far from

(3) Necessity of Foreign Investment

A serious fact which is faced by Pakistan is the low rate of capital formation and investment. It has been estimated in round figures that in order to provide full employment for the annual increase in the labor force alone, an additional yearly capital accumulation of a billion rupees (\$300 million), or six to seven per cent of the national income, is necessary. This is in addition to the present annual rate of savings estimated at only Rs. 430 million (\$129 million), or two to three per cent of the national income. Thus, an aggregate annual rate of capital formation amounting to about Rs. 1.5 billion (\$450 million), may be necessary to maintain the current standard of living.

In view of the low per capita incomes in Pakistan it will be difficult, if not impossible, to secure all the required increase of saving domestically. Therefore the government of Pakistan must seek increased investment from abroad, and it seems likely that further steps may be taken to encourage such a development. However, the government's main reliance must undoubtedly be placed upon additional domestic private investment, public borrowing and taxation.

(4) Factors Affecting Investment

Perhaps the most important of the negative factors affecting investment in Pakistan is the currently far from

satisfactory financial situation marked by a serious decline in the country's foreign exchange reserves. When the need for action became apparent to the government, it acted to halt this unfavorable trend. While the austerity program instituted by the government has brought new problems, particularly shortages of both consumer and industrial goods accompanied by strong inflationary pressures, there have been definite indications that the government's policies have begun to take effect and that the unfavorable tide has begun to recede.

Other negative aspects include the fact that negotiations to obtain government approval to invest in Pakistan have usually been long extended and costly. There is strong sentiment for Pakistani participation in new enterprises--in certain cases shares must be offered to Pakistanees--but few private investors exist. It is necessary to employ a large percentage of Pakistanees in any business involving trade, a requirement that could be applied to industrial management. Taxes are quite high both for the corporation and for the individual.

Although the government of Pakistan has set forth certain requirements of possible concern to the potential investor, there are indications that those requirements have, at times, been applied flexibly, and that mutually agreeable terms may be worked out on an individual basis. Such a process has often proved costly, for frequent delays and other annoyances are common. These hindrances

are largely a result of the heavy load necessarily borne by top government officials because of the almost crippling shortage of experienced administrative personnel in Pakistan. New foreign investments generally require an cabinet consideration following approval by an interagency Capital Issue Committee and by the Central or Provincial Government ministry concerned.

Known reserves of certain important natural resources, such as water, high-grade coal and iron ore, petroleum, copper, and sulfur, appear limited, transportation facilities are inadequate, and there is a crippling shortage of power. The Pakistan market is restricted by the low per capita income of the population. Skilled labor is at a premium, in spite of widespread unemployment. Serious differences mar the relationship between Pakistan and its next-door neighbor, India. ~~which have limited~~ These factors are major deterrents to potential investors, at present. Certain other factors, however, favor the foreign investor and encourage him to face the difficulties existing in Pakistan today. Intangible in some respects, but perhaps most important, is the fact that many of the more unfavorable conditions mentioned above serve only to emphasize Pakistan's great need to attract foreign capital. There have been signs that this need is becoming increasingly apparent to greater numbers of responsible Pakistani leaders as they realize the inadequacy of the present rate of domestic capital. The

formation. Pakistan has ambitious plans for the future, many of which have been reluctantly set aside for lack of the means with which to bring them to pass. Seen in this light, responsible foreign investors should find an increasing appreciation on the part of Pakistan officials of the value of their contribution to Pakistan's development. ~~ts and repatriation of investment seem not to have caused~~ Furthermore, many of the unfavorable factors can be, and are being, faced realistically and corrective measures are being taken. Notable in this respect are projects designed to increase power and transportation facilities. Optimism has been expressed that further exploration will overcome deficiencies in Pakistan's natural resources; a survey of Pakistan's natural resources is now being made in cooperation with the Government of Canada. Rigid import restrictions, which have limited commercial activities, have also resulted in increased domestic private investment in industry. It has also been stated that the Government is prepared to act much more quickly and forcefully on the applications of foreigners to invest in the country. In addition, there is present in Pakistan a generally favorable attitude toward private enterprise.

The existence of an adequate supply of unskilled labor is frequently considered a favorable factor, especially in view of the ability of the Pakistanees to become skilled laborers after a little training. The

population of nearly eighty million people provides a potential market of great size.

Partially offsetting the high taxes levied are special incentives in the form of rapid depreciation allowances, partial tax exemptions on profits, and reduced import duties on capital goods. Remittance of profits and repatriation of investment seem not to have caused any difficulties to date in spite of a strained foreign exchange position.

Perhaps the most important asset possessed by the Pakistanees, in the opinion of the writer, is their indomitable spirit of determination. This quality, once it is appreciated, leads to the belief that, come what may, Pakistan will somehow manage to overcome its difficulties and take its place among the great nations of the world. For those who see a relationship between challenge and opportunity, Pakistan has much to offer.

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