ECONOMIC POLICIES UNDER SHOAIB

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The period from 1958 to 1969 during which President Ayub ruled and Mr. Shoaib served as Finance Minister for most of these years is considered as the golden era of Pakistan's economic history. The period had strong macro economic management and the economic indicators were extremely impressive. Agriculture grew at a respectable 4 percent while remarkable rates were achieved in manufacturing (9 percent) and trade (7 percent) GNP growth rates exceeded 6 percent on average throughout the period. Economic growth was very strong on all fronts.

Structural changes that took place under the stewardship of Mr. Shoaib laid the foundation for Pakistan's subsequent economic performance. Manufacturing sector which was quite nascent increased to nearly 15 percent of DGP. Pakistan's economic model was considered a benchmark for the developing countries. By the end of the decade, Pakistan's manufactured exports wee higher than the combined manufactured exports of the Philippines, Thailand, Malaysia and Indonesia. It is purely a matter of conjecture as to where Pakistan would have stood today in terms of per capita incomes if it had continued the economic policies of 1960s.

A country's economic outcomes depend upon a host of factors (a) Initial resource endowment; (b) External environment; (c) Strategy and policy framework; (d) Administration capacity; (e) Political stability.

Pakistan inherited a weak resource endowment as the part that constituted India was relatively advanced in terms of natural, human and physical resources while the two wings of Pakistan separated by 1,000 miles of Indian territory were quite backward.

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External environment facing Pakistan in the decade of the 1960s was mixed. The war of 1965, however, caused immense economic damage to Pakistan and foreign aid flows did suffer in the post 1965 period.

The strength of the economic performance in this decade can mainly be explained by the strategy and economic policies pursued during this period, the efficiency with which these policies were executed due to improvement in administrative capacity and the political continuity and stability that prevailed until late 1968.

The philosophy and policy directions can be gauged from the following statement made by President Ayub Khan.

" It has long been one of the cardinal policies of the government to allow free enterprise full play in the development of the country. Experience has fully justified the governments in private enterprise as is evident from the progress Pakistan has made in the field of commerce and industry. The government proposes not only to maintain this policy but reinforce it and try to give it still greater scope, for we are satisfied that private enterprise can under appropriate conditions bring the greatest good to the greatest number.""

The foreword to the 3rd Five Year Plan (1960-65) also stated quite clearly

"It has been the constant endeavor of the government to mobilize the creative energies of the nation and to give all possible incentives for the stimulation of private initiative. There have been no grand experiments in nationalization, no fancy slogan about socialism, no undue intervention in the private sector. The result of this approach has been the rapid growth of private capitalism in Pakistan."

Mr. Shoaib himself stressed "It was the objective of the State policy to guide, encourage and further facilitate private investment in nationally desirable industries."

In explicit contrast to the Indian model of public-sector led industrialization advanced by Pandit Nehru. Mr. Shoaib chose to centre his strategy on the private sector.

Industrial policy was the hallmark of the 1960s and the overall policy mix was tailored to promote industrial investment. This system provided a plan and procedure for investment licensing and credit dispersal. Furthermore, the Pakistan Industrial Development Corporation (PIDC) was formed to spearhead the industrialization drive whereby the state provided the critically needed capital but transferred the industrial assets created to the private sector which owned, managed and operated the completed projects. Thus the risk aversion and lack of capital by the private sector were offset by the state. This initial push to the private sector led to a spiral effect as the private sector earned high profits from these industries and reinvested them in new industrial units mainly cotton, textiles and jute. As the profits became more widespread, an entrepreneurial class emerged and provided the dynamism that had been absent in the 1950s. This class helped accelerate the rate of growth in the large scale manufacturing to more than 15 percent during the decade.

For its free and unfettered operation of the private sector the Government created a congenial investment climate. Fiscal concessions and tax holidays, foreign exchange allocations, increased foreign assistance, the introduction of the Export Bonus Scheme were incentives offered for rapid industrialization of the economy. Through state controlled financial institutions foreign aid was channeled into industry for long-term investment, distinct from short-term loans advanced by the commercial banks in local currency. The controls it had imposed on a long range of commodities initially, were later withdrawn in the hope that a free economy would facilitate increased production, a greater supply of goods and services which would automatically push down the price level.

One of the salient aspects of the policies in the 1960s was that although industrialization was vigorously pursued and actively promoted the neglect of the agriculture sector was reserved. The completion of the Indus Basin works including the Mangla Dam and laying the groundwork for Tarbela Dam that was completed in the early 190s was a major breakthrough. The other two factors that contributed to the revival of Pakistani agriculture were the Green Revolution and the mechanization and diffusion of new technology among agriculture producers.

Equally important for the reinvigoration of the agriculture sector was the fuller utilization of all its unused resources. One of the principal causes of under-utilization of land resources was absentee landlordism and the apathy of the government officials in allowing government owned lands to lie idle. These privately and publicly owned resources were sought to be reclaimed for cultivation through a land utilization ordinance empowering the government to resume all lands uncultivated for two years and lease them out to the tenants and at the same time, leasing out government lands to the peasants who were landless or whose holdings were uneconomic.

