

The Balance of Payments and External Resources in Pakistan's Third Five Year Plan: Reply

by

BRUCE GLASSBURNER*

Mr. Sartaj Aziz has presented a challenging rejoinder to my critical article on the international economics of the Third Plan [3]. It is incumbent upon the challenged critic to rebut if he can, and to acknowledge correction where appropriate.

First, let me dispose of what appears to be only a semantic difference. Mr. Aziz states that "the assumption that the Third-Plan export targets are only a statistical projection of the Second-Plan performance is incorrect." In a sense, of course, they *must* be projections, in that recent performance is the best available evidence of what the future holds. The targets are (quite appropriately)

*Professor of Economics, University of California, Davis, and formerly (1964/65) Senior Research Adviser, Pakistan Institute of Development Economics.

called projections in the Planning Commission publication which Mr. Aziz cites [5]. They are obviously not, however, simple extensions of aggregate per annum growth rates. My recognition of the latter should be clear from the discussion of predictions of specific commodity and commodity group earnings on pages 499-501 of the original article.

The main point at issue where export targets are concerned lies in the heavy bet that is being placed on the expansion of manufacturing exports. The revised export targets for the Third Plan [5, p. 5] show annual exports of manufactured products increasing by 130 per cent, or more than 18 per cent per annum over the five-year period. This is nearly twice the rate of growth of industrial output anticipated (9.5 per cent). This achievement is surely not a "modest acceleration" as Mr. Aziz says it is—and to reiterate a major point: exports of manufactures in recent years have grown *less* rapidly than production [3, p. 501 and figure 2].

With reference to the specific commodity export projections, heaviest reliance, of course, rests upon jute and cotton manufactures. Export earnings from jute manufactures exemplify extremely well my point concerning the shaky projection basis of the Second Plan [3, p. 499]. They grew by approximately 9.5 per cent per annum over the Second-Plan period, and at less than 2.5 per cent over the last four years of the Plan (calculated from [5, Table 1, p. 1]). Nevertheless, the Plan's revised projections anticipate that the growth rate will accelerate to 18 per cent. It is true that the arithmetic of the Planning Commission's projections of production, world demand, and domestic consumption are consistent with the growth target. It is also true that attaining it will not be achieved unless Second-Plan performance is dramatically improved upon—which would seem to require dramatic policy shifts. The same holds, perhaps with greater force, for export earnings from cotton manufactures. These declined by nearly 22 per cent over the Second-Plan period, and fell short of the Second-Plan target by 30 per cent [5, Table 1, p. 1]. The revised Third-Plan target calls for a 94 per cent increase over the plan period.

"Other manufactures" are to increase by 141 per cent over the plan period—from estimated annual earnings in 1964/65 of 270 million rupees to an anticipated 650 million rupees in 1969/70 [5, pp. 46-57]. Most of the gain is expected to come from very large increases in earnings from sale of commodities which Pakistan exports very little of at present. For example, the 13 items listed in the category "manufactured products based on agricultural raw materials", which yielded 16.5 million rupees in 1963/64 are expected to yield 260.0 million rupees by the end of the plan period [5, p. 46]. It is hard to accept the suggestion by Mr. Aziz (p. 568) that such targets are conservative.

Mr. Aziz's trump card is not an *a priori* point, however, but an *ex post* one: export earnings for 1965/66 increased by considerably more than the target rate (13-15 per cent)¹, and those of manufactures, led by very large increases in earnings by jute and cotton manufactures, grew at approximately double the target rate. The proof of the pudding is in the eating. However, objectivity requires the recognition of the fact that a very large proportion of the total increase was unplanned—being attributable to *i*) recovery from the strike-induced slump in production of jute manufactures of 1964/65, *ii*) a very favourable world price situation, particularly for jute², and *iii*) an increase in raw jute production of 20 per cent or more—which was also mainly a recovery from a 1964/65 year which had been 16 per cent below the Third-Plan benchmark. One dislikes the role of Cassandra, but it should be remembered that 1962/63 export earnings jumped by 22 per cent overall, yet averaged only 8 per cent per annum growth over the Second-Plan period (7 per cent according to Mr. Sartaj Aziz). In short, Pakistan's export earnings performance has been very irregular in recent years and remains heavily dependent on fluctuations in agricultural production and in world prices. I must, therefore, disagree with his assertion that "The export performance of the first year of the Third Plan fully supports the optimism latent in those (the Third Plan projection) expectations."

