

Qureshi, Anwar Iqbal

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Pakistan

A Ray of Hope Still Remains

by Dr Anwar Iqbal Qureshi, Lahore

Pakistan's economy has been under considerable stresses and strains during the last year, and more especially so during its last quarter. The author, a former Economic Adviser to the Pakistan Government, reviews past economic problems and gives his personal outlook on the future development. We would like this article to serve as a basis of discussion.

In any country whose economic is still predominantly agrarian, rainfall plays quite an important part. Pakistan is somewhat unfortunate in this regard. It has a most unequitable distribution of rainfall. In West Pakistan it varies from 5 inches to 25 inches, while in East Pakistan the minimum is about 80 inches and the maximum reaches 200 inches. The worst aspect is that most of the rain in both the wings falls between July and September, which are called the Monsoon months. It should be noted that while West Pakistan often suffers from worst droughts, East Pakistan is the victim of too much rainfall and has to bear the impact of severe floods.

Natural Tragedy

Last year's monsoons were more than capricious. By September, 1970, it became clear that monsoons had failed in West Pakistan, while they were more than severe in East Pakistan. In August it was the victim of unprecedented heavy floods which gave a severe setback not only to its economy but also resulted in the postponement of the first ever general elections in the country. The unfortunate peasant had hardly recovered from this disaster when in early November he saw the most horrible cyclone known to the province. Overnight human lives estimated at about a million were lost, though nobody can give exact figures. All cattle in the cyclone affected areas was wiped out. The loss of crops was simply colossal, though any estimate with any degree of reasonable accuracy is rather difficult. This is not the place to narrate the harrowing tales of this cruel natural tragedy which not only dislocated the economy of the affected districts but also brought in its wake unprecedented disease and suffering. There was water everywhere, the sea water flooded vast areas in many districts.

But due to its saline nature there was not a drop to drink. Thanks to the very generous and timely aid, a substantial part of which was transported by air, by many countries of the world, it was possible to minimise the impact of this great calamity and the work of rehabilitation was quickly set in motion. As a result, the Government did not postpone for the second time the forthcoming elections scheduled for December 7 and 17 for the National and Provincial Assemblies, respectively, in both wings of the country.

Effects of Elections

Purely from the economic point of view the elections did not prove an unmixed blessing. As these were the first general elections on the basis of adult franchise—one man or woman one vote—, the public enthusiasm was unbound. The election starved candidates rushed to grab seats. On an average there were six candidates for each seat. This meant not only elaborate arrangements by the Government which called for heavy expenses but also large spending by this vast army of candidates. This resulted in a steep increase in money supply and gave birth to inflationary forces. According to the figures published by the State Bank of Pakistan, in December, 1970, money supply increased by Rs 760.21 mn compared to a month earlier. This, however, began to decline after the elections were over. In January, 1971, it declined by Rs 100.24 mn.

In the course of calendar year 1970 the money supply increased from Rs 20,500.05 mn to Rs 22,930.92 mn, showing an increase of Rs 2,430.87 mn which is the highest rise in the course of any one year in Pakistan's monetary history. As a consequence there was an all round increase in the price level. The cost of living indices for

clerical workers showed a rise of 7 points rising from 152 (base 1956: 100 p.c.) to 159 in the course of calendar year 1970.

In order to curb the inflationary tendencies the State Bank of Pakistan adopted a number of measures largely aimed at restricting credit for speculative purposes and to prevent accumulation of inventories. The month of December, 1970, from the economic point of view, especially on the monetary and financial front was the forerunner of many troubles which followed. In this month a Mission of the International Monetary Fund came to Pakistan on its annual visit to seek justification from Pakistan regarding the continuation of quantitative restrictions on imports. It may be mentioned that the Articles of Agreement of the IMF, to which Pakistan as a member country is a signatory, provides for such an examination each year for those countries which continue to impose quantitative restrictions on grounds of their balance of payment difficulties. Pakistan was placed in a rather unfavourable position in this year's negotiations with the Fund Mission as its foreign exchange reserves had been fast dwindling due to non-receipt of large part of the promised quota of economic assistance from the member countries of the Consortium for Aid to Pakistan. Pakistan had, therefore asked the Fund for a Stand-by Agreement for a loan of \$ 50 mn.

IMF Remedy — Devaluation

The IMF experts have a pet remedy for all monetary and economic ills of a country — devaluation. This remedy was also prescribed for Pakistan before any loan could be forthcoming. The writer took a strong exception to this advice of the IMF. The writer's contention is that in a modern complex economy based on paper standard devaluation is quite a blunt and antiquated tool. Moreover the monetary experience of a number of countries has shown that it has only an "aspirin" effect and fails to deliver the goods even in the medium run. One devaluation leads to another.