The spurt in the production of wheat and rice that eventually made Pakistan self sufficient in wheat and one of the large exporters of rice was based on the introduction of high yielding varieties of Mexi-Pak and Irri and a major increase in the supply and utilization of irrigation water and fertilizers. Abandonment of food grain rationing, establishing of support prices for wheat, 50 percent subsidy on fertilizer and a more liberal promotion of private tube wells were the other key features of the new policy on agriculture.

Macroeconomic management was prudent during this period and imbalances were far and few. The development effort was sustained in a much greater degree by domestic resources as the savings increased from 8.9 percent of GNP in 1960-61 to 12.6 percent in 1964-65. Mobilization of domestic savings on this scale reflected mainly the fiscal effort through budgetary surpluses and the reinvestment of profits in the private industrial sector. 1960s were the only period in Pakistan's fiscal history when budgetary surpluses materialized. There was considerable progress towards organizing and institutionalizing the flow of savings.

Fiscal discipline was observed and despite sharp rise in defense spending during 1965-70 additional taxation helped to increase the ratio of taxes from 6.1 percent of GDP in 1959-60 to 7.6 percent in 1969-70. Current account deficit remained under control while it increased from 3.3 percent of GDP in 1959-60 to 6.8 percent in 1964-65 it reverted to 3.8 percent by 1969-70.

Trade Policy pursued was also considered quite progressive from the vintage point of that time and in comparison to the neighboring countries. There was a general relaxation of restrictive controls on imports. The main objectives of the import policy were a fuller utilization of industrial capacity, strengthening export industry, a gradual reduction in the import of goods produced locally and speeding up the development of less developed areas. The list of items placed on automatic licences was progressively enlarged. The Export Bonus Scheme covered all the industrial products, a few primary commodities, and was extended to remittances from abroad and to shipping as well. This liberal trade policy, in turn, helped in the stimulation of the high rates of growth in the industrial sector. Imports of components, raw materials, spare parts and machinery enabled rapid installation and utilization of industrial capacity.

It may be seen that the industrial growth mainly through import substitution was driven by a variety of measures. Loans, licences, land, subsidies on exports, duty free imports, a domestic market free from internal controls and external competition. Direct administrative controls were progressively removed placing greater reliance on the market mechanism. The government was not convinced of the capability of the bureaucracy to undertake public sector enterprises and manage them efficiently. Mr. Shoaib believed that the public sector was not cost conscious and or profit motivated to lower costs and will thus do more harm rather than good to the welfare of the ordinary Pakistanis..

The nascent financial sector was built through creation of new institutions, expansion and consolidation of the banking system throughout the country. Whereas in 1960 there was a bank branch for 176,000 persons by 1970 the number of persons served by a branch was 29,000. The volume of deposits of the banks increased almost five fold in this decade and the number of accounts multiplied by a factor of eleven. The expansion of the banking network facilitated the entry of the middle and lower middle income groups into the banking system. In 1960 there were 29 scheduled banks – 19 foreign and 10 domestic. Ten years later, out of 36 banks in the country 17 were domestic. Their share in deposits and advances had risen to about 90 percent. This remarkable achievement was made possible by private commercial banks such as Habib Bank, United Bank, MCB, etc. competing with each other fiercely in mobilizing deposits, expanding branches, extending credit to new businesses and improving their services. The State Bank of Pakistan directed that for every branch set up in the big cities a parallel branch was to be opened in the interior. The number of branches more than doubled within a span of three years and banking services became available in the interior of the country. The SBP encouraged the big industrialists and businessmen to open commercial banks but restricted the voting rights of individual shareholders to 5 percent of the total voting rights of all the share holders irrespective of the extend of shareholding.

Development Finance Institutions (DFIs) were set up to provide long term investment finance. Over time, they expanded the scope of their operations and offered a package of services including loans for working capital. The commercial banks also got inducted in term financing. The concept of co-financing by consortia arrangements was also introduced. Diversification and innovation in the financial field was encourage as it provided new forms of lending and helped in mobilization of savings.

The premier DFI in the country was the Pakistan Industrial Credit and Investment Corporation (PICIC) established with the help of International Finance Corporation (IFC) as the major provider of industrial capital to large private entrepreneurs. Along with it Industrial Development Bank of Pakistan (IDBP) was established in 1961 to supplement industrial investment loans to private small and medium scale entrepreneurs including foreign currency loans.

Agriculture Development Bank of Pakistan (ADBP) was set up in 1961 to afford credit facilities to agriculturist s and persons engaged in cottage industries in the rural areas. The outreach of ADBP and its impact remained quite limited .

National Investment Trust (NIT) was established in 1962 under sponsorship of the Government with the features that retained the advantages of private association. The main purpose of this Trust was to mobilize savings of small investors through sale of units and investing them in the corporate sector to broad-base equity capital in Pakistan. The wider dispersal of share ownership through this vehicle was aimed at discouraging the concentration of economic power.

