

REGIONAL CO-OPERATION FOR DEVELOPMENT  
THE SECRETARIAT

14767

F-64(2)  
1965

PAPERS READ  
AT THE  
RCD COLLOQUIUM  
ON  
COMMON PROBLEMS OF ECONOMIC GROWTH

F-64(2)  
1965  
14767

F 64 (2) 1965  
WEST PAKISTAN SECRETARIAT  
LIBRARY COPY  
(To be returned to the Library when done with)

KARACHI  
JUNE 28-30, 1965





R.R.K. 100. 3/65.  
dt. 5.1.66.

REGIONAL CO-OPERATION FOR DEVELOPMENT

THE SECRETARIAT

F64(2)

PAPERS READ

AT THE

RCD COLLOQUIUM

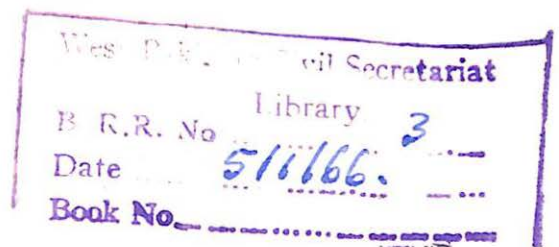
ON

COMMON PROBLEMS OF ECONOMIC GROWTH

KARACHI

JUNE 28-30, 1965.





## CONTENTS

Welcome address.	.. Mr. Mumtaz Hasan, S. Pk., Managing Director, National Bank of Pakistan.	1
------------------	--	---

### First Session—June 28, 1965

*(Under the Chairmanship of Professor Haydar Furgac)*

Problems of Economic Growth Observed by Supervision.	Dr. Parviz Khabir, Director, Observation, Plan Organisation, Government of Iran.	7
Role of Foreign Private Investment.	Mr. Syed Saeed Jafri, S.Q.A., C.S.P., Vice-Chairman, Investment Promotion and Supplies, Government of Pakistan.	17
Economic Development and an Egalitarian Society.	Mr. Akbar Adil, Economic Adviser, President's Secretariat, Planning Division, Karachi.	26
The Importance of Managers in Economic Development and Managers' Training in Turkey.	Professor Mehmet Oluc, University of Istanbul.	36
The Pains of Economic Development.	Mr. A. Rashid Ibrahim, Financial Adviser, Military Finance, Ministry of Finance, Government of Pakistan.	39

### Second Session—June 29, 1965

*(Under the Chairmanship of Dr. Parviz Khabir)*

Role of Commercial Banks in the Economic Development of Pakistan.	Mr. Mumtaz Hasan, S. Pk., Managing Director, National Bank of Pakistan.	51
---	---	----

Some Economic Problems Raised by Population Growth in Turkey.	Professor Haydar Furgac, Dean of the Faculty of Economics, University of Istanbul. . .	.. 60
Role of Planning in Regional Co-operation for Development.	Mr. M. L. Qureshi, SQA, Chief Economist, Planning Commission, Government of Pakistan. . . . .	.. 66
The Economics of Regional Co-operation.	Mr. Sartaj Aziz, T.K., Chief, International Economics Section, Planning Commission, Government of Pakistan. . .	.. 70
Co-ordination Between the National Development Plans.	Professor Ahmet Kilicbay, University of Istanbul. . .	.. 74
Communications in the RCD Region.	Mr. Masarrat Hussain Zuberi, S.Pk., S.Q.A., C.S.P., Secretary to the Government of Pakistan, Ministry of Communications. . .	.. 79

### Third Session—June 30, 1965

*(Under the Chairmanship of Mr. M.L. Qureshi, S.Q.A.)*

Common Problems of Economic Growth.	Mr. M. Raschid, Managing Director, Industrial Development Bank of Pakistan. . . . .	.. 91
Budget as an Instrument of Growth.	Dr. Manoucheher Tehrani, Manager, Policies and Financial Rules in the Bureau of the Budget, Plan Organisation of Iran.	104
Labour Force and Employment Problems in Turkey.	Professor Orhan Tuna, University of Istanbul. . . . .	.. 113
Role of Financing Institutions in a Developing Economy.	Dr. Moimuddin Baqai, Senior Economist, Planning Commission, Government of Pakistan. . . . .	.. 125

Some Suggestions for Economic Co-operation of RCD Coun- tries.	Professor Dr. Orhan Oguz, Presi- dent of the Commercial Eco- nomic and Sciences Academy, Eskisehir-Turkey. ..	.. 135
Development of Banking in Pakistan.	Dr. Abdul Qadir, Chief, Research Section, Pakistan Industrial Credit and Investment Corpora- tion. ..	.. 138

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that this is crucial for ensuring transparency and accountability in the organization's operations.

2. The second part of the document outlines the various methods and tools used to collect and analyze data. It highlights the need for consistent and reliable data collection processes to support effective decision-making.

3. The third part of the document focuses on the role of technology in data management and analysis. It discusses how modern software solutions can streamline data collection, storage, and reporting, thereby improving efficiency and accuracy.

4. The fourth part of the document addresses the challenges associated with data management, such as data quality, security, and privacy. It provides strategies to mitigate these risks and ensure that data is used responsibly and ethically.

5. The fifth part of the document concludes by summarizing the key findings and recommendations. It stresses the importance of ongoing monitoring and evaluation to ensure that data management practices remain effective and aligned with the organization's goals.

6. The sixth part of the document provides a detailed overview of the data management framework. It includes a flowchart illustrating the process from data collection to reporting, highlighting the key steps and responsible parties.

7. The seventh part of the document discusses the importance of training and education in data management. It emphasizes that all staff members should be equipped with the necessary skills and knowledge to handle data effectively.

8. The eighth part of the document outlines the roles and responsibilities of the data management team. It defines the specific tasks and objectives for each team member to ensure clear accountability and collaboration.

9. The ninth part of the document provides a list of key performance indicators (KPIs) used to measure the effectiveness of the data management process. These KPIs include data accuracy, data completeness, and data timeliness.

10. The tenth part of the document concludes with a final statement on the commitment to data excellence. It expresses the organization's dedication to maintaining high standards of data management and to leveraging data as a strategic asset for growth and innovation.



**WELCOME ADDRESS BY MR. MUMTAZ HASAN, S.PK., ON  
BEHALF OF GOVERNMENT OF PAKISTAN.**

Your Excellencies,  
Distinguished Colleagues and Friends,

May I on behalf of the Pakistan delegation and on my own behalf extend to all of you a most hearty welcome to the RCD Colloquium on "Common Problems of Economic Growth". For us in Pakistan it is indeed a great occasion to have with us such learned and eminent persons from our brother countries, Iran and Turkey. Iran, Turkey and Pakistan are bound to each other by a rich cultural, social and religious heritage; it was indeed this basic community of background which led to the creation of RCD. The Heads of States, His Imperial Majesty, the Shahinshah of Iran, President Mohammad Ayub Khan of Pakistan and His Excellency President Cemal Gursal of Turkey harnessed the latent forces of history and gave concrete shape to the mainfest desire of the peoples of the three countries to work together for common objectives and brought the RCD into being.

We have gathered here to discuss the common problems of economic growth. The subject of the Colloquium is itself an indication of the fact that the three countries face, in varying degree, more or less similar problems which require almost similar solutions. I am sure that we shall all learn a great deal from each other during the course of the next two or three days when we shall have the opportunity of discussing some of these important problems.

The problems we generally come across when trying to bring about accelerated economic development and which are common to us, are many and various. With your permission I shall just refer to a few of them :

What should be the rate of economic growth?

To what extent should we sacrifice current consumption in the interest of promoting economic and social development at the desired rate?

In development, should we employ the latest available techniques of production and equipment which are capital intensive or should we take into account the problem of unemployment and underemployment even at the risk of setting up units which, from the point of view of cost of production, may not be internationally competitive?

How should we resolve the problem of limited foreign exchange resources in relation to our requirements for it; should we increase exports at the expense of consumption; should we promote foreign investment in some or all sectors of the economy; should we accept short-term loans or should we confine borrowing to long-term low-interest bearing loans?

Should we encourage private investment to the maximum possible extent or should State enterprise be the dominant sector? What are the policies that should be followed for the mobilisation of domestic savings to the maximum possible extent? May I say that we in Pakistan have followed a policy of giving the maximum scope to private enterprise and we find that this policy has paid high dividends.

To what extent should we support and protect indigenous industry?

To what extent should we develop heavy industries? Should the criteria be saving in foreign exchange, self-sufficiency, establishment of a technological base, or strategic considerations, or a combination of one or more of these criteria?

To what extent should the claims of the relatively underdeveloped areas of the country be considered even if it means un-economic production in the short run?

To what extent should the claims of the relatively underdeveloped areas of the country be considered even if it means uneconomic production in the short run?

How should we tackle the problems of urbanisation?

How should we decide on intense priorities between the various economic sectors?

More important, how should we allocate priorities between the economic and the social sectors?

What order of priority should be assigned to education and training? How are the rapidly increasing requirements of technical personnel for the implementation of development programmes to be met?

What role can regional co-operation play in the economic development of participating countries? How can such co-operation yield maximum benefits?

What is the importance of non-economic factors in economic development? I have not the least doubt that social attitudes, leadership in corporate effort and the capacity for hard work on the part of the population are important determinants of the rate of progress. I would even venture to say that they are as important as, if not more important than, the purely economic factors.

I am sure that these and other problems which have a vital bearing on our

development will be discussed during the course of this Colloquium.

We in Pakistan have, if I may say so, passed through a whole range of experience in the process of our development effort. At the time of Independence in 1947 Pakistan inherited an underdeveloped economy. The economy was predominantly agricultural in character, as over 75% of the people depended on agriculture. Although it produced a substantial amount of cotton it had very few cotton mills. It produced 80% of the world's jute but had no jute mill. Infra-structural facilities were lacking and communications facilities were inadequate. On top of all this came the mass influx of population from across the border after the serious and wide spread disturbances. The people of Pakistan were thus facing a gigantic task, which normally would have deterred any nation in the world. Our people, however, rose to the occasion; the challenge, great as it was, evoked its own response.

Immediately after Independence, the country embarked upon a programme of economic and social development. A Six-Year Development Plan was launched in 1951 which involved a total investment of 462 million dollars. The first Five-Year Plan which involved a total investment of 2,160 million dollars was launched in 1955. The 5,529 million dollars is being completed in a couple of days or so. We are now about to embark upon our Third Five-Year Plan which envisages a total investment of 10,920 million dollars during 1965—70.

As has been stated by the Finance Minister of Pakistan in his Budget speech, and by the Deputy Chairman, Planning Commission; in a recent statement, the Second Five-Year Plan, with which I had the honour to be associated myself, has been an outstanding success. As it happens, we have exceeded our most optimistic expectations. The actual increase in the national income during the Plan period will be about 29% compared to the target of 24%; exports have increased by 7% per annum instead of 3%; and the mobilisation of private savings will be about 50% higher than the original estimates.

The Third Five-Year Plan, which envisages a total expenditure of about 11 billion dollars, aims at 37% increase in national income, 5.5 million additional jobs, 9- $\frac{1}{2}$ % annual increase in exports and reduction in dependence on foreign aid from 34% at the beginning of the Plan to 27% at the end. It envisages a major break-through in agricultural production which is estimated to increase by 5% per annum. The industrial sector will be diversified by developing some capital goods industries in order to reduce the future dependence of the country on imported machinery.

I do not wish to take any more of your time since I am sure all of you are more interested in hearing some of the learned discourses of my distinguished colleagues from Iran and Turkey. I would like to welcome all of you once again and I earnestly hope that our guests from Iran and Turkey will feel just as at home in Pakistan as we feel in their countries. We cannot offer them the same facilities which are so abundantly available in Tehran, Istanbul and Ankara. But I can assure

them that they will not find us lacking in the warmth and the sincerity and the goodwill which they can expect from one and all in Pakistan. I would like to say them, in the words of Hafiz :

رواق منظر چشم من آشیانهٔ تست  
کرم نما و فرود آ که خانه خانهٔ تست

**FIRST SESSION**

( *June 28, 1965* )

*Under the Chairmanship of*  
**PROFESSOR HAYDAR FURGAC**



THE UNIVERSITY OF CHICAGO  
DEPARTMENT OF CHEMISTRY  
5800 S. UNIVERSITY AVENUE  
CHICAGO, ILL. 60637

...the ... ..  
... ..  
... ..  
... ..  
... ..

## **PROBLEMS OF ECONOMIC GROWTH**

### **Observed by Supervision**

By

**DR. PARVIZ KHABIR,**  
*Director, Observation, Plan Organization,*  
*Government of Iran.*

### **Foreword**

Multi-purpose economic plans have almost had 30 years of background in our country, but such plans have been put into actual practice since 16 years. The first 7-Year Plan was initiated in 1949 and an organization was set for its execution, but during this period no supervision other than financial regulations was exercised. In the Second 7-Year Plan, in addition to financial supervision which formed a legal unit of the organization, a military inspection organ was overseeing the development activities in a smaller scale and with limited authority. Parallel with the approval of the 3rd Development Plan Law, based on experience and knowledge acquired from various outfits, that performed certain duties in the way of supervision, and also on the basis of results obtained from other countries where similar plans were being executed, a new unit was established under the name of "Supervision" within the organizational set up of the Plan Organization to achieve speedy progress in development plans.

The execution of a part of Plan Org. legal duties was transferred to this unit that comprised to three directorships namely: Supervision over Regional Projects, Specialized Projects and General Projects. In the meantime, the setting up of Central Bureau under the title of "Reports and Researches Bureau" and "Studies and Investigation Department", was approved and commenced its operations, so that it may constantly supervise the development activities.

It was provided in the Art 29 of the 3rd Plan Law that in cases of necessity

the above cited organ may prosecute any outfits that lack executive capabilities in the way of confiscation of the work of its works and delegate the same to other agencies.

## **2 : The Object of Supervision**

On the whole, the plan operations are conducted within the framework of projects that are determined by such factors as, the amount of funds, the duration of execution and by the manner by which such projects shall have to be carried out.

The funds involved in projects are divided into yearly installments for the entire period of execution, and this factor represents the amount of time set for the execution of such projects.

In the meantime, the regulations governing execution of each project are included in the same project, and the precised manner by which any one of the construction projects should be executed is determined through contracts that are eventually concluded. The Art 25 of Third Development Plan Law provides that, the object of supervision is to control the execution of plans on the basis of the above factors, and this object is further explained in the duty of each supervision unit in the following manner:

“Local supervision over the execution of projects from the view-point of: observing the instructions and regulations governing the execution of projects, operational programme, specification, funds, and also ascertaining the defects and shortcomings that the supervisor may discover at the site, the removal of the same for smooth and speedy performance of the project.”

## **3 : Method of Supervision**

Iran is a large country having immensely vast territories but the economic progress has not yet reached to a degree where we may have roads leading us easily to every corner of the country.

On the other hand, the country-wide economic programmes of Iran are presently being conducted in rural and urban levels, therefore, continuous supervision over such programmes in the light of the vastness of our territories, diversity of plans, variety of programmes, financial and personnel capabilities and a host of other difficulties is rather impossible, therefore, it is decided to carry out the supervision in periodic inspection tours of the localities involved. A quarterly inspection is set for the entire projects, and, for certain projects, that are being implemented in country-wide level, at random selection is made of pilot regions and the inspection is conducted over such regions. Results obtained from such tours are accepted as basis for appraisal of progress of project activities.

It is obvious that, should the necessity arise, casual and off hand inspection may be made from certain projects, and the inspector is duty-bound to report the results of such inspection in specific forms giving all necessary information connected with the project. One copy of this report should be submitted to the

relevant section and the other copy should be presented to the Reports Bureau for appraisal.

In these forms the nature of project execution, the degree of progress and the existing defects are foreseen with due consideration to technical, administrative, financial and other aspects of the work and the view of each responsible authority is requested; for example, the local executive, the consulting engineer, contractor and the inspection supervisor each explain their views on the difficulties that may exist and give their reasons for them. On the other hand, the executing body will also present a report to the supervision unit explaining the conditions of each project and the responsible unit acting as an arbitrator will issue its final judgement about the nature of the executive functions of the project with due regards to the above report and the views that are furnished, (particularly the comments of the supervisor who has inspected the project).

Necessary measures will be adopted to remove the defects and to enhance the progress of work based on the conclusion of the above judgement, and the process will be continued until final results are obtained. The final judgement of the supervision unit will serve as a basis for a formal report that will eventually be compiled.

The supervisors do always bear in mind that the basic factors on which they express their views revolve around all such aspects that are provided within the projects. However, this fact does not limit them in giving their comments on the usefulness of the project or its shortcomings, but on the contrary, the supervisors are duty-bound to furnish any views (even beyond the framework of the project), because there is every likelihood that a project may not be executed in accordance with its stipulations or a certain portion of it may not correspond with the local conditions.

#### **4 : Supervision and the Results Obtained**

In order to reply to this question we deem it necessary to point out the basic lines of duties of supervision.

##### **4-1 : Receipts of project and its study.**

Though this duty seems to be insignificant in outward look, but with due consideration to the fact that familiarity with the methods of execution of each project forms the principle of supervision, and lack of records of a number of projects in the past years has brought about a great amount of difficulties. Knowledge of the past activities of project would require a certain amount of studies, when some errors, confusions and possible controversial issues may be detected in the past records and appropriate steps may be taken to either remove or avoid them in the future.

##### **4-2 : Supervision over preliminary works required for the execution of the project.**

Upon receipt and study of the approved projects and familiarity with their context as well as the method of their execution, the supervision over the preliminary works such as procurements tenders, handing over or works etc., will begin from the point of view of their execution. The supervisor responsible for the project shall supervise the progress of operations in all phases.

**4-3 : Supervision over the execution of project.**

In this stage that represents the basic responsibility of supervision, the supervisory unit and the supervisor in charge shall have the following duties.

**4-3-1 :** Determining the defects from the stand-point of delays and defaults in the process of execution of projects and also from the view of the amount of progress in the operations, disbursement of fund and observance of instructions connected with the execution of projects.

**4-3-2 :** Determining reasons and factors causing the above defects regardless of the facts that such defects are brought by the executing body, consulting engineer, local executive, contractor, plan organization or by other effective concern.

**4-3-3 :** Pointing out the defects to the unit causing them and follow up in order to remove such defects before they cause damages to the project and hinder its progress.

**4-3-4 :** Determining defects, the removal of which might require other approval of justifications, and suggestion of the same to concerned bodies for approval.

**4-3-5 :** Study of the amount of defects and their reasons in accordance with the executing units, lines of activities and determination of the type of difficulties from the standpoint of progress, speed execution regulations and funds.

**4-3-6 :** Compilation of formal reports on progress of development activities and their nature.

Thus the following results are obtained by performance of the above duties :

**4-4-1 :** Continuation of the project will be made possible by broader outlook and reality.

**4-4-2 :** Prevention of financial and administrative wastage and errors caused by negligence or failure to observe instructions.

**4-4-3 :** Making up for delays that are evident through greater speed, before the execution period of the project ends.

**4-4-4 :** Whenever the executing body does not achieve progress, programme will be made out for it.

**4-4-5 :** Wider contacts will be established between executing, planning and budgeting bodies.



4-4-6 : The execution concerns will be more familiar with the method of the planned work and the executing regulations of the same.

4-4-7 : The effect of execution of projects from economic and social standpoint for continuation of systematic operations and guidance of planning shall be determined.

Apart from the above, all information acquired during the performance of assignments in connections with the actual requirements of various regions of the country, are placed at the disposal of the planning unit so that it may be utilized for preparation of future plans.

4-4-8 : Facilities shall be provided for provision of the needs of executing bodies.

4-4-9 : The healthy flow of work of projects shall be controlled during the execution and completion.

4-4-10 : Probable violences in the process of execution of project shall be determined and legal proceedings shall be launched against the violent.

4-4-11 : The reports related to the executive concerns shall be appraised on the basis of observations in the operation area.

4-4-12 : The reports connected with the executed operations shall be published with greater reality and truth.

4-4-13 : Various studies may be possible in the line of the nature of defects and their reasons on the basis of executing bodies.

In order to clarify the matter we deem it necessary to give the following examples :

**4-5-1 : In Agricultural and Rural Development Field**

The result of inspections conducted in 1343 through 487 man/days was that, in 362 instances modifications were suggested to executing and planning bodies of the plan organization, some of which being of great importance, and in 55 instances, the relevant personnel took part in the transferring of operations and have paid due attention to the existing defects.

**4-5-2 : Irrigation and Dam Construction**

The result obtained from 215 man/days activities during 1343 was this that, 300 modifications were suggested to executing out fits of the plan organization. Following are a few examples :

Purchase of a crane for Karkheh Development Organization was stopped because a similar crane was provided in a different project *i. e.* Khuzistan Water and Power Development and was considered as surplus unit. Preventing purchase of pump for Qazvin Plain Development was inconsistent with the stipulations of the project.

Technical recommendations in the way of formulation of projects and executing plans to responsible units, and reformatory comments

in the process of execution of work such as conducting of more studies on subterranean waters in the southern regions of Iran in the comparing with the Azarbaijan area.

In dam construction and provision of water, by co-ordinating the operations and expediting the provision of equipment and material such as special dynamite for cutting water tennels over Fouman, and diversion dam at Tarik, valuable steps have been taken. Effective measures have been taken in the field of industries, especially in removing the difficulties of sugar plants such as Mamasani sugar plant, or Yasouch sugar plant, the operations of which have been delayed for a year due to lack of co-ordination in their programmes and customs difficulties.

#### **4-5-4 : Major and Feeder Roads**

In order to modify the preliminary plans connected with Pakistan-Tabriz-Bazargan highway to establish an international highway link, in the first place a section of Zanzan-Mianehe that was subject to flooding has been reprogrammed and also for the purpose of facilitating the flow of traffic and economic and economizing in the heavy construction of a one-kilometre tunnel is recommended to replace the difficult highway in Ghaflian-Kouh terrain. This recommendation has been approved and put into execution.

Furthermore, necessary attempts have been made into co-ordinate activation in various sections of road construction on major transit highway of Kerman-Bandar Abbas, Khosravi-Hamadan-Tehran or Sari-Shahpasand, and considerable improvement has been registered. With regards to feeder roads, change of project and the route as well as the type of construction material of Darkhuien-Shadegan feeder-road in 29 kilometres has been found necessary due to nonobservance of work technique and road-building principle in marshy areas.

Also with change of the type of building material in Sedeh-Asadabad feeder-road that was not considered safe, positive actions have been done though supervision. As in certain instances performance of obligations on piece-work basis would cause difficulties, steps were taken to change the type of work by utilising tender regulations.

#### **4-5-5 : Education and Manpower**

In 1343, a total of 467 man/days were conducted in the field of education in order to remove difficulties in executing organs and to establish co-ordination. Consequently, a number of recommendations were given covering various factors. For instance, it was concluded that the executing body does not enjoy adequate amount of power to execute public educational, technical, vocational and rural schemes and the classification of work was performed in an applicable manner which was

confirmed by the responsible authorities. Furthermore, the executive body is remained to fully observe the regulations and approved stipulations of the project, and in case of necessity, obtain the required grounds and justification from the Plan Organization Executive Board. The supervised may also give directives and technical guidance in formulation of projects on the basis of actual requirements and local conditions such as expressing views on unnecessary of erection of industrial schools in small and non-industrial towns like Kashmir, or in agricultural towns like Maragheh.

#### **4-5-6 : In the Field of Health Activities**

In 1343, a total of 407 inspection/days were conducted throughout Iran by specialized personnel to inspect health activities and 687 recommendation were submitted to executing bodies, the project unit and the Plan Organization for removal of defects. The activities to expedite and complete the construction of Jondi-Shahpur Hospital at Ahwaz and Susangerd that had been delayed for 12 years, reasonable progress in building of Gendarmerie Hospital after a long delay, announcement of insufficiency of studies as well as unpreparedness of executing body, lack of technical staff and equipment for establishment of 187 units of co-ordinated network comprising of hospitals, dispensaries, sanitariums and their relevant installations, preventing purchase of electronic microscope without regard to the regulation, pointing out incorrectness of executive project connected with feeding of 600,000 primary students due to non-observance of needy students especially in rural areas, insufficiency of the manner by which foodstuff were distributed and allocated for feeding purpose are but a few of the functions in this field. Furthermore, the co-operation of planning units of the Plan Organization with the Ministry of Health for the purpose of co-ordinating and formulating health programmes in regional levels and according to the public demands in the framework of supervisory duties, are another section of such activities.

#### **4-5-7 : Township Development**

4-5-7-1 : *Asphalt* : In this field certain amount of supervision is exercised in the work methods and prevention of operations that are incompatible with the specification such as change of Minab asphalt, or recommendation for improvement of Chalous asphalt.

4-5-7-2 : *Water Pipeline System* : Continuous supervision over pipeline systems in the cities was conducted and difficulties were removed; For example, the problem of Amol Water Pipeline was resolved, and the dispute between the contractor and executive unit connected with Arak Pipeline system was removed. With regards to Shahi Water System, relevant

installations that did not correspond with the specifications were temporarily accepted after removal of all defects.

4-6-1 : With due regard to the methods explained above, reports for development activities are compiled and are published in two manners, the first being based on the number of project and the other describing the nature of project. In this connection, a total of 13 volumes of reports in 3111 pages are published.

4-6-2 : *Studies*: Studies have been made in several stages of which, as an example, we refer to the results taken from the studies in the way of the problems in implementation of projects which come as follows :

Financial difficulties	..	..	..	36.1%
Administrative difficulties	..	..	..	7.4%
Technical difficulties	..	..	..	52.5%
Other difficulties	..	..	..	4.3%

It should be noted that the financial difficulties existing in the field of financial affairs of the plan can be included in administrative difficulties. Also some of the technical difficulties stem from the weakness in administrative affairs, so it could be claimed that the essential difficulty in executing our plans remains in the non-existence of experienced and qualified administrators.

These studies have taken place to measure gradual reduction in the difficulties and will continue during the years of Third Plan and, future studies will explain points of weakness in this line.

Further studies have also taken place in the total funds of Third Plan to find out :

The amount of precision in estimating the foreseen plan by executing units.

The ability to absorb approved funds by executing units.

The degree of Plan Organization authorities precision in approving plan estimates.

The amount of co-ordination exists in planning, executing and budgetary units.

Thus the following results have been obtained :

When the blocked funds are taken into consideration, we notice that the executing agencies have not paid enough attention in their estimation of funds and that the approval of such funds are open to objections.

In the estimations made, adequate amount of attention is not paid to the capacity of absorption.

The executing agencies had not been practically capable to absorb such funds.



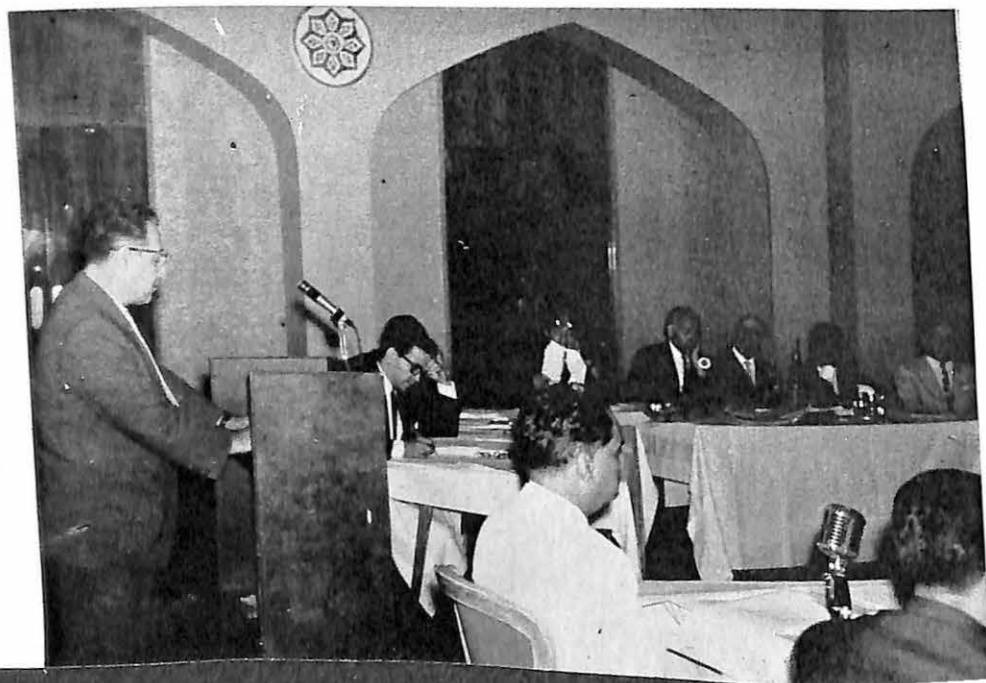
*Dr. Khabir of Iran at Mr. Akbar Adil's reception. From left to right, Mr. Akbar Adil, Dr. Zarnigar, Iranian Press Attache, Dr. Khabir of Iran and Mr. Shayda, Iranian Counsellor in Pakistan.*





*The Iranian participants on their arrival at the Karachi Airport with the officers of the Iranian Embassy, Planning Division and Executive Officer of R.C.D.*

*Mr. M. L. Qureshi, SQA, Chief Economist, Planning Commission, Government of Pakistan, presiding over the Third Session. Professor Oguz of Turkey is reading his paper.*



Between the various units of the planning and executing agencies the required co-ordination has been lacking.

In carrying our investigation further we reach also to the following conclusions :

The amount of funds blocked related to various branches of the executing agencies was determined, and it was shown which of these agencies had greater share in the blocking of funds.

The care and attention exercised by personnel responsible for various items of the programme in the planning units was evaluated.

The comparative ability of the executing agencies for absorption of funds was established.

Necessary equations based on statistical data were derived to establish the relation between the investment and capital turnovers.

The possibility of allocated costs in bias was also determined and in order to prevent any blockage in future, funds were presented in the form of equations.

Finally certain sets of rules and regulations were established, so that on the basis of which a comparison regarding the rate of progress of activities as well as improvement in the capacity of absorption in various periods of time could be made.

#### **5 : Difficulties of Supervision**

A short survey of the supervision over the newborn planning schedules in Iran would show that the matter is entirely unprecedented in this country, and the various executive units are by no means acquainted with its particularities and have no notion of its objective which is co-operation in removal of difficulties for furtherance and implementation of the miscellaneous plans and projects.

On the other hand, as the supervision unit is a newly established organization from the point of view of the type of function, procedure of operations, achievement of the views and objectives and execution of the supervision works its full meaning.

Furthermore, with consideration of the fact that this establishment is quite a new and young organization and also, considering the lack of the required personnel as well as financial and administrative possibilities and other circumstances and conditions ensuring the same particularities, we observe that these have all brought about difficulties that have adversely affected success in attaining excellent results.

Meanwhile, lack of adequate and necessary means for exertion of careful supervision, and, in particular, lack of timid working programmes for execution of various projects, have otherwise affected fulfilment of the aims and objectives of the programmes.

Despite the fact that the above difficulties and obstacles have badly

hampered attainment of "excellent results", the continuous efforts of supervisors and other members of staff, the difficulties and tiresome expeditions that they have made under hard conditions and exertion of supervision in the most simple methods have all caused the results attained to be satisfactory within their own limits.

After consideration of the explanations given on the main sites of the operations assigned, we notice that drawbacks in better supervision of the development plans, with a view to the fact that the required sanctions in exertion of supervision and especially the type of such sanction is of a very limited nature, have to a great extent been removed as a result of the above mentioned efforts, and have eventually caused progress in achievement of development plans.

Experiences made during this short period prove the following points in respect of supervision over development growth in Iran.

1. The nature of a planning economic policy which co-ordinates progress in the various fields of activity, necessitates prior specification of the particularities of every minor project in the framework of the fundamental development progress.

These particularities are as follows :

Amount of the required funds.

Rate of capital absorption in the long run.

The required equipment and manpower.

The rate of progress in the works.

2. Default and failure in the works in excess of the envisaged rate would undoubtedly endanger attainment of this fundamental aim of the development programme.
3. Solution of difficulties in execution of the works during the operations and before expiration of the execution period is the only way for prevention of damages threatening attainment of ultimate aims of the programme.
4. To solve the problems, it is necessary to recognize and bring forward difficulties affecting execution of the works. Recognition of the difficulties in execution of the works is intervert with observance of the operations, and, as a result, supervision over the developmental works based on the data envisaged for the projects is an inevitable fact.

