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d Extent of Import Control
akistan 1953-59

By

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PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS
OLD SIND ASSEMBLY BUILDING
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THE NATURE AND EXTENT OF IMPORT CONTROL IN PAKISTAN, 1953-1959

1. The purpose of the study

The purpose of this paper is to examine the nature and extent of control over private imports in Pakistan during the period between 1953 and 1959.

In controlling private imports, such familiar instruments as state trading, licensing of foreign exchange and tariffs were used in Pakistan. In this paper we shall be mainly concerned with licensing of private imports, although brief reference shall be made to the extent of control through state trading. Examination of the extent of control through tariffs will be avoi(since in situation of quantitative control through licensing, tariffs serve mainly as an instrument of raising revenue.1/

Section 2 deals with a brief discussion of the method of analysis and the nature and sources of data used. Section 3 is devoted to an analysis of control over private imports in Pakistan via state trading and licensing. As background, this section begins with a brief summary of the general course of import policy in Pakistan since 1947. The conclusions are summarized in section 4.

2. The method of Analysis and the Nature and Sources of Data used

2.1. The Method of Analysis

In a situation of state trading, the change in the ratio of government imports to total imports may be considered as an indicator of the extent of control over private imports, since given the volume of available foreign exchange, imports on government and private accounts must vary inversely.

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1/ However, depending upon the level, tariffs may exert a restrictive influence over imports even when direct controls are operative, by creating conditions for the non-utilization of licences by private importers. Note that under the Open General Licence in Pakistan tariffs played the usual restrictive role in respect of imports.

When imports are controlled through licensing, the extent of direct control over private imports can be measured by the change in their value in relation to national income and in the composition of imports licenced. In a situation where the national income is rising, and the marginal propensity to import is positive, the level of imports must rise over time. In such a situation, other things remaining the same, a reduction in the value of imports licenced is indicative of the level of intensification of the level of control. And given the total values of imports licenced, any change in the composition of such imports would indicate the direction of change in control. In addition, such changes in the composition of imports would also reflect the nature of structural change in the economy induced by import controls. This statement is roughly correct, however, only when there are no autonomous changes in domestic production.

In trying to relate the volume and composition of imports to the structure of the domestic economy, it is necessary to make certain assumptions about the determinants of the former. It is assumed that in the absence of licensing the volume and composition of imports depend on domestic demand and the structure of domestic production of importables or their near substitutes. Since the structure of domestic production is very closely related to import policy, in so far as the creation of capacity or the utilization of existing capacity in the import - competing industries is dependent on the import of machinery and industrial raw materials, as well as on protection from foreign competition, the extent of structural change in the economy because of import licensing can be measured by the difference between the estimated level of import of any good in the absence of licensing and the actual level of its import under licensing in any period. Assuming absence of licensing and no change in the structure of the economy, the estimated import of the i-th item in period t (Jan. 1953 - Dec. 1959) will be equal to the share of i-th item in period 0 (July 1950-Dec. 1952) (when there had virtually been no licensing control over imports) multiplied by the values of all imports in period t. The difference between this and actual imports in period t is a measure of the extent of change in the import of i due to restrictive licensing policy, which can be expressed as:

$$A^i_t - (A^i_o / M_o) \; M_t$$

where, (A^i_o / M_o) = free - trade share of the i-th group

A^i_t = actual import of i in period t (Jan. 1953-Dec. 1959)

M_t = actual import of all part IV items in period t.

Note that the expression above can be consodered as a measure of change in the import of i because of changes in the structure of the economy only if it were true that licensing control of imports (of consumer goods) did result in their increased domestic production and not in increased excess demand for these at pre-licensing prices[2/] and if it were true that all the investment goods imported were fully utilized. As long as the elasticity of domestic supply of these items is greater than zero, licensing control of imports will have some protective effect on the level of domestic production, coupled with increased domestic prices. It was, however, not possible to examine all these considerations in detail in this paper. The term 'structural change' is, therefore, to be consiuered with caution to mean structural changes in the economy of Pakistan as planned by the licensing authority, and not those that have actually taken place.

2/ The implicit assumption here is that there is no change in the relative demand of the community for the different imported goods.