Investment Corporation of Pakistan (ICP) was established in 1966 for underwriting, managing and distributing the issue of stocks, bonds, shares, debentures and other securities. Capital market development in the 1960s also picked up pace as the market capitalization of Karachi Stock Exchange jumped form Rs.1.7 billion to Rs.5.2 billion by 1970. The number of companies listed increased form 81 to 282.

The economic policies steered by Mr. Shoaib as the Finance Minister under President Ayub were not without their faults or were welcomed universally. There was a widespread perception in Pakistan among the politicians, general public and the academics particularly in East Pakistan that income inequalities had worsened, regional disparities between East and West Pakistan had widened and wealth creation was concentrated among a few families. The slogan of 22 families controlling 66 percent of industrial wealth of the country coined by Dr. Mahbubul Haq, the then Chief Economist of the Planning Commission is believed to have influenced the economic thinking of Mr. Z.A. Bhutto and the adoption of the socialist economic model in the 1970s. A number of political analysts and commentators have attributed the emergence of the six-point plan by Shaikh Mujib Ur Rahman and the Awami League's sweeping victory in the elections of 1970s as a reaction to these economic policies of Ayub-Shoaib period.

The power of the media in forming popular perceptions can be gauged by an appraisal of the Ayub Government's investment policies. In 1959-60, the total investment in East Pakistan was 6 percent of GDP with Public sector component contributing 4 percent of GDP. By the end of the decade, this level had almost doubled to 12.4 percent with corresponding increase in public sector investment to 8.4 percent. During the same period, the total investment in West Pakistan which was 11.5 percent of GDP in 1959-60 rose to only 14.3 percent by 1969-70 while public sector investment stagnated (7.2 percent and 7.3 percent respectively). But most of the media, politicians and the economists who propounded and popularized the thesis of the neglect of East Pakistan in the allocation of public sector resources ignored the above facts but resorted to rhetoric to advance their viewpoints. This tendency proved to be quite lethal for national integration and social cohesion between the two wings of the country. In this decade a number of large projects such as Khulna newsprint plant, the Fenchuganj Fertiliser factory, Kaptai Dam, Karnaphuli rayon mill, a steel mill at Chittagong, jute and paper mills, exploration and exploitation of gas fields in

Sylhet and the second capital at Dacca were set up in the Eastern part of the country but the Government of the day never got any credit for them. This shows that whatever good intentions of the authoritarian regimes if the people do not have a sense of participation in the decision making process the feeling of alienation does persist. Most of the critics stressed the transfer of resources from East to West Pakistan and it was alleged that the streets of Islamabad were built with the earnings of the golden fibre of East Pakistan. The tension between the two parts of the country was thus accentuated. and the emotional outbursts became quite frequent.

The other glaring legacy of this period was the neglect of the social sectors. Investment in education and health remained quite low and population growth rates remained high inspite of a much touted family planning campaign. Human Development indicators of Pakistan never took off commensurate with its achievement in economic indicators.

The import substitution industrialization had several shortcomings also. High rates of effective protection made Pakistani industry inefficient. Unlike the East Asian countries, where there was a judicious use of protection, the Pakistani tariff and quota system was not carefully planned to nurture infant industries and guide them to reach the next level of maturity. Import dependence of Pakistan's industry increased resulting in a progressive worsening of the balance of payments. The increase in machinery and raw material imports out weigthed export performance.

The 1960s also marked Pakistan's increased reliance on foreign aid. The strategic plans of the cold war and Pakistan's alliance with the U.S. against the Soviet Union resulted in large flow of vital resources to Pakistan. While the external economic assistance as a percentage of GDP was a modest 2.8 percent in 1960 it became substantial within the next five years reaching 6.6 percent by 1965. The close personal relationship between Mr. Shoaib with the World Bank and the U.S. authorities was also one of the contributing factors for increased economic aid to Pakistan. But this also laid the grounds for Pakistan to remain dependent on foreign sources for its economic sustenance throughout its sixty years of existence.

One of the more negative features of Ayub-Shoaib's industrial and labour policies was the deliberate repression of wages. It was felt that low wages for industrial workers and the restriction of trade union activity would help industry acquire the critical mass for industrial take off. These features of authoritarian governance built up frustrations over time that ultimately led to the downfall of Ayub and the political momentum gained by Mr. Z.A. Bhutto.

Conclusion

Economic policies pursued by Ayub-Shoaib administration in the 1960s were outward-oriented, liberal and supportive of the private sector. State played a facilitating and enabling role by providing incentives, supplying infrastructure (particularly in irrigated agriculture), institutions and technology. Macroeconomic management was sound and prudent and fiscal and external balances were managed well. Inflation remained in check and the annual rate of growth in prices was only 3.3 percent. However, rapid economic growth and industrialization resulted in income inequalties and regional disparities that had serious political repercussions subsequently. Social sectors were neglected and industries for capital goods were not set up. Import substitution strategy had a positive pay off but also nurtured rent-seeking and pressures for protection against external competition thus masking the inefficiencies of domestic industries. Exchange rate policies created distortions and arbitrage opportunities. But the positive contribution that made Pakistan self-sufficient in wheat and rice was the adoption and diffusion of Green Revolution technologies that also helped uplift the living standards of the rural population.

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