## ROLE OF FOREIGN PRIVATE INVESTMENT

By

MR. SYED SAEED JAFRI, S.Q.A., C.S.P.,  
*Vice-Chairman, Investment Promotion & Supplies,  
Government of Pakistan.*

Mr. Chairman, Ladies and Gentlemen,

I deem it a great personal honour to have this opportunity to address this colloquium on common problems of economic growth. I shall confine my talk to the *role of foreign private investment* the promotion of which is one of my primary functions as Vice-Chairman of Investment Promotion Bureau in Pakistan of which Mr. Altaf Husain, Minister for Industries and Natural Resources is the Head.

Resurgent Asian and African countries have won their political salvation only to find their economics in a state of chronic shortages, all-round poverty, unemployment and ignorance, necessary corollaries of underdevelopment. Economic development is today the greatest challenge confronting the newly independent nations of the world. It is now generally recognised that economic development cannot be brought about by merely injecting into the economy the various physical factors of development. On the contrary, it is essential that conditions are first created which encourage a healthy economic growth. Planning has now come to be regarded as a *sine-qua-non* of national development programmes. In most underdeveloped countries where per capita income is low, the rate of capital formation is tardy. Private savings are not readily diverted to productive investment because of traditional forms of investment such as land, real-estate and bullion, which are deemed to offer greater security. A politically stable government following sound fiscal policies which, while providing incentives to growth, avoid an inflationary situation would stimulate the mopping up of savings for productive investment. Existence of specialised institutions and agencies to collect personal savings and make investment in capital issues of industries is also essential

for economic growth. Capital formation would also find encouragement in a country which provides rational taxation and tariff concessions to industry and restrains undue expansion and mushroom growth under a policy of regulated development. In most underdeveloped countries governments are sometimes forced to impose price and distribution control. Whereas such controls may be essential because of social objectives, care has to be exercised to see that a fair return is assured to industry.

In many ways, the role of foreign private investment is essentially one of making a new addition to the real resources of the country. Foreign capital, however, symbolised economic imperialism in its sinister form till various Afro-Asian countries shook off their political tutelage. In almost all these countries, the colonial powers had employed their money largely to make quick profits for themselves with little or no regard to the so-called native economics. One of the most dominating features of an underdeveloped economy is the shortage of money, skilled men and machinery. In the absence of adequate domestic capital and know-how, foreign private investment becomes an absolute necessity. We thus observe the curious spectacle of developing countries devising ways and means to attract foreign investment, which only a few years back, they rightly looked upon with positive distrust and suspicion.

Foreign private capital particularly in the form of direct investment has a key role to play in economic growth—a role which extends far beyond the statistical addition it brings to resources available to the capital recipient country. In financial terms direct investment is often preferable to other forms of private capital since it usually entails a long term addition to the host country's productive resources, provides a base for further additions through reinvestment of earnings, and in some cases acts as a magnet for attracting new inflows of long term private capital. The importance lies as much in the advantages associated with financial investment as in the investment itself. In fact there is hardly a choice between foreign investment and foreign loans for a developing country. The credit-worthiness of the borrowing country is *inter alia* determined by the record of judicious treatment meted out to foreign investment. In addition, they supplement the external resources rather than substitute them. Foreign private capital is inevitably accompanied by the intangible but important factor of enterprise. It not only conceives a project but also brings together all the human and material resources necessary for executing it. Such an investment has a snow-balling effect. The foreign investor assesses the long term prospects of the country and is prepared to participate in other enterprises as well. The least tangible but not the least important effect of private investment is to make the host country a more attractive market for other foreign and local private investors.

It is increasingly realised that it is in the interest of the foreign investor to disseminate knowledge to the locals because of the advantages that may accrue by having trained local technicians who are well conversant with the market of

the country, the laws of the land, and the know-how. The price at which they offer their services works out comparatively much cheaper as no repatriation allowances have to be paid. This increase in basic skilled force, technicians and managers is of immense benefit to the host country. The hired foreign technicians generally are not interested to part with their knowledge as they would like to hold on to the jobs as long as possible. The emoluments in their home country are necessarily less, otherwise they will not go to a foreign country, much less to an underdeveloped country. They are not assured of the job at home while the experts brought by foreign investors are usually employed as part of their sometimes world-wide organisation.

The case of foreign private capital is strongest when it goes in search of secondary industry. The record of foreign private capital when it has gone in extractive industries is not unblemished. It has created a problem associated with dual sector economy, supplying material to the capital exporting country and feeding industries of the home country by passing the rest of the economy of the host country. Unfortunately most of the private foreign capital has been attracted in the extractive industries of developing countries. And even this investment is on the decline.

Private capital has played a diminishing role in the transfer of resources to developing countries since mid-nineteen fifties. It declined from an annual average of 1.4 billion dollars during 1956-59 period to 1.2 billion dollars in 1960-62.\* It appears that slackening of investment in the extractive industries was the villain of the piece. This has happened at a time when developing countries have needed it most. The expanding developing programmes have increased the need of such capital as the gap in balance of payments has widened.

The flow of private capital is generally a mix of direct investment, portfolio investment and other lending operations which do not involve public issues. Direct investment has contributed most to private capital flows. In recent years a relatively large proportion was financed by reinvesting the repatriable earnings in the host country itself. In the face of this declining flow it may be appropriate to review the techniques and instruments which have been developed to facilitate a greater flow of both direct as well as portfolio investments.

The mobilisation of foreign private capital is encouraged by national and international financial institutions. These institutions float bonds in the capital market of the developed countries. I.B.R.D., bonds amounted to \$ 2.5 billion and sale of loan maturities fetched another \$ 1.6 billion upto mid-1963. Loan disbursements have amounted to \$ 4.5 billion of which the share of developing countries amounted to \$ 3.3 billion\*. A number of financial institutions have also entered the field of development financing in private sector such as Inter American Development Bank, Commonwealth Development Finance Corporation in the U.K. French Investment Trust, Overseas Economic Co-operation Fund

\* U.N. World Economic Survey, 1963.

in Japan, Export Financing Pools in Belgium, German Development Co., etc. In the developing countries, development banks and development finance corporations have been established often with the participation of foreign banks or international institutions. In Pakistan, the Pakistan Industrial Credit and Investment Corporation has been established with the co-operation of I.B.R.D. These institutions provide expert knowledge and special facility for identifying and developing worthwhile investment projects as well as seeking suitable foreign enterprise able to execute the project. They guarantee the loans in partnership with the local government.

A number of countries have established investment promotion centres at home and abroad. In Pakistan, the Investment Promotion Bureau is entirely run by Government. The promotion function is co-ordinated with the development plan of the country by preparing Investment Schedules.

These Schedules follow the priorities established in the development plan. It is realised that the effectiveness of this Bureau is conditioned upon its initiative in finding projects and investors rather than waiting for applications in the fields which lack response but are accorded high priority. The Bureau tries to meet the needs of investors, guides them and in fact searches for them in fields which are not looked for ordinarily. In the developed countries also, it is now recognised that the knowledge of specific projects has to be disseminated to the would-be investors. The U.S. Agency of International Development maintains a punch-card catalogue of investment fields which provides information on some one thousand specific projects in more than eighty developing countries. The investors can secure AID financing for upto fifty per cent of the costs of feasibility studies.

Besides financial considerations, there are a host of others which cover a wide range of economic, legal and administrative fields. The developing countries have taken steps to create a healthy climate for attracting foreign investment. When reference is made to the creation of a climate suitable for foreign investment, what is meant is removal of impediments which prevent inflow of private foreign capital. First and foremost is the prevailing political philosophy of the country concerned. Fears in regard to nationalisation are to be dispelled. Secondly, there should be a fair degree of internal stability to inspire confidence for future operations of a foreign investor. Risk capital also pre-supposes freedom to repatriate the capital as well as to remit income earned on such capital. Taxation is also an important consideration because in the absence of adequate arrangements for avoidance of double taxation, profitability of a venture would be doubtful. The investor is attracted by concessions alright but he is also concerned with the normal tax burdens under which he will have to operate after the expiry of tax concession. Very often, a vigorous publicity of investment opportunities available to foreign capital is also of value in attracting foreign investment.

It would be pertinent at this stage to recall the United Nations General Assem-

bly Resolution 1710 (XVI) designating 1960 as the development decade in which the member states were called upon to take measures which will stimulate the flow of private investment capital for the economic development of the developing countries on terms that are satisfactory both to the capital exporting countries and the capital importing countries. Realising that notwithstanding all these efforts since the beginning of the decade the flow of private capital to developing countries instead of increasing has in fact substantially declined, I took the opportunity of the United Nations Conference on Trade and Development held in Geneva last year to highlight this question of foreign private investment. In co-operation with my Turkish colleague on the Finance Committee, we introduced a resolution on behalf of Pakistan and Turkey spelling out not only the privileges which should be assured to the foreign private investor but also the obligations which he must understand and perform. This resolution was finally adopted by the United Nations Conference on Trade and Development and is now a part of the final Act of UNCTAD. It was almost unanimously adopted by 94 votes to one with the Socialist countries naturally abstaining. Apart from the preamble, in the ten-paragraph resolution guidelines were laid down for action to be taken by governments of developed countries and international institutions to permit the flow of private capital to developing countries, action to be taken by developing countries and action to be taken by foreign investors themselves. The resolution *inter alia* requested the World Bank to expedite its studies on investment insurance in consultation with governments in both developing and developed countries and also requested the International Bank for Reconstruction and Development to submit the results of their studies on the question of establishment of machinery for settlement of investment disputes to the United Nations. Realising that this complex field has so many facets which have not yet fully been studied and evaluated, the Secretary General of the United Nations has been requested to arrange fuller studies in consultation with all concerned to cover all aspects of foreign private investment in order to enable the fulfilment of the objective embodied in the General Assembly resolution referred to above. The resolution, though it was passed unanimously as mentioned above, evoked considerable excitement and was the subject-matter of lengthy and prolonged discussion. It demonstrated more than anything else that a number of things remained to be done not only to attract foreign private capital to developing countries but to make them acceptable to the developing countries themselves. It may be useful to emphasise that the resolution, as finally adopted, called upon the governments of capital exporting developed countries to avoid measures preventing or limiting the flow of capital from such countries to developing countries. Indeed it asked them to take all appropriate steps to encourage the flow of private investments to developing countries such as tax exemptions or reductions, investment guarantees to private investors investing in developing countries and by facilitating the training of managerial and technical staff. The International Finance Corpora-



tion was asked to examine the possibility of expanding its investment activities. To the foreign private investors, the Conference endorsed the recommendation that they should realise that foreign private investment should be based upon respect for sovereignty of the host countries, that it should co-operate with local initiative and capital, rely as far as possible on existing resources in the developing countries and finally that it should work within the framework and objectives of the development plans with a view to supplying domestic markets and expanding exports. The desirability of reinvestment of profits in the developing countries was emphasised and attention was drawn to the promotion of facilities for making know-how available to nationals of developing countries and giving them full training and employment opportunities.

While various developing countries have taken a number of measures to ensure that foreign private investment grows both in value and variety and functions unfettered within their respective territories on the lines proposed in UNCTAD resolution, the finance scene in the developed countries presents a dismal picture. U.S.A. and U.K., which have been the major suppliers of foreign investment to the developing countries are in the throes of balance of payment difficulties. U.S.A. has already imposed fiscal restraints on the outflow of U.S. capital. In its latest budget, U.K., has imposed similar restrictions and these are without any exception for developing countries. The creation of European Common Market and similar other arrangements between the capital exporting countries of the world also restrain flow of capital to developing countries; moreover, a substantial part of surplus funds which were hitherto available for overseas investment are increasingly being captured by international financing agencies. In the near future, it appears the importance of foreign investment in the economic upsurge of developing countries would not lie so much in size as in serving as a catalytic agent for industrial development.

Reverting to our own country, Mr. Chairman, on our emergence as an independent nation in 1947, we were confronted with circumstances somewhat similar to the early 19th Century Europe. Industry was almost non-existent, financing facilities conspicuous by their absence, traditions of entrepreneurship completely lacking and other skills woefully short of needs. The investment rate was amongst the lowest in the world and grave doubts were being expressed about our economic prospects and viability as an independent nation. It was in frank recognition of the urgency of economic development that the Government of Pakistan, no sooner than it was free from the pressing burdens of reorganising the newly founded State, set about the task of economic planning and development.

Our country essentially believes in liberty and freedom and the Government has applied these concepts to the development of its economy as well. That is why, the Government through its statement of industrial policy is committed to give the widest possible scope to private enterprise in the development of the res-



*Opening Session of the Colloquium: Mr. Mumtaz Hasan, S.Pk., Managing Director, National Bank of Pakistan, reading his address of welcome.*

*Some of the guests at the dinner given by the Planning Commission. From left to right: Professor Oguz of Turkey, Mr. M. L. Qureshi, Chief Economist, Planning Commission, Government of Pakistan, Mr. Muzaffar Husain, Acting Secretary to the Government of Pakistan, Planning Division, Mr. S. Darbar Ali Shah, Commissioner Karachi, H. E. Sinasi Oval, Turkish Ambassador, Professor Furgac and Professor Oluc of Turkey.*





*Turkish participants at the R.C.D. Colloquium. From left to right, Professor Kilicbay, Professor Oguz, Professor Haydar Furgac, H. E. Mr. Sinasi Oral, Turkish Ambassador in Pakistan, Professor Mehmet O'uc and Professor Oran Tuna.*

*Professor Furgac of Turkey presiding over the First Session of the Colloquium.*



ources of the country. Government has also adopted a pragmatic approach in welcoming foreign private investment.

Direct foreign investment in Pakistan can be traced back to the setting up of the East India Company in the 17th century. Of course flag followed the enterprise then. Subsequently, tea plantation and oil attracted foreign investors particularly from U.K. In recent years during the five-year period, 1960-65, it is anticipated that foreign private investment contributed about Rs. 90 million per annum. During the next five years ending June 1970 it is hoped that such investment would average Rs. 140 million per annum, a rise of 55%. The past rate of increase in such investment though in accordance with plan estimates has been rather disappointing. It increased on an annual average rate of 2% during the Second Plan period but it is hoped that this rate will go up by 16% during the Third Plan. Reinvested earnings have made an important contribution and are not included in the above estimates. On an average Rs. 40 million per annum have been provided by this source. The new direct investment, it appears, is not keeping pace with outflow of investment income. It is estimated that in 1963-64 the level of such outflow was in the neighbourhood of Rs. 150 million exceeding the direct inflow of private capital by Rs. 50 million.

The Investment Promotion Bureau alone had sanctioned the setting up of 382 industrial undertakings during the period April 1959 to December 1963. This would involve a total investment of Rs. 932 million of which Rs. 406 million constitutes foreign private capital. Foreign private capital has been attracted mainly from the United Kingdom, U.S.A., West Germany, Japan, Switzerland, Italy, Sweden and Holland. The United Kingdom has been much active in the capital market of Pakistan for historical and economic reasons. Lately American Capital is being increasingly attracted so much so that perhaps it is now next to U.K., only with West Germany closely rivalling it. In the manufacturing sector, textiles were most attractive for foreign investor (usually from Africa) followed by chemicals, engineering and food products.

In Iran, 85 foreign establishments were established upto January, 1964. The foreign investor of U.S.A. was most active in Iranian market. Oil consortium investment in Iran reflected in their balance of payment showed a level \$ 22 million in 1957. This level rose to \$54 million in 1958 and declined to \$ 12 million in 1959\*.

In the case of the other partner of R.C.D., i.e. Turkey, 111 foreign enterprises were active upto June, 1963. U.S.A., had a share of 27 firms followed by West Germany which had 22. Turkey has been increasingly attracting foreign private capital. The net inflow of such investment was \$ 7 million in 1959, jumped to \$ 24 million in 1960 and again increased by \$ 10 million in 1961 reaching a level of \$ 34 million. In 1962 such movements were in the neighbourhood of \$ 36 million.

Pakistan Government has endeavoured to make private foreign investment

---

\* Out line of the Third Plan Tr. 1340 p. 192.

both profitable and secure, Government has declared in unequivocal terms that it has no intention to nationalise industries. All current income on foreign capital is freely remissible without any restrictions. Approved royalties and technical fee can also be remitted by the foreign investors freely. In addition, all new capital invested in industries including any capital appreciation can be repatriated by a foreign investor at any time. For tax purposes, no distinction is made between a foreigner and a Pakistani. The sole criterion for Tax liability is residence, not nationality. In certain fields, indeed, a foreign national gets special tax concessions. Unlike the rule in certain other countries, we do not insist for any majority local participation. Pakistani tariff rates are designed to protect the country's infant industries. The protected market has made it possible for our industries to realise much higher profits than could be expected in many other developing countries. In addition, a very liberal export incentive programme has been adopted permitting bonus and rebates to manufacturers on their export sales. Side by side with these guarantees, Pakistan has signed agreements on the avoidance of double taxation with a number of countries including U.K., U.S.A., West Germany, Japan and Switzerland. One of the main purposes of these agreements is to classify the types of income which would be liable to tax exclusively in one of the two countries and where such income is liable to tax in both countries, to devise a basis for the apportionment of such income between the two countries. These agreements also provide for grant of tax where certain income is liable to tax in both the country. Besides, Investment treaties have been executed with USA and Federal Republic of Germany.

In Iran, any capital invested in accordance with the provision of law is subject to legal protection of the Government. The Government guarantees equitable compensation for the loss, in case of expropriation of foreign undertaking. There is no rigidity in regard to local participation in a foreign enterprise. The transfer of net profit is allowed out of the country. In case of foreign exchange shortage, goods of equivalent amount can be shipped in lieu of this settlement. The repatriation of capital can be effected within a period fixed in permission letter.

Turkey also allows very liberal concessions to foreign enterprise. The Government can provide guarantee against security for a foreign loan upto 1 billion Turkish liras. Local participation is not insisted upon with foreign investment. The Government also allows repatriation of sale proceeds of foreign capital invested in approved industries. Profits that accrue in approved industries set up after 31st December 1953 can be remitted. The remittance of interest on foreign loans invested in approved industries is allowed without any limit.

The above analysis shows that the terms offered by the R.C.D. countries to private investors are among the best offered by any country. The need of uniform laws and procedures among the R.C.D. countries is however paramount. With your permission, Mr. Chairman, I would like to propose a few suggestions for achieving the noble objectives of R.C.D.

(1) The feasibility of establishment of a RCD development bank on the lines of Inter American Development Bank, should be explored. The Bank should float bonds in the capital market of the developed countries and finance joint purposes ventures and other projects. A market of 150 million people will indeed be a great attraction if the investment is protected against political risks and knowledge of investment opportunities and bankable portfolios of projects is disseminated on a wide scale. The bank should offer credits for pre-investment studies. It should maintain a list of well engineered projects on a punch-card basis as maintained by US AID.

(2) The terms of intra investment should be more liberal than those offered to third countries. The fields which are not open to foreign private investment may be opened to the intra investment.

(3) An agreement to save double taxation of income of the nationals of RCD from such investment may be negotiated immediately.

(4) The three Governments should facilitate the movement of technical people in the RCD countries.

(5) There should be an active liaison and exchange of information among the investment promotion organisations of the three countries. The knowledge of the laws and regulation, banking and financial practices, investment opportunities should be exchanged among the RCD partners regularly. In this connection I may state that Heads of Investment Organisations of the RCD countries will be shortly meeting in Ankara when we hope to review the whole field of investment opportunities, organisation structure, laws and regulations in the three countries.

Mr. Chairman, as you know the concept of Regional Co-operation for Development essentially implies pooling of resources to achieve the common objectives. It means that the three countries should represent a common market with free movement of resources, physical, financial and human. Such stage can only be achieved by decisive steps taken now in these directions. If the concept of RCD is to be saved from becoming a footnote to history, the determination and will manifested by the Heads of States should be taken to its logical ends, by taking some of these vital first steps in the investment field.

Thank you.

## **ECONOMIC DEVELOPMENT AND AN EGALITARIAN SOCIETY**

*By*

**MR. AKBAR ADIL**

*Economic Advisor*

*President's Secretariat*

*Planning Division*

*Government of Pakistan*

Political freedom in newly independent countries has led to a general awareness and upsurge for the economic and social emancipation of their people. The objectives of their efforts generally are to secure rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of attitudes and values of a free and egalitarian society. Since the bulk of their people live so close to the margin of poverty, their claims of social justice, of the right to work, of equal opportunity and minimum level of living have great urgency. Apart from any social or humanitarian consideration, these objectives also have political reasons, for no Government which does not recognise the aspirations of the masses for a better living condition and for social justice can stay in power in a free society. Their developmental activity must, therefore, be so organised that the tests of production and growth and those of equitable distribution and social justice are equally met.

A high rate of economic growth sustained over a long period is considered as an essential condition for achieving a rising standard of living of the people. This requires that investment should be stepped up, particularly in those sectors where the input output and capital output ratios are low. Increase in population

and need for investing in sectors, which though socially desirable should be given low priority on economic considerations, hamper the attainment of such a high rate of growth. Experts, however, rarely agree on the strategy of development planning and the methods of achieving a sustained high rate of economic growth. One school of thought lays stress on increasing savings and investing them economically. Others advocate the promotion of a class of energetic entrepreneurs, businessmen and technicians. Some suggest institutional changes in the society for making it development oriented. There is, therefore, no set model that could be followed by all developing countries. They can learn from all that has been said and done; but the strategy that each has to follow will depend upon their social set-up, the priority in their objectives, their political philosophy and a multitude of other factors.

One of the important questions faced by the planners of underdeveloped countries is how to allocate their resources to attain a sustained rapid rate of growth. Some suggest that one should concentrate on some 'growing points'. High priority should be given to sectors which have low capital output ratios. This growth philosophy demands that expenditure on industry, agriculture and power should be given high priority and housing, health and social services be given low priority. Although it is conceived that an improvement in housing, health and social welfare will also lead to an improvement in human efficiency, it is seldom argued that the consequent economic gains are likely to outweigh the gains from investment in economic projects. The expansion of these services can be justified on social and not on economic considerations. It has been noticed that some developing countries are full of ideas of national health schemes, social security benefits, sanitary, housing, and other similar social welfare projects. Such programmes are not conducive to a rapid rate of economic growth. Of course one cannot deny moderation in such programmes.

The policy of giving high priority to economic sectors has been subject to criticism. It is argued that it lays too much stress on 'materialistic' aspects and very little on social aspects. It ignores some very fundamental aspects of society. Economic gains are not the only thing in a man's life, social gains are no less important. This criticism is not valid. Maximisation of economic and social welfare is a long term objective and in the short period these objectives cannot be achieved. Here the question arises, whether a sustained rapid rate of economic growth through concentrating on some focal points can help attain the long term objectives as early as possible or the policy of spending resources on large economic and social sectors would help achieve them. It can be convincingly argued that a rapid and sustained rate of economic growth can help in the establishment of a welfare state.

The first condition for securing equality of opportunity and achieving a national minimum is assurance of gainful employment for all. In an underdeveloped country failures to provide gainful employment can be traced to certain



fundamental deficiencies in the economic structure. This deficiency can be removed through sustained investment in those sectors of the economy which contribute to a high rate of economic growth and consequently to greater employment opportunities. As a country progresses, the level of unemployment reduces and a stage is reached when social security, employment benefits and such other schemes could be undertaken. In the early stage of economic development embarking on such schemes, will, due to paucity of resources, either spread the benefits so thinly that they will not be felt or will cover only a restricted number of people, which will not be socially desirable. Such programmes should follow the economic development of a country and not precede them.

Almost all underdeveloped countries have plans underway for their economic development. While planning for a rapid rate of economic growth, they have to face a question of vital importance, whether it is through public enterprise or it is through private enterprise guided and encouraged by Government policies that a rapid rate of economic growth can be achieved ? The decision on the alternative choices or a blending of the two is largely conditioned by the political philosophy that a country is following. In countries having a socialistic pattern of society as a national objective, the public sector is utilised to the maximum extent whereas a country dedicated to the capitalistic pattern of society makes the maximum use of private enterprise in achieving its national objectives and entrusts to the public sector only such functions which the private sector is unable to perform, which are essential and of strategic importance.

It has been argued that a rapid expansion of the public sector would materially contribute to increasing public savings for investment, thereby making it possible to increase the rate of growth. The particular advantage of the expansion of the public sector from this point of view is that a possible conflict between efficiency and distribution of income is, to a large extent, eliminated. Increased profits which in the private sector would create inequalities and possible conspicuous and wasteful consumption, can in the public sector be directed towards capital formation. By efficient operation and following a rational and economically sound price policy a public enterprise can secure adequate returns on capital employed and contribute its full share in increasing the portion of national resources devoted to investment. The basic point put forward in favour of public enterprise is that the profits which accrue do not belong to an individual or a group of individuals as in a corporate private business. Also the private sector has to be controlled by regulations but in the public sector the pattern can be controlled in a positive way.

Public enterprise seems to have certain advantages in achieving a rapid rate of economic growth. The question, however, arises whether a high rate of growth can be attained by encouraging and guiding private enterprise through incentives and fiscal and other policies without taking recourse to public enterprise. It is possible that through incentives and fiscal and other policies govern-

ment can guide private enterprise into desirable channels. This will ensure a high rate of growth and maximum freedom to private enterprise. The argument that in the development of private enterprise only a few individuals or a group of individuals would benefit does not hold good in the present private enterprise system. The present pattern of development of a free society is that individual proprietorship, partnership and private limited companies are increasingly being replaced by public limited companies wherein any member of the society can participate and share the benefits. Thought is being given to modify the institution of managing agencies to prevent its abuse as a means for continuous control over the affairs of a large company with a comparatively small investment. Moreover, the accumulation of wealth in a few hands can be discouraged through fiscal and other policies thereby reducing the economic disparity in various groups of people.

In recent years the wisdom of developing public enterprise and making it the chief source of achieving national objectives has been criticised even in countries that are following a socialistic pattern. The experience gained in these countries indicates that public enterprise has not been as efficient as private enterprise and that if the facilities available to public enterprise had been accorded to the private sector, development would have been faster and greater. There are certain distinct advantages in the private sector which make it more conscious of profits and costs and is more flexible in operation than the public sector. The professional executive class has still a long way to develop in countries such as Pakistan. Even in the industrialised countries of the West pecuniary benefits such as share options and profit sharing by way of bonuses have to be provided to the business executive class to give them the private enterprise flavour and avoid what Parkinson calls "built-in inefficiency" of public corporations.

The approach of Pakistan towards public and private enterprise is a pragmatic one viewing with favour a mixed economy stressing the private sector. In order to appreciate the basis of this approach one will have to look to the economic and social conditions prevailing in the country in 1947 and the basis of its political emancipation. As a free society based on a liberal interpretation of Islam it had to follow policies that would provide freedom of thought and action and ensure economic and social justice. On the economic front, it inherited an economy which was extremely underdeveloped. It produced 70% of the world's jute but had no jute mill ; it produced large quantities of staple cotton but had only a few cotton mills in operation. Cultivation was antiquated and unscientific yielding poor results. Means of irrigation needed urgent improvement. Vast resources lay untapped and to utilise them immense capital and skills were needed. Hydro-electric power has still to be harnessed. Commerce and banking needed replacements ; the ports were not fully equipped to handle the increasing quality of incoming and outgoing cargo. In the face of these problems it had to follow policies that would ensure a rapid and quick amelioration of economic and social

conditions without unduly encroaching upon the freedom of individuals.

The private sector has neither the will nor the resources available for the rapid economic and social development of the country. Public sector had, therefore, to play an important role primarily through providing basic infrastructural facilities, by guiding the private sector into the desired channels and taking up such enterprises in which private enterprise was either unwilling or unable to come forward. It is not very well appreciated that the public sector in Pakistan is a very large one and that it has contributed in considerable measures to the economic development of the country. The railways, post and telegraphs, power and irrigation facilities, and ordnance factories are cases in point. Without them there could be very little economic activity and their contribution to the national income is by no means a small one.

In development planning an attempt has been made to strike a harmony in the [ public and private sectors so as to ensure achievement of the national objective of accelerated economic growth. In the First Five-Year Plan, against a total investment of Rs. 1,080 crores, Rs. 750 crores were allocated to the public sector and Rs. 330 crores to the private sector. The allocation of the public and private sectors in the Second Plan was Rs. 1,462 crores and Rs. 838 crores respectively, and in the Third Five-Year Plan it is estimated at Rs. 3,000 crores and Rs. 2,200 crores respectively. The policy of the Government to encourage private enterprise as far as possible has proved fruitful, as investment in the private sector is increasing at a rapid pace. Yet the public sector has not been dormant. Its function is primarily that of setting up key industries where private enterprise is lagging, of building up an infrastructure capable of sustaining and of promoting a highly developed economy, and of providing welfare services (health, education, etc.).

In certain cases the public sector was constrained to participate for other reasons. The Shipping Corporation has been formed as a reaction to the inefficient operations of the private companies. Fear of monopoly malpractices has also led the Government to retain some strategic industries.

Social considerations have also inspired public sector operations in other ways. For example, private enterprise is reluctant to invest in the more undeveloped areas, both because the immediate market is restricted and the infrastructure deficient. But while it may be uneconomic in the short run to invest in such areas, the development of the area, which would follow from such investment, tends to make this investment profitable, even on economic grounds, in the long run. And the public sector is the natural agent to foster this sort of development, for it alone possesses both the resources and the duty to eschew the goal of immediate profit in the larger social interest.

The policy of developing a mixed economy has paid dividends. On the one hand high rates of growth have been maintained. On the other, the creation of imbalances and bottlenecks has been by and large prevented through public sector operations where private enterprise was timid. An attempt has been made to

avoid excessive regional inequalities by guidance (discriminating tax holidays) and direct participation in ventures in the relative under-developed areas by the public sector. Welfare services and social development made the first strides away from an inhibited past. By these means, the excesses that have characterised the initial development of both capitalist and socialist countries have been avoided, and the process of basic structural change has proceeded without inflicting intolerable pains.

A policy, in which the public sector in addition to guidance and influence, takes up the residual items in the list of priorities of development is not unique to Pakistan. It almost follows from the nature of the current development process in countries allowing free enterprise. It commends itself as a practical approach to the problems, an approach that does not draw too rigidly from political philosophies. Raw entrepreneurs are too timid to invest in projects where costs are high and returns low. If these projects rate a high priority on some other grounds, such as social welfare or national defence, the state undertakes them. This limitation on the sphere of public sector actively contains a bias in favour of private enterprise. This bias can be defended on grounds of efficiency. Private enterprise is generally more responsive to profits and costs and a great deal more flexible. And a professional executive class, so important to an economic bureaucracy, is not yet present in sufficient numbers in Pakistan.

There still remains a powerful argument against accelerating the growth of the private sector—economic concentration or income inequalities are fostered. The Government has not set idle on this. The President of Pakistan in his Manifesto has given an undertaking “to provide for the widest possible and most equitable distribution of wealth”, “to adopt all practical means to raise the income of the common man so as to reduce the disparity between the rich and the poor”, and “to eliminate cartels and monopolies”.

The Deputy Chairman, Planning Commission, has stated that a major objective of the Third Plan (1965-70) is “to make substantial progress towards achieving certain specific social objectives such as diminishing inequalities in the distribution of income, wealth and economic power, providing a measure of social security and promoting social and cultural change conducive to accelerated economic expansion”.

The Government of Pakistan has already taken, *inter alia*, the following measures to broaden the ownership of industrial capital and to promote greater social justice :

- (i) All public companies are required to offer to the general public at par at least fifty per cent of the issued capital
- (ii) In the allotment of shares to the general public preference is being given to smaller applicants.
- (iii) The ownership of shares is being progressively broadened through the operations of the National Investment Trust. Its Fund now

consists of 90 million rupees spread over 94 companies. The middle class and small investors are participating in ever-increasing numbers as can be gleaned from its 17,000 unit holders.

- (iv) Companies in which the public is substantially interested have been shown a distinct preference by the fiscal system, thereby encouraging the dispersal of shares held by big groups.
- (v) A People's Credit Department has been established in the National Bank of Pakistan to cater to the credit needs of the smaller entrepreneurs.
- (vi) Permission is refused to holders of large industrial undertakings to open financial institutions like banks and insurance companies.
- (vii) New taxes, like Wealth Tax, Capital Gains Tax and Gift Tax, have been imposed with a view to reducing the concentration of wealth in a few hands.
- (viii) The monopoly of category holders has been weakened by the introduction of the import liberalization programme.
- (ix) By maintaining a high minimum level of taxable income, increase in the earned income relief and provision of education allowance, a bias has been created in the tax structure in favour of low and middle income groups.