2. The Nature and Sources of Data

Most data used in this paper are obtained from the Office of the Chief Controller of Imports and Exports (CCI and E) of the Government of Pakistan. The data relate mainly to the values of imports licenced for 39 groups of items in part IV of the Import Trade Control (ITC) schedule. The non-availability of similar data for items in parts I (Iron and steel), II (Metals) and III (Tools and Workshop Equipments) has prevented us from including them in the present analysis. Likewise, private imports on account of foreign aid were left out because of non-availability of data. These omissions should not prejudice the present analysis, since their share in total private imports is likely to be less significant. For example, during the OGL period (i.e. the period between July 1950 and December 1952) imports of part IV items of the ITC schedule constituted about 74 percent of all private imports.

The changes in the value and composition of part IV items are studied over shipping periods of six months January-June and July-December). The average six-monthly values of imports of the different groups of items in part IV of the ITC schedule are obtained by adding the categories of all individual importers. The categories of each importer for each item is given in "Book of Categories" for Karachi, East Pakistan and West Pakistan published by the Chief Controller of Imports and Exports, the Controller of Imports and Exports (Chittagong), and the Controller of Imports and Exports (Lahore) respectively.3/

Note that the values of imports licenced have been used to mean actual imports. The data on actual imports are not used since these are not comparable to licence figures because of differences in classification and coverage. Although values

3/ It may be noted that the category figures for each item of each importer, as published in the Book of Categories, may not equal their actual imports, because these figures refer to amalgmated categories. Amalgamation enabled the importers to transfer their categories in items of minor imports to those of major imports. It is, however, expected that if the value of a particular item of import is under-stated in the published category of some imports, it is likely to be

(Cont'd...... on page 5)

of imports licenced and those of actual imports are not equal, the use of the former to mean the latter will not affect the analysis much since the percentage non-utilization of licences did not vary significantly during the period under consideration, and since the analysis deals with percentage changes in imports rather than with their absolute magnitudes.

For the purpose of analysing the changes in the composition of imports, a few groups of items have been selected which represented about 76.58 percent of total values of imports under part IV of the ITC schedule during the OGL period.
These are:

1) T-2 (Textiles and textile manufactures) hereafter referred to as textiles,
2) O-1 (Oils and greases) as oils,
3) C-1 (chemicals, drugs and medicines) as chemicals
4) V (Vehicles and parts) as vehicles,
5) M-2 (Machinery of millwork) as machinery,
6) P-6 (Provisions, food, foodstuffs and foddar) as food, foodstuffs and foddar) as food,
7) R (Rubber and its manufactures) as rubber,
8) T-4 (Toilet requisites and soap) as soap.

The selection of these groups was also conditioned by the fact that they satisfy two criteria which are important from the view-point of measuring the extent of control. These criteria are the selection of (a) those groups of items which had a relatively high share of imports before 1953, and (b) those groups whose share in total imports underwent the most remarkable change over the period under consideration. While groups 1-4 above satisfy criterion (a)4/, groups 5-8 satisfy

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(Cont'd from page 4)

3/ those of others. Hence, the sum of the amalgamated categories for each group of items are expected to approximate closely the actual imports of these groups during the OGL period.

4/ Shares of some Groups in OGL Period Import

Groups	Share in OGL import
T-2	51.69 percent
O-1	5.17 "
C-1	4.47 "
V	3.17 "

Source: Based on figures published in Book of categories for Karachi, East Pakistan and West Pakistan.

criterion (b).5/

3. The Extent of Control

3.1 The Course of Import Policy in Pakistan

Rigorous restriction on imports may be said to have been introduced in Pakistan from January 1953. During the years preceeding 1953, imports into Pakistan, excepting the drastic reduction of imports from India following the deadlock over Indo-Pakistan trade in September 1959, were quite liberal. Especially, the maximum liberalization of imports as has been ever experienced by the country (excepting imports from India) took place during the period between July 1950 and December 1952, when almost all the imports were placed under the Open General Licence (OGL). In a sense, this period may be considered as a close approximation to a free-trade situation, although imports from the Dollar Area, which accounted for about 5 percent of all private imports, were under licensing restriction.