Turning to Mr. Aziz's comments upon my analysis of import projections, what he has to say about the absolute importance of non-industrial investment (p. 568) fails to meet the central point concerning the amazing deceleration of capital goods imports called for by the plan. To reiterate: industrial output is to increase by 10 per cent per annum and total capital requirements are expected to rise by more than that³; yet the Plan projects a capital imports growth rate of only 4.5 per cent following a Second-Plan performance of 20.5 per cent per annum. I will concede that this argument does not "establish", in any absolute sense, that the capital import projection is "conservative", but it most certainly highlights my central question concerning the need for substantial policy shifts if targets are to be met.

I must, of course, concede that I was not privy to the process of estimation of the import bill. The procedures are, in any case, less significant than the results. With or without use of interindustry tables, the conclusion of the plan that import substitution will accelerate sharply over the Third-Plan period calls for more

¹ Data available to me here (which are preliminary), indicate a 13 per cent increase; also *Pakistan Affairs* reports that figure [1, p. 1]. Mr. Sartaj Aziz, who has access to the most recent data, reports 15 per cent.

² Spot prices in the Calcutta Market in the first half of 1966 were roughly 45 per cent above those for the first half of 1965 (computed from London *Times* quotations).

³ ".....since relatively more emphasis is going to be placed on heavy industry and infrastructure in East Pakistan....." [4, p. 32].

explanation in view of the decline in the rate in recent years. Mr. Aziz's numerical projections of production and absorption which are consistent with the import substitution goals only affirm the statement of intention, *i.e.*, the target. Indeed, that is precisely what my figure 2 and Table III show.

With reference to commercial policy, Mr. Aziz is most concerned with my association of import liberalization with an attempt to bring the price of foreign exchange somewhere near equilibrium. I do not, of course, make "the general assumption that the ultimate objective of all commercial policies is to achieve foreign exchange equilibrium", as he suggests (p. 572). At the risk of being pedantic, I wish only to point out two things: a shift from direct to indirect controls requires that the quantity supplied be determined by demand price after the shift. Secondly, unless the tariff or other tax increase (if any) which accompanies such a policy shift is sufficient to eliminate excess demand, effective indirect control can only be achieved if price falls. Indeed, the revision of Mati Lal Pal's data to which I referred [3, p. 511] did show "success" in this sense. I have discussed this matter at greater length elsewhere [2].

Finally, with reference to my discussion of policy alternatives, my suggestion that further foreign aid be sought was presented in the context of three general policy choices, one of which was expanded foreign assistance; it was not an unqualified recommendation—which is abundantly clear in the original. However, I do not hesitate to reiterate the suggestion, *in spite of* the political problems which may present themselves. It is very important for Pakistan, and the entire world, that the goals of the Third Plan be attained or exceeded⁴. I seriously doubt her ability to do so without rapidly expanding external (and internal) resources—even more rapid expansion than the Plan envisages.

I am not sure how to interpret the quotation from Keith Griffin's interesting piece [6]. Mr. Griffin argues against foreign assistance in support of development programmes, *in principle*. Surely Mr. Aziz and I are agreed in opposition to this argument. Otherwise, it is being suggested that the source of 32 per cent of Pakistan's planned external resources for the Third-Plan period be abandoned. The practical question is not "aid vs. no aid", but rather "how much aid."

Mr. Aziz's comments end on an appropriate note of determination: "...the conclusion that the effort is beyond the feasible range is too drastic and in any case does not follow from Dr. Glassburner's own analysis." The goals of the Plan are not beyond the feasible range; it is therefore extremely important that the means devised to attain them be well defined and fashioned for the task. As Mr. Aziz has indicated (and, as I know very well), the Third Plan is not the last word.

⁴ Cf. also Chenery and MacEwan on optimal aid strategy [8].

The Planning Commission has done much work since its publication, such as the supplemental work on import substitution [7], and will do vastly more each year as the plan progresses. The spirit of the original critique and of this exchange is to supplement and assist progress in that research effort.

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