In his recent budget speech the Finance Minister stated as follows :

The process that we had initiated, with the steps I have just mentioned, is now to be carried forward under the guidance of the President and within the framework of his Manifesto. We are taking the following specific measures :

- (i) Where there is a risk of the emergence of monopoly units, we shall introduce the "presence" of the public sector so as to safeguard the national interest. The public sector in these cases may be associated either with the management or the financing of such enterprises or with both.
- (ii) It will be the endeavour to encourage new comers into the field of simple manufacture like textiles, sugar, cement, etc., and to increasingly divert the investments of the established groups to producer goods industries and such industries as require higher outlays, longer gestation period and advanced technical know-how and managerial skills. To prevent concentration of economic control, such parties as are given permission to manufacture basic raw materials or components will not normally be allowed to manufacture semi-finished goods or finished goods which can be produced by smaller units.
- (iii) There have been complaints that bank credit is not freely available to new comers and is getting concentrated in a few bank accounts. This is an unhealthy trend both for the future safety of bank advances and for the growth of new enterprise in the country. The State Bank

is considering measures to require every bank to set aside an increasing percentage of its total advances for the small borrowers over a period of time. The State Bank will also watch that credit to any single party remains within limits.

- (iv) I have already mentioned the various measures that have been taken to diversify the ownership of capital in the industrial field. To carry this process further, fresh capital issue will be permitted subject to the condition that 60% of the shares are offered to the general public instead of the 50% now prescribed. We are considering a further condition that applicants for the allotment of 100 shares or less should, as a rule, be fully accommodated before any allotment is made to those applying for a larger number of shares.
- (v) You would recall that a Study Group was established in 1963 to suggest policies and measures for prevention of growth of trusts, cartels and other forms of restrictive practices directed against the interest of independent business and the consuming. The Study Group has since submitted its report to the Government. The empirical studies undertaken by the Group have brought out that there are indications of emergence of cartel-like arrangements and partial or near-monopoly situations as well as definite signs of vertical integration in certain cases. I am sure the members of this House will agree that the forces of competition should be given maximum play in the interests of economic efficiency and social justice and we must be fully equipped to take action against arrangements designed to restrain free competition to the detriment of the consumer. Accordingly, we are considering the enactment of a law to regulate :
  - (a) vertical integration implying the control of a single party over manufacture, distribution and marketing of any particular commodity or its components ;
  - (b) inter-locking of industrial and financial capital ;
  - (c) any monopolistic or restrictive practice or agreement aimed at prevention, restraint or distortion of competition like fixation of prices, limitation of production, marketing technical development or investment, etc.
- (vi) We are also giving serious thought to amend the Company Law in the light of the Company Law Commission's recommendations in order to protect the interests of investing public and to streamline the provisions of the law.
- (vii) In order to encourage savings, particularly by people of modest means, we are proposing a number of steps. The present limits of holdings in Savings Certificates will be raised for an individual from Rs. 30,000 to Rs. 50,000, for two joint holders from Rs. 60,000 to Rs. 100,000

and for co-operative banks to Rs. 500,000. A new series of Savings Certificates called the Defence Savings Certificates, will be introduced with five years' maturity and carrying a 5% rate of interest and benefit of exemption of interest from income tax if held till maturity. The interest rate on Post Office Savings Bank deposits will also be raised.

- (viii) The Government is also alive to the need of strengthening the Securities Market and providing all necessary incentives to small investors. The NIT, which was established with the primary object of associating the small man with the industrial development in the country, is currently given an option to acquire 20% of the local capital issued by any public company. The Government would ask the NIT not to disinvest the holdings it thus acquires within a period of two years so that as element of greater stability is imparted to the stock market. In special cases; where the NIT has strong reasons for seeling these shares within the period of two years in the larger interests of the unit holders, it will be able to do so only with the prior approval of the Government.

It can also be argued with some force that the very growth and success of public limited companies means that private sector development may not necessarily lead to excessive inequalities. Further, where unemployment is so large the generation of additional employment, even when accompanied by high rates of profits, can be held to redistribution incomes. Growth in this sense leads to a redistribution of incomes. But it still has to be admitted that the two objectives can conflict for those who are already employed. It is here that a crucial socio-economic decision has to be made : at what price economic growth ? How much equity in the distribution of incomes and wealth are we prepared to sacrifice for the sake of a high rate of growth ?

Pakistan's Third Five-Year Plan does not appear to envisage radical changes in the policy towards the private sector. There will, however, be a marked shift in activities which will increase public sector participation.

There are several good reasons for this. To begin with, a change is envisaged in the pattern of industrialisation: away from the predominantly consumer goods industries which have characterised our development in the past, to the basic and heavy industry complexes, such as petro-chemicals, machine tools, heavy engineering and electrical goods, fertilizer plants, etc. A substantial part of this investment may have to be in the public sector since these industries require very large amounts of capital have long gestation periods, and yield relatively lower rates of return than did some of our light consumer industries, for example, cotton textiles. Secondly, in order to be economic, these industries must be set up on a very sizeable scale. Owing to the shortage of resources, the small size of the domestic market and the uncertainty of exports, it may not be possible to set up more than one unit in each of these industries, and the general feeling is that mono-

poly industries should, as far as possible, be in the public sector. Further, most of these industries are basic for the economy as a whole, in that they will supply the equipment and raw materials for many of the other industries. On strategic grounds also it may not be desirable to allow a single entrepreneur to acquire such an influence over a large segment of the economy.

Again, one of the major aims of planning in Pakistan is the elimination of inter-wing income disparities. There is a constitutional directive that this be done in as short a time as possible. While parity can be achieved only over the period of the Perspective Plan, a start in that direction has to be made immediately. To make this possible, investment in East Pakistan must be stepped up considerably.

The Third Plan has earmarked over 50 per cent of the development expenditure for East Pakistan. Much of this investment will have to go towards building up the infrastructure, a type of investment in which the share of the public sector will naturally be the preponderant one. In industrial investment too, the role of private enterprise in East Pakistan has not been as vigorous as in West Pakistan, for as explained earlier, the flow of resources into a relatively less developed area is deterred both by the paucity of effective demand and the absence of external economics. Moreover, East Pakistan lacks a substantial capitalist class of its own, as well as a well-developed framework of banking and credit institutions. A large measure of the industrial development of East Pakistan, therefore, may have to emanate from the public sector.

Finally, although the economy has been moving forward at a rapid pace, certain sectors have lagged behind. These constitute the social sector which is, by and large, developed in the public sector.

The policy of providing the maximum possible encouragement to the private sector coupled with the response shown by it, should not be construed to imply that a time will come when the public sector will be relegated to the second position. The public sector will continue to occupy a pivotal position; only the nature of its contribution, both quantitatively and qualitatively will undergo a change. At present it is primarily concentrating on basic infrastructural facilities and promotional activities. In the years to come the emphasis will be shifted towards guiding and laying down goals and objectives and on developing the social sector. This is borne by the experience of even the most advanced free enterprise economies like those of the USA, where with the passage of time the public sector has assumed new dimensions and acquired a new look.



## THE IMPORTANCE OF MANAGERS IN ECONOMIC DEVELOPMENT AND MANAGERS' TRAINING IN TURKEY

*By*

PROFESSOR MEHMET OLUC,  
*University of Istanbul.*

There are several functions of management in a business enterprise. Deciding the objectives; making research and planning; organizing and co-ordinating; directing; supervising and correcting so on.....

Considering the scarcity of means and the endless needs of a country, the objectives should be chosen very carefully.

By establishing a smoothly working organization and finding out supply and demand conditions in the market; by taking never-ending steps towards simplification and rationalization, the productivity and profitability of a business enterprise can be increased.

If size of a market is large enough, the size of an enterprise could be enlarged and as everybody knows, the size of an enterprise affects its productivity and profitability. But the size of a business enterprise is greatly dependant to the ability of management.

In short, productivity and profitability of business enterprises being very important aspects in economic development good management is a must in the development of our countries. We need good management not only in business enterprises but in every kind and in every phases of our social, political and military organizations.

The lack of capital; the lack of skill; often the lack of natural resources are main impediments for economic development. But we can put the lack of able managers at the top of this list of impediments for economic development.

If this is the case, we have to overcome the difficulties, arising out of the short-

age of able managers.

According to Turkey's five-year plan, the number of administrations and managers in various capacities in the year of 1962 was estimated around 73,000. If five-year plans reach their goals, this number would be 88,000 in 1965 and should be increased to 194,000 until 1977. It means that, from now on, every year Turkey should add ten thousand managers in various capacity to its managerial population. This, creates a huge problem of education and training.

Management is a matter of art; is a matter of education and is a matter of skill. Probably only gifted persons can become great managers. But in most cases the skill of management can be gained through education, training and experience.

In most Western countries and in Russia, at the beginning, the ratio of high education graduates among managers was very low. But today, this ratio is around 70—80% in these countries. We do not know the present composition of educational level of our managers. But if we accept as a goal the ratio of 50% of high education graduates among our managers, the high education institutions should graduate at least five thousand people who will choose their profession as managers. At the present time the graduates of these institutions in Turkey do not exceed the number of 4,000—4,500 per year. But less than half of this number choose management as their profession. The incentives of becoming business managers is not attractive enough at least socially if not materially. So able men prefer to become engineer, doctor or lawyer.

The social and material privileges of managers are increasing. The number of business administration and economic faculties as well as commercial colleges should be doubled and their graduates should be doubled within a short time.

But, even if we increase the graduates of higher educational institutions, this will not be enough in solving the problem of having able managers.

Education serves a lot in shaping the managerial ability of people. But managerial skill is gained through experience and the guidance of able managers. If we are lacking master managers, under whom they would be managers can gain their experiences. In order to overcome this difficulty some devices of the job training and some devices of shortening the period of experience should be evolved.

The case of method of training would be one of such devices beside management course.

In Turkey in 1954 a Business Administration Institute was established through the co-operation of Ford Foundation, Harvard and Istanbul Universities. 22 teachers were trained in Harvard, Indiana and Stanford Universities. These teachers collect case material from business enterprises and prepare cases. We also translate many cases of Harvard University. These cases are distributed to the students. They are prepared in finding the solutions of these cases and later in class rooms within eighty minutes the students discuss their proposed solutions. By doing this they can improve their decision-making ability; they learn to analyse

the facts and improve their thinking capacity.

The Business Administration Institute is running three kinds of courses. The first is so-called certificate programme which lasts nine months and in which production; marketing, business finance; control (statistics and cost accounting); human relations and business policies are taught with cases. Ninety students are chosen among 450—500 applicants all of them are university graduates. The second course is so-called middle management course which lasts eleven weeks and is organized twice a year. The people who have five years' business experience can follow these courses. These people can refresh and improve their knowledge of management. They are somewhat heir apparent for top management position. The third programme of the Institute on three day or weekly seminars for top managers.

Management Association of Turkey also organizing courses and seminars for top managers as well as for middle managers. Management association organizing a team of eight people who will consult and, if necessary, organize on the job training for small and medium sized businesses.

Consultant services also should be organized and able men should be trained as consultants.

Commercial and economic academies are being reorganized and a new Faculty of Business Administration is being contemplated.

Turkey, Pakistan and Iran should establish a centre to exchange the cases and ideas as well as teachers among business administration teaching institution. They should give the chance of training in industrial and commercial institutions to the would-be managers of future by establishing a training clearance centre for exchanging the trainees.

If we fail in training enough managerial personnel in time, our economic development will lose at the end.

## THE PAINS OF ECONOMIC DEVELOPMENT

*By*

MR. A. RASHID IBRAHIM\*

*Financial Adviser, Military Finance*

*Ministry of Finance*

*Government of Pakistan*

### **No alternative to economic development**

Planned development is the political, economic and social goal of all newly independent countries. Better conditions of life and higher standards of living were the battle-cry of most colonial countries seeking freedom from the foreign yoke, and the new governments in power are committed to achieve an accelerated rate of economic growth and social improvement. It has been said that there is a "revolution of rising expectations". However, this can easily turn into a "rebellion of increasing frustrations" if the process of economic development and the pains involved in it are not widely understood. The final objective of planned development is most laudable, and in fact, for the economically backward countries, there is no alternative. This objective is the exploitation of the material and human resources of the country, the attainment of higher national income, the increased production of goods and services, and the improvement of skills, knowledge and health. But the road to destination is neither smooth nor easy.

### **Tightening of the belt**

Economic development is a function of investment, of saving for the purpose of that investment, of reducing present consumption in order to achieve the required saving, by definition, underdeveloped countries and their population have

---

\*Paper read at the RCD (Regional Co-operation for Development) Colloquium on "Common Problems of Economic Growth" at Karachi in June, 1965.

low incomes and therefore low consumption levels with little capacity to save. Nevertheless, unless there are large imports of capital or foreign aid, national savings have got to be increased. And this means a further tightening of the belt on a waist already thin and emaciated a major "pain" of economic development. With independence, and with the trumpets of economic development being blared on all sides, people normally expect a rise in their consumption levels and therefore are bewildered by the simultaneous promises of better living and appeals for lower consumption. This inherent conflict in the situation has to be appreciated, if "increasing frustrations" are to be avoided.

Pakistan started with a domestic saving level of 4 to 5 per cent of national income, typical of most underdeveloped countries. With a per capita income of about Rs. 250.00 per annum during the period 1947-50, there was little scope for further tightening of the belt. And yet direct and indirect taxation was increased in order to mobilise public resources for development. Similarly, all sorts of incentives were provided for private sector savings and investments. As development expenditure was incurred at increasing levels, effort was made to increase the "marginal" rate of saving i.e. the proportion of additional incomes arising out of the development outlays. Over the years, this effort has borne fruit and in the Second Five-Year Plan (1960-65) the marginal rate of savings was nearly 22%. The overall rate of domestic savings had increased by 1964-65 to about 11 per cent of the national income. This stepping up of savings represents continual sacrifice.

### **Productive versus non-productive investment**

Unless a country has reached the stage where it saves enough for all needed investment (and then it would no longer be "underdeveloped"), it has to balance the competing demands on its limited resources. Better living for the common man would require more housing, more schools, more hospitals, more amenities of all sorts. But investment in these fields is regarded as less productive than in factories, dams, power stations, transport and communications. There used to be a school of thought which considered the former fields of expenditure as "non-productive" deserving no priority when resources for investment were very limited. However, modern economic thinking regards educational and health facilities equally important and fears that if they are neglected, serious bottlenecks may occur in courses of time in the productive fields themselves. But it cannot be denied that their "gestation" period, or the time over which they result in increased production of goods and services, is much longer than in the case of factories and mines. Consequently, they are bound to get comparatively small shares of investment resources when the planners are anxious to achieve quick results. The common man may therefore well be presented, at least for a time, with the spectacle of chimney smokes, transmission towers, telegraph lines and irrigation canals

on all sides, and no major visible improvement in his own conditions.

Pakistan has tried to solve the problem of priorities among various sectors as best as it could—in fact this is one of the major exercises for the planners. No country, much less Pakistan, can afford to ignore the so-called non-productive sectors, and yet it must deny large increases in immediate consumption for the sake of long term and more lasting benefits. In the First Five-Year Plan (1955-60), the relative allocation for productive sectors (agriculture, water and power, industry and mining, transport and communications) and non-productive sectors (health, education, housing and welfare) was 80 and 20, and in the Second Plan 78 and 22. For the Third Five-Year Plan (1965-70), the percentages are 74 and 26. Thus as economic growth has taken place and national income has expanded, greater emphasis has been given to the 'non-productive' sectors.

### **Strings of foreign aid**

The difficulty of resources and the consequent tightening of the belt can be relieved to an extent if foreign capital is received by a country in sizable measure. In the circumstances of underdeveloped countries, private capital is not easily attracted and governmental aid is by far the largest source. Whether we like it or not, this aid is seldom without strings. The thickness or the tautness of the string may vary, but it is there. Even if no string is consciously tied, the weaker country gets overpowered by the mere link with the stronger country, by reliance on its equipment and spare parts, by dependence on its technicians, by orientation in its particular techniques and skills, by dominance of thought processes and material institutions. On the other hand, a recipient country need not go under. The competition between the so-called Western and Eastern block countries to provide assistance to developing countries is itself a balancing force. And one should have increasing reliance on one's own resources. For instance, Pakistan had to rely on foreign aid for the bulk of its First Plan of Rs. 11,600 million. The figure envisaged for the Second Plan was 50% (in a total of Rs. 23,000 million), but by increasing domestic efforts we have been able to end up with 38% (of Rs. 26,000 million). And the position for the Third Plan is still better, namely, 32% (out of Rs. 52,000 million). In terms of percentages and more so, in terms of absolute figures, this represents a constant endeavour to rely less and less on foreign assistance.

### **Rise in prices**

Another major "pain" of economic development is the rise in prices. Seldom is rapid growth achieved without disturbing the level of prices. Accelerated development means the injection of large sums of money into the economy, and this leads to an inevitable imbalance between the supply of goods and services and their demand, both for purposes of consumption and investment. While the ultimate aim of all investment is production, the "gestation" period depends upon the type of outlay. For instance, the expenditure on fertilizers may yield result

in less than a year, on a textile factory in two years, on roads in four to five years, and on schools in ten to fifteen years or more. And during this period, while expenditure is being incurred and the demand for goods is being created, there is no corresponding increase in the supply of goods and services. Thus there is pressure on the quantities already available. To the extent Government investment is not covered by taxes or real borrowings but represents deficit financing, and to the extent that private investment is not covered by real savings but represents extra bank credit, money supply has been increased without corresponding reduction in the purchasing power. The result is too much money chasing too few goods, and inflationary pressure.

It is said that a moderate rise of prices—of the order of 1 to 3 per cent a year, acts like a stimulant and helps economic development. It creates expectations of higher profit and, therefore, promotes investment. On the other hand, if the rise in price level is excessive, it twists the investment patterns and may not only distort but discourage orderly development. And of course it causes grave hardship for the general consumer, who necessarily lives in the present and is not comforted by rosy prospects of the future. If there has been substantial publicity about the development programme and objectives, he may like the idea generally, but if he is made to tighten his belt more and more, and reduce further his already low consumption standard, he is bound to react and question the *bona fides* of the planners.

When both prices and wages rise in unison, the situation may not be so bad, as the purchasing power of the consumers would remain the same. However, this seldom happens in fact, and the increase in wages follows tardily the increase in prices. Skills which are in short supply might get compensated adequately and if labour is organised, it might be able to negotiate wage increases from time to time. But the relatively fixed income groups, whether in government or semi-government and private bodies, are the worst hit. It has been said, rather uncharitably, that development means the massacre of civil servants.

The situation in Pakistan is better than in most developing countries. We have been able to achieve a high rate of growth with comparative stability of prices. No general cost index has yet been developed in Pakistan, but the index of cost of living of industrial workers provides some indication. With 1948-49 as the base year, it has risen (for Karachi) to 139 (early 1965). And in the last four years, the rise was from 130 to 139 which amounts to an average increase of 2 per cent a year. This rise, for a country where investment is taking place at 16 to 18 per cent of the national income, is remarkably small. In countries of Latin America, the rise in prices over the last decade or so has been from 5 to 50 per cent a year and even more. One should not be misled by the rise in prices of individual commodities, over short periods, particularly luxury or semi-luxury goods and the grumbling of the relatively well-to-do sections who are generally the most vocal

and who may judge inflation by the price of refrigerators and moter cars. On the other hand, one should also not be misled by the statistics put out by soul-less official agencies, on the basis of imperfect market-baskets and wishful price quotations. The position is certainly disturbing when the prices of essential goods and services like common food items, ordinary clothing, house rent, public transport, school fees and medicines show a substantial and continuous rise upwards.

There is no basic remedy for the rise in prices except increased supplies. Control of sale prices or distribution or both, is resorted to under pressure of public demand, but it is seldom effective and often leads to disruption, and the very people who ask for it are disgusted with the results. Accordingly, at least in the case of essential goods and services which constitute the basic requirements of the common man, a jealous watch should be kept on prices and high priority should be given to their increased production or imports, even if this means some slowing down of the development process. Indeed, this priority should be built into the development plans. In the case of fixed income groups who are the worst-off, it would help if some remuneration is paid in kind e.g. housing, medical facilities and education. Whatever can be done to siphon off the increased incomes generated by development expenditures into real savings, should be done, as that alone would effectively reduce purchasing power and curb the inflationary spiral. Foreign commodity aid, used properly, can be a very effective check against rise in prices as it means a net increase in the supply of goods in the country while in indigenous productive capacity is being built up.

### **Unequal distribution of increased income**

An unpleasant feature of economic development is the unequal distribution of gains. The "haves" get more and more. Planned production in the developing economics means restricted imports of finished goods and the establishment of productive units within the country, whose number in each field is limited by considerations of foreign exchange. Thus there is sheltering of the market on the one hand, and the creation of monopolies (or rings) on the other. The governments also provide tax concessions and other incentives and facilities in order to accelerate capital formation in the private sector. All this means greater opportunities and higher profits for those who are in a position to save and invest and secure sanctions and bank credit. It is true that the governments try to level down the gains through increased income and corporate taxes, but in developing countries tax evasion is wide and deep and there are few businessmen who pay the full dues. In the process, the rich become richer and richer. On the other hand, the "have-nots" are further squeezed by higher prices and indirect taxes, and can save less and less. In purely materialistic terms, there may be a justification for this situation, as those whose consumption needs have been satiated can save more and, therefore, help better the accretion of capital, while those whose needs have not yet been satisfied will only consume and make little contribution to the investment



capital. However, in social and psychological as well as political terms, this is not only undesirable but indefensible. While we accelerate the process of economic growth, we must also work towards greater equalisation of incomes.

The remedies for this situation can take several forms. In the case of "haves", tax evasion should be heavily penalised and it should be ensured effectively that what the government has decided to collect, is actually collected. Besides the government tax system, the transfer of incomes should be arranged within the private sector i.e. philanthropy should be fostered and private entrepreneurs encouraged to provide medical, educational and other welfare facilities for the lower income groups.

In Pakistan, there has been considerable criticism of this increasing disparity in incomes and economic opportunities, even though per capita income and consumption have risen significantly in the lower groups. The rich have certainly become very rich indeed, and persons and families which were worth millions a decade ago are now worth hundreds of million. A Credit Enquiry Commission appointed some time ago (1959) revealed that nearly 60% of total bank credit had been secured by 222 families. The same family groups own industrial undertakings, banks, insurance companies, consultancy offices, construction firms, distribution trade, etc., etc., so that not only is there a horizontal but also a vertical concentration of wealth, and a tremendous concentration of economic power.

A number of measures have been taken to broaden investment holdings in the country and to develop a larger and stronger middle class. For instance, private companies have to pay higher tax than the public companies and the definition of public companies has been modified to ensure larger equity participation. The National Investment Trust secures its resources from a much larger clientele and makes investments on their behalf. The Industrial Development Bank and the Small Industries Corporations are expected to extend credit to smaller entrepreneurs at easier and more attractive terms. The National Bank of Pakistan has established a People's Credit Department to provide credit facilities to the smaller businessmen. Other measures to prevent concentration of wealth and economic power are also under consideration.

The upgradation of the "have-nots" into "haves" is a difficult task, and the initial conversion of a man of comparatively small means into an entrepreneur is almost impossible. The entire credit system functions on the basis of securities and physical assets, so that those who have not shall remain where they are. The usual cycle of wealth, bank credit, more wealth, needs to be reconstituted and credit must be made available to those whose material assets are limited but who have the will and the capacity to establish industrial or other enterprises. This is a challenge requiring all the ingenuity and courage of the planners. Mere increase in per capita income will not thrill people for long; the increased income must get more fully distributed and in any case the opportunity to earn more provided one is willing to work should not be denied.

A side-effect of accelerated development may be increased corruption and bribery. Planning involves allocation of scarce resources, and acceleration means the forcing of pace. The technique may be controls or incentives. In either case, the functionaries are the public servants. They are placed in a position to extend or deny patronage, and the larger the development programme and the more extensive the artificial devices to achieve the objectives, the greater the powers of ministers and government officials. All sorts of licences, permits, quotas, contracts, awards and dispensations emerge. Often, it is not a case of coercing the beneficiary to offer money or other consideration in order to get the advantage: he may himself be willing to bribe in order to secure a benefit out of all proportion to the size of the bribe. Both the recipient and the giver are happy, at the expense of the state or the consumer, and the system spreads and spreads. It may involve all levels of bureaucracy and all types of citizens.

Measures can be taken to curb and curtail corruption, but it cannot be eliminated altogether unless the moral fibre of the entire people is strengthened, and the economy is freed altogether from controls and restrictions. Procedural checks and counterchecks may be provided. Anti-corruption establishments may be created to watch and investigate. Tribunals or ombudsmen may be appointed. Heavy punishments may be prescribed. Nothing will avail, unless corruption and bribery are regarded as evil by the people generally, and are condemned unequivocally.

### **Urbanisation**

Another feature of economic development, not necessarily adverse, is urbanisation. As industrial development takes place mainly in the towns, people from the rural areas are drawn towards them, and city population rise at twice or thrice the average rate of population growth. This results in congestion, slums, squalor, adulteration of food stuffs, and unhygienic living generally. It also leads to delinquency, violence, crime, prostitution, gambling and other vices. When metropolises grow into megalopolises, the situation is far worse, as life even for the more well-to-do and the more sophisticated, becomes difficult, with long distances, traffic jams and frequent break-down of communications for other services. The tension of city life causes ulcers.

Urbanisation is not an unmitigated evil: the cities become the centres of cultural and political progress. Besides, adverse features of urbanisation can be controlled, by decentralising development activity, by regulating movement from the villages to the towns, and by co-ordinating the development of townships with the inflow of population.

Pakistan has adopted a deliberate policy of shifting industries away from the main cities, to the extent economically desirable and technically feasible. Industrial estates both for large industries and small industries have been established in a number of provincial and district towns. Extensive rural works programmes

and community development programmes have been undertaken in order to improve communications between the towns and the villages, make village life more comfortable, and remove the cultural and social distance between the rural and the urban areas. Rural electrification has also helped to make villages less unattractive.

### **Change of social values and ethical standards**

Perhaps more important than anything else is the impact of economic development on social values and moral standards. Introduction of modern technology and industrial growth cause a psychological upheaval. Men are no longer content with their lot, and ask for more and more. The "good things of life" acquire greater value, and the people become materialistic. All this destroys the social stability of agrarian economics based on limited needs and more limited communications, and the inner stability of the masses based on non-materialistic relationships and friendships. The rural subsistence economy gets monetised and all sorts of new wants develop. The feudal concepts and obligations crack up. The new lord and master is the industrial magnate. With the shifting of populations and of values, the entire social framework is upset. The conservative groups and religious leaders of the old school are scandalised, and consider that all this rushing about, and all this quest of material things, is unholy and undesirable.

Indeed, the cost in terms of change of values is great. But there is no choice. Under the impact of international communications, scientific discoveries and education, countries and peoples have got to change, unless they wish to live like the old aborigines. In the pursuit of material progress, however, we should not forget our heritage and destroy our cultural roots. We should abandon only those social institutions, customs and habits which are not so basic and which are inconsistent with the demands of development. Others we should adapt to our conditions and our philosophy to the extent that they can be adapted. Even the technology should be adjusted to our endowment factors which must include the social and cultural institutions. And we should not hesitate to reject those features which are opposed to our ideology, religion and basic culture. And we must consciously foster those cultural values and traditional features which are not in conflict with the development process, but which give us mental and spiritual satisfaction. However, this process of adjustment, adaption, selection and fostering, imposes a most difficult task, and requires study by the best brains of the country. We do not want to become Americans or British or Germans, but want to have our own distinct way of life, which should be a harmonious whole of the best of our past and the best of the present.

### **Conclusion**

Economic development is undoubtedly the panacea for most of the economic and social ills of the developing countries. But to achieve economic development

is not easy the process is interwoven with difficulties and imposes sacrifices. In these difficulties and sacrifices are properly understood, not merely by those who make and implement plans, but also by the common man, the goal will appear in its correct perspective and the journey towards it will become less painful and more meaningful.



**SECOND SESSION**

( *June 29, 1965* )

*Under the Chairmanship of*

**Dr. PARVIZ KHABIR**



## **ROLE OF COMMERCIAL BANKS IN THE ECONOMIC DEVELOPMENT OF PAKISTAN**

By

**MR. MUMTAZ HASAN,**  
*Managing Director, National Bank of Pakistan.*

The main problem of economic development in a developing country like Pakistan is that the resources available for development are considerably short of requirements. We have, therefore, to ask for assistance from abroad. Although foreign assistance is being made available to us and other underdeveloped countries, the overall demand for it on the part of the underdeveloped world as a whole is much in excess of the supply. We have, therefore, perforce to rely on ourselves to start with. The more we can mobilise our own resources for economic development, the less will be our dependence on outside assistance. Similarly, the richer and more advanced countries providing assistance (large in the shape of loans) to underdeveloped countries like us, naturally wish to assure themselves (and their legislatures) that the country asking for assistance is doing its best with its own resources and will not only be able to repay the loans granted to it, but cease to need further loans, at some stage. Others will not help those who do not help themselves.

It follows that if we want to develop, we must save as much as we possibly can and invest the savings in development. This is easier said than done. The question of the rate of savings and capital formation is as difficult for underdeveloped countries as it is important for their development. A low per capita income, primitive techniques of production and wasteful habits on the part of an illiterate population make it far from easy to promote savings, without which development cannot proceed. By bringing the savings of the people into the banking system, the banks help to raise indigenous resources for development and



pave the way for foreign assistance. The money deposited with banks is available for being loaned out for the kind of purposes envisaged in the development plans. This is the point at which banks are of immediate and direct help to the development effort. And the men they recruit and train for manning their expanding organisation add to the pool of trained manpower in the country.

At the time of Partition, the banking system was seriously damaged by the mass migration of population on both sides of the border. The majority of bank offices were closed. In July 1948, Pakistan had only 195 banking offices as against 631 immediately before Partition. As a part of the Partition arrangements the Reserve Bank of India had been accepted as the common currency authority by India and Pakistan till the end of September 1948. In view, however, of the fact that the Pakistan Government found it impossible to obtain even a ways and means advance from the Reserve Bank when the Government of India refused to hand over Rs. 550 million which represented the remainder of Pakistan's share of the Cash Balance of undivided India, the Pakistan Government found itself compelled to set up its own central bank as early as possible. The State Bank of Pakistan was accordingly brought into being on the 1st of July, 1948 instead of 1st of October, 1948 as originally scheduled. This was a big step forward. Another important event took place in the succeeding year. In September 1949, the Pound Sterling was devalued and while the Indian Rupee followed suit the Pakistan Rupee did not. India refused to recognise the par value of the Pakistan Rupee. This led to the well known currency dispute between India and Pakistan, one of the results of which was the withdrawal of Indian finance from the jute crop. In consequence, prices began to fall in East Pakistan and as negotiations with India failed to make headway, the Government had to take immediate action to set up a commercial bank, alongwith an organization for the handling and financing of the jute crop. The National Bank of Pakistan was accordingly established by an Ordinance of the Governor-General of Pakistan on the 8th of November, 1949 with six branches in East Pakistan. Starting from this precarious situation, Pakistan went forward in the banking field as in many other fields. We now have 1581 offices as on 28th of June, 1965. The Second Five-Year Plan set a target of 250 new offices to be opened between 1960 and 1965. This target has been exceeded by 901 offices.

This phenomenal progress would not have been possible but for the concerted efforts of the Government, the State Bank of Pakistan and the commercial banks themselves. The pace of expansion has been greatly accelerated during recent years. Commercial banks particularly the National Bank of Pakistan (which has opened 144 offices since January, 1964) have been spreading out into the less developed regions of the country and opening offices at places which are not necessarily profitable, in any case to start with. Speaking of scheduled banks alone, we have now one bank office for every 61,000 persons in the population as against ,368,000 persons in 1951.

The biggest problem posed by this expansion was that of trained staff. In fact this expansion would not have been possible without maintaining a constant supply of trained personnel. Since 1948 the State Bank of Pakistan has been operating a training scheme which has made trained bank personnel available to the commercial banks of the country. Apart from the State scheme, commercial banks have accelerated and intensified their own recruitment and training programmes in addition to improving the terms and conditions of service of staff. The National Bank of Pakistan has a Staff College of its own for the training of supervisory personnel. For other personnel the Bank has a Training Institute in Dacca and training organisations in Karachi and Lahore. Other banks also have suitable training facilities for their staff.

Bank deposits have risen with the number of bank offices. They have increased from Rs. 880.5 million in July 1948 to Rs. 7021.5 million on 18th June, 1965. A significant development is the marked shift from Demand to Time deposits. From July 1948 to June 1965, Demand Deposits have increased from Rs. 746.6 million to Rs. 3740.2 million, whereas Time deposits increased from Rs. 133.9 million to Rs. 3281.3 million. In other words in July 1948, Demand deposits represented 84.79% and Time deposits 15.21% of total deposits. The share of Demand deposits has now declined to 53.27% while that of Time deposits increased to 46.73% of total deposits. This rapid rise in deposits is a clear index of the vital role the commercial banks have been playing in the promotion of savings.