In the case of Pakistan this remedy is unwarranted for the following reasons:

☐ The Pakistan rupee is already *de facto* devalued to the tune of 185 to 190 p.c. as practically all private imports are allowed through Bonus Vouchers. Even at this unprecedented high rate of exchange Pakistan does not possess the necessary foreign exchange to allow unrestricted imports. Recently it has completely banned the imports of a number of items.

☐ If India's magnitude of devaluation is any measure to be suggested for Pakistan, then it is doomed to failure from the day it takes place.

When India was advised to change its par of exchange with the US dollar from Rs 4.76 to Rs 7.50, the free market price was Rs 9.00. Therefore all the evils of monetary imbalance and undervaluation of exports and overvaluation of imports, especially those imports for which foreign exchange is provided at the official rate, continued. As a result we find that the free market price of 1 US\$ is 12 Indian rupees.

☐ The current free market rate of Pakistan rupee is Rs 11.00 per US\$. So what should be the magnitude of devaluation of the Pakistan rupee if it is to be effective in correcting the monetary imbalance?

☐ When *de jure* devaluation of the rupee is suggested it should be borne in mind that Pakistan has large fixed payments to meet. The budget of the Central Government of Pakistan for 1970–71 provides Rs 1,230 mn for debt service and this amount is bound to increase in the years to come. If the rupee is devalued to the same extent as the Indian rupee (which in the circumstances is very modest and has proved quite ineffective) it will require 50 p.c. more rupees to discharge debt service obligations. Again for the next few years about Rs 450 mn are needed every year for import of food grains and edible oils.

Indo-Pakistan Relations

It is somewhat unfortunate that Indo-Pakistan relations are quite strained. In the interim budget introduced in the Indian Lok Sabha (Lower House) in the last week of March 1971, provision of Rs 12,000 mn was provided for defence. This amount stood at Rs 2,760 mn in 1960–61. India has embarked on a mad armament race and has chosen the policy of guns instead of butter which it promised to its electorate in the last elections. Willy-nilly Pakistan has to follow suit. So both countries are pursuing suicidal policies which seriously retard their economic development and generate inflationary forces. All economic experts are agreed that inflation is the worst enemy of development.

In view of the strained relations between the two countries, Pakistan has also to spend large sums on the import of armaments. Any increase in its par value will result in proportionally more rupees to import vital defence requirements. Rupees simply are not available. They are as sacred as foreign exchange. This experience is shared even by a rich country like the Federal Republic of Germany. The writer recalls that when he was a member of the team which was exploring the possibilities of setting up an Asian Development Bank in 1965, the West German Government, which was quite sympathetic to this project, ex-

pressed its inability to earmark large funds for the Asian Development Bank subscription in its own currency due to the tight budgetary position. It is, therefore, quite clear that Pakistan has nothing to gain by *de jure* devaluation to oblige the IMF. On the other hand such a course will substantially add to its economic difficulties. In view of Pakistan's peculiar economic position and *de facto* devaluation in the form of bonus voucher scheme to the extent of 180 to 190 p.c., the best course for Pakistan is to adopt a dual rate of exchange. One should be a fixed rate at the present official parity and the other should be a floating rate, whereby the rupee should be left to find its own level, unhinged by any pre-conceived notions.

Floating Exchange Rates

It appears that the Government of Pakistan showed its inability to accept the devaluation panacea proposed by the IMF Mission. As a result the IMF has not granted the requested loan of \$ 50 mn to Pakistan. They did not stop at this. They joined hands with the World Bank who in turn influenced the Consortium countries to withhold their promised aid. The widespread rumours regarding the possible devaluation of the rupee seriously hurt the economy of the country. Remittances by Pakistani nationals abroad received a serious jolt and their magnitude declined, considerably. The IMF monetary experts will be well advised to get out of their ivory tower and consult some monetary experts in Europe who have more experience and an objective outlook on these matters.

The decision of EEC countries on 8th May, 1971, to allow floating exchange rates to overcome the crises created by the weakening position of the US dollar should provide enough urge to give second thoughts to floating exchange rates and the IMF experts should not go on harping on the sanctity of the fixed exchange rates. One wonders why the IMF experts do not advise the US Government to revise downward the highly inflated par value of the US\$ which is the main cause of many world troubles in the monetary field. Judging from all economic criteria, the US\$ is certainly over-valued. In the absence of foreign aid the Government of Pakistan was faced with the difficult problem of dwindling rupee resources as it had to partly compensate for the lesser flow of foreign resources. They acted boldly with courage and determination. They introduced a supplementary budget, a device seldom resorted to by any country in a time of peace unless there is a grave national emergency, and levied additional taxes to the tune of Rs 170 mn. It may be recalled that in the budget for 1970-71 they had levied taxes to the tune of Rs 410 mn which caused

great hue and cry in the country. As a result the Government was forced to provide marginal relief. These heavy doses of taxation must be viewed against the background of taxes to the tune of Rs 460 mn in the budget for 1969-70. This shows that Pakistan spares no efforts to mobilise internal resources. It may be mentioned that in spite of all the odds, the core of the country's economy is inherently sound. Prices of essential goods like wheat, flour and sugar are still substantially lower than in India. During the first eight months of 1970-71 viz. from July to February Pakistan exports to foreign countries amounted to Rs 2,280.25 mn compared to Rs 2,110.93 mn during the same period in 1969-70 showing a rise of Rs 169.32 mn.