The expansion of the OGL was governed by two factors: (a) the short-run increase in the export earnings of Pakistan consequent upon the on-rush of the Korean boom, and (b) the need for the diversion of the channel of the country's trade

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5/ Extent of change in the Import of Some Groups over 1953-1959

(Rs. in lakhs)

Groups	Average six-monthly import during the OGL period (a)	Average six-monthly import during Jan. 1957 to December 1959 (b)	Extent of change
M-2	35.7	361.1	+912.5 percent
P-6	330.3	91.2	- 72.5 "
R	84.5	51.8	- 38.7 "
T-4	80.6	11.4	- 85.9 "

Source: (a) Based on figures publish in Book of categories for Karachi, East Pakistan and West Pakistan.

(b) Office of the CCI and E, Karachi.

from India to the rest of the world. While the former was apparently obvious, the latter needs a little explanation.

Up to 1949 Indo-Pakistan trade constituted about 56 percent of the total trade of Pakistan. Imports from India accounted for about 40 per cent of Pakistan's total imports. By December 1950 i.e. after the deadlock over Indo-Pakistan trade, Pakistan's exports to and imports from India declined to 3 and 4 percent of her total exports and imports respectively. And the level of economic isolation between India and Pakistan did not change much over the period under consideration. The drastic reduction of Pakistan's trade with India in 1950 necessitated immediate re-channeling of both exports and imports in order to maintain her income and consumption at the levels as was governed by the volume of Indo-Pakistan trade. In a situation characterized by the absence of an experienced trading class as well as of a well-organized institution of state trading, the policy of OGL was likely to encourage both the growth of a trading class and the diversion of the channel of trade.

The imposition of rigorous import restrictions since 1953, likewise, may be said to have been governed mainly by two factors: (a) the balance of payments difficulties faced by Pakistan following the Post Korean depression, and (b) the need for industrialization. The former may be considered import policy, which probably would have been gradually adopted under otherwise normal circumstances on account of the latter. This hypothesis may be justified by the growth of cotton textiles manufacturing in Pakistan since 1951, and the establishment of the Pakistan Industrial Development Corporation (PIDC) in June 1952 for the purpose of the development of industries in Pakistan. And since 1953, because of the rapid growth of industries and other forms of development expenditures in Pakistan, it was necessary to intesify import controls not only because of the increased demand for imports relative to exports but also because of the fact that the patter of industrialization had largely taken the shape of import replacement. Thus, the analysis of the extent of import control is of practical importance, as it is expected to indicate the relation between import control and import replacement, and hence, the extent of the growth of autarky in Pakistan in the process of industrialization.

3.2. Extent of Control through State Trading

As can be seen from Table 1, the average propensity to

TABLE 1

Ratio of Imports to National Income in Pakistan, 1950-51 to 1958-59

Period	Current Price National Income (a)	Total Imports (b) = M	M/Y
1950-51	1720.5	162.0	.09
1951-52	1856.6	223.0	.12
1952-53	1841.8	139.0	.08
1953-54	1837.7	112.0	.06
1954-55	1480.0	110.0	.07
1955-56	1820.0	133.0	.07
1956-57	2263.0	234.0	.10
1957-58	2220.0	205.0	.09
1958-59	2450.0	158.0	.06

Source: (a) Institute of Development Economics, A Measure of Inflation in Pakistan, Table 6: Planning Commission, Govt. of Pakistan, Second Five Year Plan of Pakistan, Table 12.

(b) C.S.O., Statistical Bulletin.

import of the country during the period between 1951 and 1959 fluctuated around .07. At the peak of the Korean boom, it rose as high as .12, and then declined markedly with the imposition of licensing control of imports.

Imports on government account in Pakistan rose consistently from July 1950 through June 1953, and thereafter declined slightly til June 1956. But, the average of government imports during

July 1953 to June 1956 remained almost the same as it was between July 1950 and June 1953. Since July 1956, the average level had been about 3½ times its level in the preceeding period. Imports on private account, on the other hand, declined severely since July 1952, and over July 1952 - June 1959 it showed minor fluctuations around an almost constant trend. More important is the fact that during these years, the relative share of imports on government account increased significantly. As can be seen from Table 3, it rose from 18.7 percent of Pakistan's

TABLE 2

Extent of Government Imports, 1950-51 to 1958-59

(Rs. in crores)

Period (July-June)	A. Imports on Private Account	B. Imports on Government Account	C=A+B	$\frac{B}{C}$. 100
1950-51	143	19	162	11.7
1951-52	196	27	233	12.1
1952-53	94	45	139	32.4
1953-54	74	38	112	33.9
1954-55	92	18	110	16.4
1955-56	99	34	133	25.6
1956-57	102	132	234	56.4
1957-58	94	111	205	54.1
1958-59	84	74	158	48.1

Source: C.S.O., Statistical Bulletin

TABLE 3

Extent of Average Government Imports

Period (July-June)	A. Imports on Private Account	B. Imports on Government Account	C=A+B	$\frac{B}{C}$. 100
1950-53	433	91	524	18.7
1953-56	265	90	355	25.3
1956-59	280	310	597	52.9

Source: Based on Table 2.

total imports during 1950-53 to about 52.9 percent during 1956-59.