While on this subject, special mention should be made of the Banking Publicity Board which has been doing valuable work under the aegis of the State Bank of Pakistan in the matter of publicising banking and promoting the banking habit in the country. The account-opening drive launched by banks has met with considerable success and the rate of opening of new accounts has been appreciably accelerated. The total number of deposit accounts, which was 727,304 in December 1961 and increased to 1,378,508 in December 1963, rose further to 1,907,011 by the end of December, 1964. It is significant that the Savings Accounts which represent largely the savings of the lower and middle class rose from 376,929 in December 1961 to 1,117,619 in September 1964 and the amount deposited in these accounts from Rs. 424.95 million to Rs. 1,067.31 million. Another important feature of the account-opening campaign of the banks is the School Banking Scheme which aims at inculcating the habit of saving among school children. You have to catch them young. By the end of April, 1965 this scheme had been introduced in 1218 schools and the number of accounts opened totalled 127,456. The amount of money deposited in these accounts amounted to Rs. 3,143,000. The banks are also trying to popularise the banking habit among the industrial workers. By the 30th of April, 1965 this scheme had been introduced in 71 factories as compared to 47 factories in April, 1964. The total deposits in these accounts amounted to Rs. 1,212,000.

The initial success of these schemes gives ground for the belief that the saving habit is spreading in the country. We hope that the pace of progress will not only be maintained but accelerated in future.

In this context, some mention may perhaps be made of the National Bank of Pakistan. During the last few years the Bank has speeded up its training and expansion programmes with a view to making banking facilities available to a greater number of persons in the country. The Bank has now a network of 467 branches all over East and West Pakistan which represents 30% of the total number of scheduled bank offices in the country. In addition, the Bank has 7 offices abroad. The Bank's deposits in Pakistan now stand at Rs. 1,788.8 million which constitute over 25% of the total deposits in the country. The Bank has had a considerable measure of success in popularising the banking habit and promoting savings among the school and college students, industrial labour and ladies. Under its School and College Banking Schemes, offices of the Bank perform school banking in the premises of selected schools. By the end of May, 1965 the Bank had introduced school banking in 684 schools and opened 61,104 accounts. The amount deposited in these accounts amounted to Rs. 1.4 million representing 45% of the total amount with all the scheduled banks in the country. The Bank has also introduced banking facilities at the premises of mills and factories with a view to developing the banking habit among workers. By the end of May, 1965 this scheme had been introduced in 56 factories. The Bank has introduced ladies sections at various offices with a view to catering to the requirements of ladies, particularly those observing purdah.

During this short span of 17 years, commercial banks have greatly diversified their activities and enlarged the scope of their operations. Bank advances in Pakistan which amounted to Rs. 188.8 million in 1948 have increased to Rs. 6,360 million on 18th June, 1965. These advances cover a cross section of the country's requirements and relate to almost every type of economic activity in the country. The Bank's advances to almost all economic groups have registered a substantial increase though Commerce and Industry continue to claim the highest share.

Commerce and Industry, which usually require finance for the movement and distribution of merchandise and working capital and other short term needs of Industry, claim the bulk of the advances. The share of Commerce and Industry in the total advances which was 80.23% at the end of 1953 stood at 72.48% at the end of September, 1964. The combined figure does not indicate one important change in the pattern of the economy. Advances to both Commerce and Industry have increased in absolute terms but the share of Industry shows a remarkable rise. At the end of 1953 Commerce claimed 68.58% of the total advances while Industry 11.65%. By the end of September, 1964 the share of Commerce declined to 37.9% while that of Industry rose to 35.39%. This shift in the advances of the commercial banks is a significant evidence of the growing emphasis on industrial finance by the commercial banks and their increasing con-

tribution to the industrial development of the country. In fact, before the P.I.C.I.C., and the I.D.B.P., were established, commercial banks were the only source of industrial credit. During the year 1950-55, when the industrial development of the country got into stride the part played by the commercial banks in the industrial development of the country had special significance. During this period they met almost the entire range of credit requirements of industry including medium term advances. Advances to Industry by commercial banks which were negligible in the beginning rose to Rs. 70.9 million by the end of 1953 and to Rs. 198.2 million by the end of 1955. By September, 1964 these advances had gone up to Rs. 1658.9 million.

While on the subject I would like to give a brief account of the industrial development in Pakistan that would give a clearer picture of the part played by the commercial banks in this important sector of the economy. At the time of Independence Pakistan had hardly any industry. The Pakistan areas had been neglected for two centuries or so. Although West Pakistan produced a large proportion of India's cotton there were only 16 cotton textile mills in Pakistan as against 435 in Indian territory. Again, East Pakistan produced the bulk of the world jute crop, and also the best jute, but it did not possess a single jute mill, whereas India had 91 mills. There was plenty of sugarcane both in East and West Pakistan but there were only 9 factories in Pakistan as against 151 in India. There were 21 paper mills in India and none in Pakistan. The total number of factories of all categories in Pakistan was 34 while India had 887 ; in other words Pakistan had 3.6% of the total number of factories in the Sub-continent. The largely agricultural character of Pakistan's economy, the lack of industries and the low standard of living of the people were problems with which the Pakistan Government had to contend from the very beginning. Indeed, the poverty of the Pakistan areas had been one of the main reasons for the demand for the Partition of the Sub-continent.

The Pakistan Government, in a statement on industrial policy issued in 1948, emphasised the importance of "an improvement in the standard of living of the people brought about by harnessing, to the maximum extent possible, the forces and treasures of nature in the service of the people, by providing gainful and legitimate employment and by assuring freedom from want, equality of opportunity, dignity of labour and a more equitable distribution of wealth". This has been the goal of industrial development all along. The initial phase of economic effort in Pakistan was, however, largely in the nature of commercial activity. As a result of the events following Partition, Pakistan's traditional sources of supply, which lay in India, became inaccessible. This gave impetus to the development of Pakistan's trade contacts and connections all over the world. The commercial phase was soon followed by the industrial phase and the five years from 1950 to 1955 saw the upsurge of industrial enterprise in the country. Industrial development was largely achieved through private enterprise, a phenomenal example

of which is the cotton textile industry which has developed from a bare 170,000 spindles and 4,800 looms at the time of Independence to 2.7 million spindles and 37,000 looms now. In the bigger fields of industry such as jute, paper, fertilizers, shipyards etc., where private initiative was hesitant or lacking in the first instance, the Government found it necessary to give a lead. The Pakistan Industrial Development Corporation was accordingly established. It was charged with the duty of setting up certain big industries and was asked to associate private enterprise to the extent possible. It was also stipulated that as and when this may be feasible, the PIDC holdings in any industry would be passed to private hands. Thus private enterprise was associated to the extent of 50% in the jute industry set up by the PIDC and the PIDC has progressively been disposing of its shares to private enterprise. Similarly, the Paper Mill which was entirely owned by the PIDC has now passed entirely to private ownership.

Pakistan is already self-sufficient in a number of items like cigarettes, pumps, electric motors, electric bulbs, newsprint, edible oils, biscuits, confectionery, washing and toilet soaps, cosmetics, matches, pens, pencils, razor blades, screws, bolts, etc., and is already exporting, in sizeable quantities, cotton piece-goods and yarn and jute manufactures to foreign countries. Sports goods, surgical goods and cottage industry products are among the various other items which are exported in smaller quantities.

The rise of private enterprise marks a significant development in Pakistan's economy. The Pakistan Government has always encouraged private enterprise by giving fiscal and monetary concessions and has tried to create a favourable climate for foreign investment in specified industries.

Reverting to advances to Commerce, although the share of Commerce in the total advances has gone down, they have registered a very substantial increase in absolute terms. At the end of September, 1964 advances to Commerce amounted to Rs. 1738.4 million as compared to Rs. 417.7 million at the end of 1953. After Industry and Commerce the other sectors which claim the highest share are Services and Agriculture. The Bank's contribution to Services represents 8.83% and to Agriculture 7.19% of the total advances. The share of Agriculture which had increased both in relative and absolute terms from Rs. 17.7 million or 2.90% at the end of 1953 to Rs. 337.1 million or 7.19% at the end of September, 1964 still leaves much to be desired. Although this is a somewhat unusual suggestion to make, it is time that Commercial banks considered assisting Agriculture with such safeguards as may be necessary.

This substantial improvement in the advances portfolio of commercial banks was possible mainly because of increased efficiency, the larger resources at their disposal and the comparatively low rate of interest charged by them. Another important factor has been a certain measure of relaxation in the orthodox policy of advances and branching out into new fields of credit.

Commercial banks are now becoming increasingly conscious of the vital role

of small trade and industry in the country. A couple of years back, the management of three big banks, the National Bank of Pakistan, the Habib Bank and the Muslim Commercial Bank agreed to advance loans to small industrialists for installation of new units and the modernisation and balancing of the existing ones. The Scheme for financing Small Trade and Industry introduced by the National Bank recorded good progress. On the 16th of January, 1964, the National Bank introduced the People's Credit Scheme which provides credit facilities to the small man on a larger and more liberal scale than before. The main objective of this Scheme is to make a contribution in building up a strong middle class which is essential for ensuring strength and stability to a developing economy. The Scheme has been very popular. Within the short span of one and a half year the Bank has already advanced a sum of Rs. 243.3 million to 24,812 borrowers. Of these, 19,015 borrowers are those who have been sanctioned loans of Rs. 10,000 or below. A particularly gratifying feature of the Scheme is the high rate of repayment by borrowers.

Commercial banks in Pakistan have rendered assistance almost at every stage of economic activity. In addition to their normal function such as the opening of letters of credit, storage of goods till retirement of bills, delivery of bills against acceptance and grant of advances against raw materials, materials-in-process and import machinery etc., a number of other functions have been taken up by commercial banks. In cases where an exporter is agreeable in receiving payments on machinery in instalments, the banks back the contract with their guarantee to enable the importer to import the machinery on the basis of deferred payment. Performance guarantees are also issued by commercial banks in favour of other lending institutions on behalf of industrialists. Such loans include foreign currency loans. The Bank also help to promote the establishment of new companies by under-writing their shares. This function is developing with the passage of time and they are making thereby an ever-increasing contribution to the industrialization of the country. Through their foreign exchange business in Pakistan and business abroad, the banks, particularly the National Bank of Pakistan and the Habib Bank, make a contribution to the foreign exchange earnings of the country by repatriating the profits of their overseas branches.

To conclude, Pakistan, like other developing countries, suffers from meagre resources and stands in need of more and more funds for her development projects. This problem of funds, however, cannot be solved by creating institutions or through the expansion of credit. The problem of development, therefore, boils down to mobilising and allocating the scarce resources in order to attain a rapid economic growth. The vital part that banks have played in the economic development of the country is reflected in the efforts they have made to mobilise savings for this purpose. Looking to their performance of the last seventeen years, one feels confident that commercial banks will continue to take their increasing responsibilities in their stride.

APPENDIX—I  
**SCHEDULED BANKS IN PAKISTAN**  
**Deposits and Advances**

(Rupees in Million)

Period	DEPOSITS			Advances
	Demand	Time	Total	
July, 1948 ..	746.6	133.9	880.5	188.8
December, 1948 ..	891.7	164.9	1056.6	410.4
December, 1950 ..	907.2	227.6	1134.8	770.3
December, 1955 ..	1377.3	548.2	1925.5	1161.7
December, 1960 ..	1980.4	1121.8	3102.2	2084.8
December, 1961 ..	2163.3	1328.6	3491.9	2724.7
December, 1962 ..	2472.3	1849.7	4322.0	3370.5
December, 1963 ..	2963.2	2350.2	5313.4	4161.0
December, 1964 ..	3722.6	3047.2	6769.8	6002.9
June 18, 1965 ..	3740.2	3281.3	7021.5	6362.1

APPENDIX—II

SCHEDULED BANKS IN PAKISTAN

CLASSIFICATION OF ADVANCES BY MAJOR ECONOMIC GROUPS

(Rupees in Million)

Economic Groups	31-12-1953		30-9-1964	
	Amount	% to total	Amount	% to total
Agriculture, Forestry, Hunting and Fishing..	17.7	2.09	337.1	7.19
Mining and Quarrying..	0.1	0.02	29.8	0.64
Manufacturing ..	70.9	11.65	1658.9	35.39
Construction ..	10.0	1.64	122.2	2.61
Electricity, Gas, Water and Sanitary Services	1.0	0.17	49.9	1.06
Commerce ..	417.7	68.58	1738.4	37.09
Transport, Storage and Communications ..	12.9	2.11	96.9	2.07
Services ..	59.4	9.76	413.8	8.83
Employees and Activities not adequately described	19.3	3.17	240.0	5.12
Unclassified ..	..	..	..	..
All Economic Groups ..	609.0	100.00	4687.0	100.00



## **SOME ECONOMIC PROBLEMS RAISED BY POPULATION GROWTH IN TURKEY**

*By*

**PROFESSOR HAYDAR FURGAC**

*Dean of the Faculty of Economics University of Istanbul*

At the first glance, a discussion of the population problems in a colloquium the purpose of which has been defined as the common problems of economic growth in Iran, Pakistan and Turkey, may seem to fall outside the immediate topic of discussion. It is difficult to maintain that Iran and Turkey are densely populated sections of the world, whereas it is well-known that Pakistan, particularly her Eastern part is. With the three states in question exhibiting various sizes of population it may be argued that population problems faced by the three countries do not have many common aspects. However, such an argument can be countered by the assertion that the only or the most important aspect of the population may not be its present size or density, but the changes it has undergone in terms of quantity and composition, and expectations on future trends. When considered in this light, it becomes clear that these countries encounter similar problems of population. Hence, it may be appropriate to cite here, if only briefly, the effects of the population on Turkish economic growth.

With the possible exception of one or two years, Turkey may be said to have been in a state of continuous war for a fifteen year period from 1908 marking the beginning of the Second Constitutional Period till the end of the Independence war. Since the major burden of the wars were born by the Anatolian Turks who constitute the majority of the population of the present day Turkey, the Republican government made an effort to take as many measures as possible after 1923 to promote a rapid population increase. To increase the life expectancy measures were taken like malaria eradication, anti-venereal disease campaigns were conducted

in sections of the country where it was particularly widespread, and a policy of reducing child mortality was pursued. With regard to the measures adopted to increase births, their nature cannot be described as constructive; the social and financial measures did not have a wide field of application, and only the methods through which births could be controlled were severely restricted.

Yet, combined with the fact that the country had entered a period of peace, these measures yielded the desired results as may be observed from the figures given below:

<i>Year of Census</i>	<i>Population (in thousands)</i>
1927	13.65
1935	16.16
1940	17.82

Thus, the population of Turkey increased by 4 million in a period of thirteen years. The increase cannot be attributed solely to natural growth. For example, in the census of 1927, it seems that the non-enumerated population exceeded that of 1940, by 400,000 persons. During the same period, the migration trends favoured Turkey, and the annexation of the Sandjak of Antioch and Alexandrietta added another 200,000 to the population. However, after the necessary corrections are made, one still finds an average rate of growth as high as 17 per thousand. The Second World War did not cause a change in the trends; and despite an increase in the mortality rate, an increase of one million was registered during the period of 1940-45. According to estimates of gross death and birth rates for five year periods, the gross death rate which was 1904 per thousand between 1935-1940 went up to 27.2 per thousand in the 1940-1945 period. Concomittant with the increase in the death rate, one might have anticipated a decline in the birth rate. In fact, the specific birth rates went down since the draft caused marriages to be postponed, but this was not reflected in a significant way in the gross birth rates, 38.3 per thousand in 1935-1940 and 37.1 per thousand in 1940-1945. This is accounted for by the entering of those born after 1923 into the reproductive cycle. The very rapid increase in population is illustrated by the following figures:

<i>Year of Census</i>	<i>Population (in thousands)</i>
1945	18.79
1950	20.95
1955	24.07
1960	27.75

It can be estimated with confidence that the census to be conducted in October 1965 will produce a result above 32 million, close to 33 million.

After this brief look at the development of the population of Turkey, I now turn to the effects of it on the general economic development. It is to be admitted from the very beginning that within the framework of this conference, I cannot but scratch the surface.

I will begin by discussing the effects of the population growth on per capita income. In 1948, the national income of Turkey was 8.8 billion T.L. In 1961, in 1948 prices, the income had increased to 16.7 billion T.L. marking an increase of 90 per cent in the total real income. Taking into account the growth of the population, the income per capita increased from 440 T.L. to 585 T.L., an increase of 33 per cent. Considering the fact that the rate of population growth was very high, this 33 per cent increase in a thirteen year period can be accepted as satisfactory.

For sake of comparison, let us look at Bulgaria, Yugoslavia and Spain where similar economic conditions prevail although the political regimes are different. They each have a population growth rate of 1 per cent. If during the period in question Turkey had enjoyed the same rate, other things being equal, the income per capita would have risen by 67 per cent. However, if the population had increased only by 1 per cent, obviously a *ceteris paribus* assumption would not have been valid. The ratio of consumer spending to the national income is a function of the national income itself; that is, as national income rises, that portion of it which can go to investments rises also. If the population growth in Turkey had not been as rapid as it had been, then, it would have been possible to have larger investment outlays, and the national income would have reached much higher levels.

While I am on the topic of investments, a few more words on them might be in order. A well-known characteristic of the underdeveloped countries is the existence of an imbalance between infrastructure and superstructure which makes it impossible to make full use of the existing investments without additional ones. For example, it is difficult to imagine that in a developed country a textile or a paper plant would have to produce its own electricity where as such was the situation in Turkey fifteen years ago. Infrastructure demands large investment outlays, and even if an underdeveloped country does not have an increasing population, it is still going to face severe problems in trying to close the gap between infrastructure. A rising population would make the task even more difficult.

Infrastructure investments may be put in two categories; those that have only an economic nature and those that have both an economic and social nature. Education constitutes one of the most important in the latter category. Such investments give their yield only in the long run. Let us assume that the construction of a power plant and a school were completed at the same time, and that both went into operation at the same time. The going into operation of the power plant will result in an immediate increase in the production of the country whereas the school will be an expense or a cost item until it begins to give its first graduates. Thus, investments in the nature of schools constitute a big financial burden for an extended period of time.

Now, let us consider a country where the gross birth rate is approximately

40 per thousand. If the population statistics of such a country is examined, it will be observed that for every hundred persons that are fifteen years old or younger, there are roughly one hundred and fifty persons who are older than fifteen. Turkey fits in well with the described situation. In developed countries with gross birth rates of 15-25 per thousand, there are about three hundred persons for every hundred children that are fifteen or younger. Hence, the number of children to be cared for by adults is in an underdeveloped country with a high rate of birth twice that of a developed country. The former with its limited resources faces a very severe problem indeed.

For instance, the number of students attending universities in Turkey has increased three fold in the last ten years. However, if the proper deflationary adjustment is made to neutralize price increases, we see that the sum of money spent per student both in current expenses and investment wise has not changed at Istanbul University. True, the amount of investments were increased relative to the current account in order to finance projects for more classrooms, laboratory space and clinics. Hence, there was a decline in the current account. Yet, it has proven impossible to satisfy through investments the needs that have come into existence as a consequence of this rush into the universities. As current expenditure per student has tended to decrease, so has the quality of the education being offered to decline. It is appropriate to point here that the same problems are faced at the levels of primary and secondary education, although the government has indicated its willingness to make big sacrifices in the education field.

As can be observed from the above, the state is forced to invest in an area which will give its yield only in the relatively long run. Since a significant portion of the public savings are directed toward education at the expense of other areas for investment, the talents and skills of the individuals raised through the system cannot be fully exploited simply because the places where they can be utilized will not have been developed simultaneously. The results of survey among the engineers employed in government service is pertinent here and revealing. Out of a sample of 936 engineers employed in state enterprises, 49 per cent performed administrative functions. If opportunities for employment which required the use of their particular skills had been provided for them, probably not so many would have taken on administrative duties.

An examination of the structure of the available labour force will illustrate even more clearly the problems encountered in attempting to create employment opportunities in various sectors of the economy. According to the census of 1960, about 13 million people were actively employed. 9.7 million of these were employed in the agricultural sector, and 6.1 million of those were unpaid family workers. The size and the composition of the population in the agricultural sector as shown by these figures implies that even if technical changes were introduced into the sector to render it more intensive, it would still be impossible to prevent people from

leaving this sector for gainful employment in other sectors, let alone attracting more people into it.

The movement from villages to towns is only one of the manifestations of this phenomenon. The urban population of Turkey registered an 80 per cent increase between 1950 and 1960. The government is making a desperate attempt to satisfy the needs of this population, but still we know that 30 per cent of the housing in towns is not suitable for living, and that 30 per cent of the families in Ankara, Istanbul, and Izmir live in single-room dwellings and that the residents of the shanty-towns total up to as many as 1.5 million people.

Such rapid increase of the urban population has resulted in a negative investment (disinvestment) in the public services. A sizable portion of the urban population is unable to enjoy municipal services like water, electricity and gas. Traffic, health, and sanitation services are crippled. The investments made by public authorities only make the continuation of the existing situation possible and do not produce significant improvements. This is another reason why the rapid growth of the population is prohibitive with regard to investments which will increase production in the short-run.

I should think that the few brief examples cited here should suffice to demonstrate the variety and the magnitude of the problems encountered by Turkey. But this should not be taken to imply that hardly any development has taken place which indeed has an which is readily observable. First, a class of professional people comprising doctors, engineers and others have come into being. At present their numbers and other supporting skilled people have reached a level which would enable the country to launch a development effort among at the establishment and the functioning of a highly productive economic system.

Sociologically speaking, a new middle class which provides a strong factor for social and economic stability has risen replacing the old middle class which was wiped out as a result of the inflation which had its beginnings in 1940.

Through the improvement and the development of the highway network on a national but particularly on a regional level, the rural population which used to live in a closed economic system has increased its contacts with the town resulting in a change of mentality. Today the desire and nostalgia for better living is felt not only in towns but also in villages. That such feelings will render the individual more active is an encouraging sign for the future of the country. But that they, on the other hand, are accompanied by impatience generates dangerous tensions within the country.

And finally, despite the destructive exploitation of its soils, Turkey is still in possession of rich natural resources in some of her regions. Efforts for economic development of these regions have yielded positive results, and new industrial, commercial and cultural centers are cropping up in addition to Istanbul.

As may have been witnessed, Turkey has attained most of the conditions for a

very rapid economic development. It can also be asserted confidently that had Turkey not born the burden of an abnormally high population growth rate, she would have solved much more successfully many of the social and economic problems she is facing today.

New laws have been promulgated recently permitting freer use of contraceptives and other birth control methods. It would be incorrect to anticipate an immediate drop in the reproduction rate as a result of these measures. But even such a drop will not provide an immediate solution. In the next few years, even if there were a decline in the birth rate, the number of young people desiring a primary and secondary school education would not decline, neither would the number of those seeking employment. But not taking these measures would be equivalent to mortgaging the future of the country. Turkey's partners in CENTO are faced with an forced to solve similar problems. Their comparing and contrasting of experiences on this subject among each other, is one of the first steps which should be taken by these countries on their road to development.

## ROLE OF PLANNING IN REGIONAL CO-OPERATION FOR DEVELOPMENT

*By*

MR. M.L. QURESHI SQA,  
*Chief Economist, Planning Commission,  
Government of Pakistan*

Regional co-operation for development over a period of time requires long term commitments on the part of the co-operating countries. These commitments can be made readily if there is a substantial political and cultural affinity of lasting character and the countries concerned are anxious to co-operate for their common good. There should also be no clash of interest. It is considered that the above conditions are satisfied in the case of Iran, Pakistan and Turkey. So regional co-operation amongst these countries holds great prospects.

Planning for regional co-operation seeks to identify and utilize possibilities of co-operation that exist within the framework of the development objectives of the participating countries. Regional co-operation has largely to be based on national development plans. At the same time planning for regional co-operation adds a new dimension to national planning. By throwing up opportunities for economic co-operation which were not open previously, it paves the way for a modification of national plans to take advantage of these opportunities.

National planning aims at achieving the social and economic objectives of the country concerned within the framework of a national plan which attempts to make the most efficient use of available financial, material and human resources and which is internally consistent. It is largely based on the natural resources endowment of the country. But if regional co-operation is possible, planning in each country should also take note of the resource endowment of the other co-operating countries and explore the possibilities of utilizing the natural resources of the

other countries to the common advantage of all. This widening of the scope of national planning can be a very important gain from regional co-operation.

National planning comprises decisions about priorities for development and the allocation of resources for various purposes and is expected to resolve conflicts in sectoral or area development programmes. A national planning organization backed by the national government is competent to perform these functions by virtue of the authority of the national government which can, if necessary, overrule the departmental or the area authorities within the country. The role of a regional planning organization is quite different in this respect. As the co-operating countries are politically independent of one another, a regional planning organization possesses no authority. Its approach has, therefore, to be different from that of a national organization. It can function on a co-operative rather than an authoritative basis. It has to identify fields in which co-operation for mutual advantage is possible without impinging on the sovereignty of the participating countries. In spite of this limitation, the scope of work and of usefulness for a regional organization is very large.

National planning attempts to achieve the objectives of development at minimum cost, or to obtain maximum benefits from the limited resources that might be available. Increase in GNP is one of the principal objectives of development, for it is through larger per capita income that the living standards of the people can be improved. In view of the scarcity of capital, planning aims at securing the most favourable capital output ratio under given conditions. In the case of countries having a balance of payments problem, planning also seeks to minimise the production of goods which are either exportable or which are capable of being substituted for imports, in order to reduce the gap between imports and exports.

Regional co-operation can be useful if it promotes the objectives of national development, that is, if it improves the national capital output ratios and/or reduces the balance of payments deficits. The regional planning organization should seek areas of co-operation such that each participating country gets a larger output with the same investment and is able to increase its export earnings.

In this connection fields which lend themselves to economies of scale deserve serious consideration. Some of these fields are: industries in which the minimum economic unit is too big for the market of any single participating country; training and research institutions which become more economical if established on a scale larger than what would be warranted by the requirements of any one country alone; and international transport facilities which reduce transport costs by better utilization of transport capacity by the pooling of traffic demand. Other areas in which the economies of scale may not be very significant but in which co-operation can still be mutually beneficial are those which are governed by considerations of comparative costs or which lend themselves to the benefits derived from the international division of labour. The different resource endowments



of the participating countries can provide possibilities of greater inter-dependence to mutual advantage.

The exports of the participating countries can be increased in two ways; namely, by changes in the direction of trade and by planned increase in production of certain goods in each country specifically to meet the requirements of the other participating countries. Diversion of imports from the rest of the world to the participating countries would increase the export earnings of the latter at the expense of the rest of the world.

At present the scope for intra-regional trade is rather limited. But it should be one of the main tasks of the regional planning to identify the possibilities of widening this scope in the future. This calls for a detailed and careful study of the development plans of participating countries to find out the future import requirements of each. This should be followed by an examination of the possibilities of the production of some of these goods within the region. Each participating country is likely to have a comparative cost advantage in the production of some goods due to its peculiar natural resource endowment.

As all the countries are trying to develop at a rapid rate, their future demand for capital goods is bound to be large. In the case of some capital goods industries, the minimum economic unit would be larger than the needs of each individual country. Such industries can be established as joint ventures or a single country enterprises. However, with due regard to economic considerations, it is necessary to ensure that the location of these units is equitable amongst the participating countries.

Regional planning should result in making the economies of the participating countries more complimentary to one another than they are at present. However, it is not the increased inter-dependence as such which is the end in view, for the old colonial pattern of international trade was also based on a certain degree of inter-dependence between the colonial power and the dependent country which resulted in an unequal sharing of the advantages of foreign trade. What is wanted is an inter-dependence that results in a better sharing of these advantages.

Regional co-operation, in order to be meaningful and lasting, has to satisfy certain basic conditions. Co-operation in the field of production should promote rather than hinder the balanced development of each country. Diversification of production is essential for strengthening each country's economy. There is no reason why regional co-operation should not facilitate such diversification. Some form of preferential treatment of intra-regional trade is implicit in regional co-operation. But care has to be taken that such preference does not adversely affect the overall terms of trade of the participating countries. Otherwise it is conceivable that the advantages of the expansion of exports may be more than offset by the disadvantages of the adverse movement in the terms of trade. It is, therefore, essential that production facilities, whether as joint ventures or individual country enterprises, the products of which are to be traded in the region

should have a cost of production which is comparable with production costs in the rest of the world. Otherwise the co-operating countries would be burdening each other with their high production costs. Regional co-operation, if soundly conceived, can avoid these pitfalls.

## THE ECONOMICS OF REGIONAL CO-OPERATION

by

SARTAJ AZIZ

*Chief, International Economics Section  
Planning Commission,  
Government of Pakistan*

Mr. Chairman, Ladies and Gentlemen,

In the past two days you have heard a number of distinguished speakers on specific economic problems which are common to the three countries. The purpose of my paper is to examine the extent to which and the manner in which regional co-operation can help to solve some of these problems, but before doing so, I would like to review the historical background for the current upsurge in regionalism and pinpoint certain important economic factors which provide the basis for increased co-operation between Iran, Pakistan and Turkey.

The basic impetus for regional co-operation dates effectively from the years soon after the war when hopes of forming a world Government started disappearing. The United Nations created by the San Francisco's Conference of 1944 did not fulfil the aspirations of world federalists to establish a political order in which another war would not be possible. By 1947 it was clear that more intensive international co-operation was possible only on a less extended front by tightening the bond of friendship among a smaller number of nations. Europe which had suffered most during the war and had produced many of the active federalists was the obvious theatre for such a grand experiment in regional unification. The political compulsions were strengthened by the emergence of strong Communist Governments in East Europe in 1948, and institutionalised by NATO in 1949, but there were many pressing economic reasons which led to the Rome Treaty

of 1957 to lay the foundations of the European Economic Community. The European experiment was followed by a number of other regional economic arrangements, such as the Organisation for American States, the African Common Market, the Arab Common Market, the Comecon and more recently the RCD between Iran, Pakistan and Turkey. These efforts towards regional economic collaboration have gained international acceptance and represent an outstanding feature of the contemporary situation.

The foundations of the basic theory behind free trade and its advantages were systematically laid by Adam Smith almost two hundred years ago. The main premise of this theory was that free trade enlarges the size of the market and leads to specialization and a more fruitful division of labour which in turn results in an optimum combination of factors and economies of scale. The net result is increased productivity for the producers, and a wider choice and lower prices for the consumer. This hackneyed theory has been attacked incessantly by many different angles, but the European experiment has demonstrated its inherent validity and also proved its restricted application to a smaller group of countries with basically similar economic structures.

The European Common Market also reveals a further and absolutely vital line of thought by recognizing the economic importance of the political frontier. In today's world when behind the political frontier totally different national policies are being pursued, the mere removal of trade barriers can lead to distorted patterns of trade and production unless efforts are made to harmonize national policies.

These then are some of economic compulsions and prerequisites of regional co-operation, against which the role of regional co-operation for the solution of common economic problems, must be examined.

The most important problem facing the three countries in their dire need to develop capital goods industries. They have completed the initial phase of industrialization based essentially on the production of consumer goods and are now entering the next and more sophisticated phase of industrialization to produce intermediate and capital goods. These goods are numerous and varied and can be produced economically only when the market is large enough. The production of capital goods can be accelerated and extended to new fields in all the three countries, if the markets for their industrial products extend beyond their national frontiers. What is needed to exploit this complementarity is a bold programme of regional specialization and exchange of goods together with a pooling of research and training resources, since the most crucial factor in the growth of capital goods industries is advanced techniques and skills suited to our respective resource endowments.

The second common problem arises from the natural desire of the three countries to terminate their dependence on external assistance as early as possible by pushing up their exports particularly of manufactured goods. The present direction of trade in these countries follows the familiar pattern of a developing

country, exporting agricultural or primary products and importing machinery and other manufactured goods. Any sizeable increase in the export of manufactures from these countries can take place mainly through increased trade within the developing region. Similarly the ability of these countries to secure external credits is essentially linked with their demand for imported capital goods and equipment. As the import of capital goods is replaced by raw material imports following the establishment of capital goods industries in these countries, their trade channels will also have to change. There is a general misconception that if one country is producing electrical goods or textiles, it need not or cannot import the same goods from the other country. One has only to look at the number of German goods in France and Italy and Italian and French goods in Germany to understand the significance of free trade for the expansion of each country's exports. The accomplishment of this task will require a conscious subjugation of short term interests and objectives in favour of the long term mutual benefits of free trade so forcefully demonstrated by the European experience.