Great Economic Set-back

With all these handicaps which we have mentioned earlier, this is a very creditable performance indeed. However, we are afraid the worst is yet to come. The March, April, May and June events in East Pakistan have given the country a great economic set-back. For nearly two months industrial production has come to a standstill in East Pakistan. It also declined in West Pakistan due to lesser availability of imported raw materials. Inter-wing trade has also been very adversely affected. It may be mentioned that the magnitude of this trade is to the tune of Rs 1,500 mn per year. The serious decline in exports during March and April, exact figures of which due to dislocation in East Pakistan are not available, is bound to be reflected in the next two months and the favourable visible trade balance gained during the first eight months of the year may not be reflected in the months to come. The fall in foreign exchange earnings has been intensified by a much smaller flow of foreign economic assistance. On top of this Pakistan is faced with mounting expenditure in Pakistan rupees and foreign exchange due to the troubles in East Pakistan which are likely to continue for some time to come, thus calling for more and more expenditure. Due to the ban on West Pakistan flights to East Pakistan over Indian territory, which was the normal route, its diversion via Ceylon, increasing the distance between the two wings from 1,000 to 3,000 miles, is imposing a serious strain on the economy of the country, the end of which does not seem to be in sight in the near future. The economic difficulties, which Pakistan has been recently facing, are reflected in the drastic mid-term revision of its six-monthly import policy, which had two more months to go. Import of many items has been banned and many more put from cash-cum-bonus to full bonus rates. This will raise the price level in the country.

Pakistan has been forced to ask the consortium countries to reschedule its debt payments and has asked for deferment for at least six months. This shows the critical foreign exchange reserves position which has reached its lowest ebb as the promised aid has not been forthcoming. It may, however, be stated that Pakistan is not the only country which has asked for rescheduling of its debt payments and temporary deferment of its instalments. Other countries have been placed in similar position and their requests have been granted. The conspicuous example is Pakistan's next door neighbour India who asked and got similar concessions two years ago.

Conclusions

It may be concluded that the situation, bad as it is, is not without rays of hope. The exports of jute which came to a standstill for two months have

already started moving with a gusto. So is the production in jute mills, which are now working in full strength after a two months' lull. The inherent position of Pakistan's economy is sound and will revive quite quickly, if its case for more economic aid is examined purely on its economic merits and extraneous political considerations are not brought in. If worst comes to the worse, and the flow of economic aid is seriously curtailed, Pakistan may have to defer its fourth Five-Year-Plan, which again in the writer's view will not be the great calamity, which many would make us believe. As a matter of fact it is the writer's view that instead of going on with more industrial and other projects we may halt to consolidate our existing position. If India's Fourth Plan can be deferred for nearly four years without any serious repercussion on its economy, why not Pakistan's? Perhaps this calamity may prove a blessing in disguise. Who knows?

India

On the Road Towards Progress?

by Dieter W. Vogelsang, Hamburg

A decisive new era of development opens for India. It will be largely for a woman, Indira Gandhi, whose triumph in the March elections for the central parliament was acclaimed so enthusiastically, to give it her imprint.

India is experiencing a euphoria of hopes. Stability and the capacity for political leadership appear to have been restored by Indira Gandhi's victory. But too many observers seem to be oblivious of the fact that it has all happened before in India — for 17 years, when Nehru ruled the country. He always had command of the powerful instrument of a two-thirds majority. And yet he did not achieve the crucial break-through. Unlike his daughter, Nehru had time to spare. To mention only one point of difference, there were nearly 200 mn fewer people in the country when he began to rule.

Indira Gandhi has no time left, for social unrest is keeping all parts of the country astir; her great election victory was one of the ways in which this unrest expressed itself. Recent years have

provided evidence that the mass of the Indian population is no longer willing to endure its plight as being beyond redress. The hopes with which the country now encumbers Indira Gandhi are the real burden for her. The electorate is holding Mrs Gandhi responsible for giving effect to the transformation for which it is longing. Her majority in Parliament is so great that talk of opposition stultifying her true intentions will no longer serve as an excuse.

An Inglorious Record

It remains to be seen what use Mrs Gandhi will make of the convincing mandate from her people and how she will set about raising the standard of living of the broad masses within measurable time. The record of governmental achievement under her rule to date is somewhat inglorious.