As is well-known, the increase in the share of government imports, especially since 1955-56 has undoubtedly been governed by the increased role of the public sector with the beginning of the implementation of the First Five Year Plan of Pakistan. However, it should be noted that the unusually large increase of government imports during 1956-58 was partly due to heavy imports of foodgrains on government account. The decline of Government imports in 1958-59 was largely due to the decline of foodgrains imports in Pakistan.

Judged by the increase in the ratio of government imports to total imports (Table 3), the extent of direct control over private imports apparently seems to have increased, on the average. We say 'apparently' because the increase in the share of government imports, by itself, does not provide a sufficient test of the increase in the extent of control over private imports, since the level of private imports over the period under consideration (i.e. 1953-59) maintained a more or less constant trend despite the balance of payments deficits on current account. Clearly, the increased government imports had been facilitated by the inflow of foreign aid in Pakistan. However, to the extent that the level of private imports was maintained despite the possible growth of demand for imports in the private sector consequent upon, among other things, the increase in development expenditure, the extent of control over private imports may be said to have increased. This will become obvious from the following discussion on the extent of control over private imports through licensing.

The rationale for comparing the relative shares of government and private imports in total imports lies in the fact that it indicates the extent of indirect control over private imports. It may be noted here that, except for some investment goods, government imports are not usually competitive with private imports. Hence, the extent of increase in government imports can be considered to measure the extent of reduction of items imported by the private sector of the economy. Over and above, the increase in national income should have normally raised the level of private imports. The increase in government imports may, therefore, be considered to have been possible at the expense of increase private imports.

3.2. Extent of Licensing Control on all Part IV items

During the OGL period, when there was virtually no controls, the six-monthly average of private imports of part IV items was Rs. 58.7 crores. With the introduction of licensing control in January 1953, there was a significant drop in these imports. The immediate intensity of the level of control, as can be seen from Table 4[6] is indicated by the 87.6 percent drop of these imports

TABLE 4

Values Licenced for Private Account Imports of Part IV Items

Period[(a)]	Values Licenced (Rs. in crores)	Index of values licenced (average OGL = 100)	Period-to-Period Percentage Changes in the values licenced
Average OGL	58.7[(b)]	100.0	-
1953 (1)	7.3	12.4	- 87.6
1953 (2)	30.8	52.4	+322.8
1954 (1)	30.8	52.4	- 0.0
1954 (2)	24.8	42.3	- 19.4
1955 (1)	22.2	38.1	- 9.8
1955 (2)	22.7	38.5	+ 1.0
1956 (1)	31.4	53.4	+ 38.8
1956 (2)	30.4	51.8	- 3.0
1957 (1)	18.0	30.6	- 41.0
1957 (2)	23.7	40.4	+ 32.0
1958 (1)	17.7	30.2	- 25.2
1958 (2)	17.5	29.5	- 1.4
1959 (1)	11.0	18.7	- 37.1
1959 (2)	20.6	35.0	+ 86.9

Source: Office of the CCI and E, Karachi.

(a) Number in paranthesis refer to shipping periods
(b) This figure refers to actual imports.

6/ The differences in the figures on private imports in Table 2 and 4 are due to differences in coverage. While figures in Table 2 include both aid and non-aid imports of parts I, II, III and IV of the ITC schedule, those in Table 4 include only non-aid imports of Part IV items of the ITC schedule.

in the first shipping period of 1953.

In the subsequent periods, values licenced for the import of these items fluctuated erratically. The maximum value of Rs. 31.4 crores in the first shipping period of 1956, which may be attributed to the increase in the planned development expenditures and to the devaluation of the Pakistani rupee in 1955 (the former increasing the need for imports, and the latter temporarily increasing the availability of foreign exchange), was still only 53.4 percent of the OGL level.