The third significant area in which regional co-operation can contribute to self sustaining progress is increased collaboration in such vital services as air, shipping and communications. None of the three countries are in a position at present to carry more than a small proportion of their traffic or goods in their own vessels or crafts. Here again, a pooling of resources and facilities can lead to their fuller utilization and save valuable foreign exchange which each country is spending on the purchase of these services from other countries.

A fourth important area of mutual collaboration is a large scale sharing of administrative skills and technical know-how. Experience in most developing countries has clearly highlighted the importance of human enterprise and efficient institutional framework for development. Our discussion during past two days of a number of common problems has also shown how much we can learn from each other's experience in tackling our economic problems.

The Summit Conference held at Istanbul in July 1964 agreed that sustained and active collaboration between Iran, Pakistan and Turkey was a necessity and that possibilities for such co-operation existed in view of the cultural and historical ties of the friendship amongst the people of the three countries. The Conference also created a Ministerial Council and a Regional Planning Council, assisted by 10 Specialized Committees, to harmonize the development plans of the three countries, and suggest concrete measures to promote increased co-operation in various fields. An evaluation of the progress achieved by the RCD will clearly show that the advance has actually proceeded in the areas referred to the preceding paragraphs, but a clear enunciation and repetition of the basic economic rationale for such co-operation is essential to carry the measures contemplated to their logical fulfilment.

The important thing is to distinguish areas of co-operation in which we can share each other's knowledge, skills and facilities without minimising their use or utility for the giving country from areas like trade and joint ventures in which

a certain amount of give and take in the short run is unavoidable. The progress in the former areas can be immediate and rapid and comparatively slower in other areas but the institutional framework created by the Summit Conference of July 1964 may not succeed in achieving the results expected unless the importance of long term economic objectives is fully recognized by those involved in this historical effort. The favourable economic factors discussed above, though quite reassuring, may not in themselves be sufficient to create an interdependent prosperous economic region. They can at best be compared to the slabs of foundation-stones on which a solid structure can be erected in future. It is too early to say how solid or how high the structure may go, but many may notice the typical untidiness of a building site where only the earth dug for the foundations is visible, but the builders must concentrate on the elements which have to be assembled into the foundations and start building the structure as speedily as they can. I have only attempted to spell out some of these elements.

## CO-ORDINATION BETWEEN THE NATIONAL DEVELOPMENT PLANS

*By*

MR. AHMET KILICBAY

Our countries have felt the necessity of planning for their economic development. We now wish for an accession of the economic co-operation between the three countries. If our hopes come true, it will be necessary to analyse the possible effects of the measures, to be taken for the economic co-operation, on the development plans of the countries and to make agreeable changes and adjustments.

The explanation above is the surface appearance of the problem. Because from that sentence it may be understood that, first decisions for economic co-operation will be made and then, investigating and studying the effects of these decisions on the plans, the necessary corrections will be made. When we analyse the problem systematically in a profound way, we realise the necessity of making the decisions of economic co-operation by comparing the existing plans.

Otherwise, the independent decision, made by the countries, will become exogenous to the planning models of participating countries, and will have to be super imposed on the plans by the interference of the governments. In this case consistency and optimality conditions will not be served.

Although the above explanations concern the planning theories, they have the importance to be considered by the co-operating countries in their proceedings with the plans.

It is necessary to go over plans of Pakistan, Iran and Turkey closely, in order to be able to discuss the subject properly.

Working on the planning models of Pakistan and Iran, we have seen that, in technical words, they have multiple target planning models. As it is in the Turkish Plan, the rate of growth of national income, the improvement of balance

of payments position, an increase in volume of employment and an expansion of educational and health facilities are included in the targets of the Pakistan development plan.

Turkey has not been able to reach a social optimum—among the conflicting aims. Either in the frame of technical and theoretical model of the plan or in the application we have faced many difficulties. We hope Pakistan, being more experienced than us in planning, has succeeded in this field.

Knowing the difficulties of securing the internal consistency and optimality of a national plan consisting of various targets, we have to watch carefully the effects of the measures taken for the co-operation, on the national plans.

We have to consider the plans and connections between the plans in every stage of the expansion. This time, in addition to the internal consistency and optimality of the plans, it will be necessary to take account of a general optimality and consistency of the integrated plans.

National plans, where economic structures, targets and parameters are similar, could be co-ordinated without loss of internal consistencies and optimalities.

In this case, we may act as if having come across a state where the scale of economy has changed.

But, it is difficult to have a co-ordination among the plans, in cases, when economic structures, targets and parameters are not the same. In this case, the economic co-operation in the group may have adverse effects on the internal consistencies and optimalities of national plans.

As an example, let us compare the Pakistan plan with the Turkish plan. Although I have not a detailed knowledge of Pakistan's economic structure, it will not be wrong to assume that it is different from that of Turkey. But, more important than this, it is doubtless that there are a great differences of parameters and targets between the Turkish and Pakistan development plans.

Pakistan has accepted an increase of national income by 24 per cent as its rate of growth. In order to grow at this rate a 25 per cent marginal rate of saving has been considered a national target.

In case the plan is applied successfully, the average and marginal rate of saving of Pakistan will be raised. This, in a way, determines the rate of growth which means a change of one of the macro parameter. In Turkey, both the goal of the plan—that is the rate of growth of national income—and the marginal rate of saving are lower than that of Pakistan : In Turkey the rate of growth is 7% and the marginal rate of saving is 18%.

All these clearly show the difference between the plans in their structure, goal and parameters. If the plan of Pakistan attains its goal, economy will grow at a greater rate in relation to Turkey.

On the other hand Turkey has reached a relatively higher stage of economic development.

Willingness of forming an economic union and then getting on to integration



between countries where rates of economic growth and the stages of development are different, the co-ordination of the plans will be difficult.

On these conditions, not only the social alternative costs of every activity, but also the alternative costs within the group must be calculated separately, and the social benefit of each investment must be compared with group benefits.

### JOINT PROJECT IN IRAN

It is necessary to combine the equilibrium of balance of payments, the policies of domestic employment, and other national goals of the participating countries with the goal of the group itself. For the above reasons, such a combination between the plans would be difficult. In order to explain this, let us suppose as an example, the three countries have decided to finance a joint project in Iran. For this project, every country would make some definite contributions.

In order to realise the joint project in Iran, foreign exchange and domestic investment funds should be diverted to this particular field of activity. But the social alternative costs of these funds and foreign exchange required for the project are different in the three countries.

Furthermore the national benefits for the joint Iran project would not probably be the same for Iran, Pakistan and Turkey.

Harmonization of social costs and benefits for each country and the maximization of the group benefits require highly developed planning technique and co-ordination skill.

Other requirements of the joint project are the structural adjustments in national plans and in the coefficients of input-output tables.

Suppose that the Iran project is a huge one capable of supplying the three countries. This unit established in Iran must have greater efficiency in order to compensate the increasing costs of transportation for the industries which are dependent on the materials supplied by the Iran project. Thus the consciousness of transport costs will become the most important aspect of business accounting within the group.

There is another problem which is concerned with the value judgements of participating countries.

If the projects of the future take the form of heavy investments which will not have an immediate effect on national outputs, participating countries will be automatically forced to make a decision in favour of the future benefits. These countries may have different social value judgements which render the co-ordination difficult.

### THE SCOPE OF ECONOMIC CO-OPERATION AND CO-ORDINATION OF DEVELOPMENT PLANS

Economic co-operation between Iran, Pakistan and Turkey may take many

forms. It is possible to deal with these problems under two headings.

### **1. International Trade**

The three countries seem to be willing to increase the volume of international trade between the group. But the volume of trade is limited due to the fact that each country needs investment goods bought from the industrial countries. In order to finance the purchase of foreign investment goods, each country is in need of hard currency which necessarily sets the direction of exports towards industrial countries.

For the time being, until the development plans are fully adjusted to a greater co-operation, a study should be made on the exchange of surplus goods between the countries of which social alternative costs are small.

Forced diversion of imports and exports might distort the relations between foreign development plans and foreign trade policies. In the future, productive capacities of industries could be adjusted to the requirements of the improved trade relations between the partners.

I, therefore, insist that a careful examination of the foreign trade of development plans of the three countries is necessary before final decisions are made on the terms of short run trade relations between the group.

### **2. Movement of factors of Production Between the Three Countries and Joint Projects.**

Economic co-operation between the countries might reach a stage where factors of production could acquire greater freedom of movement between the countries. At this stage principles of inter regional allocation of resources must be harmonized with the national allocation of limited resources. No one can deny that this is a delicate task. The impact of the movements of capital, labour and raw materials on the consistency and optimality of the national plans seems to be a highly complicating aspect of the co-operation.

In case of broader economic co-operation between countries, optimality will be required and the consistency of the individual plans will no longer be sufficient.

In order to achieve better results, we have to look for a new scheme which enables us to reach a co-ordination or even an integration of the plans.

Theoretical and practical studies in the field of planning seem to be promising. But at the present time it is very difficult, even impossible to build nation-wide plans based on linear or non-linear programming models suitable for optimum solutions.

Despite these pessimistic remarks on the limitations of modern planning techniques, there is no reason for ignoring the brighter side of the problem.

Modern methods seems to be capable of establishing structural balance where bottleneck industries could not paralise vitally important sectors of the economy. Inter industry studies based on input-output models have shed sufficient light on some aspects of development in Turkey which could have escaped from the intuitive analysis.

Within this general scheme, our countries should start to work on the co-ordination of multiple target national plans in order to have a general interregional plan and to establish structural equilibrium within the area.

Although the use of linear programming methods are not practical instruments for optimum allocation of resources within the national borders as well as the integrated areas, approximative methods may serve the purpose.

Even when data and technical facilities are not available to utilise such models in their entirety, the rationale of integrated programming solutions may serve as a guide for better methods of approximation.

Setting up and solving the linear programming models built on national as well as interregional scales and based on trial basis provide insight into the quantitative significance of the integration among decisions in each sector.

Such method of testing could be regarded as the first step before the full-scale application of complicated techniques is attempted.

## COMMUNICATIONS IN THE RCD REGION

*By*

MR. MASARRAT HUSSAIN ZUBERI, S.P.K., S.Q.A., C.S.P.

*Secretary to the Government of Pakistan, Ministry of Communications.*

A year ago on the 21st of July, 1964, the three distinguished Heads of States of Iran, Pakistan and Turkey met in Istanbul to stride in a new direction and lay the foundation of what has come to be known as the Regional Co-operation for Development. The President Field Marshal Mohammad Ayub Khan, with his usual acumen, foresight and sense of purpose initiated and found immediate quick response from others for the scheme which may transform the lives of the people of this region in years to come. The RCD gave content to a dream, substance to an ideal and shape to a hope which beckons to a new era of co-operation, socio-cultural collaboration and planned economic growth between the three countries which geographically and historically lie nestling together in a basin of common destiny.

RCD has made rapid progress during the past twelve months, and is now considered as the cornerstone of suprnational unity and interregional integration. It is also serving as a base for a unified approach to a number of common problems. It has provided a positive direction to certain common objectives of the three Governments, bound up with the planned economy significant for raising the people's standard of living, maximum exploitation and utilisation of national resources, and give them a regional bias. RCD conception, so freshly new in Asia, is of particular interest to all the emerging nations, waking up from the slumber of the oppressive colonial rule answering to the call of the destiny in the pursuit of progress, prosperity and happiness of their people. RCD is a springboard for the practical implementation and fulfilment of such an ideal within a foreseeable future.

The spheres of common activity and participation were quickly identified and naturally the formation of basic infrastructure took the first place for a strong and durable edifice of collaboration.

Communications play an extremely important role in the socio-economic life of a nation, and its significance is heightened in a developing economy. Economic development and its rapid growth depend upon an effective well developed transport and communication system. The availability of easy, quick and cheap means of communications have a direct connection with the expansion of trade and commerce, exchange of information, social, cultural contacts making a deep impact on the national life and its pattern. The economic development and social integration of the region would to a large extent depend upon the quality, adequacy and efficiency of communications.

Of the 9 working groups formed at the outset (and functions and responsibilities for studies were equally distributed between the three countries), the chairmanship of the Group on Posts, Telegraph and Telecommunications was entrusted to Pakistan. As Chairman of the Group, I would like to express the most willing and cordial co-operation that I received from the distinguished representatives of other two countries in the task allotted to us. It is worthwhile to mention here that though most of the other measures relating to regional collaboration were to be considered and examined for further study and scrutiny, the question of reduction of Postal and Telegraph rates emerged from the Summit Conference in the shape of a *decision*, only to be implemented by the three administrations. This was clear indication of the intention of the Leaders to make the three countries of the region into one "Single Territory" for Postal and Telegraph services.

While giving a decision on the reduction of postal and telegraph rates, the Summit Conference also directed that the three PTT administrations should study and report on (a) reduction of telephone rates, (b) establishment of PTT offices in border areas, and (c) feasibility of providing services such as direct dialling between the countries of the region, satellite communications, etc.

The Working Group met in Tehran from August 29 to September 3, 1964 and all the members worked with commendable zeal. The report of this Working Group was considered and approved by the Regional Planning Committee (now Council) which met at Tehran from the 7th to 9th September, 1964. While approving this report, the R.P.C. decided to replace the Working Group by a Committee on Posts, Telegraph and Telecommunications. These decisions of the R.P.C. were subsequently ratified by the first RCD Ministerial Council which met at Tehran on the 17th October, 1964.

No time was lost in implementing the decisions so approved. When the Committee on Posts, Telegraph and Telecommunications met in Karachi for the second time from 2nd to 4th December, 1964, it was glad to note the very brisk pace of implementation. The same feeling of satisfaction was recorded and the work done

commended by the Regional Planning Council which met at Islamabad from the 13th to 16th March, 1965, and by the RCD Ministerial Council, meeting at the same place on March 19, 1965.

### Postage Rates

Postage rates on all categories of surface letter mail *viz.*, letters, commercial papers, books, newspapers, samples of merchandise and small packets, have been reduced to the level of internal rates of each country. This means that a letter or a packet posted in any of the regional countries can go anywhere in the region without extra charge. The concept of a 'single postal territory' could not have found a better manifestation. This reduction in letter postage rates is sure to help the free flow of printed matter like books and newspapers in the region and thus promote cultural collaboration. The role that it will play in promoting trade and commerce is also going to be very important. Postage rates on parcels, the volume of which is sure to grow as trade flourishes within the region, are also being reduced to the minimum possible limit with effect from the 15th June, 1965. In fact the new rates on parcels will in some cases be even lower than the existing inland rates within each country. The postal charge on a parcel for Turkey originating in Pakistan, weighing 22 lbs. is Rs. 15.00 at present. This charge is being reduced to Rs. 8.25. Similarly, a parcel for Pakistan of the same weight originating in Iran at present costs the sender the equivalent of Rs. 18.36. It will be possible now to send the same parcel to Pakistan on a postage equivalent to Rs. 6.25. These new postage rates on parcels in the region have been worked out in such a way that there will be one set of reduced uniform rates between Pakistan and Iran, between Iran and Turkey on the one hand and between Pakistan and Turkey on the other.

This reduction in postage rates on letter as well as parcel mail within the region has been made possible by the magnificent spirit of co-operation shown by the Government of Iran. So far as the postal traffic between Pakistan and Turkey was concerned, it could not possibly bear any reduction in charges if the Iranian Postal Administration had not made swift and effective arrangements for the transit of such traffic through their country. This transit through Iran has enabled both Pakistan and Turkey to reduce the transmission cost of their mail which previously used to be transmitted through a more expensive and circuitous route.

The only reduction in Postal charges that has still to be brought about is in the surcharge on airmail items—both letter and parcel mail. This reduction has to await formation of a RCD Joint Airline Service as foreign International Airlines at present carrying major portion of such mail cannot be expected to reduce their freight rates. As a preparatory measure for eventual reduction, the three Postal Administrations have already started providing free airlift to each other's airmail within their respective jurisdictions.

### **PTT Offices in Border Areas**

The following PTT offices in border areas will be opened very soon :

- Iran-Turkey Border* .. (a) Turkish side—Kapikoy and Bajirge.  
(b) Iranian side—Chatoor and Soroo.
- Iran-Pakistan Border* .. (a) Iranian side—Gwater, Jalg and Mirjawa.  
(b) Pakistan side—Kohi-Taftan, Ladgasht and Jiwani.

These offices are intended to serve nationals on both sides of each border.

### **Telegraph and Telephone rates**

When the telecommunications experts sat down to implement the Summit decision regarding reduction in telegraph rates, they came to the conclusion that the best way to do so would be to introduce a single reduced rate for telegrams in the entire region and that that rate should be the internal rate presently applied in Iran. This proposal was accepted by the RCD Ministerial Council and has since been implemented. The Telegraph charges between Pakistan and Iran stand reduced by 51% and those between Pakistan and Turkey by 81%. Telephone trunk call rates between Pakistan and Turkey are also being reduced very soon by 71%.

As in the case of postal rates, the reduction of telegraph and telephone rates between Pakistan and Turkey is also mainly due to the co-operation of Iran in providing necessary transit facilities. Previously this traffic used to be routed *via* London and was, therefore, so prohibitively expensive.

As a result of this reduction, the telegraph and Telephone traffic in the region is bound to increase considerably. In order to cope with that increased traffic all the three countries of the region and particularly Iran, being the transit country, are planning to instal additional high frequency and other relative equipment for their respective services. The new Microwave Karachi-Tehran-Ankara link opening for commercial traffic this month would provide a reliable telephone service.

### **Semi-automatic trunk dialling**

The telecommunications experts of the three countries have worked out a plan which will enable the introduction of semi-automatic trunk dialling among the three countries of the region on the new Microwave link. All necessary preparations in that connection are complete. We are also busy studying the question of utilisation of Satellite communications facilities within the region. Necessary information and ideas on that subject are being exchanged at present.

### **Commemorative Postage Stamps**

As decided by the RCD Ministerial Council, each of the three Postal Administrations in the region is issuing a special commemorative stamp with a common design on the 21st July, 1965 to mark the first Anniversary of the historic

**Istanbul Summit Conference** which ushered in this new era of regional collaboration for the peoples of Iran, Pakistan and Turkey.

### **Shipping**

The sea is the preferred medium of transport for heavy and bulky goods. For this reason, international trade and commerce largely depend upon ships plying the oceans. Even between countries connected by land, circumstances often favour the movement of goods by sea, specially when the distances over land are large. Iran, Turkey and West Pakistan are so situated that movement between them is possible without let or hindrance by land and air and by sea also. Unrestricted movement between East Pakistan and the other two countries is possible by sea.

#### **Iran—West Pakistan**

Since the time of Alexander the Great, recorded sea communications have existed between Iran and Pakistan. The routes from Basra to Indo-Pakistan Sub-continent, South East Asia and Africa, all passing initially along the Iranian coast, were established by the Arabs in and after the eighth century. As in the case of Alexander, the sea route from the Persian Gulf to the Pakistan area was opened mostly for military purposes, but soon sea communication had to be maintained for commercial purpose. The route between the Persian Gulf and the Indo-Pakistan Sub-continent grew in importance with the passage of centuries after the Muslims established themselves as Rulers here and is even now quite a flourishing route even though with the discovery and exploitation of the vast oil fields around the Persian Gulf, the emphasis has shifted to oil tanker traffic to Europe.

From Karachi the distance to the nearest Iranian port of Gwatar is 300 miles and to the farthest Khorramshahr 1180 miles, the nearer Iranian ports being not of much interest. The main stress of Iranian commerce, including oil, flows from the ports at the head of the Gulf. They are also connected by rail within Tehran and other Iranian cities. A sea route from Iran to Pakistan should play an important part in facilitating and developing Pakistan-Iran trade.

Three passenger ships of the British India Steam Navigation Co., operate a regular weekly service between Bombay and the Persian Gulf ports *via* Karachi. A Pakistani passenger ship regularly plies on the Mekran coast, providing a six-weekly service. A 1,000 ton fruit ship is being acquired for the export of Pakistani fruits and vegetables to the Arab States in the Persian Gulf. During the Third Five-Year Plan, it is proposed to put four passenger-*cum*-cargo vessels on the Persian Gulf route, competing with the previously mentioned B. I. Service. By making use of the existing and projected remunerative services between Pakistan and Arab States of the Persian Gulf and through a slight diversion or extension to Iranian ports, it would be quite easy to establish a firm shipping link between Iran and Pakistan.

Competition on the sea route can come mainly from the roads and railways.



The air lines will, of course, always carry the bulk of the well-to-do passengers, but the largest number of travellers from Pakistan to Iran are the poorer pilgrims who, if sea fares can be kept at a reasonable level, would prefer the comfort of a ship to a comparatively more trying road journey. If the railways can avoid double handling at the frontier they will probably prove more attractive than ships for the carriage of lighter commodities.

#### **Turkey—Pakistan**

There is no long established or existing sea communication between Turkey and Pakistan. The distance from Karachi to the nearest Turkish Port of Iskanderun is 3250 miles, and to Istanbul 3673 miles. The route is comparatively circuitous and there is the additional expense of the Suez Canal dues, which amount to about Rs. 40,000 for each passage of a 10,000 ton deadweight cargo ship. Even so, the cost of transport by sea would be cheaper than across land by the rail and road routes yet to be established across Iran.

The success of shipping service between Turkey and Pakistan will for some time depend upon the ability to make it a part of some other suitable service, so that in the aggregate a sufficiency of cargo results. The best route apparently is between Pakistan and the Black Sea ports of Eastern Europe and Russia, on which the Turkish ports lie directly. Another alternative would be to use the Pakistan-USA or Pakistan-Continent route by making a slight diversion to the southern Turkish ports of Iskanderun, Mersin or even Izmir. West bound ships to USA also usually go in ballast, and they can benefit from any cargo available between Pakistan and Turkey.

#### **Iran—Turkey**

The two countries of Iran and Turkey share a common frontier, and the distance over land between their centres of production and consumption is perhaps less than 1000 miles. Road communications already exist and are being developed and railway communications are being provided. On the other hand, the sea route round the Arabian Peninsula is extremely long and circuitous, the distance between Khorramshahr and Istanbul being 4158 miles. There does not, therefore, appear to be much future for the development of sea communications between these two RCD countries. Even oil, which is transported in such huge quantities from Iran by sea—about sixty million tons per year—could be carried across by pipeline.

There is, thus, a great future for establishing firm shipping links between Iran and Pakistan and also between Pakistan and Turkey. Sea transport will play a major role in the exchange of trade between Pakistan and the other two Regional countries. Realising the importance of this, the RCD Committee on Shipping examined in detail the ways and means of collaboration among the three countries in the field of shipping. The report of this Committee was considered by the Regional Planning Council at its meeting held at Islamabad in

March, 1965. According to the recommendations of this Council, which were also approved by the RCD Ministerial Council, steps are being taken to establish a Conference of the shipping companies of Iran, Pakistan and Turkey before the year is out. In addition to handling the trade of the three member countries, the Conference will initially operate on the USA route and develop the North African and interregional trade. The Headquarters of the Conference will be located at Istanbul but its General Manager, who will be the Chief Executive, will, we hope, be a Pakistani. The ultimate aim is to form a joint maritime line after having some practical experience of the Conference working and national studies in this regard will continue in the meantime. As a measure of technical co-operation, Pakistan has agreed to offer two seats every year to Iran at the Mercantile Marine Academy, Chittagong, for training of nautical and engineering cadets and also to provide instruction for the Iranian Marine Academy. Turkey will also provide two seats each to Iran and Pakistan annually at the Istanbul Technical University for naval architecture. The agreement on the principles of establishing such arrangements marks a landmark in RCD co-operation.

### **Roads and Railways**

Turkey, which a decade ago had a modest system of roads, embarked upon an ambitious programme of road development and has spent several hundred million dollars on road construction during the last 10-15 years. The total network of roads in Turkey is 35,729 miles long.

Similarly, in Iran, roads were almost non-existent about 10 years ago, and, except for a few roads connecting the Capital with the northern areas of the Caspian Sea and the southern oil-fields and refineries, the other areas were rather isolated. It was only during the last decade that considerable emphasis was laid on the development of roads in Iran. A number of modern highways have now been constructed to cater for very heavy traffic and a large mileage is proposed to be completed under the current and ensuing National Development Plans.

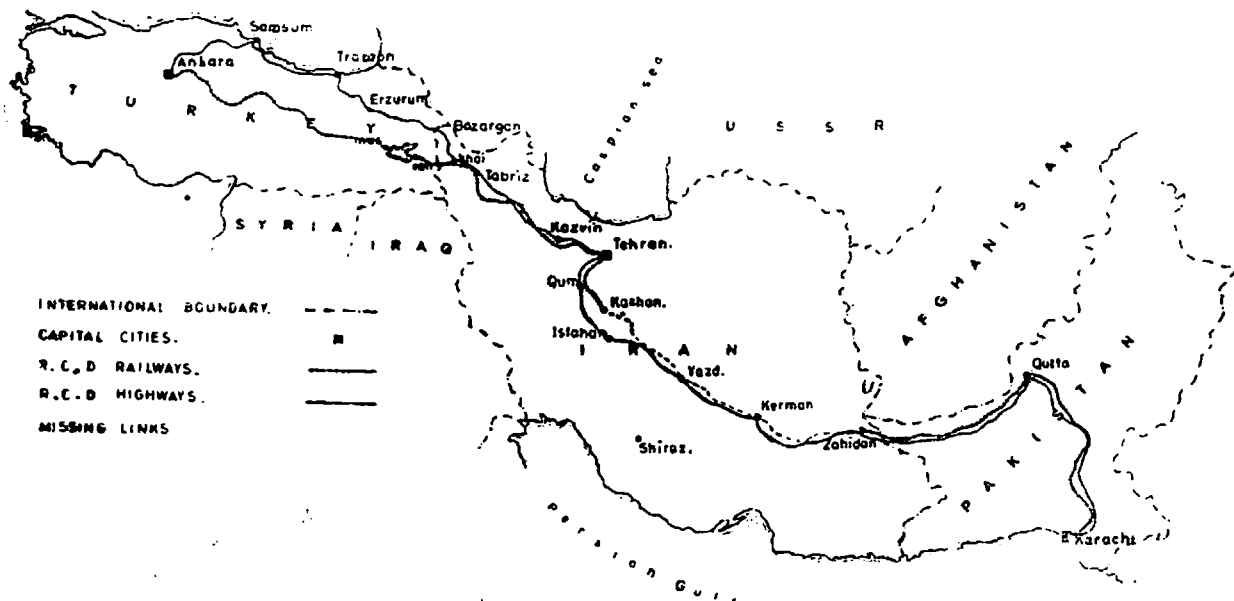
In Pakistan also, we have been endeavouring to do our utmost to develop not only a system of main arterial roads but also to open up isolated areas to the influence of progressive forces. In the Third Five-Year Plan, we have allocated an amount of Rs. 900 million for the development of roads in West Pakistan which system would link Iran. In addition, a programme for the development of village roads is being simultaneously undertaken under the Works Programme for the first time in the history of the country. The allocation for village roads under this programme is almost Rs. 500 million for this part of the country. We are hoping to develop our road system to meet the ever-increasing demand of road transport in the country.

In the wake of the RCD, the Heads of the three States also laid emphasis on the urgency and importance of linking Tehran with Ankara and Karachi by an all-weather road. The task involved is by no means easy. The length of the sub-standard and missing portions is about 400 miles between Pakistan and

Iran, a little over 450 miles in Iran and about 200 miles in Turkey. It is a matter of great pleasure that in spite of previous commitment of the limited national resources for other high priority projects, the regional countries have agreed to set apart sizeable funds and material for the completion of the missing stretches and upgrading of the sub-standard portions. All of them have undertaken to complete the outstanding work on the high way by 1968 when travel by road between the RCD countries will become more comfortable and economical for the benefit of the common man.

As regards the rail link, the Working Group on Roads and Railways, at its first meeting held at Tehran from August 29, 1964, had observed that the most suitable connection between Iran, Pakistan and Turkey was to link Musk in Turkey with Sharafkhaneh in Iran, and Kashan with Zahidan within Iran, to provide a continuous rail link between Ankara (Turkey) and Quetta (Pakistan), thus linking the Turkish and Pakistani Railway systems.

In Turkey, the length of rail link from Musk to Iranian border is 220 K.M. excluding the ferry between tatvan and Van across lake Van, involving the construction of two jetties at tatvan and Van ends and the provision of at least two ferry boats. The work on mush-Tatvan Section has been completed and opened to traffic. The work on Tatvan-Van-Qutur Section (120 K.M., excluding lake Van crossing) is anticipated to be completed by February, 1968.



There has been considerable progress of work in the Iranian portion of the link, the total length of which is 139 K.M. starting from the border to Sharafkhaneh, the terminal point, about 66 per cent of the work has been completed in the first 22 K.M. stretch and the remaining work is scheduled to be completed during the current year. The next section of 29 K.M. passes through a difficult mountainous area and involves the construction of a major bridge. It is expected to be completed by 1967. Beyond, however, in a length of 18 K.M., 55 per cent of the work has been completed and the remaining 70 K.M. will be completed in the near future.

On the Iran-Pakistan side, the length of the link from Zahidan to Kashan is 1236 K.M., comprising three sections, namely (1) Zahidan-Ban-Kerman; (2) Kerman-Yazd and (3) Yazd-Kashan. In the first section, no study, survey or construction has so far been undertaken. In the second section, preliminary study has been done and final alignment has been staked out from Yazd to Bafgh, a distance of 110 K.M. In the last section, formation, structural work and station buildings, except at Yazd, have been completed. In the last stretch of 63 K.M. from Bad to Kashan, rails have also been laid out.

On the Pakistan side, a railway line takes off the Sibi-Quetta main line of the Pakistan Western Railway at Spezand and goes upto Zahidan to Iran. Its total length from Spezand to Zahidan is 440 miles out of which 382.70 miles are located in Pakistan and 57.30 miles in Iran. The capacity of this line is 8 trains each way daily. The present traffic consists of one mixed passenger-cum-goods train and one goods train per week in each direction. The existing line, therefore, has ample spare capacity to cater for any additional traffic that may generate in the near future.

The Government of Pakistan have also offered to assist Iran by providing engineers for survey of the Railway line from Zahidan to Kerman and also to increase the number of training facilities in the field of Railway Operation at the Railway Training Centre at Walton, Lahore, at present offered to the Iranian and Turkish Railway officials.

Information is being exchanged between the three countries with regard to the manufacturing capacity for coaches and railway wagons so that trade is made possible between the three countries in these items.

When the Regional Planning Council met at Islamabad in March 1965, to consider the report of the Committee on Roads and Railways, it expressed satisfaction over the encouraging progress being made on the road and rail links joining the three countries. This entire work is expected to be completed by the target date of 1968.

I have, in the short time available, given you a brief resume of the steps taken, and being taken to improve transport and communications between the three member States of the RCD and I am confident that you will agree that everything possible is being done to implement the desired aims and targets at the earliest

possible date. Encouraged by the success of the Regional Co-operation for Development with Iran and Turkey, and the spirit of co-operation shown by these two great nations, Pakistan has entered into the RCD type arrangements with another great Muslim country—Indonesia, geographically a neighbour of our Eastern Wing. I am glad to say that the Indonesian authorities have been most responsive to the idea. We have every hope that an era of the closest possible co-operation with that country has dawned, and that Pakistan will be able to play its rightful role in bringing about friendly co-operation between various Afro-Asian countries, whose vast resources, if properly harnessed in a co-ordinated and friendly manner, can do so much for the amelioration of the lot of the teeming millions of these two great Continents which are destined to play a most vital role in this shrinking world.

**THIRD SESSION**

( June 30, 1965 )

*Under the Chairmanship of*

Mr. M. L. QURESHI, S.Q.A.



## COMMON PROBLEMS OF ECONOMIC GROWTH

*By*

M. RASCHID

Most of the developing countries today face the grim challenge of providing a decent standard of living to their teeming millions against heavy odds. To a large extent the problems that are being faced in these countries are similar. For instance, there is the ever-present danger of a high rate of population growth; there is the lack of capital formation and an infrastructure suitable for economic development and there is the dearth of trained managers and technicians who are indispensable for industrial progress.

It will be the aim in this paper to analyse some of the problems of economic growth in the RCD countries comprising Pakistan, Iran and Turkey.

As a matter of convenience, the paper will be divided into two parts; in part one an attempt will be made to identify some of the main problems of growth that are being faced in this region as a whole, as well as individually by each country. Part two will deal with the broad implications of economic co-operation among the three countries and study trade patterns in as much as they are likely to influence future growth patterns in the three countries.

Before going into greater details, however, it would be worthwhile to get some idea of the economic conditions prevailing in these countries. To some extent all the three countries are essentially agricultural countries with a large agricultural base.

During the course of history, these countries have become merely the suppliers of raw materials and the buyers of finished products. Dependence on the export



of one or two primary commodities has led to rigidity and violent fluctuations in their trade with other countries. Their terms of trade have not been favourable in relation to industrial raw materials, which they urgently need; such fluctuations have led to instability in their economies.

On the supply side also there is a considerable degree of rigidity and even when the demand is good, the supply cannot be increased at least in the short run.

The emphasis on industrial development, therefore, is not a case of mere accident but a manifestation of the will to reduce the reliance of these countries on the export of a few primary commodities and make the economies more broad-based and diversified.

### **Economic Development of R.C.D. Countries**

All the three countries have essentially mixed types of economies having a large and flourishing private sector. Most of the areas of investment are open to private individuals although economic controls have an important place in the overall economic set-up.

The Governments of the three countries have already accepted the necessity of planning and are busy implementing their development plans. In the case of Pakistan, most of the industrial targets set forth in the Second Plan (1960-65) are likely to be achieved. This has come about as a result of sound planning backed by necessary administrative machinery to implement the decisions of the planning authority.

Thanks to a number of factors, several key targets of the Plan have also been exceeded. The country has demonstrated its capacity to achieve growth rates higher than 5 per cent per annum in both East and West Pakistan.

The investment level is estimated to have risen to over 18 per cent of the G.N.P. Domestic savings have also increased at a fast rate; more than one-fifth of the additional income generated by the Plan has been saved and reinvested. The increase in national income is estimated to be over 29 per cent compared to the Plan targets of 24 per cent. The country's export earnings have increased at the rate of 7 per cent per annum as against only 3 per cent forecast in the Plan.

The contribution of external aid is now estimated to have been about 36 per cent as against over 50 per cent envisaged in the Plan.

The Third Plan (1965-70) stipulates an increase of 68 per cent in development expenditure over the five-year period (total expenditure being nearly 11 million dollars) and an annual compound rate of about 11 per cent. During the Plan period the annual rate of growth in G.N.P. is estimated at 6.5 per cent as compared to 5.2 per cent during 1960-65.

Similarly, Iran is currently busy implementing her Third Plan which is a Five-Year Plan launched in September 1962. The objectives of this Plan are a rapid increase in the national income (a minimum rate of 6 per cent per year), a proportional increase in employment and a fairer distribution of income. Factors such as the

annual increase in population of 2.5 per cent have been taken into consideration. The Government will encourage private investment in various fields of production and will itself undertake such work as is beyond the technical and financial scope of the private sector.

The budget allocation for development projects in the Third Plan will be about \$ 2,660 million. It is estimated that investments from the private sector during the period will amount to about a further \$ 2,000 million.

The Third Plan will place more emphasis than the Second Plan did on rural and agricultural development and accordingly more than 50 per cent of the funds will be spent directly or indirectly on such development.

So far as Turkey is concerned, she is also busy implementing her industrial development Plan. The First Five-Year Plan is the first stage of a 15-year Perspective Plan, and its main objectives are:

- a) Achieving a 7 per cent rate of growth.
- b) Solving the employment problem.
- c) Achieving a balance in external payment.

Achievement of a higher standard of living and a higher rate of development could depend on checking the population growth and on increasing domestic savings on a large scale.

In spite of the steady increase in industrialisation during the last ten years, Turkey is still predominantly an agricultural country, and some people still lack many basic necessities of life. Although about 40 per cent of her export earnings are still derived from agricultural products, the share of industry has increased from 16 per cent of the national income in 1950 to 23 per cent in 1964, and imports of capital goods and raw materials have also increased considerably while that of consumer goods have declined. Private investment has contributed a great deal to maintain the upward trend in the industrial sector. The rate of public to private enterprise varies from sector to sector. The state is investing in the public service industries and in those industries which require heavy capital investments and advanced business administration techniques. In the traditional sectors, however, private enterprise predominates.

### **Common Problems of Economic Growth**

*Population:* It is with these facts in mind that we should try to study some of the basic economic problems that are being faced in the region. One of the most important problems is that of rapid increase in population. Pakistan's current population is over a 100 million and is increasing at a fast rate. The official estimates put the rate of growth at around 2.6 per cent which has been taken into consideration in the Third Five-Year Plan.

Rapid increase in population has also been experienced in the case of Turkey where population has doubled itself to 30 million from 15 million in 1939. The annual rate of increase is about 2.8 per cent. This is a very high rate of growth and it necessitates rapid economic development so that suitable jobs may be pro-

vided for the increasing labour force and per capita incomes maintained at an upward level.

So far as Iran is concerned, she has a relatively less acute population problem at this stage because of vast uninhabited areas. However, population is increasing at a high rate of 2.5 per cent per annum.

In general terms the pressure of population on land, particularly arable land, provides a good indication of the relative shortage or excess of manpower in a country. In the case of Pakistan, the pressure of population on land is extremely high, particularly in East Pakistan which is one of the most densely populated regions of the world with an average density of about 922 persons per sq. mile.\* The Western Region on the other hand is comparatively sparsely populated with 138 persons per sq. mile, although even in this region, the population is increasing at a fast rate.

The comparable figures for Turkey and Iran are 93 persons per sq. mile and 34 persons per sq. mile, respectively. In relation to arable land, the figures for the three countries (Pakistan, Turkey and Iran), are 120 persons per 100 acres for West Pakistan and 277 persons per 100 acres for East Pakistan; 44 persons per 100 acres for Turkey and 14 persons per 100 acres for Iran.

Without going into details regarding the concept of an optimum population, it is well to bear in mind that output per head in these countries can be significantly increased if the quality of the labour force is improved. In our enthusiasm to emphasise the negative features of a population explosion, we very often overlook the fact that human beings are very important input in any development strategy and it should be the aim to provide maximum facilities for the improvement of this input.

The transformation from a traditional society to an industrial society requires that there should be a body of trained people who can assume the responsibility of running the industries efficiently. The shortage of technically trained personnel is an important problem in the Region.

An important aspect of economic co-operation between the three countries could be the relatively free movement of trained labour within the region which could help to maximize output.

*Lack of Capital:* The lack of capital in both relative and absolute terms is a common feature in all the three countries. There are two aspects of this problem which should be emphasised. In the first place because of the high marginal propensity to consume and the habit of unproductive spending, domestic savings are not sufficient for investment purposes. Even the existing savings are not channelised into fruitful investment because of the lack of an institutional framework which could help to mobilise savings on a sufficiently large scale. The setting up of

---

\*. The estimates with regard to population are based on population data for the year 1960-1961

co-operative societies and savings banks of various kinds could help to mobilise savings on a large scale.

An additional problem may be the extremely skewed distribution of income in almost all the countries of the region. This problem can be tackled by appropriate tax and other fiscal methods. At the same time the medium sector should be given all necessary facilities in order to develop a middle class of investors. A concerted effort should, therefore, be made in this respect and here, common development policies can really play an important role.

The other aspect of this lack of capital is the heavy dependence of the countries on external resources for their development programmes. Iran has a potential for earning foreign exchange because of her oil but even in that country the need for foreign capital is paramount. Similarly, Pakistan and Turkey need foreign capital whether government or private on a sufficiently large scale.

In this respect it may not be out of place to mention that both the Socialist countries as well as the Western countries provide assistance to the developing countries. But in many cases aid programmes are not on a long term basis and create uncertainties.

These countries which are initiating industrialisation programmes are likely to increase their dependence on foreign resources because most of the capital goods and machinery will have to be imported from the advanced countries. The import bill of many industrial projects is on the high side and may also entail recurring foreign exchange expenditure. In the face of adverse and fluctuating terms of trade that these countries generally face, it is all the more necessary that their position vis-a-vis the advanced countries, be sufficiently improved so that they may have a bargaining position. Co-operation in various spheres can be one way of achieving this end.

Stability coupled with growth may induce an increased amount of foreign investment to enter the region as it has done in the case of the European Common Market. In this picture a balanced sector development both within the region as well as between different sectors of the industry should be the primary objective.

In view of the heavy reliance of the countries of the region on foreign capital for their industrial development plans it seems that major structural adjustments are required if economic growth is not to be choked off by a foreign exchange shortage.

The development of export biased and import substitution industries is vitally necessary. A balanced development is also required between agriculture and industry and between the various regions of the countries.

*Infrastructure:* All the countries in the region lack an infrastructure for economic growth. There is the lack of suitable roads, railways and other means of communication, so that both processed goods as well as raw material may be supplied from one place to another. There is also the problem of developing electricity and power on a sufficiently large scale which may form a basis for the

development of industries in different regions. All the three countries are busy developing power generating and engineering projects but since these have a long gestation period, their results are not at once evident. In this respect, the RCD can be a very fruitful venture because all the three countries can pool their resources and develop this sector on scientific basis.

The construction of new port facilities at Bandar Abbas capable of handling ocean-going shipping with a capacity of 600,000 tons, and at Bushire for medium-size shipping; the linking of the rail systems of the three countries etc., are some examples of such co-operation.

There is also the lack of any institutional framework which may provide adequate finance to the various sectors for industrial progress. Although conventional means of credit particularly short-term credit is available because all the three countries have a sufficiently developed commercial banking system, there is still a great need to develop and strengthen specialised institutions which may provide the special type of loans together with technical and financial advice to the rapidly growing industries. The dearth of a developed capital market is a great handicap in this respect.

*Agriculture and Industry:* The necessity of providing economic welfare for the masses is necessarily dependent on economic growth. In this respect, both industry and agriculture have to receive due emphasis.

It is only when these countries are self sufficient in agriculture that they can devote their energies more fully to industrial development. The problem of mal-nutrition both in relative as well as in absolute terms exists in many parts of the region. Similarly, the elasticity of demand for many food products is sufficiently high, so that increased incomes from overall development will primarily be spent on food particularly in the earlier years. It may, therefore, be necessary to increase agricultural production on a very large scale in order that there may be a shift of resources from agriculture to industry.

Production of agricultural products has been low mainly because old methods of cultivation and irrigation are still in vogue and modern techniques of farming have not been fully adopted. In many cases the feudal structure of the agricultural sector has resulted in wastage and neglect.

Land reforms have, however, been initiated in the region and these will have a favourable impact on agricultural production. Similarly, agricultural extension programmes can be an effective method of increasing production. In many countries additional output could be obtained without much capital expenditure if only the farmers were made aware of the possibility and existence of new techniques. It is estimated that in some cases yields could be raised by at least 50 per cent, simply by the general adoption of well known methods and without heavy capital expenditure.

With the growth of specialisation and production for the market as opposed to subsistence agriculture, the element of risk enters the picture. Price fluctuations

effect the incomes of the farmer and create problems of uncertainties. When the change from the subsistence agriculture to a money economy is drastic such fluctuations are likely to have an adverse effect on the overall growth pattern. The government may have to step in to avoid such drastic fluctuations. Some kind of price support may be necessary which may help to maintain prices at equitable levels at least in abnormal times (good or bad harvests). A co-ordinated agricultural policy may be of great help in this direction.

In the case of Pakistan, investment in agriculture is being stepped up and in the Third Five-Year Plan, this investment will be Rs. 4185 million as against Rs. 2515 million in the Second Plan.

Similarly in the case of Iran, the Second Seven-Year Plan has greatly contributed to the growth of the country's agricultural output. The construction of new dams and irrigation works will help in increasing agricultural production. It is as yet too early to see the true impact of the sweeping land reforms but these are bound to have a favourable impact on the economy.

In the case of Turkey, the need to develop agriculture is recognised in the Plan and heavy expenditure is envisaged for fertilizer production and the development of farm management techniques. This clearly shows that the countries of the region are fully aware of the importance of developing a sound agricultural base.

## PART—II

Trade plays an important role in the economy of most of the developing countries. Many of these countries are handicapped in this respect because they are the exporters of primary commodities which face adverse and fluctuating terms of trade in the world market. There is, therefore, every need to investigate new avenues and explore new vistas of economic co-operation which may lead to the strengthening of their position vis-a-vis the advanced nations.

To some extent trade patterns have already begun to show signs of diversification. Exports from some of these countries (and this is particularly true of Pakistan) are becoming more broad-based. Similarly, the pattern of imports has changed in all the three countries because of the development of the industrial sector. They are no longer primarily the importers of consumer goods; indeed in some cases consumer goods are becoming a source of earning foreign exchange. These are all very welcome developments.

There is every justification for backward countries like Pakistan, Iran and Turkey to pool their meagre resources and exploit them to the maximum extent possible. New areas of collaboration are being explored as indeed they should be. It may, however, be difficult initially to pinpoint the immediate benefits of RCD purely on the basis of trade between the three countries, which is rather limited.

But this is a static view and the dynamic view is bound to be different. Trade between these countries should increase substantially with industrial progress.

Speaking at the second RCD Ministerial Council Meeting at Islamabad, the President of Pakistan pointed out (On March 18, 1965) that "the benefits of RCD cannot be measured purely by materialistic standards; RCD is more than a matter of mere economic gains. We are trying to demonstrate how three sovereign countries can collaborate in many fields in the spirit of understanding and accommodation. My government attaches great importance to the promotion of joint purpose enterprises. Together the three countries provide a market of about 150 million people and we should explore this advantage to the maximum benefit of each member country."

The agreement on Regional Co-operation for Development (RCD) was signed on July 21st, 1964. The RCD agreement specified ten main objectives i.e., free movement of goods through all practical means, establishment of joint Chamber of Commerce, joint ventures, reduction in postal rates, co-operation in joint airlines, shipping, banking and insurance, etc.

As far as the RCD is concerned, the intra-regional co-operation is being tried on a sub-regional basis and the immediate objective of this scheme is a broader market, diversified trade and commerce and less reliance on the export of one or two primary commodities.

The study group of the RCD trade Committee listed a number of products in which increased trade is possible among the countries. These include the export of jute and jute goods, newsprint, sewing machines, diesel engines, bicycles, hides and skins, etc., from Pakistan to Iran; while the import of fertilizers, coal, cement, petroleum products etc., was envisaged from Iran to Pakistan. Similarly, Pakistan could advantageously import cement, timber, dry fruits, etc., from Turkey and Turkey could import jute and jute manufactures, hides and skins, newsprint, sports goods, surgical goods, etc., from Pakistan. With a relatively free movement of goods between the three countries, the quantum of trade should increase substantially.

Details regarding the existing trade of these countries together with their rate of growth of population, national and per capita incomes etc., are given in Appendix I and II respectively. The figures relate to 1962.

Although the RCD is at present not an economic union in the strict sense it may eventually pave the way for some sort of an economic union of a free trade area. Some of the basic theoretical implications of such unions are given below :

- 1) To the extent that an economic union reduces trade barriers among the member countries, there is likely to be an increase in the trade and economic welfare between the members.
- 2) To the extent that the economies of the member countries are actually competitive but potentially complementary, there is likely to be an increase in economic

welfare because of the optimum use of resources depending upon the increase in trade.

3) To the extent that such unions permit economies of scale and other external economies and to the extent that these in turn lead to the displacement of less productive units, prospects are good for increasing economic welfare.

The increase in the economic welfare and the quantum of trade will be greater if the restrictions and controls on such trade were substantial prior to the union and vice versa.

Backward countries like Pakistan, have a mono cultural economy which give their trade a degree of narrowness and rigidity. It is this mono culture which also creates a degree of competitiveness among the underdeveloped countries. Economic growth may tend to increase the degree of competitiveness at least in some countries because each country would try to supply to its domestic market those goods which it can most readily process at home. Thus there is a tendency for the growth of Cement and Textile units in all the three countries (Turkey, Iran and Pakistan).

There also seems to be a tendency among the developing countries to initiate those industries which have already been developed in the neighbouring regions. But many industries require substantially larger markets backed by the necessary effective demand which is often lacking in one individual country. By combining and pooling their resources this bottleneck can be removed. To take an example, for many heavy industries and basic chemicals, the minimum optimum scale of production is substantially larger than what the domestic market of an individual country can support. What is required therefore is the establishment of regional industries rather than national industries. It is, therefore, necessary that the policy of import substitution should also be based on regional considerations as far as far possible.

The development of basic industries which would gradually reduce the import bill may also become more practical if a joint effort is made in this direction. Many of such industries require heavy capital outlay which one individual country may not be in a position to afford. Heavy Engineering and Petro chemical complexes may be an example of such industries.

A market of about 150 million people is indeed very large and should surely be able to support any industry. But it is not merely the number of people which is important but their relative economic well-being which will determine the effective demand in the market. Development policies should, therefore, be geared to improve the lot of the common man and enable him to at least have the basic necessities of life. The development of a suitable industrial base in the three countries would surely help to achieve this objective. This development will also raise the marginal efficiency of labour and create new avenues of employment. Just because there are broad sectoral similarities existing in the countries at present there is no need to despair of the possibility of fruitful co-operation because



it is very likely that substantial intra-sectoral trade will develop within the region.

### **Joint Ventures**

In this respect, joint ventures have a special significance because they would help to maintain interest of all the parties concerned as well as ensure an equitable ownership in industries among the member countries. The RCD special committee is already examining the possibilities of such co-operation and the industries already taken up for joint ventures are as follows :—

- (1) Fertilizers.
- (2) Motor Vehicles.
- (3) Iron and Steel.
- (4) Machine Tools.
- (5) Electrical Machinery and Equipment.
- (6) Heavy engineering.
- (7) Ship Building.
- (8) Coal.
- (9) Electronics.
- (10) Drugs and Pharmaceuticals.
- (11) Dye Stuffs.
- (12) Chemicals.
- (13) Pulp and Paper.
- (14) Aluminium.
- (15) Lubricating Oils.
- (16) Agricultural Machinery and Equipment.
- (17) Petrochemicals.

One country which has a natural advantage in this respect could perhaps place special emphasis on Iron and steel works while the other could concentrate on basic chemicals. Even in one industry, the different stages of production could conveniently be divided among the member countries keeping in mind those special natural and economic advantages that each region may enjoy.

To take one example of the possibility of co-operation in the industrial field, there are ample deposits of Bauxite in Turkey but because of the dearth of cheap powered a developed market, it has not been possible to develop the Aluminium Industry to the extent possible. With economic co-operation, Turkey might become the principal site for the first stage of this industry, while the reduction of Alumina into ingots should be located in that region which has ample and cheap power supply.

The finishing and semi-finishing mills, including rolling and fabrication, labour intensive techniques, could conveniently be established in Pakistan because of its cheap labour resources.

The other important industry is that of petrochemicals and in this respect there seems to be a tremendous scope of co-operation. What is needed is the exis-

tence of skilled refinery technicians as well as unskilled labour in processing the synthetic fibre or heavy plastics. But this should not be done at the expense of the natural fibre industry existing in the Region. However, a heavy plastic complex would release tension on the dearth of timber and other structural metals in the region.

There seems to be a good scope for the development of automatic assembly plants for cars, motorcycles, tyre plants etc., because all these items require substantially larger markets which it would be difficult for a single country to provide.

There are plans for the development of a steel industry in Pakistan while Turkey already has a basic steel industry. This also requires a large market in order to be an economic proposition.

The rising incomes generated because of such co-operation would necessarily be a welcome sign not only for the region but also for the world at large.

#### **Conclusion**

While the RCD may have looked like a visionary's dream to some, it is now a concrete reality. There exists, as we have seen, ample scope for co-operation and collaboration in various sectors of industry. This is of special significance for joint ventures. Such co-operation is bound to be fruitful because it will go a long way in strengthening the combined bargaining position of these countries *vai-a-vis* the industrially advanced countries.

Besides, its effect on commodity trade, the lessening of uncertainty associated with national frontiers will favourably influence investment decisions. The scope for both public, as well as private foreign investment is considerable in these countries. Again, the inter-member mobility of investment funds is facilitated by the establishment of an integrated market.

Low per capita incomes, together with a low savings ratio is a common feature in these economies, but with the development of a suitable institutional framework the proportion of the incomes saved can be significantly increased.

Exchange of market and technical information, increased training facilities, introduction of mass-production methods, together with vertical and horizontal specialisation, in an integrated market is bound to lead to a more economic use of investment funds.

APPENDIX I  
BACKGROUND STATISTICAL INFORMATION

Items	Iran	Pakistan	Turkey
Area (Square Miles) ..	636,293	364,372	301,380
Population (Million) ..	21.44	97.57	30.23
Rate of growth of population ..	2.5%	2.6%	2.8%
National Income (1962—\$ Million)	3,591	7,253	5,845
Per Capita N. I. (Dollars) ..	167	74	199

(Figures relate to the year 1962)

FOREIGN TRADE OF IRAN, PAKISTAN AND TURKEY

		(Million Dollars)			
		1959	1960	1961	1962
Iran	Exports ..	768	845	849	983
	Imports ..	525	558	686	532
	Balance of Trade ..	+243	+287	+163	+451
Pakistan	Exports ..	382	394	402	416
	Imports ..	592	650	638	734
	Balance of Trade ..	+210	—256	—236	—318
Turkey	Exports ..	354	321	347	381
	Imports ..	470	468	509	622
	Balance of Trade ..	—116	—147	—162	—241

## APPENDIX II

### TRADE BETWEEN RCD MEMBERS

**Exports from Pakistan to Iran :**

1958-59	..	\$	2,956,000	(1.06% of total)
1961-62	..	\$	3,720,000	(0.93% of total)
1962-63	..	\$	994,000	(0.22% of total)

**Imports of Pakistan from Iran :**

1958-59	..	\$	10,957,000	(3.3% of total)
1961-62	..	\$	24,179,000	(3.6% of total)
1962-63	..	\$	29,586,000	(3.6% of total)

---

**Exports from Pakistan to Turkey :**

1950-	..	\$	2,624,000	(0.92% of total)
1958-	..	\$	172,000	(0.05% of total)
1961-	..	\$	219,000	(0.04% of total)
1963-	..	\$	267,000	(0.04% of total)

**Imports of Pakistan from Turkey :**

1950-	..	\$	3,000	
1958-	..	\$	13,460,000	(1.71% of total)
1958-	..	\$	Nil.	
1963-	..	\$	10,000	

---

**Exports from Iran to Turkey :**

1950-	..	\$	4,548,000	(1.59% of total)
1952-	..	\$	81,000	(0.01% of total)
1958-	..	\$	152,000	(0.05% of total)
1963-	..	\$	15,250,000	(2.21% of total)

**Imports of Iran from Turkey :**

1950-	..	\$	19,000	(0.01% of total)
1952-	..	\$	21,000	(0.01% of total)
1958-	..	\$	11,000	
1963-	..	\$	14,000	negligible.

---

## BUDGET AS AN INSTRUMENT OF GROWTH

By

DR. MANOUTCHEHER TEHRANI

*Manager, Policies and Financial Rules in the Bureau of Budget, Plan Organisation  
of Iran*

### **Introduction**

The very procedure of preparing and making a budget, whether in its original form of its modern one, is a kind of planning. The difference being that in its original form this planning was relatively simple, whereas in its modern form a great amount of study and research is required and it has become quite complex. In the past, the responsible finance officers carried out the preparation of the budget as a secondary task which they had to do each year. At present a specialized group is concerned with it throughout the year. Their task, contrary to popular conception not only extends beyond the submission of the budget by the Government, and its approval by the Parliament, but it would be only a mild exaggeration to say that it only begins there. The work on a present-day budget never ends. In the beginning of the fiscal year, last year's budget and its shortcomings are studied. Remedying budget defects is perhaps more difficult than preparing next year's budget later in the second half of the year.

### **The Role of the Budget in Economic Development**

(1) *The need for an instrument in carrying out an economic programme* : Nowadays it would be hard to find a country which does not have a programme, however roughly drawn, for the improvement of its economic and social situation. This is not only true of countries with a centrally planned economy, but also applies to countries with a "Market economy". In the latter countries, irrespective of their being among the industrial and advanced countries or among the developing ones, the need for a programme is strongly felt ; the difference being

that the essential characteristics of the programmes of industrialized countries is to maintain full employment, while for the developing countries the main target is to secure rapid economic development. But the mere possession of a programme, however complete, up-to-date and carefully drawn, is not sufficient in itself. The carrying out of a programme requires several instruments. One of the most important means is the "Budget" and Budget policies.

For many years budgets have been used as an instrument for keeping the equilibrium in the society, such as in protecting the purchasing power of the home currency. Economic history provides us with many cases where an unsound budget has led to the devaluation of a country's home currency. The authorities were for a long time unaware of this relationship. Its discovery however, gave the governments and the fiscal authorities a useful and logical means of regulating the quality and purchasing power of their currency. Under the leadership of the League of Nations project were drawn to improve the conditions of some countries and without exception, they all, promoted the idea of a balanced or sound budget as the best instrument for stabilizing policies.

After the Second World War and especially in the latter half of the 20th Century, the Budget and its role gained an extraordinary importance and developed very close relationship with planning. In the developing countries the essential problem of facilitating and speeding economic and social expansion often aims in many directions, therefore, many deep-rooted and strong reforms are necessary. To achieve this socio-economic evolution, and to ensure that this is done in a logical and orderly fashion, governments have become increasingly aware of the importance of formulating plans for economic growth. In this kind of planning the first step to be taken is to determine the possibilities and feasibility of the plans in a realistic way, and to distinguish between the numerous aims and establish priorities. An accurate and carefully made budget is a great help in reaching such decisions. It would be noteworthy to add that the report of the "International Workshop on Problems of Budget Classification and Management in Developing Countries" which took place in Copenhagen from the 31st of August to the 11th of September 1964 found that most countries have a weak and undiscernible relation between their budget and their programmes.

Nowadays the Budget is considered as a strategic weapon in the field of development policies. It establishes, on the one hand, the main connection between various processes in planning and allocating human and material resources to obtain short term targets; and, on the other hand, it has been recognized as a powerful and decisive mechanism in the implementation of economic policy which involves the monetary situation.

The budget also provides for the allocation of very substantial resources by the legislative body and confers to the executive body the basis to carry out administrative and personnel matters.

*The traditional role of the Budget and the modern Budget :* As it was said

before, Budgeting is a kind of planning in which expenses are allowed within fixed limits. In the past the scope of the Budget was so narrow and limited that when the budgeted sums were spent, the authorities concerned considered their task complete. Today the emphasis is not placed on the mere act of spending money. It is found in the relationship between expenditure and the fulfilment of plans. It is the connection between the amounts included in the Budget and the execution of specific and predetermined projects which has created the Programme Budget. It would be an anachronistic, in our era, to hold on to any other notion about the concept of a Budget.

Many countries already regard the Budget as a multi-purpose strategic weapon in managing and executing their economic programmes, and one which is closely connected and envolved in the economic, social, and political well-being of the country. They no longer consider the Budget as a separate isolated mechanism outside the life of a nation, rather they consider it as an effective tool within the framework of their national life for allocating the existing resources to achieve clearly conceived aims. The general result of this change of concept is that to-day the Budget is no longer the exclusive concern of accountants, administrative heads and legislators. Planning officers, sociologists, economists, and above all, the ordinary laymen are all concerned with it now. In planning a budget the interests of all social classes, as well as the geographical and administrative divisions of a country must all be taken into consideration.

From what we have said, we can see that the modern Budget is a complex mixture of plans and projects which have to be carried out in the near future with the two-fold purpose of increasing and improving on the future management of public affairs, as well as eliminating the existing difficulties and obstacles on the path of the country's economic growth.

By clarifying and stating the income and expenditure of a large unit like a government within the national economy, the Budget plays another important part. At the same time it provides the Government with firm foundations for reaching decisions and finding its main direction.

*The differences between preparing a Budget and Planning :* In spite of what we have said about the connection between planning and Budgeting, there are some differences between the work that their execution requires. Thus each of them has to be undertaken by a separate and specialized group of experts. Naturally both have to be supervised and centralized under a single administrative department. The major differences are as follows :—

(1) Planning has a wider field of activities, for it is faced with the entire national economy, and its scope is not, as in the case of the Budget, limited to a part of it ;

(2) The scope of time which planning reviews is of a greater length, sometimes upto twenty years, while a Budget typically, is concerned with the coming year ;

(3) Planning has a consultative nature and the views of representatives from the industrial, labour, and agricultural sectors are all considered. But in drawing up a Budget the work is done entirely in the public economic sector on the basis of the Government's sovereignty ;

(4) The terms used in these two activities are quite different. The language of planning is the one used in various sectors of economy, whereas budget terminology is composed of elements which increase the control on the expenditure of public funds ;

(5) One can describe planning as a process of "forming ideas" which provides the Government with a method for guidance and a framework for action. But this method and framework can always be altered and changed depending on the various requirements of changing times. On the contrary, composition of a budget is a form of more precise and predetermined "action."

Despite all these differences, planning and Budgeting in fringe on each others' territory and sometimes there is no distinction between them. Sometimes the steps taken in drawing up a budget have a profound impact in the vast field of planning. For example, by altering the rate and the size of the taxes, the Budget can be very effective in encouraging investments in the private sectors. Or, by establishing the amount of credits from available resources which have to be obtained from taxes or from local or foreign loans, a Budget can determine supply and demand in the national economy. In countries where the economy is based on central planning this infringement of the Budget on planning and *vice-versa* is carried out on a much greater scale.

*The need which we have felt for establishing a closer relationship between our ordinary Budget and our economic programmes:* Apart from the theoretical aspects which we have been mentioning we, like the other developing countries, have felt a great need for creating a close relationship between the Budget and our economic programmes. We have reached the conclusion that a sound and comprehensive budgetary system can, even without the existence of a complete economic programme, raise the standard of the Government's activities. And, the most carefully weighed programmes cannot be carried out very successfully and will not produce very effective results without a good budget.

It has also become apparent to us that this relationship provides a more effective and timely control upon the inflationary tendencies which were caused by heavy investments in both the public and private sectors.

The many years of extensive research and study by the various departments of the Plan Organization has provided the planning department with unequalled information about our country's macroeconomics. Moreover this information had been and is continuously supplied. This macroeconomics dates about the national income, the volume of savings and the amount of investment, is available in the planning department, and can serve as a reliable guide for estimating the state



of the revenues and the size of the national tax-capacity. Thus the link between the Budget and planning can be and is very beneficial in this supply of information.

Also in this field, the Budget can reciprocate by applying the macroeconomics figures to make these macroeconomics planning ideas more clear.

We had also felt that when this close relationship was established, we could obtain a better view of our entire economy. This does not only apply to investments in capital and machinery but also the investments made in the training of man power and the training of cadres. There too, our position would become much clearer and it would be easier to evaluate the need for manpower with the existing possibilities. As a result we would reach our major decisions in a much more simple and logical way. This broadness of view will also simplify and help the public transactions. Here too the executive managers would be in a better and safer position in reaching decisions. Considering the usual characteristics of developing countries. Iran's economy is not in a typical position. Every year a regular income from oil is injected into it. In most developing countries the programmes for economic development are closely connected to the state of the international market, like in Latin American Countries. These governments are forced to do their best to secure a stable market where the balance of the effective demands is to some extent guaranteed. This form of stabilization encourage the growth of output despite the fact that : its price in the international market is subject to severe fluctuations, and the local market does not have the necessary purchasing power to consume it all. In such conditions, it is obvious to see how great is the impact of the government demand on the market and to what extent the government purchase help to keep the economy on secure foundations.

In Iran too the Government purchases have a great effect on the quantity of the effective demands, although not to the same critical extent.

Most of our revenue is derived from oil, which fortunately, does not undergo so great a fluctuation in price as the other raw materials of the developing countries. But we are fully aware of the fact that it is a temporary revenue which, will come to an end due to the exhaustion of the sources or the technical progress in obtaining new sources of energy. Moreover, we must leave a share for the future generations, for we do not feel ourselves entitled to use it up entirely.

We have spent, and still are spending, part of the revenue derived from oil for current expenditure, but legally the Government is under the obligations to increase annually that part of the revenue which is attributed to development projects. For the sake of reference a table is given of the ratio of the oil revenue which the Government is legally obliged to spend on current administrative expenditure, *i. e.* as a contribution to the Budget, and the share which is attributed to the Plan Organisation for development projects.

Oil Revenue

Fiscal year	For current expenditure and contribution to the Budget.	For development expenditure through Plan Organization.
First half of 1341	45%	55%
Year 1342	40%	60%
„ 1343	35%	65%
„ 1344	30%	70%
„ 1345	25%	75%
„ 1346	20%	80%

It can be noted from this table that year by year the amount of financial contribution to the Budget from the oil revenue is decreasing. And we hope that in our Fourth Plan we can eliminate it entirely.

In any case, this division of the oil revenue and the great care and perhaps the over scrupulous way with which every penny has to be used emphasises and illustrates to a greater extent the relationship between budgeting and planning. The result was that finally the task of budgeting which has formerly been the concern of the Ministry of Finance, was last year transferred to the Plan Organization: the center of planning.