Column 3 of Table 4 shows period-to-period percentage changes in the values of imports licenced. The negative percentage changes in the values of imports licenced in 9 out of 14 shipping periods indicate, inspite of intermittant relaxation, that the period to period changes in licensing policy had the effect of intensifying the extent of existing controls.

The relaxation of control over the imports of part IV items in shipping periods 1953(2), 1956(1), 1957(2) and 1959(2) represent notable deviations from the general trend in the intensification of the level of control over the entire period under study. These deviations were partly governed by the intensity of control in the immediate preceeding periods and partly by the policy of liberalization in respect of certain important items. As can be seen from Table 4, the relaxation of controls in 1953(2) and 1959(2) was mainly due to the fact that in the preceeding periods viz. 1953(1) and 1959(1) controls were severely tightened up; - in 1953 (1) because of drastic decline in foreign exchange earnings, and in 1959(1) because of the release of stocks of imported goods. As both these factors were short-lived, it was necessary to liberate the import policy in the succeeding periods.

In constant to this, the relaxation of licensing control in 1956(1), as can be seen from Table 5, was due to liberalization policy in respect of the import of oils, vehicles, and machinery; while that in 1957(2) was due to liberalization policy in respect of the import of textiles, chemicals and vehicles.

3.4. Extent of Control and Change in the Composition of Imports

The licensing policy in Pakistan was used to control not only the levels of private imports but also their composition. The general character of control over the composition of private imports, as is indicated by Table 5, seems to have been governed by the policy of restrained increase of the import of complementary goods at the cost of the reduction of inessential consumption goods. This is evident from the fact that, despite period-to-period variations, the share of machinery has tended to increase with drastic fall in the shares of textiles and soap in the total import of part IV items of the ITC schedule. Note that the minimum value of machinery licenced in 1959(1) was about 70 percent higher than its average OGL level, while the maximum values of textiles and soap licenced in 1954(1) and 1955(1) respectively were 82 percent and 68 percent lower than their OGL levels.

Excepting oils and chemicals, the values of imports licenced for the remaining groups of items, listed in Table 5, during most of the period under consideration were much below the average levels of their OGL imports. After its drastic fall in 1953(1), the import of oils, despite period-to-period variations, rose several times above its OGL level upto 1956(2) where it began to decline sharply, and the extent of decline became drastic from 1958(1). The values of imports licenced for chemicals remained below its OGL level, except in five shipping periods between 1954(1) and 1957(2). And taking the period under study as a whole, the level of control over this group of items, like that on most of the other groups, seemed to have followed a pattern of intermittant relaxation and intensification since 1953(2).

TABLE 5

IMPORT OF IMPORTANT GROUPS OF ITEMS UNDER PART IV OF THE ITC SCHEDULE, 1953 - 1959

(Values in lakhs of Rupees)

Period (a)	T-2 (Textiles) Value	T-2 (Textiles) Share %	O-1 (Oils) Value	O-1 (Oils) Share %	C-1 (Chemicals) Value	C-1 (Chemicals) Share %	V (vehicles) Value	V (vehicles) Share %
OGL	3034.8	51.69	303.3	5.17	262.7	4.47	186.2	3.17
53 (1)	64.6	8.87	17.8	2.45	78.8	10.81	56.2	7.72
53 (2)	361.5	11.74	931.8	30.26	208.4	6.77	111.5	3.62
54 (1)	547.4	17.79	583.4	18.96	291.2	9.46	170.4	5.54
54 (2)	437.1	17.62	679.1	27.36	294.7	11.87	91.5	3.69
55 (1)	229.7	10.26	662.7	29.61	116.6	5.21	71.5	3.19
55 (2)	290.5	12.85	553.0	24.45	357.5	15.81	68.4	3.02
56 (1)	180.3	5.75	1014.6	32.33	353.4	11.26	128.8	4.10
56 (2)	190.4	6.26	643.6	21.15	107.0	3.52	163.7	5.38
57 (1)	49.2	2.74	373.9	20.83	228.5	12.73	84.0	4.68
57 (2)	126.7	5.35	368.7	15.56	331.3	13.98	205.3	8.66
58 (1)	133.9	7.35	44.6	2.51	252.6	14.24	104.4	5.89
58 (2)	56.4	3.22	38.9	2.22	209.0	11.95	98.3	5.62
59 (1)	75.2	6.84	26.4	2.40	193.9	17.63	57.9	5.26
59 (2)	153.9	7.48	54.7	2.66	160.3	7.80	162.2	7.89

Source: Office of the CCI and E, Karachi.
(a) Number in paranthesis refer to shipping periods.

TABLE 5 (Continued)

Import of Important Groups of Items Under Part IV of the ITC Schedule, 1953-59

(Values in lakhs of Rupees)

Period (a)	M-2 (Machinery) Value	M-2 (Machinery) Share%	P-6 (Food) Value	P-6 (Food) Share%	R (Rubber) Value	R (Rubber) Share%	T-4 (Soap) Value	T-4 (Soap) Share%
OGL	35.7	3.64	330.3	5.63	84.5	1.44	80.6	1.37
1953 (1)	298.9	41.03	5.9	0.81	15.8	2.17	0.2	0.03
1953 (2)	497.2	16.15	51.1	1.66	62.6	2.03	5.5	0.18
1954 (1)	526.2	17.10	55.9	1.82	83.6	2.72	18.7	0.61
1954 (2)	404.7	16.31	22.8	0.92	86.5	3.49	4.3	0.17
1955 (1)	289.6	12.94	55.2	2.47	95.9	4.28	25.9	1.16
1955 (2)	141.9	6.28	47.8	2.12	78.4	3.47	14.8	0.65
1956 (1)	485.1	15.46	65.1	2.08	39.7	1.27	15.4	0.49
1956 (2)	240.0	7.89	647.2	21.27	119.0	3.91	17.2	0.57
1957 (1)	243.0	13.54	51.2	2.85	24.1	1.34	6.9	0.39
1957 (2)	205.3	0.66	65.8	2.78	30.2	1.27	10.2	0.43
1958 (1)	376.5	21.23	52.4	2.95	19.3	1.09	14.4	0.81
1958 (2)	353.2	20.20	44.3	2.53	39.2	2.24	10.5	0.60
1959 (1)	60.6	5.50	37.9	3.45	5.2	0.47	5.9	0.54
1959 (2)	333.4	16.22	72.7	3.54	25.4	1.23	10.2	0.50

Source: Office of the CCI and E, Karachi.

(a) Number in paranthesis refer to shipping periods.

It is to be noted, however, that on the average, the licensing policy was extremely liberal for machinery and oils, moderately restrictive for vehicles, rubber and chemicals; and highly restrictive for textiles, soap and food. This is obvious from Table 6 which shows that the average six-monthly imports

TABLE 6

Average Six-monthly Level of Imports of Some Groups as Percentage of that in the OGL

Groups of Items	OGL level of import (%)	Average level of import during 1953 (1)-1959(2) %
Textiles	100.0	7.0
Chemicals	100.0	86.0
Machinery	100.0	1013.0
Oils	100.0	142.0
Vehicles	100.0	58.0
Rubber	100.0	61.0
Food	100.0	28.0
Soap	100.0	14.0

Source: Based on Table 5.

of all the other groups were lower than their OGL Levels.

3.5. The Nature of Structural Change as envisaged by Licensing Policy

In assessing the nature of licensing policy it is important to ascertain what would have happened had there been no licensing restriction of imports in Pakistan. Under the assumption that the relative demand of the community for the imported goods did not undergo any significant change over a period of seven years (i.e. from 1953 to 1959), and that the most important determinants of structural change were the availability and allocation of

7/ It does not, of course, imply that domestic fiscal and monetary policies were not important. What is implied is that, in the absence of appropriate commercial policy, these policies would have been ineffective to a great extent. Import-substituting and export industries could not possibly develop in Pakistan without protection, and the import of capital goods and industrial raw materials.

foreign exchange resources,[7] the composition of imports, in the absence of any licensing restriction of imports over 1953-59, would have remained the same as that in pre-licensing period.

Under these assumptions, licensing control of imports is necessary to allocate judiciously the foreign exchange resources between different uses in order to achieve policy-determined objectives of structural change. An assessment of the licensing policy is, therefore, likely to indicate the pattern of structural change as envisaged by such policies. Whether the desired structural change did, in fact, take place is, however, a separate problem involving technical and institutional considerations which do not come under the purview of the present study.