From that time on the traditional system of Budget preparation was abandoned and the first steps were taken towards a comprehensive Programme Budget. The first programme budget was drawn up for current year, 1344.

**The Old and the Modern Budgeting Systems in Iran**

For many years our system of budget preparation was based on the classification of objects of expenditure, and the total governmental expenditure was divided into 53 articles. There is no need here to discuss or to prove that this kind of classification is ineffective to-day. It does not give a comprehensive perspective to either the budget makers or the planning officers.

Leaving the old system aside we have now adopted two kinds of classification which are complementary to each other and are used side by side.

A) Functional Classification—in this classification all governmental activities are divided into four basic sections. (and a fifth section dealing with debts, liabilities and miscellaneous). Each section is divided into several functions and each function into several programmes, and each programme into several activities (and in the case of development programmes into projects). For example in the 1344 Budget there are 24 functions and 135 programmes (these programmes are not included in the clauses of the fifth section). As this was the first year of the new system, we have only carried out the divisions up to the programme level.

We intend for the coming financial year to budget to the activity level in order to achieve a greater accuracy and comprehensiveness.

B) Organizational Classification—In this classification the budget of each organization is divided into four chapters and altogether includes 19 articles. This specifies how and in what field each organization has to spend its money. By attributing the expenditure of the organization to one of these four chapters its nature is determined.

By adding up these budgets it becomes very clear how much the Iranian Government has spent during the year for its personnel salaries, how much for its administrative expenses etc.....This data will be accurate enough to provide a sound basis for economic and social research.

It must again be emphasized that these two classifications must stand side by side and must create our Budget together. Without this combination satisfactory and suitable results can not be obtained.

In many countries the governments contribute towards the economic growth of the society both through infrastructure expansion, and directly as an employer investor.

In Iran, the Government has established a great number of commercial companies and institutions, with the purpose of guiding and encouraging people to productive activities and to introduce new industrial and financial techniques in the home economy.

These kinds of governmental commercial companies enjoy a considerable freedom of action, and were not included in the State Budget, because of their purpose. This explains how some confusion was created in the governmental activities and how it occasionally led to wasteful repetitions which were harmful to a developing economy.

In our new Budget we have included these institutions even though they are not treated in the sameway as the governmental offices and Ministries. This will provide a greater supervision and more effective centralization will be exercised upon them. This will help to avoid some of the disorders and discontinuities, and will give a clearer picture of the bulk of investment in the public sector.

This supervision enables us to save in some cases and to free some sources of capital for other projects and to make some alterations in the system of management and organization.

#### **The Central Budget Bureau**

As already mentioned the need for creating a link between budgeting and planning was so great that the task of budget preparation was transferred from the Ministry of Finance to the Plan Organization. This latter organization which already was the planning body of the country became responsible for the preparation of its Budget.

It should be explained that the Plan Organization merely plans the Budgets, and that the execution of it is still the function of the Ministry of Finance, In

this division of responsibilities the boundaries between the two organizations are clearly defined. When two stages of an operation are carried out in two separate organizations a very close collaboration between them is of prime importance. This collaboration does now exist and has so far borne fruitful results.

For carrying out the task which has been delegated to the Plan Organization, a unit has been created and named the "Central Budget Bureau".

The Central Budget Bureau is composed of five committees:

- 1) The Committee on public and Security Organizations.
- 2) The Committee on Economic and Social Organizations.
- 3) The Committee on Public Enterprises.
- 4) The Committee on General Studies.
- 5) The Committee on Financial Procedure and Regulations.

The name of each committee is an indication of its task. It should only be added here that the Committee on Public enterprises studies and supervises the Government Commercial Companies, and it is through this committee that these companies are becoming integrated within the State General Budget. The Committee on General Studies is responsible for investigations on revenue forecasting and for the formulation of the revenue side of the Budget. The Committee on Financial Procedure and Regulations is a link between the other committees and is the center for evaluating the results and finding better and more fruitful procedures and techniques. It is primarily a research unit.

The governmental organizations are required to apply to the Central Budget Bureau in the second half of the fiscal year and submit their budget requests to the committee in charge. These requests must be handed in on special forms which have been prepared and take into account the different requirements and different situations. When these requests for budget credit have been submitted a Budget expert is given the task of analysing it. This expert has received a specialised training, and has become acquainted with all aspects of the department. Even during his routine daily work he is constantly accumulating more knowledge, and a great number of training programmes and seminars are being held in order to improve his work. He can, therefore, analyse the requests with great care and insight, and is able to evaluate them as a budget expert and prepare a comprehensive report on them.

The budget report is then discussed in a committee consisting of the responsible budget expert and his superior, as well as the authorities of the Finance Department of the requesting organization. The decisions are conveyed, in the form of a report, to another meeting of higher standing, in which the Head of the Central Budget Bureau is also present. The decisions taken in this final committee and the agreements reached are reflected, in the draft proposal of the Budget, by the Central Budget Bureau to the Council of Ministers.

The above procedure illustrates how each budget proposal, submitted to the Central Budget Bureau passes through three checkpoints where excesses are eli-

minated and deficiencies are noted. The Central Budget Bureau is always anxious to obtain more accurate measures of work. Investigations are made by the budget experts to avoid wastefulness and repetition. At the same time the investigations attempt to increase the working capability of the organizations and departments.

After the Budget has been formulated and approved by the Council of Ministers, it is submitted to the Parliament (National Chamber). After the procedure of discussing its form and content, it is established as an act and is communicated to the Government to be executed. The approved credits can be used by the requesting organizations only if their budget is transmitted to them from the Central Budget Bureau under the form of activity. The purpose of this decision is to achieve a greater supervision on the expenditure of the organizations, and to maintain the contact between the organizations, and to the Budget Bureau during the fiscal year.

Although, the Ministry of Finance is in charge of executing the budget, the Organizations are requested to submit monthly reports of their activities to the Budget Bureau. This also helps to provide the budget experts with a better understanding and a broader insight into the activities and the work of these organizations.

Our experience on the new Budget is in its first year, but even now we can appreciate its fruitful results. We can see clearly what benefits we shall obtain in our new path and how much more shall be added to the working capacity of the organizations. We can also see the progress that will be made in our economic development programmes, in our savings, in our finding new sources of investment, and finally in the execution of development projects.

#### **Our Problems in Writing the Programme Budget**

The two main problems confronting us in the Programme Budget are, in order of importance:

- 1) The non-acquaintance of government employees with this new concept of the Budget, and their occasional defensive attitude.
- 2) The non-acquaintance of people with a Programme Budget.

To solve the first problems we have found it necessary to form seminars, in which the responsible budget officers of the organizations were introduced with the new concept and techniques of budgeting. We had very satisfactory results by doing this.

To get people to become acquainted with the Budget and particularly with the Programme Budget, we made use of the press, the radio and the television. Here also we made great progress. The publication of articles written in a simplified and easily understandable way has also proved very useful. However we recognize that there is still a great amount of work to do in order that these two problems are solved.

## LABOUR FORCE AND EMPLOYMENT PROBLEMS IN TURKEY

By

*Professor Orhan Tuna, University of Istanbul.*

The main topics that will be briefly considered will be as follows: The employment problems brought about by the inadequacy in economic growth in comparison to growth in our population and labour force. Here particularly the volume and nature of unemployment will be discussed in its essential points. For a better understanding of the issues that are strongly related, on account of the chronic and structural disequilibrium existing between the supply and demand for labour, population and population growth problems will be emphasised in the first place. Then, the structure of the labour force in view of various factors will be shortly studied and the changes in demand for labour and the future trends involved will be indicated. Finally, the employment and specially the unemployment problems in view of Turkey's economic growth will be emphasised.

### **Population and Employment Problems in Turkey**

One of the main characteristics of our country is its high rate at population growth. The results at the population censuses taken since 1927 are as follows:

1927	13.6 million
1960	27.8 million

According to estimates made, this number will reach upto 32 millions in 1965. That is the population has increased two and a half times as much as in 33 years, during the period between 1927 and 1960.

This speedy increase is mainly due to the fall in death rates, the increase in the average span at life and the high increase in birth rates but the period between 1950-1955 has witnessed mass immigrations from Balcan countries; this has had some influence on our population growth. Nevertheless the factors influencing the population increases in Turkey are debatable. It can briefly be stated that

Turkey has the same population growth rates as those seen in economically developing countries.

On the other hand, Turkey's population is expected to increase rapidly in the near future. This is clearly indicated in the projections made by the State Planning Organization.

**TABLE I**

Turkey's population between 1960-1985, its growth rate according to average birth rates and projections there from.

Years	1960	1965	1970	1975	1980	1985
Population .. ..	27830	31936	36401	41579	47744	55016
Rate of Growth (%) ..	27.9	26.6	27.0	28.0	28.4	..

Yearly rate of growth about 28%.

Also, the International Labour Organization (ILO) has a research on the population and labour force problems in Asia and gives the following population growth estimates for Turkey:

**TABLE II**

Population growth in Turkey of the Continent of Asia, between 1950 and 1980.  
(as 000)

Years	1950	1960	1965	1970	1975	1980
Population .. ..	19.069	25.296	29.016	33.640	38.810	44.773

As seen, these estimates are in line with those given by the State Planning Organization in Turkey. This means that, this rapid increase in population growth will weigh heavily on our economic life and this strong pressure will always be felt over a long period of time. It is certain that the population growth will have, in the first place, great influence on the structure and volume of the labour force. In fact, if the changes in the labour participation rate are disregarded or assumed to be constant, the rapid development in the volume of population will lead to a parallel increase in the volume of the labour force. The relationship between this essential influence of the growth in population and the volume of the labour force is clearly indicated by these figures. [International Labour Review; The population and Labour Force of Asia, 1950-80, LXXXVI; No: Oct. 1962 p. 358.]

Furthermore, the participation of women in addition with the influence of the factors related to population growth have continuously expanded the volume of the labour force. Nevertheless, the rapid growth in the age group of 0-14 slows down, though to a certain extent, the expansion in the volume of the labour force.

On the other hand, factors connected with the demographic structure of the population have also some influence on the labour force. Essentially the breakdown of the population according to age, sex, marital status, rural and urban population groups as well as its analysis according to migration and some other factors are also important factors determining the volume of the labour force. Of these,

the age structure is the most important one.

As a matter of fact, in line with the characteristics of developing countries, the population in Turkey's age group below 15 amounts to more than 40 per cent at the total population.

The place that the children's group occupies within the total population is quite large; this increases the dependency ratios of our country and similar to the ratios in the economically developing countries hundred person (themselves included) is participating in economic activities for the livelihood of 175 persons.

According to some calculations made, it is indicated that, because of this young age structure of the population, in every thousand 422 people are in the child population group, 495 people are economically active and 83 people are old aged.

Upto now, in our explanation of the relationship between population and labour force, the changes in the labour force participation rate have been assumed to be constant. Whereas in the course of time, and because of some economic and social factors some changes are due to come about in the labour force participation rate. Naturally, such changes influence the volume of the labour force. If the labour force participation rate is considered as a rate determining the participation rate of the total population in economic activities it is seen that out of every hundred person 47 are included in the labour force so that, out of a total population of 28 millions in 1960, 13 million were included in the labour force. The participation rate, is higher for men 54.2% than for women 39%.

On the other hand, there are some important differences between economically advanced countries and the developing ones with respect to the labour force participation rate. Firstly, this rate is relatively higher in the former.

The factor that tends to equalize the average rate in these two different types of economies is connected specially with the rates of participation of women workers. In developing countries this factor helps to raise the average of the labour participation rate, in an artificial manner, to the advantage of such economies. In fact, the participation rate of men in the labour force in advanced economies, when compared with that seen in developing countries is found to be relatively higher. Whereas the labour participation rate of women in developing countries, when compared to that in advanced economies is found to be quite high.

The main reason connected with the particular position of women participating in the labour force is that women, to a considerable extent, work as unpaid family workers.

After our brief explanation of the labour force participation rate, now the structure of the labour force will be considered from two different angles. Firstly, demographic factors such as breakdown according to sex and age, secondly economic factors such as occupation and branch of economic activities will be emphasized.

The analysis of the population as to sex shows that the participation rate of women in the labour force, according to the results of the census taken in 1960,



was 39%. The absolute number of women participation was 5.295. Again, the same results shows that the economic sectors in which these women workers took part were almost totally agricultural.

TABLE VI

Division of women labour force as to their economic sectors, according result of the census of 1960.

<i>Sectors</i>	
Agriculture	95%
Industry	3%
Services	2%
<hr/>	
Total	100%

Besides this, if the participation rate of women is considered in relation to the total labour force, it is seen that 52% of the agricultural labour force, 11% of the industrial labour force and 9% of the people participating in services are women. So, almost all of the working women are in agriculture and those women who work in industry are occupied in the manufacturing sector, especially in the textile branch.

According to the results of the last census of the total women in the labour force 88% are participating in economic activities as unpaid family workers, 7% are working as employers and as self employed, and only 5% as workers. On the other hand, 75% of all the unpaid family members in the total labour force are women.

Regarding the analysis of the labour force in terms of age groups, it is a fact that the age structure of Turkey's labour force is young. The labour participation rates of the age groups according to the results of the 1960 census are as follows:

Age groups	for Men	for Women
15—19	78.9%	66.2%
20—64	77.1%	65.8%
65 and above	85.6%	60.0%

The main part of the labour supply, as seen in all the other countries, is cumulated, especially for men, in the 20—64 age group. (In Turkey, this group participation rate, as also given in Table VII, is 97% for men and 65% for women). The census of 1960 covers, in respect of occupation only those who are above the age of 15. Therefore, it is not possible to learn anything about the labour participation rate of persons below the age of 15. Considering the prominent role of agriculture in our economy, it would not be an exaggeration to claim that persons below 15 are widely employed as unpaid family workers in agriculture, handicraft and services.

Therefore, because of the necessities in the structure of our economy, the participation of our 7—14 age group in economic activities, should not be regarded as an insignificant factor.

On the other hand, the labour participation rate of the 15—19 age group is seen to be quite high. It is also true that educational facilities at the secondary school, and professional levels are limited.

Also, the analysis of the relative importance of each age group pays within the labour force in Turkey provides us with ratios that are also characteristic of the other developing countries. Here are some figures.

Age groups	for Men	for Women
15—19	13%	13%
20—64	83%	80%
65 and above	4%	7%
	100%	100%

Regarding the analysis of the labour force is to the various sectors of the economy, the following points can be emphasised.

It is possible to say that in this respect Turkey reflects the same characteristics as those seen in the other developing countries. In fact, according to the results of 1960 Census, 77% of the labour force works in agriculture, 10.4% in industry and 12.4% in services. The calculations made by the state Planning Organization show that, even if the plan is realized with full success, the ratio of the people working in the agricultural sector to the total labour force will not fall below 54.3%. Thus in the year 1977 not less than 54.3% of the labour force will participate in agriculture, 18.9% in industry and 26.8% in services.

Certainly some important changes might come about in the ratios connected with the breakdown of labour force into different sectors of the economy. In fact, even though on the average 77.2% of the labour force is participating in agricultural activities this ratio is, for example, much lower for the Eastern Marmara region, the most industrialised part of Turkey, it is 42.4%.

On the other hand, the Census of 1960 provides us with the following percentages regarding the division of the labour force in respect to occupational status.

Employers and self-employed	29.5%
Workers (wage and salary earners)	19.0%
Unpaid family member workers	48.0%
The others and the unknown	3.5%
	<hr/> 100%

The most significant point about this division is that the percentage is quite low for the workers while it is considerably high for unpaid family members, employers and the self-employed. The groups that are not included as workers amounts to 78% of the total labour force. Whereas, in advanced economics this rate is not more than 15-20%. Another characteristic of the division of the labour force in respect to status, in Turkey is the relative importance of the self-employed within the group of "employers and the self-employed".

The 1960 Census gives this rate in the following manner. If the employer rate is considered 1.5% then the rate of the self-employed is 28%.

As regards the importance of the unpaid family workers, we can say that its rate is quite high. While this rate varies between 1 %—5 % for advanced economies, it is 48 % for Turkey. Besides, the above mentioned division of the labour force also indicates the volume and the type of organization of our economic activities, thus bringing out extremely interesting characteristics. The participation of men within the employers, self-employed and workers group is 90 % while it is only 25 % for the unpaid family workers group.

The self-employed play a considerably important part in the industrial activities; this indicates that, in Turkey, the structure of the industry is dominated by small industries and small private enterprise.

On the other hand, the number of the workers that came under the provisions of the social insurance legislation constitutes only 4.6 % of the total labour force and 24.6 % of the total workers.

Also, the farmers, fishermen, hunters and foresters make 60 % of the total labour force, in respect of their division, into occupational groups and type of economic activities.

In respect of the division of the labour force into branch of economic activities, agriculture, forestry, hunting and fishing constitute 75 % of the total labour force.

The brief explanation given in the preceding paragraphs about the population and active population problems of Turkey brings to light the structure of the labour force.

As the labour force includes the employed and the unemployed people as well, without the consideration of its structure, it is necessary and useful to consider this problem in respect of employment.

### **ECONOMIC DEVELOPMENT, THE STRUCTURE OF EMPLOYMENT AND UNEMPLOYMENT IN TURKEY**

The labour force and population analysis made above indicates that Turkey has a rapidly increasing population and that on the other hand, the labour force is essentially employed in agriculture, which is in line with the underdeveloped character of the economy. As a matter of fact, the same point is emphasized in the report published by OECD where this characteristic of our economy is reiterated stressing the human factors.

On the other hand, the most obvious influence of this population growth may be observed in the labour supply. Essentially, on account of this dynamic labour supply in Turkey, the nature of the labour demand acts as the main strategic factor determining the employment capacity of the economy. In other words, the chronic non-adaptability between the labour supply and labour demand, determine its structure and limit its volume. The problem faced therefore is, the necessity to broaden the labour demand to such an extent that it can overcome the unbalance between labour supply and labour demand and even take care of the accumulated masses in the past who were unemployed or who were affected

by disguised unemployment and underemployed. As a matter of fact, the labour force which increases in our country in relation to the rapidly increasing population, essentially due to the actual shortage of labour demand, has and presently is, having influences in the direction of increasing the proportion and amount of disguised unemployment and underemployment.

As you know, in all advanced countries the capacity of the economy is sufficient to provide employment opportunities to the entire labour force, and the large amount of production affected by mass production and continuous investment can not be absorbed by the prices basic to the prediction of the entrepreneur, the accumulated stocks and underemployment invariably lead to unemployment which is called cyclic unemployment.

In the developing economies, however, bottlenecks in sales; instead of creating unemployment, function in the opposite direction and in order to overcome the consequences of low income, lead to broadening the rate of employment by increasing the number of people in family circles participating in the labour force. Furthermore, underemployment in the developing economies, exhibits itself in the form of disguised unemployment and underemployment instead of unemployment.

In this way, a mass of people is created in advanced economies which is periodically not absorbed by the total effective demand, whereas in the developing economies such as Turkey's there is a surplus population created by the population growth which cannot be fitted into the production system. As a matter of fact, the periodic nature of employment cycles in the advanced economies is one of the permanent components of the structure of employment in the developing countries. This structure of employment will not vary to a great extent in the coming years.

There are many factors determining the rate of development. Among them, the proportion of national income allocated to investment should be emphasised. Apart from this, the volume of industrial investments should be known. These two factors are important both in terms of increases in national income and in terms of changes in employment.

In Turkey, increases in national income were higher in the years when the proportion of investments and industrial investments were higher.

The necessity to purchase machines and equipment has led to foreign payment deficits and to dependence on foreign aid. This dependence will continue for at least 10—15 more years. On the other hand, aid to Turkey extended by the (Consortium on aid to Turkey) has been progressively decreasing during the recent years. The situation leads to difficulties in the realization of the goals of the plan. Under these circumstances, the investments of both public and private sectors are lagging behind. Most of the aid received is allocated to the payment of foreign debts and interest rates.

Thus, Turkey faces difficult development problems. The realisation of 7% rate of development, necessities 18% investment of the gross national product,

14 per cent of which should be obtained from internal and 4 per cent from external sources. In the former years, the goals of the plan were not realized. Between 1960-63, foreign aid was on the average 1.5 %—2.0 % of G.N.P. and internal savings did not exceed 12% of G.N.P.

But even if the 7% rate of development was realized, this would not solve the employment problems in Turkey.

In the 5-year plan, it has been pointed out that even at the end of 15 years of planned development, the employment problems of Turkey will not be solved.

**TABLE IX**

Employment and Unemployment Situation in Turkey between 1962-1977.

	(in millions)							
	1962	1963	1964	1965	1966	1967	1972	1977
Ages 15—64	15.7	16.1	16.5	16.9	17.5	18.0	10.9	24.2
Labour supply	14.2	14.4	14.7	15.0	15.8	17.7	17.6	19.9
Employment	12.7	13.1	13.5	13.9	14.4	14.8	16.8	19.2
Unemployment	1.5	1.3	1.2	1.1	0.9	0.9	0.8	0.7

The reasons for this situation can easily be explained. Population increase in Turkey is about one million a year. After 15 years, a certain proportion of this one million will join the labour force. If we make an analogy with the situation of 15 years ago, in 1950 the population increase was 600,000 and due to deaths etc. the amount who joined the labour force in 1965, after 15 years, is calculated to be about 300,000.

Some others predict that the early increase in labour supply will be 615,000 in 1965 and 736,000 in 1970. According to the calculations of the State Planning Organization, the increase in labour between 1961-1965 has been 1,390,000 between 1965-1970 this will amount to 1,900,000. If we leave aside those people who will be working in family enterprises, those looking for work will be 345,000 in 1965 and 400,000 in 1970.

Turkish economy therefore has to provide jobs for an increasing number of people each year. Therefore, the present rate of economic development has to be elevated to a level to take care of those newly joining the labour force, the unemployed and to a greater extent, disguised unemployment and underemployment in the agricultural sector.

On the other hand, any simple calculation on the gross national product and rate of investment, would indicate that present investments will not provide employment opportunities even to those newly joining the labour force. The following should be considered in making these calculations.

First of all, the employment co-efficient of investments is very closely related with changes in the foreign exchange rates. For instance, calculations made in

1950-1951 seem very modest because of the important changes in the foreign exchange rates. Furthermore, the effects of investment expenditures, both on national income and on increase in employment, may appear differently. Therefore, it becomes necessary to consider investments both in terms of labour and capital intensiveness. Another point in this respect is that, the effects of investments on employment will, in most cases, be observed after a certain period of time, after the investments are made.

It has been calculated in our country that 11 billion T.L. investments a year will be only sufficient to provide opportunities to those newly joining the labour force. Therefore, with the present rate of development for a long period to come, economic cannot absorb all labour categories. After a certain saturation point, the labour surplus in the agricultural sector will appear unemployed. According to the calculations made by the State Planning Organization, in order to determine the volume of under employment, in January 1960, a month when agricultural activities were at a standstill, there were 8.3 million unemployed and in July of the same year, the figure was only 8 hundred thousand.

In Turkey large masses become unemployed seasonally. For large masses unemployment ceases at harvest time. The solution of the problem lies in accelerating economic activities in the other sectors, so that employment can absorb the the surplus population.

There are some who claim that in Turkey, 20,000 are unemployed. These claims are made, because there is no agency controlling unemployment. Unemployment insurance has not yet been established in Turkey.

Our explanations thus far, indicate that unemployment or disguised unemployment, and under employment is one of our major social problems.

How can this serious unemployment problem be dealt with? Besides the classical measures to increase the rate of employment, a new opportunity that appeared recently attracts our attention; namely labour migration to western countries.

It is a completely new experience for Turkey to send part of its labour force to economically advanced countries in Western Europe. Since the last years of the 19th century Italy, Spain and Greece have been meeting the labour demand of these advanced countries.

Our labour force migration to the West started in the years 1960—1961; but its pace of increase has been astonishingly rapid. For example while there were only 1207 workers to Western Germany in 1960 this figure reached 54.764 for the year 1964.

Upon this unexpected increase in the number of the transferred workers the problem has attracted the attention of the public, the press, the legislative and the executive organs. They have all started to expect that the labour migration to foreign countries might be the solution for some of our difficulties.

They became conscious that there was now a problem entirely new in all respect. Also, there has been a decrease, for some reason or other, in the number of workers

migrating from countries like Italy and Spain, which are especially characterized by a relatively higher rate of economic growth and development when compared to Turkey. Therefore our country was in a position to fill the gap opened in the demand for labour in advanced countries. There is a rapid population increase essentially due to high birth rates.

Those who wish to migrate to advanced economies are in the first place, motivated by lack of employment opportunities brought about by the inadequacy of investments, and in the second place, by their aspirations for jobs that provide them with better working conditions higher standards of living and opportunities for a more secure future.

Thus, masses of people uprooted from all corners of the country, based on a semi-feudal social structure, have crowded in front of the labour Employment Bureaux established in certain regions. There, they wait with great patience to complete but bureaucratic procedures necessary for migration. This takes from months and sometimes more than two years. This scene is a reflection of the economic conditions current in Turkey. That is, limited employment opportunities due to inadequate investments, in other words, a shortage of labour demand having influences in the direction of increasing the proportion and amount of unemployment.

Essentially, the number of the people who are working in foreign lands is limited, being only 120,000 workers in Western Germany, in October 1964, but the number of people who have applied to Employment Bureaus has exceeded 400,000. These two figures are far from reflecting the surplus labour supply. In fact, the people who escape to the neighbour countries in the south, and those who have migrated to South Africa as well as those who have applied for work in South Africa should also be considered. Even though we lack sound statistical data on the subject, it is certain that the number of the people who could not afford reaching the Employment Bureaus, in order to complete their registration procedures and health examinations, and also the number of the people who, due to reasons connected with age, sex and family relations, are unable to apply for migration is considerably high. In addition, there is the masses subject to disguised unemployment who have to be taken into account. Their number reaches millions.

In short, Turkey, due to a variety of reasons, could not realize full employment conditions for its rapidly increasing labour force. Therefore, migration opportunities is vitally important for Turkey. According to estimates on favourable business cycles in western countries. There is hope for even a higher demand for our labour force.

This recent opportunity that promises happier conditions for our labour force is appreciated by our government. The government is interested in this migration because of two reasons: firstly, because it help to relieve the pressure created by unemployment. Secondly because it is a source of foreign exchange, as the workers do transfersome of their money to Turkey. In fact, the government has considered

the opportunities that would facilitate migration, has signed contracts to this effect, specially in countries where our workers are employed on a very large scale. It has also passed an Act concerning the same subject the former Minister of Labour has travelled abroad to study the related problems on the spot; some members of the Parliament have also made similar inquiries, the State Planning Organization has shown special interest in the same problem and has accepted this movement as one of the ways for "developing employment".

The Employment Bureau Organization has increased its efforts for regulating the migration of the workers to foreign countries and private Employment Bureaus, being inclined to exploit labour, were prohibited.

Meanwhile the press has also appreciated the significance of the problem. Even though there were a few articles concerning the dangers and drawbacks of labour force migrations to foreign countries were published, on the whole the press has evaluated this problem in all its aspects and dimensions. It has filled some of its columns with articles, jokes and encourage migration, and has included some related reportages in its pages.

Furthermore, so many people have started getting interested in finding jobs in Western European countries that language courses in German have been organized in some of our villages. Meanwhile it was included in the new government programme that "the workers abroad should be entitled to all the rights and be given the opportunities for living together with their families and also should be protected from all sorts of harmful investigations". This shows how serious the government considers this problem.

Under the provisions of a protocol drawn up between the Federal Government of Germany and the Government of Turkish Republic, on September 15, 1965, in Ankara a scientific enquiry should be started in order to study the social and economic conditions of the Turkish workers in Western Germany and to eliminate the difficulties and handicaps that arise in connection with the labour migration movement. This duty was to be carried out by the Institute of "Experimental Sociology" in Saarbrucken and the Institute of Economics and Social Sciences of the Faculty of Economics, the University of Istanbul. Meanwhile, the visit of inquiry made by the president of Turk-Is, the largest labour organization in Turkey, to the related Western countries should also be mentioned.

Now we will consider the labour force and employment problems in Turkey.

### CONCLUSION

In this section we want to evaluate the effects of the labour migration from Turkey to Western countries. These effects will be considered from the point of view of the social and economic structure of the country. Presently, there are more than 200,000 Turkish workers working in foreign countries. According to the calculations made by the State Planning Organization, in the next 3—5 years, this number will increase to 500,000.



This figure is about sufficient to absorb the additional labour force increase for two years in our country. Consequently, the pressure of this labour surplus will decrease. The social problems this group may cause, can also lose its importance.

The group subject to disguised unemployment working in the agricultural sector, in line with the insufficiency of the labour demand, migrates to the cities and fills the slums and after a while, becomes unemployed migration to Western countries will therefore have a positive effect.

It may also be considered a social investment, from the point of view of training, education, including the children, in case the workers take their families along, getting used to the work discipline, acquiring new skills in the foreign country. When they return back, they will also have acquired new knowledge concerning human relations at the plant level, increased their productivity orientation.

These masses, when they return, will introduce the western ways and know-how to their milieu. Contact with the West was limited to only a few individuals up to the present.

Measures should be taken, however, to provide for the preservation of local traditions and morale when these masses go abroad.

While they are abroad, the transfer of their savings to Turkey may be of help. Presently, 3,000,000 dollar transfer per month is officially mentioned. This amount will increase with the increase of workers. This will help to counter-balance the chronic foreign trade deficits which have a negative effect on rate of development; consequently, national income and the rate of employment will increase.

This migration will also help to eliminate the pressure on consumption goods and food.

For all these reasons, this labour migration is a good example of international co-operation in the field of economic and social problems.

**ROLE OF FINANCIAL INSTITUTIONS IN A  
DEVELOPING ECONOMY: PAKISTAN'S EXPERIENCE**

*By*

**DR. MOINUDDIN BAQAI,**  
*Senior Economist,  
Planning Commission,  
Government of Pakistan*

In a mixed economies relying heavily on private initiative for growth, expansion and continuation of productive activity, such as exist in RCD countries, financial institutions play a crucial role in promoting economic development. While the public sector provides basic infrastructure, essential social services and occasionally pioneering activity in certain areas of direct production, bulk of the productive activity is carried on by private entrepreneurs. For the latter, availability of finance in adequate measure and at suitable terms is the essential prerequisite of growth. In part, earnings and savings are ploughed back by the entrepreneurs but such earnings are, at least in the initial stages of development, insufficient for exploiting the full potential of growth. Resources of the entrepreneurs have to be supplemented by organized flow of credit and equity finance. In fact an earlier theory of development, which was designed to explain the development of Western countries seeks to explain the entire process of growth in terms of the efforts of entrepreneurial class and the flow of credit to them.

In the underdeveloped world of to-day the problem of growth is much more complex and requires a multi-pronged attack, involving a considerable effort at planning and creation of infrastructure by the Government. However, assuming that any extensive socialization is not a serious alternative in such countries, the growth of GNP would depend ultimately on how the private sector responds and takes advantage of the diverse facilities provided by the public sector. While

public sector activity meets a necessary condition of development, this is not a sufficient condition in a private enterprise or mixed economy. The sufficiency test is met when private and public sector complement each others' efforts to bring about desired growth in economic activity.

The private sector is, however, not easily amenable to direct policy manipulation. It would wither away by direct controls but would respond well to indirect stimuli. It flourishes in a climate of overall profitability and its main nourishment is the flow of finance to support enterprise and initiative.

In Pakistan, the success of the Second Five-Year Plan has amply demonstrated the growth potential in the private sector which can be drawn upon, given a favourable climate for profitability and an adequate institutional framework for guiding and assisting private enterprise. Pakistan has travelled a long way since the chaotic days of 1947 when it had faced a virtual collapse of her foreign-dominated banking system and has been able to evolve a network of financial institution which, though far from being perfect, plays a crucial role in financing development in the private sector. The institutional framework for private finance evolved gradually over the years was subjected to considerable reorganization after 1958 when the Revolutionary Regime took over. Reforms carried out as a result of the recommendations of a Credit Enquiry Commission imparted the financial system with greater functional efficiency and cohesion. The results were seen in the performance of the private sector and the expanding role of these institutions during the Second Plan.

At the time of Partition, Pakistan's financial system consisted almost entirely of a few branches of British exchange banks and a large network of the branches of Indian banks who had moved their headoffices to areas in the Indian Union after Partition. There was only one small Pakistani bank on the eve of Partition and another bank under Muslim management shifted its headoffice to Karachi from Bombay after Partition. There was no separate central banking authority for the country, as under the Partition arrangements, the Reserve Bank of India continued to provide central banking facilities to Pakistan also upto June 1948.