On the basis of the hypothesis that the composition of private imports over 1953-59 would have remained the same as that in the OGL period in the absence of any licensing restriction of imports, the values of imports of some selected groups of items have been estimated[8/] and summed over the period 1953-59 in Table.

TABLE 7

COMPARISON BETWEEN HYPOTHETICAL LEVELS OF IMPORTS OF SOME GROUPS IN THE ABSENCE OF ANY LICENSING RESTRICTION AND THEIR ACTUAL LEVELS, 1953-1959

(Rs.in Lakhs)

Groups	$\sum_{t=} A^i_t$	$\frac{A^i_o}{M_o} .100$	$\left(\frac{A^i_o}{M_o}\right) \sum_{t=} Mt$ (a)	$\sum_{t=} A^i_t - \left(\frac{A^i_o}{M_o}\right) \sum_{t=} Mt$	$\frac{\sum_{t=} A^i_o - \left(\frac{A^i_o}{M_o}\right) \sum_{t=} Mt}{\left(\frac{A^i_o}{M_o}\right) \sum_{t=} Mt} .100$ (b)
Textiles	2894.9	51.69	15967.6	- 13072.9	- 81.9
Chemicals	3183.1	4.47	1380.8	+ 1802.3	+ 130.5
Machinery	4455.7	3.64	1124.4	+ 3331.3	+ 296.3
Oils	5992.9	5.17	1597.1	+ 4395.8	+ 275.2
Vehicles	1574.1	3.17	979.2	+ 594.9	+ 60.8
Rubber	724.9	1.44	444.8	+ 280.1	+ 63.0
Food	1275.4	5.63	1739.2	- 463.8	- 26.7
Soap	160.2	1.37	423.2	- 263.0	- 62.1

(a) $\sum_{t=53(1)}^{59(2)} M_t$ = Rs.30891.0 lakhs.

(b) This is equal to the percentage change in the import of i-th group due to licensing control.

8/ These estimates are not corrected for population growth. The quantitative changes in these estimates due to corrections for population growth are not likely to be very significant.

7/ See page 16.

The percentage changes in the sums of the estimated values of the imports of these groups from the sums of their actual values would indicate the pattern of desired structural changes over the period due to licensing control of imports.

As is clearly evident from Table 7, the run of differences were negative for food, soap and textiles, and positive for chemicals, machinery, oils, vehicles and rubber. This implies that while the objective of licensing policy was to increase the imports of chemicals, machinery, oils, vehicles and rubber, that for food, soap and textiles the policy was to force down the levels of imports.

Note that the restrictive impact of licensing policy was mostly on inessential consumption goods and on those items which had potentialities for being substituted domestically. The allocation of foreign exchange through quota restrictions over 1953-59 was designed in such a way as to protect the domestic industries producing consumption goods, such as textiles, soap and food, and to make available the capital goods and industrial raw materials (such as machinery, chemicals and oils) necessary for the expansion of capacity in these import-substituting domestic industries.

As is well-known, the long-run determinants of import-substitution are the prospects of long-run domestic demand for the items, and the long run cost considerations. It may be pointed out that in Pakistan the long-run potentials for increased capacity in such industries as textiles, soap and food are quite bright in view of the fact that these are essential consumption goods, and that demand for these are likely to increase over the long-run with increase in national income. The income elasticity of demand for these items appears to be quite high. Again, it can be very reasonably expected that with increases in the scale of production, the domestic costs of producing these items will become competitive with the foreign industries.

Licensing policy which aimed at giving protection to the domestic industries producing these items, therefore, seems to be quite rational.

But, protection is only a necessary condition for the growth of these import-substituting industries, and not a sufficient condition. The sufficient condition is that the protective effect of licensing policy should be supported by 'material supply effect'. While the 'protective effect' only ensures a closed market for those goods which are given protection, the 'material supply effect' enables the prospective industrialists to creat additional capacity in the industries producing these goods. The increased imports of such investment goods as machinery, chemicals and oils constituted the 'material supply effect' to the protected industries, viz. of textiles, soap and food.

Some rough idea on the success of the licensing policy can be obtained from Table 8.

TABLE 8

Index of Manufacturing Production in Pakistan, 1950-60

Year		Index (1950 = 100)
1950	...	100.0
1951	...	123.6
1952	...	155.4
1953	...	202.4
1954	...	265.3
1955	...	336.6
1956	...	381.7
1957	...	404.2
1958	...	430.8
1959	...	482.5
1960	...	543.0

Source: C.S.O., Statistical Bulletin

Manufacturing production in Pakistan rose by 443 percent in 1960 from the 1950 level. With 1952 as the base, the index of manufacturing production was as high as 349.4 in 1960. In as far as the utilization of existing capacity and the installation of new capacity in the domestic industries could not have been possible without adequate imports of machinery, capital goods, spare parts and some industrial raw materials, it can be very safely concluded that the licensing policy of imports greatly contributed to the development of industries in Pakistan. With an almost stagnant export earning, the re-allocation of foreign exchange from consumption goods to capital goods would not have taken place without quantitative restrictions.

As is evident from Table 7, the extent of import restriction, was most severe for textiles, which declined by about 82 percent during 1953-59 from the OGL level. The protective effect of licensing policy on textiles had a positive effect on the level of domestic production of textiles. This is borne out by the cotton textile statistics as given in Table 9. The increase in the installed capacity both in spindles and looms

TABLE 9

COTTON TEXTILE STATISTICS OF PAKISTAN

	Installed capacity Spindles (000)	Installed capacity Looms (000)	Production of cloth (000 yds.)	Percentage changes from previous year
1950	290	5	106,295	
1951	333	6	127,666	20.1
1952	630	9	174,160	36.4
1953	793	12	251,576	44.5
1954	1,316	18	345,247	37.2
1955	1,683	26	453,237	31.3
1956	1,801	27	500,384	10.4
1957	1,844	28	527,048	5.3
1958	1,889	29	576,225	9.3
1959	1,928	30	618,534	7.3
1960	1,941	30	628,795	1.7

Source: C.S.O., Statistical Bulletin

signifies the 'material supply effect' of import policy, and the increase in the production of cloth (261 percent increase in 1960 from the 1952 level) was due to the protective effect of import policy.

In this connection it might also be mentioned that the extent of change in the composition of private imports due to changes in licensing policy had significant bearing for the planned structural change. For, while changes in licensing policy are partly to be explained by such short-run considerations as fluctuations in the domestic availabilities and prices of imported goods, these are partly governed also by such longer-run considerations as the rate of growth of domestic substituting industries.

Table 5 clearly indicates that the relative importance of the different items fluctuated erratically from period-to-period due to changes in licensing policy. This phenomenon would possibly indicate some kind of arbitrariness in the fixation of quotas for the different items. Furthermore, the decline in the relative shares of oils since 1957(2), and of machinery between 1955(1) and 1957(2), as well as intermittant decline in the share of chemicals would also indicate that the rates of growth of domestic industries requiring these were possibly lesser than what were anticipated, or that the domestic industries producing these investment goods developed quite markedly over the period. From the data that are available, it appears safe to conclude that both these factors were responsible for the relative decline in the import of some investment goods during the later part of the period under consideration.

4. Conclusions

The policy of import licensing in Pakistan during 1953-59 was on the whole very restrictive on the part IV items of the ITC schedule. At the same time, it was quite successful in changing the composition of private imports of part IV items. These assertions are based on the figures in Tables 4 and 7 respectively. The foregoing analysis reveals the extent and nature of licensing control of private imports in some details. Here, an attempt is made to summarize the main conclusions.

1. The proximate cause of the introduction of licensing control in Pakistan was the decline in the export earnings of the country. This is borne out by the fact that the extent of fall in total private imports as well as in individual groups was most severe during and immediately after the Korean depression.

2. The need to industrialize the country was also important in the formulation of licensing policy. This is evident from the pattern of change in composition. Restrictive policy appears to have been most severe in respect of such items as textiles, food and soap, import of which could be substituted by domestic production. This aspect of the change in composition can be considered as the protective effect of licensing policy.

3. The fact that the policy had been one of changing the composition in favour of investment items like machinery, oils and chemicals also lends support to the view that industrialization was one of the important underlying objectives of licensing policy in Pakistan. This aspect of the change in composition can be considered as the material supply effect of licensing policy.

4. The erratic fluctuations in the shares of different groups of items from period to period were not always consistant with the objectives of structural change as planned by licensing control of imports. The reasons for this appear to be the inability of the domestic import-substituting industries to grow at the desired rates, and also random variations in domestic supplies.