The inadequacy of banking facilities was aggravated by the sudden collapse of the banking system under the strain of post-partition disturbances and the wholesale migration of population. Certain emergency measures were taken to provide protection and encouragement to banks. However, the banks whose headoffices had shifted to Indian Union, did not feel any particular need to continue to function their branches in Pakistan, except for keeping a few offices open for registration of claims against property of the borrowers and in general to look after recoveries of loans. As many as 418 out of the 631 bank offices operating in the country were closed and even the remaining restricted their activity severely.

The State Bank of Pakistan, the central banking authority of the country, was set up in July, 1948—three months in advance of the date stipulated under

Partition arrangements, to meet among other things, the situation created by the wholesale closure of bank offices. While handicapped by serious lack of organisational strength and burdened by the responsibilities of replacing Indian currency by a new issue, the State Bank of Pakistan took upon itself urgent task of reviving and reorganising the banking system of the country. As it was realised that the key element in the situation was the lack of trained personnel, the State Bank immediately sponsored a training scheme which has played a vital role in meeting the demand for bank personnel.

An Institute of Bankers and later two Bankers' Training Institutes were set up, one in each wing of the country. Care was exercised at the same time that the vacuum created by the withdrawal of Indian banks should not be filled by foreign banks. The branch-opening policy was revised according to which operations of foreign banks were restricted to towns and important metropolitan areas. Pakistani banks were encouraged to move into the interior of the country and exploit a completely sheltered market. Another important step taken by the State Bank was the sponsoring of the scheme for setting up commercial bank with 25% government participation in its share capital. The National Bank of Pakistan was established in 1949 ahead of schedule in view of the Indo-Pakistan trade deadlock following the non-devaluation of the Pakistani Rupee in September 1949. Gradually the National Bank developed into a strong and expanding banking institution and replaced the Imperial Bank of India as the agent of the State Bank of Pakistan for Government's business. Two other Pakistani banks were set up about the same time on private initiative. Thus "the nucleus of Pakistani banking was laid during the first two years of the State Bank's working".<sup>1</sup>

By the middle of 1950 it appeared that the essential task of rehabilitating banking system and laying down foundations for its self-sustained growth had been virtually accomplished. From this point, the banking system could generally be left on its own to expand in line with the requirements of the economy. While the number of bank offices in June 1955 at 251 showed only a modest increase over the level in June 1948 a basic change was the greater element of Pakistanization in the banking system. The number of Pakistani bank offices totalled 163 in mid-1955 compared to 23 in 1948. Foreign banks—mostly of Indian origin—on the other hand came down from 172 to 88 over the same period. Thus the weak links in the system were reduced and the nucleus of a progressive and expanding banking owned and managed by Pakistanis had been created.

Over the subsequent five years, while the number of foreign bank offices declined somewhat, roughly 100 new branches were opened by Pakistani banks, raising the total number of bank offices in the country to 430. The number was more than double the figure for immediate post-Partition period, though it was still less than the pre-Partition figure of 631.

The business per office had, however, increased significantly over the years,

---

1. Dr. S.A. Meenai "Banking System of Pakistan".

more than compensating for the loss in numbers. From a modest level of \$ 41.55 million in July 1948, the total bank credit advanced by scheduled banks had increased to an impressive level of \$ 339.79 million by the middle of 1960. Taking 1948 as base, the index of bank credit by 1950 had risen to 817.69. During the same period, bank credit per bank office of the bank increased from \$ 0.21 million to \$ 0.74 million. Since the index of bank deposits rose only to 334.25 over the same period and deposits per bank office increased from \$ 0.95 million to a little less than \$ 1.47 million, there was a much more intensive utilisation of bank funds.

An important feature of progress during this period was the substantial diversion of bank funds from the financing of foreign trade to industry. The banking system developed in Pakistan in the tradition of British banking practices was mainly geared to the financing of foreign trade on a short term seasonal basis. The busy season commenced in September/October with the marketing of the cash crops *viz.*, cotton, and jute and lasted till February/March. Credit was largely provided by banks for financing the movement and export of these crops. This pattern of financing was modified by the emergence of an industrial sector in the country. Banks had provided \$ 17.31 million for financing manufacturing in 1953—roughly 16 per cent of total advances to all sectors. By 1960, this sector claimed \$ 116.39 million or 38 per cent of the total advances.

The increasing flow of bank credit to the manufacturing sector did not necessarily imply that the needs of industrial sector were adequately met. Partly owing to their conservative tradition and partly because of the very structure of their liabilities, commercial banks confined their activities to financing short-term working capital requirements of industry. Although some of the assistance in effect turned out to be of medium-term nature as it was allowed to be rolled over, this arrangement was not satisfactory from the point of view of the users of credit *viz.*, private industrialists.

Quite early, attention was paid to the creation of specialised institutions for meeting the requirements of development finance in areas such as agriculture, industry and house building where bank credit was not adequately available. The setting up of specialised financing institutions was based on the realization that it would not be proper for the banking system to undertake this function, even if it could be persuaded to do so.

As early as 1949, a special institution for medium and long-term industrial financing known as the Pakistan Industrial Finance Corporation was set up. Sponsored as a joint venture of the Government and private enterprise, the paid-up share capital of this institution amounted to \$ 4.20 million with 51 per cent Government participation. The Corporation was allowed to grant loans to industrial companies and co-operatives (later also to individuals and partnership firms) for a period of 20 years either in the form of direct loans or subscription to their debentures or a combination of both. It could underwrite the issue of stocks,

shares, bonds and debentures by industrial concerns and could also guarantee loans raised by industrial concerns. But it was not authorized to subscribe directly to the share capital of any company. Moreover since the loans by the Corporation had to be fully secured by pledge, mortgage, hypothecation or assignment of existing assets, it could not lend to new industries against prospective assets. It could not, therefore, function as a full-fledged development bank. Moreover its activities were also limited, because it could only make loans available in local currency, while foreign exchange emerged as the main bottleneck in the later fifties.

The Pakistan Industrial Credit and Investment Corporation (PICIC) was set up in October 1957 with the object of providing development finance to new industries and in general meet the requirements of industrial finance which PIFCO could not take care under its charter. The Corporation has an authorized capital of \$ 31.51 million of which \$ 8.40 million is paid up. Sixty per cent of the capital has been subscribed by Pakistani investors while the remaining forty per cent is held by the International Finance Corporation and private investors in USA, UK, Japan and West Germany.

In the field of agricultural credit, an Agricultural Development Finance Corporation (ADFC) was set up in 1952 more or less on the lines of Pakistan Industrial Finance Corporation. Later, as it appeared that ADFC was not making significant progress, Agricultural Bank of Pakistan was set up at about the time PICIC was set up in the industrial field.

For house construction, House Building Finance Corporation (HBFC) was set up in 1952 with a share capital of \$ 10 million entirely subscribed by the Government. The Corporation can supplement its resources by the issue of debentures and has in fact done so. The Corporation provides loans upto a maximum amount of roughly \$ 8,000 for individual and \$ 0.32 million per Co-operative Society against supervised construction of new houses mortgaged to the Corporation.

In 1958, after the Revolution, a Credit Enquiry Committee was set up to recommend, among other things, measures for improving the efficiency of credit structure. The Committee was of the view that while credit facilities provided by the commercial banking system were adequate for meeting the working capital requirements of the industrial sector, there was a shortage of development finance for small and medium industries. This was so because PICIC, being a private company, concentrated mainly on big projects of high expected profitability. The Commission, therefore, recommended the conversion of Pakistan Industrial Finance Corporation, which had virtually ceased performing any important function different from what the commercial banks and PICIC were already doing in their own spheres, into a full-fledged Industrial Development Bank of Pakistan (IDBP). The main line of division of functions between PICIC and IDBP was laid down on the basis of the nature of industries to be assisted. While PICIC—a private company

with foreign private capital participation—had to apply rigid criteria of credit worthiness to build its proper image in the country as well as abroad as a partially Government-owned institution IDBP could afford to take more risks. It could, therefore, concentrate on relatively small units and areas of national priority, such as, mining, shipping, etc., which were ignored by PICIC. It could take a broader view and thus fill the gaps in existing credit facilities for industrial sector.

In the agricultural sector, the Credit Enquiry Commission made far-reaching recommendations for the reorganization and revitalization of the co-operative movement, the merger of two existing credit institutions—the Pakistan Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan which were functioning on the basis of a geographical distribution—into one strong unit for providing medium and long-term development finance to the agricultural sector and for proper co-ordination between the new credit institutions and the co-operative movement.

As a result of these recommendations, Industrial Development Bank of Pakistan was set up in August 1961, replacing the Pakistan Industrial Finance Corporation. Earlier in February the same year, Agricultural Development Bank of Pakistan (ADBP) was set up to replace the Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan.

Thus towards the beginning of the Second Plan period, a comprehensive institutional framework had been evolved to cater to the needs of medium and large-scale industry, (PICIC and IDBP), agriculture (ADBP), house-construction (HBFC) and trade as well as working capital requirement of industry (commercial banking system). In addition, progress was also made in reorganizing the co-operative movement on sound lines to channel funds to the tiller of the soil and in developing an equities market for the shares of large companies—two important developments which demand elaborate discussion, and are outside the scope of this paper.

During the Second Plan period, the success of investment targets in the private sector was due, in no small measure, to the promotional role played by the financial institutions listed above. The rate of private investment increased from \$ 75.88 million in 1959-60 to \$ 146.47 million<sup>2</sup> in 1964-65—a rise of more than 90 per cent over five years. As a ratio of GNP, private investment increased from 5.5 per cent to 8.1 per cent over this period. It would be interesting to analyse the sources of financing this investment and the part played by the financial institutions in this field.

Commercial banking system has played a leading role in meeting credit requirements of the economy. It appears that probably in the middle of 1959, the banking system acquired a new role, casting aside its old conservative attitudes. Bank credit increased from \$ 339.79 million in June 1960 to \$ 1336.55 million in June (18th) 1965. The increase of roughly 300% in bank credit during the Second

---

2. In terms of 1959-60 prices.

Plan period compares with roughly 80% during the First Plan period. Banks opened over one thousand additional branches mostly in the interior of the country and mobilized additional deposits to the extent of \$ 827.34 million over the same period to finance this expansion. There was sharp intensification in the use of bank funds over the same period which was reflected in a steep rise in the credit deposit ratio of the banks from 55.0 in June 1960 to 93.9 in June 1965.

The bank funds are not directly usable for development finance, and are generally advanced as short-term credit. However, the availability of funds from this source was an important factor in releasing funds for investment and longer-term commitment. The following table indicates the distribution of bank advances according to securities pledged :—

<i>Type of security</i>	(\$ million)	
	30-9-64	30-6-60
1. Gold, Bullion, Gold and Silver ornaments, precious metals .. .. .	15.31	4.79
2. Stock Exchange Securities .. ..	69.18	29.17
3. Imported industrial machinery .. ..	8.69	3.36
4. Machinery and other fixed assets .. ..	66.63	7.25
5. Export commodities .. .. .	180.75	74.17
6. Imported goods other than industrial machinery .. .. .	179.74	56.10
7. Other merchandize .. .. .	163.00	66.03
8. Real Estate .. .. .	62.16	7.82
9. Financial obligations .. .. .	48.36	11.38
10. Others .. .. .	190.45	43.38
Total ..	984.27	303.45

While it is difficult to determine the end-use of credit with the nature of security pledged, it may be assumed that apart from the loans obtained against export commodities and other merchandise (which includes largely the foodgrains), the increasing bank credit obtained against other uses was mainly for expanding the operations of existing concerns and was directly or indirectly for development finance. The classification of advances according to major economic groups indicates that the volume of bank credit going to manufacturing sector increased from \$ 116.38 million in 1960 to \$ 316.93 million by September 1964. Thus more than one-third of the additional credit was directly used in manufacturing sector.

The above figures are exclusive of financing provided by specialized credit agencies mentioned in an earlier section of this paper. . . . In addition, a substantial



flow of development finance was made available by the specialized credit institutions which had a more direct bearing on investment decisions and the actual volume of private investment. It has been estimated that \$ 288 million of foreign credits were diverted to the private sector through the agency of these institutions, during the Second Plan period, in addition to rupee finance made available by them from Pakistan's own resources. This added to the private foreign investment accounted for roughly 1/5th of total private investment in the country and was thus a key element in fostering the growth of private enterprise during the period.

Pakistan Industrial Credit and Investment Corporation sanctioned 415 loans involving roughly \$ 180 million between 1958 and the first quarter of 1965. Of these \$ 160 million were sanctioned during the Second Plan period. The bulk of these loans (roughly 96%) was in foreign currency. Loans in Pakistan currency were given only to supplement the resources where necessary. The Corporation's minimum lending limit for one project is the equivalent of \$ 300,000 in foreign currencies and \$ 500,000 in local currency. However, under a special arrangement made by the Government of Pakistan with the World Bank, PICIC has been authorised to lower its lending limit for any one loan to \$ 50,000 for balancing and modernising and replacement requirements of small and medium-size industrial units. Its operations are, thus, mainly for large size units. The average size of loans by the PICIC thus works out at more than \$ 400,000.

Apart from its promotional role, PICIC exercises a highly useful function by scrutinizing application of projects. An applicant for a loan is required to furnish complete information on the proposal project. Staff assistance is provided in appraising the project. In case the project in question is specially large or technically complicated, the sponsors are advised to seek the assistance of suitable technical consultants and submit a feasibility report. The project appraisal by PICIC is carried out not only on technical and financial basis, but also on the basis of its priority from national point of view. Preference is given to projects which fall within the scope of national priorities as fixed in the industrial investment schedule, particularly those processing indigenous raw materials and showing goods, prospects of earning or saving foreign exchange.

Loans are expected to be repaid within a period of 7—12 years in equal semi-annual instalments beginning within one year after the project has gone into operation. Loans are generally provided against the security of a first charge on the assets of the enterprise and rates of interest are fixed at 6½% on rupee loans and 7½% on foreign currency loans. Though no strict rule is laid down for debt-equity ratio, a rough parity between debt and equity is considered desirable. This generally works out in practice on the principle that PICIC provides foreign exchange component of the project as a loan and total rupee cost has to be met by the sponsors.

The Industrial Development Bank of Pakistan concentrates within overall

framework of industrial investment schedule on the medium and small units. It can sanction loans upto \$ 50,000, the foreign exchange component of which may not exceed \$ 30,000. Thus the Industrial Development Bank takes up financing of the smaller units where PICIC leaves off. The only relaxation in lending limits of IDBP is for mining, jute, cotton and inland water transport. The limits may be relaxed generally or specifically in other cases on the direction of the Central Government.

Although the Bank is authorized to sanction loans upto a maximum of 20 years, most of the loans are actually for a period ranging from 7—10 years. Interest on foreign currency loans is charged at a uniform rate of  $7\frac{1}{2}\%$  per annum and on local currency loans at a variable rate of  $6\frac{1}{2}\%$  to  $7\frac{1}{2}\%$  according to the size of the loans.

Bank began its operation in August, 1961. At the end of March, 1965 total loans sanctioned to 2150 concerns amounted to \$166 million. The average size of the loan thus works out roughly at \$ 80,000 per concern.

Of the total loans, the ratio of foreign currency loan to local currency loan was roughly  $\frac{2}{3}$  and  $\frac{1}{3}$ . This implies that Industrial Development Bank is operating with a less strict debt-equity ratio than PICIC, as it is financing not only the foreign exchange cost but also a part of the rupee cost of the projects. This is justified on the basis of the field of investment allotted to this institution and the promotional effort expected to be undertaken by this institution in contrast to the image of a hard headed progressive banker assigned to PICIC. Between them the two institutions have been able to take care of most of the industrial credit requirements in the economy.

The problem area which still remains to be tackled is that of medium-term finance. Specialised credit institutions finance long-term development requirements of industry, while banks ordinarily take care of short-term needs. The latter form of assistance is often converted into medium-term financing through re-lending. This is, however, not a satisfactory arrangement. Need is, therefore, being felt for the setting up of a Re-finance Corporation which would rediscount medium-term loan papers from banks, thus inducing them to lend for purposes for which no specific arrangements exist at present.

Agricultural Development Bank of Pakistan has a much bigger field to operate but faces much more complex problems. Its operations have therefore yet to expand to the point where they would be anywhere near being adequate. This remains true despite a remarkable expansion of financial activities undertaken by the bank in recent years. The bank advances loans to individuals engaged in agriculture or in the development of agricultural produce or in storage warehousing marketing or processing of agricultural produce and also to public and private limited companies or co-operative societies in whose case the bank is satisfied that the loan would be utilized for agricultural purposes. The total amount sanctioned by the Bank from its inception in February 1961 to March 1965 stands at

\$ 90 million to more than 600,000 agriculturists. The Bank charges interest ranging between 6 to 7% on its loans and has a recovery experience of roughly 80 per cent. The bank advances short-term loans of less than 18 months, medium-terms loans maturing over 18 months to 5 years and long-term loans maturing over a period of more than 5 years.

The main problem the Agricultural Development Bank faces is that unlike PICIC and IDBP which rely heavily on foreign credits and borrowing from domestic money market (in case of IDBP), the Agricultural Development Bank has to depend almost entirely on the resources of the Government and State Bank of Pakistan.

The Bank has paid-up capital of \$ 20 million entirely subscribed by the Central and the Provincial Governments. In addition the Bank obtained \$ 35 million from the State Bank in loans till the end of March, 1965. A sum of \$ 1 million has been placed at the disposal of the Bank by the Central Government for financing the loans of development of tea estates and \$ 0.5 million for marine fisheries. To supplement its resources the Bank is making efforts to mobilize deposits from the public in urban and rural areas, but has not met with much success.

This aspect of the mobilization of resources has to receive much greater attention in the Third Plan when the Bank would be called upon to play a significant role in bringing about private investment of \$ 800 million in agriculture. The activities of the Bank would have to increase manifold and the resources would have to be found for this purpose. Currently negotiations are under way for a loan in foreign exchange to the bank with the International Bank for Reconstruction and Development. This loan would help widen the operations of this institution and would enable it to give foreign exchange loans for agricultural machinery etc., on the lines of PICIC and IDBP.

As the country enters into the period of Third Plan, with its ambitious targets of investment in the private sector, the institutional framework for financing is being reviewed. The evaluation of this institutional framework is a continuing process and must be carried on periodically to keep pace with trends in the economy. The experience throws up various short-comings and lacuna which need to be filled. In the Third Plan the major emphasis is to be on energizing the existing institutional framework for agricultural credit. In addition to the efforts being made to expand the scope of the operation of ADB outlined above, attempts have to be made to improve the working of the co-operative movement which is close to the heart of the village life and is thus a good liaison between credit agencies and the tiller of the soil.

## SOME SUGGESTIONS FOR ECONOMIC CO-OPERATION OF RCD COUNTRIES

*By*

PROFESSOR DR. ORHAN OGUZ,

*President of the Commercial and Economic Sciences Academy,  
Eskisehir-Turkey*

For centuries developed countries have benefited from undeveloped and underdeveloped countries and increased their welfare at the expense of the poverty of other countries.

The present reality is, that the gap between developed and underdeveloped countries is continuously increasing. In order to lessen the gap the underdeveloped countries must support each other and must co-operate in every field.

We can see the similar problems in every underdeveloped country and especially in our countries, such as :

- (i) per capita national income is low,
- (ii) the rate of population growth is very high,
- (iii) in low level of income possibility of saving and investment will be limited,
- (iv) the great majority of population is illiterate,
- (v) every kind of unemployment is widely seen,
- (vi) we all have an unfavourable balance of payment, to close this gap our export potentials are also limited.

We have to improve all the weakness in order to reach a certain level of welfare. For this we have to invest in large amounts and in this respect we must complete the infrastructure investments. In my opinion, firstly the co-ordination and co-operation between our countries must be in the field of infrastructure investment. We have to construct highways, railways, ports, etc., according to re-

gional requirements.

Our countries are scattered over vast area with different climates, with millions of people living on the land. For a stable development, every kind of economic relation must be carefully planned and even we must establish a common market. Now, a new era of great economic units is developing. The foreign policy of small and economically backward countries is also inefficient. And these are exploited by the great states. Our nations benefit from their own natural resources.

Today in our economics both public and private enterprises are existing. We are practising a mixed economic system. There are also certain difficulties in mix-economics. The limited capital and skilled labour and managerial abilities must be used in most productive fields.

If we cannot solve our regional development problems together we cannot compete with foreign goods by forming large economic institutions.

I think that we have to co-operate in order to have a market large enough in which certain industrial and even some consumer goods be sold in large amounts ; so the break even points of optimum sized plants could easily be surpassed.

For this there are two alternatives :

(1) to establish common firms or corporations in different industrial fields. For example truck industry in Turkey. Iran and Pakistan can participate in equal share. These ratios can be changed to enable the foreign investment participate in these establishments.

(2) Each country can develop its own industries which fit best to their economic, natural and social conditions. RCD countries would guarantee to import upto certain amounts of goods from each other in order to promote some industries in specific areas ; by doing so they create the atmosphere for division of labour as well as co-operation among themselves.

In this way large scale plants can be established ; the benefits from the economies of scale could be derived ; productivity and efficiency would be increased. Under these conditions, after a while, the possibilities of exporting some industrial goods other than RCD countries could arise.

Within this general scheme the following measures could be suggested.

1. To establish a common market for the outputs of certain selected sectors where economies of scale are vitally important.

2. To give purchase guarantee for some kind of goods such as trucks from Turkey and Jute from Pakistan, some other goods from Iran.

3. To establish industrial or non-industrial firms to be able to compete again giant firms of the Western world.

4. To form Investment Bank through which joint projects could be financed.

5. To reach an agreement on the understanding of economic policies of RCD countries is very important. Although somewhat mixed economy

is relevant in all RCD countries. The ratio of State enterprises to private enterprises is different and the tendencies of increasing or decreasing of this ratio are also different. If State enterprises follow the same policies in costing, pricing and in marketing as of private enterprises there would not be any problem. But this is not the case. So State enterprises would distort the true picture of the market. This would create many difficulties for natural and mutual co-operation. For these reasons clear and definite policies should be accepted on the nature of mixed economy.

If the three countries succeed in establishing a common market and co-operating in certain fields of manufacturing industries and raw material production, there will be created a huge market with 150 million buyers.

Under these conditions, practical problem, not the utopistic ideas, must be taken into consideration.

A broader co-operation between the countries may follow the practical measures which we hope to be successful.

## DEVELOPMENT OF BANKING IN PAKISTAN

*By*

DR. ABDUL QADIR,

*Chief, Research Section, Pakistan Industrial Credit  
and Investment Corporation*

Economic development is to-day the greatest challenge confronting the underdeveloped countries of the world. The main cause of economic backwardness, as is now well-known, lies in the fact of low level of investments and, therefore, low levels of production in these countries. The availability of capital in underdeveloped countries is not only small but the pace of annual accretion is also small. In fact both of them are closely related and form part of a vicious circle. The low amount of initial capital stock restricts the growth in income which reduces the rate of savings which means lower rate of investment and back to low amount of capital stock. To break this vicious circle, a considerable increase in their present levels of investments is needed.

Increasing the investment rate is not merely a matter of adequate financial resources. It requires, among other things, an institutional framework geared to channelling the available resources into productive activities, an enterprising business class, pioneering and promotional efforts, technical and managerial expertise etc. To solve these problems, an innovation in banking was evolved in Europe in 1830s which came to be known as investment banks, the fore-runners of the present-day development banks. These banks granted long-term credits, shared in equity, provided assistance in the form of underwriting and placement of shares on the stock market, played an important role in the procurement of technical advice and managerial talent, and sometime even assumed direct responsibility for the enterprises concerned. These institutions were thus designed to relieve the shortage of capital, entrepreneurship and managerial and technical

skills which face countries seeking to develop rapidly. They proved so successful in their task, that they were widely copied and in course of time became an integral part of the financial system of practically all the free advanced countries of the world in one form or the other.

### **Position in Pakistan**

On its emergence as an Independent state in 1947, Pakistan was confronted with circumstances somewhat similar to the early 19th century's Europe. Industry was almost non-existent, facilities for long-term financing conspicuous by their absence, traditions of entrepreneurship lacking, and technical and other skills woefully short of need. The investment rate was amongst the lowest in the world and grave doubts were being expressed about Pakistan's economic prospect and viability as an independent nation. It was in frank recognition of the urgency of economic development that the Government of Pakistan, no sooner than it was free from the pressing burdens of reorganising the new-found state, set about the task of creating a development banking system. The establishment of Pakistan Industrial Finance Corporation (PIFCO) in 1949 was the first step in this direction. As the development programme of the country got under way, need was felt for similar specialised institutions in agriculture and two institutions *viz.*, Agricultural Development Finance Corporation (ADFC) and Agricultural Bank of Pakistan (ABP) were established in 1952 and 1957 respectively. The formation of Pakistan Industrial Credit and Investment Corporation (PICIC) in 1957 marked a significant step forward in strengthening of the development banking structure.

With two institutions in the agriculture sector and two in the industrial sector, need began to be felt in course of time for a measure of rationalisation. The result was that on the one hand, ADFC and ABP were merged into a unified institution called the Agricultural Development Bank of Pakistan (ADBP) and PIFCO reorganised into a new institution, *viz.*, the Industrial Development Bank of Pakistan (IDBP), and on the other, the respective spheres of activities of IDBP and PICIC were demarcated to co-ordinate their operations. Whereas the former was to cater to the requirements of smaller industries (needing less than Rs. 15 lakhs in foreign currencies and Rs. 25 lakhs in local currency), the latter was charged with the responsibility of meeting the needs of larger units.

### **Performance**

The time that has elapsed since the inauguration of the development banking may be considered too short to evaluate their performance, much less to forecast about their future. Surprisingly enough, despite their short-lived existence, these institutions have already exerted a significant influence in stimulating investment and are destined to play an even larger role in future. This may be visualised from the following :

*Financial Assistance* : A major impediment to a higher rate of capital formation in underdeveloped countries is the paucity of long-term finance for the



entrepreneurs at reasonable terms. Whereas their counterparts in advanced countries have well-organised facilities at their disposal, this is not so in an underdeveloped country. Such was precisely the position in Pakistan prior to the establishment of development banks. The stock market was non-existent before 1949 and for many years thereafter its effectiveness was seriously limited; the scope of self-financing was restricted by the smallness of the so-called "capitalistic" sector; and as regards commercial banks, they could not provide long-term finance. The three Pakistani development banks have successfully stepped in helping to meet this deficiency. The total financing provided by them has been of the order of Rs. 292.66 crores. On a rough but conservative basis, it is estimated to be equivalent to total investments of Rs. 500-600 crores of which a significant part has been made available since the beginning of the Second Plan. This is spread throughout the length and breadth of the country and has benefited a very large number of projects (approximately 2500 in industrial field and 600,000 in agricultural field) covering practically all segments of industry and agriculture.

Very sizable increases in production have been made possible in industries, such as sugar, textile, jute and paper and board. Although the volume of assistance at less than Rs. 45 crores may appear to be too small in relation to total requirements of this sector, this seems to be a temporary feature. The level of assistance is expected to be stepped up in the coming years. However, an encouraging feature is the flowing of progressively larger amounts in such directions as purchase of tractors, sinking of tubewells and permanent improvements so that the beneficial impact is in real terms much larger than indicated by the financial amount.

Furthermore, the terms of assistance have been quite favourable. For example, interest rates at 6% to 7% for loans of 5 to 12 years duration charged by them are lower than the corresponding rates in Taiwan (14.04%), Japan (8.7%) and Thailand (8%).

*Mobilisation of Investible Resources :* Providing of assistance through loans, equity etc., naturally requires substantial efforts towards resource mobilisation. The mobilisation efforts of the Pakistani development banks have been quite successful. Total resources mobilised stood at the end of 1964 at Rs. 242.70 crores, of which about Rs. 180.00 crores (74%) was in foreign exchange alone. Considering the strategic role of foreign resources in development, this is quite significant.

It may be inquired whether these sizable foreign resources would have been available without the help of the development banks. Foreign lending countries agencies are generally reluctant in making available assistance to private enterprises directly. The main reason for this is their fear about possible misuse of their assistance and consequent difficulties in repayment. They have less reluctance in lending through a well-organised development bank which dispenses its assistance strictly after satisfying itself about the economic, financial and technical soundness of the project in a scientific manner and subject to its close super-

vision even after the project has gone into commercial operation. The project appraisal and follow-up techniques, characteristics of development banks as described later, are therefore, the key elements in attracting large foreign resources into Pakistan.

This also applies to supply and resources by private non-institutional investors. On the one hand, foreign investors are inclined to favour enterprises backed by development banks and, on the other hand, they serve as useful meeting points between local and foreign entrepreneurs. The large and growing number of joint ventures (17 through PICIC alone so far) illustrate this strikingly.

As the development banks provide only part of the cost of the projects, their financing operations result in the mobilisation of other resources needed to complete investment in those projects.

*Development of Stock Market :* A stock market is essential for mobilising funds and channelling them into productive industrial ventures. In its absence, the needs of large enterprises especially could not possibly be met. Besides, by providing a continuing market for shares, it promotes the investment habit and helps in wider distribution of share ownership. Although a Stock Exchange was established at Karachi in 1949, it was not until much later that it became an important source of finance. Through financing of projects of which shares are listed on the Stock Exchange, the development banks, chiefly PICIC, have helped to develop stock exchange. It has not only provided equity to enterprises directly but sought to rotate its holdings of successful enterprises in the interest of active trading, encouraged formation of joint stock companies involving public issue of shares and performed underwriting services. As a result, the stock market has gained in strength and reached a stage where successful issue of shares of even large amounts is no problem for viable enterprises. This is corroborated by a record issue of Rs. 3.4 crores successfully underwritten by PICIC jointly with other banks in respect of Sui Northern Gas.

*Technical Assistance and Other Advice:* The provision of capital may not always be sufficient to create effective enterprises. The technical and other assistance is equally important for successful investment. This may be needed not only in the preparation and execution of projects but also to overcome problems and difficulties after they have gone into production. The pre-sanction project appraisal and post-sanction follow-up support, as these are known, are vital to the health of the enterprises and are undertaken by development banks. The pre-sanction project appraisal covers detailed scrutiny of economic, technical, financial and entrepreneurial aspects of the projects with a view to establishing the soundness of the investment proposition. Economic analysis includes a comprehensive cost-benefit analysis and study of market prospects. The purpose of technical scrutiny is generally to ensure that the size of the plant would be economic and nature of manufacturing process well-proven. The financial analysis sums up economic and technical considerations in monetary terms to determine

the profit prospects. The evaluation of entrepreneurial aspect seeks to find out whether the project's promoters have the requisite background, ability, integrity and resourcefulness to carry through the project successfully. The objective of the "follow-up" procedures is to ensure proper utilisation of funds, enforce financial discipline for the duration of the loan and provide advice and assistance in times of stress and difficulties.

Pakistani development banks are discharging these functions conscientiously and efficiently. An indication in this regard is the high loan recovery at a rate of close to 100% in industrial projects and about 80% in agricultural financing.

*Promotional Activities:* In the initial phases of development, investment is likely to be concentrated in easy and established lines. However, economic progress requires moving out in new and often difficult directions of investment where immediate return may not be so profitable and gestation period too long. Development banks must smoothen out the difficult path to this higher stage through assiduous promotional efforts. Among the Pakistani development banks, PICIC is playing a yeoman's role in financing investment in new fields through promotional efforts. About a score of promotional surveys have been arranged by it, ranging from cement, paper and refractories to power-tillers, outboard engines and synthetic rubber. Included therein are also two surveys of an agricultural character, one relating to determining the feasibility of extending the area under sugar beet cultivation with a view to strengthening the fast-growing sugar industry and, the other to establish commercial feasibility of growing "jantar", a variety of grass suitable for pulp-making. Also resulting from PICIC's promotional efforts, new and more economic uses have been found for several industrial and agricultural wastes and a number of projects based on them are under way. Notable among these are projects for the manufacture of paper and board from bagasse, particle board from jute and cotton sticks and industrial alcohol from molasses. With a view to diversifying and strengthening the country's economy further numerous other surveys and feasibility studies are under way.

### **Conclusion**

The foregoing would be sufficient to show as to what resources in skill and finance, the development banks are bringing to bear in an integrated and strategically devised way on the basic problem of development, namely, promoting productive investments. Already results of the activities of the development banks are becoming visible through increased production in the industrial and agricultural sectors and these banks are bound to play a growing role in the development of the resources of the country.





*Produced for*  
The RCD Secretariat, Tehran  
through Planning Division, President's Secretariat  
*by*  
The Department of Films & Publications  
Government of Pakistan.